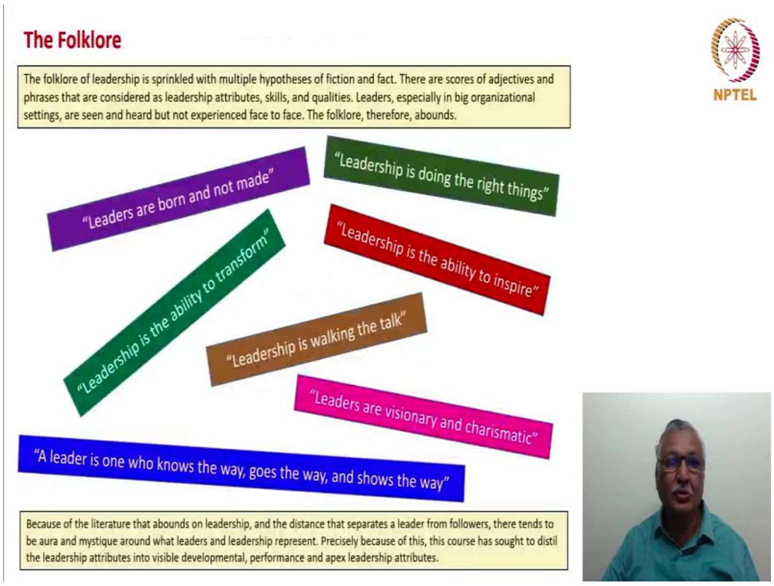
Leadership for India Inc: Practical Concepts and Constructs
Prof. C Bhaktavatsala Rao
Prof. Ajit Singhvi
Department of Management Studies
Indian Institute of Technology, Madras

Week - 05
Leadership Processes
Lecture - 23
Paradox Management

Hi Friends. Welcome to the NPTEL course Leadership for India Inc. Practical Concepts and Constructs. We are in week 5 discussing Leadership Process. In this lecture, we will discuss a very interesting topic Paradox Management and we will try to do that in a very creative and practical manner.

(Refer Slide Time: 00:30)



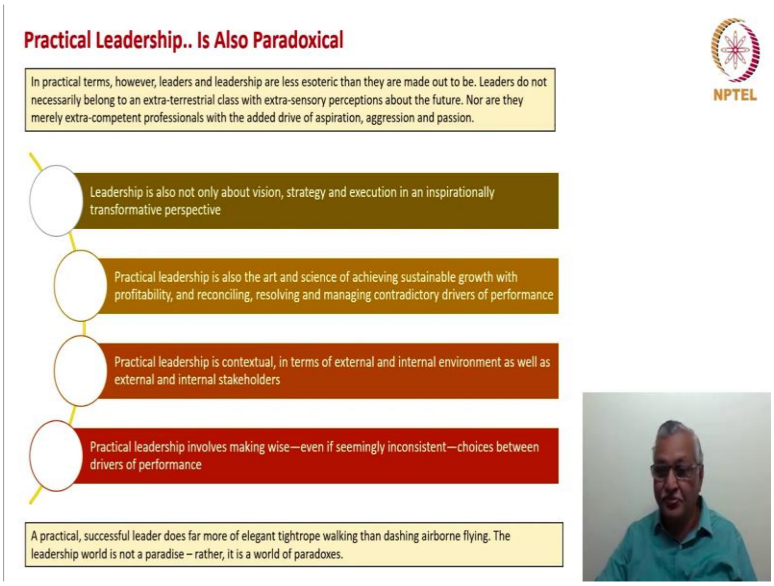
There is lot of folklore relating to leadership as I mentioned. It is sprinkled with multiple hypotheses of fiction as well as fact. There are scores of adjectives and phrases that are considered as leadership attributes, skills and qualities. We considered a whole long list of those attributes in an earlier lecture. Leaders especially in big organizational settings are seen and heard, but not experienced face to face. As a result, the folklore only increases.

Some of the statements that are attributed to leaders and leadership are as follows. "Leaders are born and not made", "Leadership is doing the right things", "Leadership is the ability to transform", "Leadership is the ability to inspire", "Leadership is walking the talk", "Leaders are visionary and charismatic", "A leader is one who knows the way, goes the way, and shows the way".

To be fair to ourselves, we have discussed these statements; some of these at least as being reflective of leadership under certain circumstances. But the point here is that this kind of superhuman capability that is being vested with leadership is also being accompanied in actual practice by certain individual prevarications that a leader faces.

Primarily, because there is huge distance that separates a leader and their followers, there tends to be aura and mystique around which these kinds of folklore statements are built. And precisely because of this, we have through this course try to distill the leadership attributes to visible developmental, performance and apex leadership attributes.

(Refer Slide Time: 02:07)

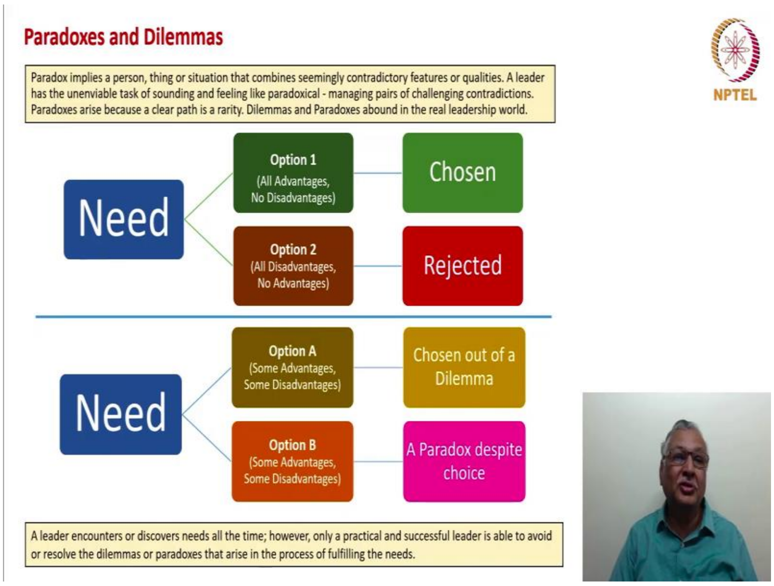


Practical leadership is also paradoxical leadership because leaders and leadership are less esoteric than they are made out to be. Leaders do not necessarily belong to an extra-terrestrial class with extra-sensory perceptions about the future. Nor are there merely extra-competent professionals with the added drive of aspiration, aggression and passion.

Leadership is not only about vision, strategy and execution in an inspirationally transformative perspective. But practical leadership is also the art and science of achieving the sustainable growth with profitability, and reconciling, resolving and managing several contradictory drivers of performance as we proceed with that.

Practical leadership is also contextual in terms of external and internal environment as well as external and internal stake holders. Practical leadership involves making wise even if seemingly inconsistent; choices between various drivers of performance. A practical successful leader very often than not conducts himself as a very elegant tightrope walker, he is not a dashing airborne flyer. The leadership world is not a paradise; rather, it is a world of paradoxes.

(Refer Slide Time: 03:22)



So, what are paradoxes and what are dilemmas? Let us look at this situation. But before that, paradox implies a person, thing or situation that combines seemingly contradictory features or qualities.

A leader has the unenviable task of sounding and feeling like paradoxical, that is managing pairs of challenging contradictions. Paradoxes arise because a clear path is a rarity in life as well as in business situation. Dilemmas and paradoxes abound in real leadership world.

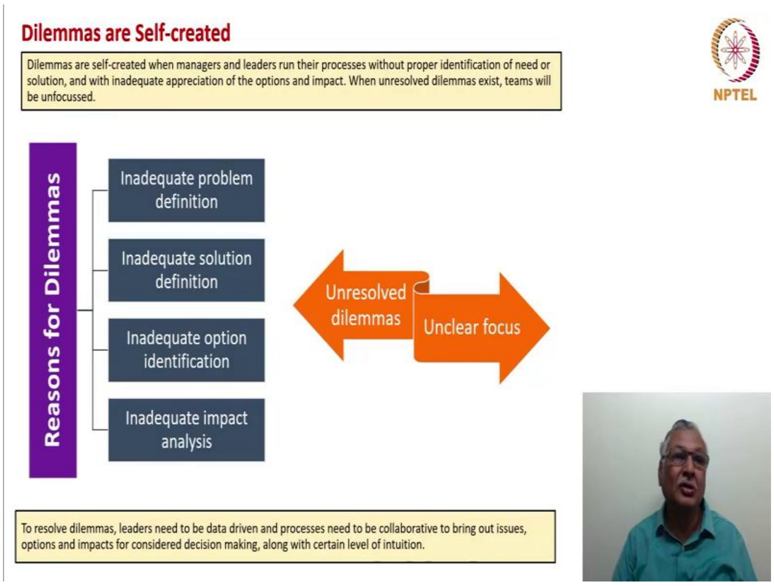
Let us look at an example. Let us assume there is a need which has two options; option 1 has got all advantages and no disadvantages. Then, that option 1 will be chosen. There is no doubt about it and there is no need to prevaricate about it. Let us say you have an option 2 which has all disadvantages and no advantages at all, then again it is rejected clearly no prevarication about such a rejection.

Let us look at the same in a different way. We have option A with some advantages and some disadvantages. Then, we also have option B let us assume which has got different level of advantages and some disadvantages. Then, what do we do? We may have a dilemma as to what we choose. Then, finally, let us say you have chosen option A.

But that choice is out of it dilemma rather than clarity that this is the path, the leader must take or the team must take. Suppose, option B is not exercised or you have exercised, it could be a paradox despite the choice. So, that is the situation. You may choose to go in a particular way because you need to come out of the dilemma or you make a choice and still would appear paradoxical to the rest of the world.

A leader encounters or discovers needs all the time; need to invest, need to prune down, need to increase capacity, need to hire a person, need to fire a person, need to move into another kind of business, all these needs keep coming up every now and then. Only a practical and successful leader is able to avoid or resolve the dilemmas or paradoxes that arise in the process of fulfilling the needs.

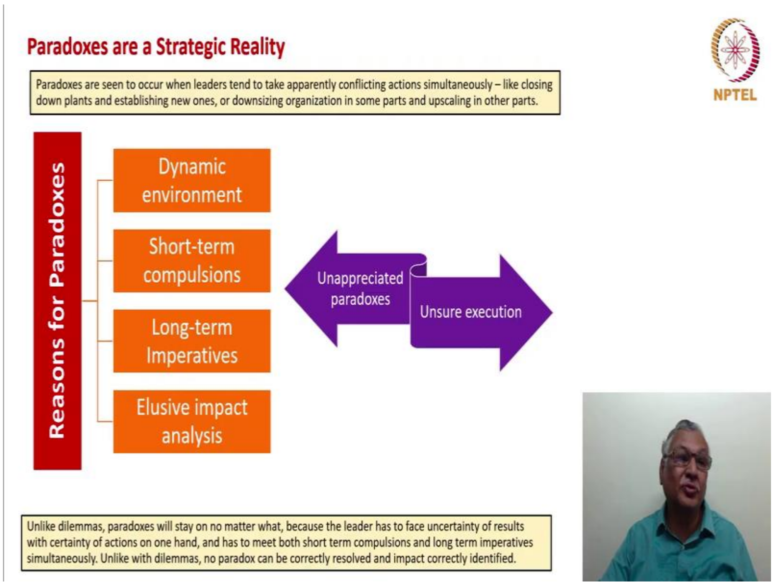
(Refer Slide Time: 05:40)



What are dilemmas? Dilemmas, I would say are self-created, when managers and leaders do not conduct their processes with proper identification of need or with proper solution development, dilemmas would come about. They will also come about because there is inadequate appreciation of the options and the impact. When unresolved dilemmas exist, teams will be confused and unfocused.

So, there are four basic reasons for dilemmas- one, inadequate problem definition; inadequate solution definition; inadequate option definition and inadequate impact analysis. As a result, you tend to have unresolved dilemmas and unclear focus. To resolve dilemmas, leaders need to be data driven and processes need to be collaborative to bring out various issues, options, impacts and the appropriate choices for considered decision making and these analyses or this decision making process must be accompanied by certain native intuition which the leader has.

(Refer Slide Time: 06:44)



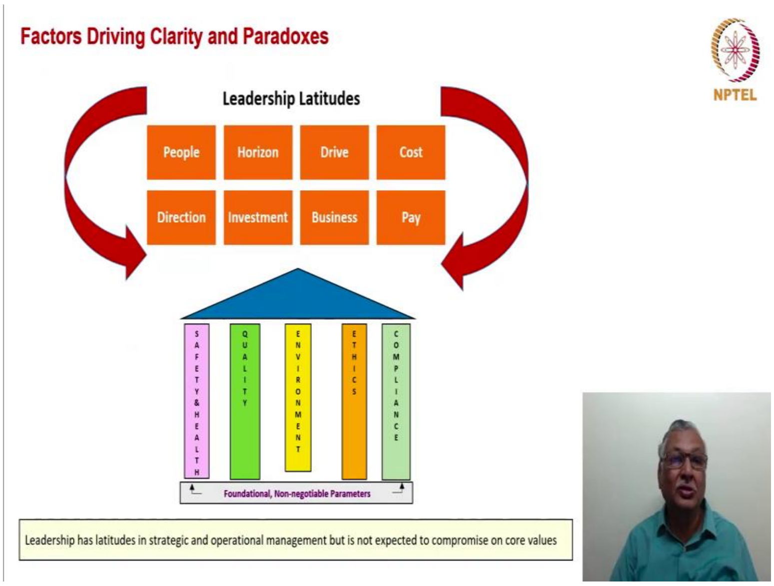
Paradoxes are a strategic reality. You cannot simply wish away paradoxes. They are seen to occur where leaders tend to take apparently conflicting action simultaneously because the leader is expected to take such apparently paradoxical actions. For example, you close down a plant; but at the same time, you construct a modern plant somewhere else.

You downsize the organization in one functional domain, but upscale the organization in another domain. So, the reasons for such paradoxes are because of dynamic environment. The reasons for such paradoxes are because the businesses are facing dynamic environment. We have short term compulsions all the time, while there are also long term imperatives facing the business.

Impact analysis always is not very easy. Impact analysis tends to be a tough nut to crack, even for greatest data analyst or managers because it is all about probability, it is all about simulation, it is all about visualization. As a result, we tend to have unappreciated paradoxes and our own execution tends to be unsure.

Unlike dilemmas, paradoxes will stay no matter what because the leader has to face uncertainty of results, with certainty of actions on one hand and has to meet both short term compulsions and long term imperatives simultaneously. Unlike with dilemmas, no paradox can be correctly resolved and impact correctly identified. That is the big difference paradox possess vis a vis dilemma for a leader.

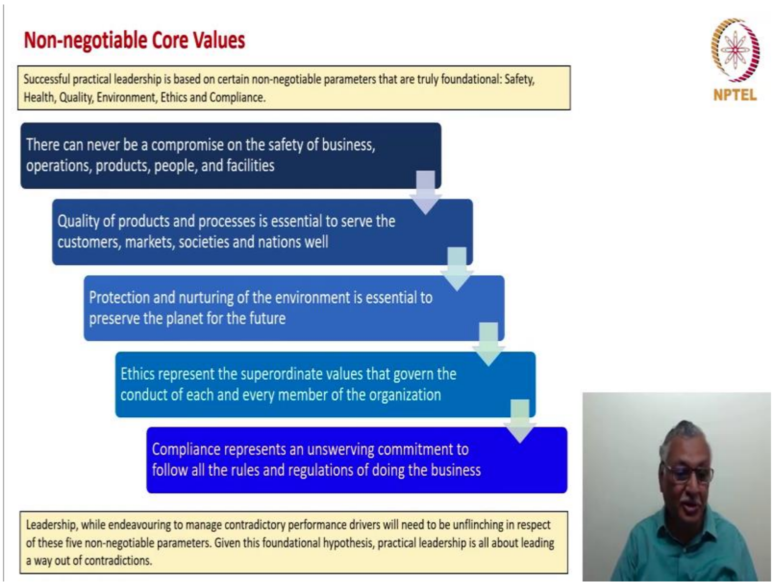
(Refer Slide Time: 08:19)



So, what are the factors driving clarity and paradoxes? There are certain latitudes of leadership which we can say- people, horizon, drive, cost, direction, investment, business, pay. These are all the leadership latitudes that are available for a leader to play upon. On the other hand, there are certain foundational non-negotiable parameters which can never be violated. There is no play, there is no latitude.

We discussed these factors earlier too. Just to recall, safety and health, quality environment, ethics, compliance, there cannot be any negotiation with reference to these foundational factors. So, in strategic and operational management, you could have certain latitudes; but you cannot compromise on your core values as a leader.

(Refer Slide Time: 09:05)



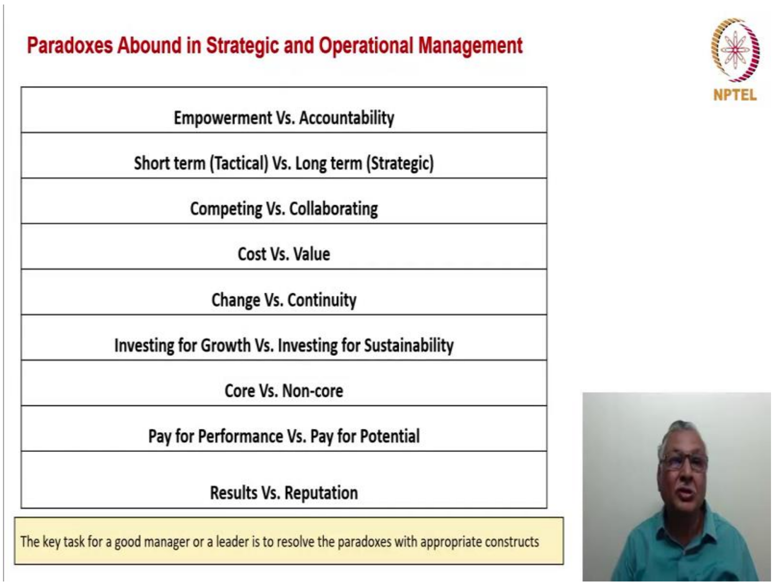
And why these core values are so nonnegotiable? Because we can never compromise the safety of business, operations, products, people and facilities. We also have to ensure the highest level of occupational health and in today's situation, general, overall, individual and family health. Quality of products and process is essential to serve the customers, market, societies and nations well. We need to protect a nurture our environment so that we preserve the planet for the future.

Ethics also represent one of the foundational factors because there is a super ordinate value system, which governs whatever the leader or the organization needs to do. Compliance represents an unswerving commitment to follow all the rules and regulations of doing the business. You can say that compliance could be with reference to a code of conduct of integrity and appropriate business practice which the function may or the business may drop.

But ethics is even broader in concept and deeper in import than compliance and code of conduct. It is a super ordinate value system which a leader must always keep in mind as an ethical compass. We discussed that earlier as well. So, leadership while endeavoring to manage contradictory performance drivers will need to be unflinching in respect of these five or six non-negotiable parameters.

Given this foundational hypothesis, practical leadership is all about leading a way out of contradictions; a way out of paradoxes and a way to avoid dilemmas.

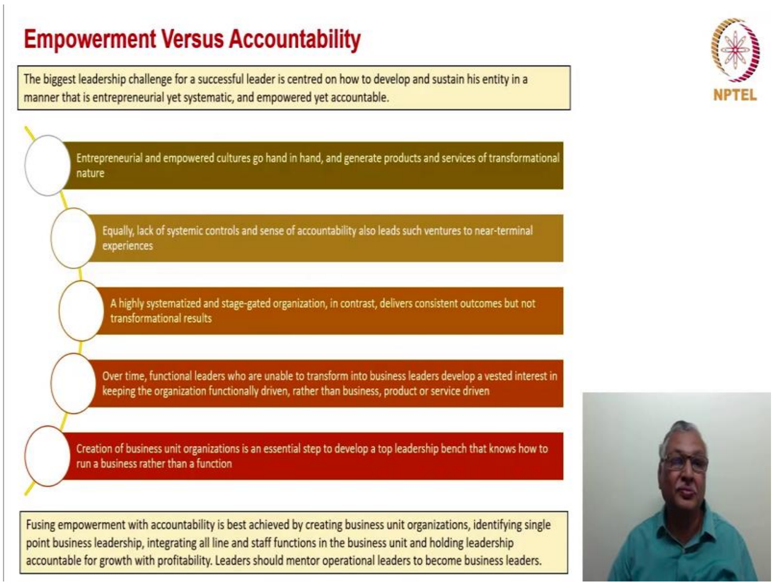
(Refer Slide Time: 10:40)



So, what are the paradoxes that we have as leaders in strategic and operational management? Empowerment versus accountability; short term that is tactical versus long term that is strategic; competing versus collaborating; cost versus value; change versus continuity; investing for growth versus investing for sustainability; core versus non-core; pay for performance versus pay for potential and finally, results versus reputation.

The key task for a good manager or a leader is to resolve these paradoxes with appropriate constructs or modelling of role behavior in such a manner that they are not only logical, rational and emotionally sound; but actually develop result-oriented performance from the organization.

(Refer Slide Time: 11:29)



So, let us look at the first paradox, empowerment versus accountability that is the biggest leadership challenge for a successful leader. How to develop and sustain his entity which is completely entrepreneurial, yet is also systematic which is empowered, but is accountable. Entrepreneurial and empowered cultures go hand in hand, because they generate new ideas, new products and services of transformational nature.

However, if such entrepreneurial companies do not have systemic controls and if the founders as well as the team members do not have a sense of accountability, it could lead such ventures into near terminal experiences. On the other hand, a highly systematized and stage gated organization, delivers consistent outcomes, but not necessarily transformational results.

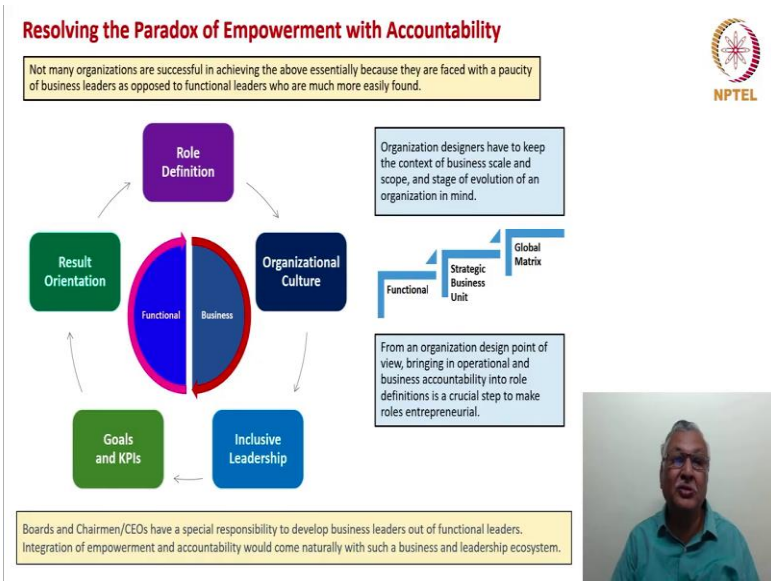
Over time functional leaders, who are unable to transform into business leaders tend to develop a western interest, keeping the organization highly systematized, highly bureaucratic making it functionally driven and not allowing the business considerations or product considerations or growth considerations drive the organization. As a result, the entire organization gets ossified and losing the entrepreneurial spark which is very much required and along with that, lack of empowerment also comes about.

And of course, there is no accountability in such organizations because you are being told to repeat the same thing over and over again. Creation of business unit organizations is an essential step to develop a top leadership bench that knows how to run a business rather than a function. So, the sooner an organization moves from a functional approach to a business approach or if the scale is not large enough, shades of business profit and loss is provided to functions, the better it would be for such organizations.

So, fusing and empowerment with accountability is best achieved by creating the business unit organizations. Identifying a single point business leadership, where the accountability stands and also, integrating all line and staff functions in the business unit and holding leadership accountable for growth and profitability.

Leaders should monitor operational leaders to become business leaders; that is every business leader has been or would have been once upon a time an operational leader or a functional leader. The apex leader has the responsibility to empower them to become business leaders.

(Refer Slide Time: 13:59)

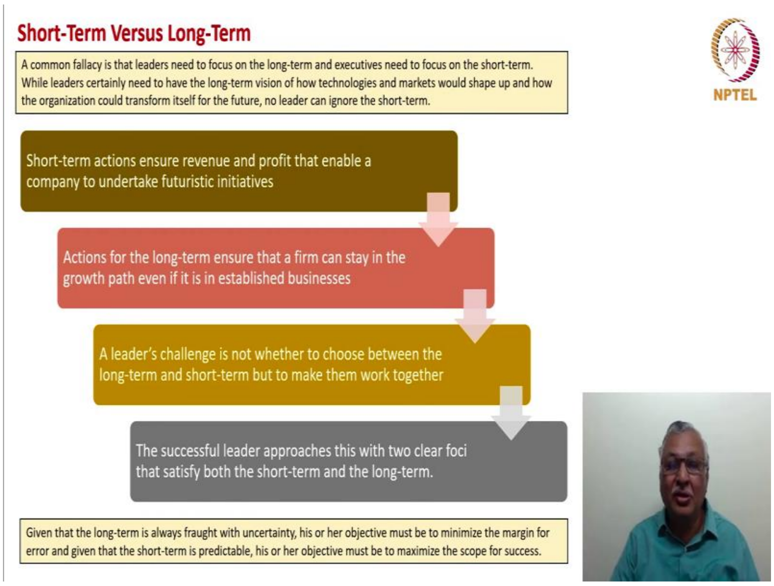


How do we resolve the paradox of empowerment with accountability? We have these functional aspects; we have these business aspects. By conducting a good role definition exercise, by ensuring an organizational culture which enables empowerment along with accountability, encouraging and practicing inclusive leadership, establishing clear goals.

And key performance indicators and inculcating a result orientation in the entire organization, you will be moving to resolution of the paradox between empowerment and accountability. And you also have to design organizations in such a manner that consistent with the scale and scope of the business, you move as soon as possible from functional to strategic business unit to global matrix organization at the earliest.

In this process, boards and chairman, executives of chief executive nature have a special responsibility to develop business leaders out of functional leaders. Ability to empower is like giving part of your power as a leader, but that is the way in which power grows overall in the organization in a positive and inclusive climate.

(Refer Slide Time: 15:14)



Then, we have this short term versus long term paradox. A common fallacy is that leaders need to focus on the long term and executives need to focus on the short term. While leaders certainly need to have long term vision of how technologies and markets would shape up and how the organization could transform itself for the future. No leader can ignore the short term.

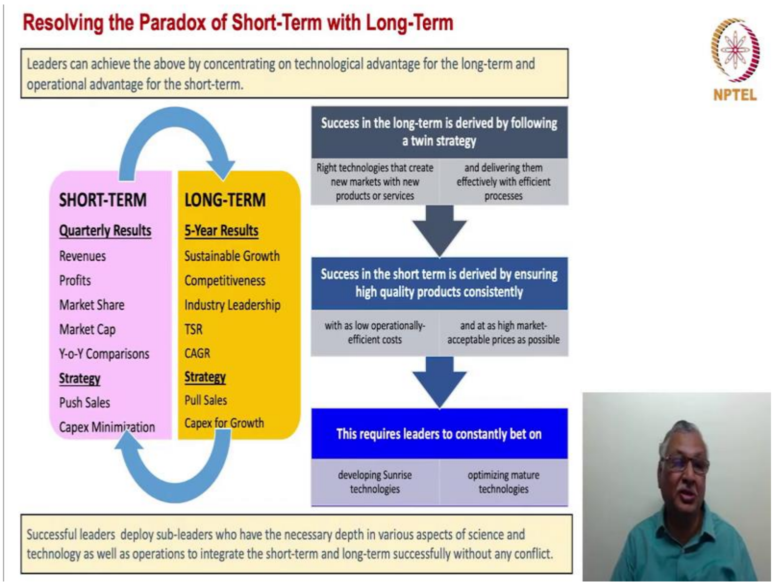
We have seen in the earlier three horizon discussions that unless the current horizon is strong, robust and providing revenues and profits. There is no way in which an emerging horizon can come in quickly and no way in which the distant horizon can be invested for. So, that is very important.

Short term actions certainly ensure revenue and profit that enable a company to undertake futuristic bets and actions for the long term ensure that a firm can stay in the growth path even if it is in established business. A leader's choice, therefore, is not to choose between long term and short term, it is actually how do I make these two work together, that is the challenge for the leadership.

The successful leader approaches this with two clear foci that satisfy both the short term and the long term. Also, given that the long term is always fraught with uncertainty, the leaders objective must be to minimize the margin for error and given that the short term is predictable, the objective must be to maximize this scope for success.

So, what do you do as a leader? In the short term, the business must be maximized for success and for the long term, you should bring predictability into what is unpredictable, bring feasibility into what is desirable and bring viability for the organization as well as the customers together.

(Refer Slide Time: 16:59)



Let us try to see some ways to achieve this. When we talk about short term, we talk about quarterly results, revenues, profits, market share, market cap, year over year comparisons, at time sequential comparisons and we also have strategies of pushing sales, reducing Capex, saving costs, better working capital management, better cash management etcetera.

In the long term, we have aspects such as 5-year results which are expressed in terms of sustainable growth that is compounded annual growth rate, competitiveness, industry leadership, total shareholder returns and in terms of strategy, we have got pull sales, Capex for growth and things like that.

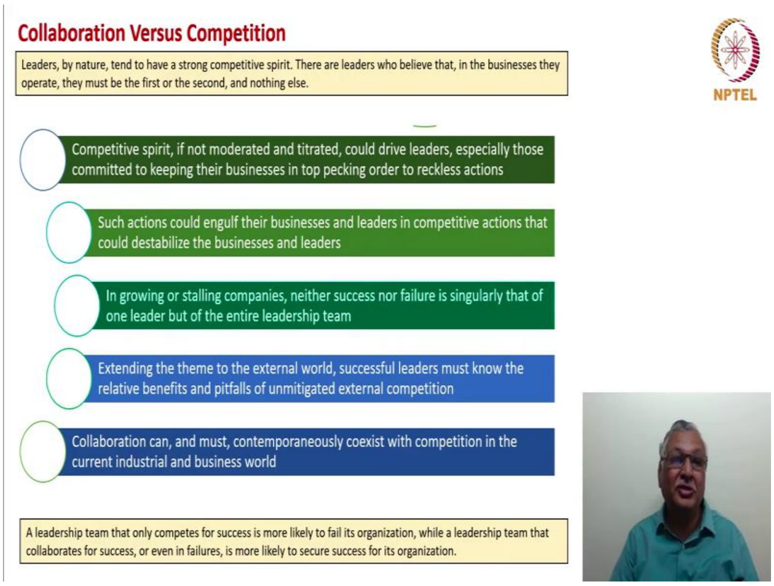
We have to see that these short term as well as long term matrix and processes are achieved by appropriate technological development. Success in the long term with commensurate success in the short term is derived by adopting a twin strategy. For example, for the long term, right technologies that create new markets with new products or services will assure success.

Similarly, delivering them effectively with the efficient processes is also required for long term success; whereas, in the short term, by ensuring high quality products, utilizing the best of technology that is available. So, low operationally efficient costs and at high market acceptable prices is essential.

I will repeat this; technology and business innovation must be used in the short term to have as low and operationally efficient costs structure as possible and also derive as high a price level as is acceptable in the market place. This requires leaders to constantly bet on developing sunrise technologies and optimizing mature technologies.

Successful leaders always choose certain sub leaders, who have the necessary depth in various aspects of science and technology as well as operations to integrate the short term and the long term successfully without any conflict.

(Refer Slide Time: 19:05)



Then, the third principle is one of collaboration versus competition. Lot of strategic theory is based on competition. You must destroy the competition, you should understand the competitive forces, you find out for yourself a good competitive strategy which can vanquished the competition.

Even the blue oceans research or blue ocean hypothesis says that you should be there where there is no contest at all. That is another way of saying that there must be 0 competition. However, leaders apart from having the competitive spirit, must also have the collaborative spirit. There are leaders who believe that in the business they are in, they must be the first or the second and nothing else.

But if this competitive spirit, if it is not moderated and titrated could drive leaders, especially those committed to keeping their businesses in top pecking order to reckless actions. Such actions could engulf their businesses and leaders in competitive actions that could destabilize the businesses and leaders.

This typically happened when Indian pharmaceutical industry entered the generics market, when only one or two companies were there in the US generics market. The pricing performance was reasonable; they were lower than the innovatory prices, after the patent expiry; but still they provided adequate margin for the Indian pharmaceutical companies to conduct their operations profitably and also, invest the money in certain other developmental activities.

But when many companies started entering the US generics business, everybody became a price warrior. The price of a product when it was genericized and introduced by an Indian pharmaceutical company collapsed to as much as 5 percent or 2 percent of the innovators price and that resulted in the market becoming highly fragmented, highly competitive and not really worthwhile from a long term point of view.

So, in growing or stalling companies neither success nor failure is singularly that of one leader; but of the entire leadership team. Because to be able to adopt any strategy other than such singular strategy of let us say fighting on price, you need the entire organization to be collaborative and creative.

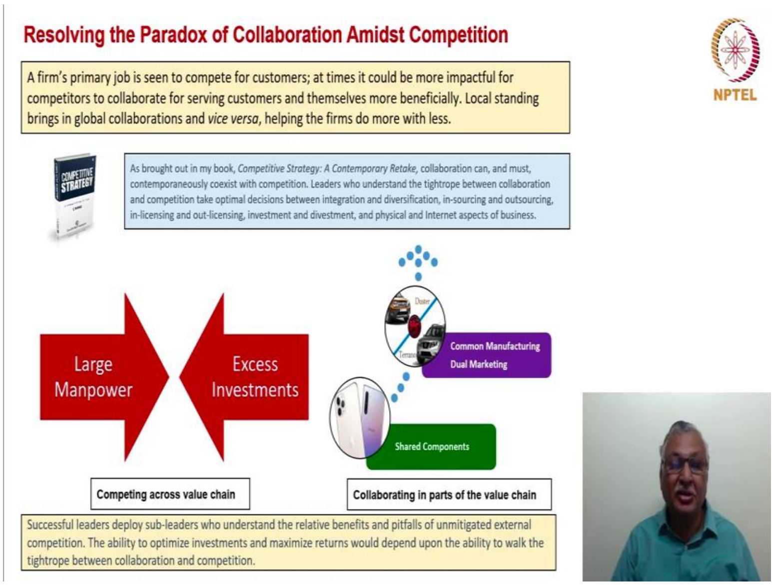
Similarly, extending the theme to the external world, successful leaders must know the relative benefits and pitfalls of unmitigated external competition. There is no point in

Sun Pharma fighting with Lupin and with Aurobindo and with Doctor Reddy’s. It is probably better to understand what were the collaborative options in which they can function reasonably well in a foreign market.

And when we say collaboration, we do not say that it is cartelization. Collaboration is sharing resources, sharing concepts, having let us say quality as a national comparative advantage and things like that. It is not about cartelization and cartelization has to be deprecated in whichever market.

Collaboration can and must contemporaneously coexist with competition in the current industrial and business world. A leadership that competes only for success at all times is more likely to fail its organization; while a leadership that collaborates for success internally as well as externally and in this process may even encounter certain occasional knox, but such organization will more likely secure success for the organization.

(Refer Slide Time: 22:38)



What is the paradox of collaboration amidst competition? A firm’s primary job is seen to compete for customers; at the same time, it could be more impactful for competitors to collaborate for serving customers and themselves more beneficially. Local standing brings in global collaborations and vice versa helping the firms do more with less.

There was a time in the automobile industry, when each automobile manufacturer said that I must have exclusive dealership. And if a dealer wanted to do the products of other automobile manufacturer, it was considered competitive. It was the wrong approach by insisting on such exclusivity, the industry ensured that dealers did not have optimum scale. It was always possible for dealers to deal with these multiple product lines as long as they did their best for each product line.

As brought out in my book, Competitive Strategy: A Contemporary Retake, collaboration can, and must, contemporaneously exist, coexist with competition. Leaders who understand the tightrope between collaboration and competition take optimal decisions between integration and diversification, in-sourcing and outsourcing, in-licensing and out-licensing, investment and divestment, physical and internet aspects of business.

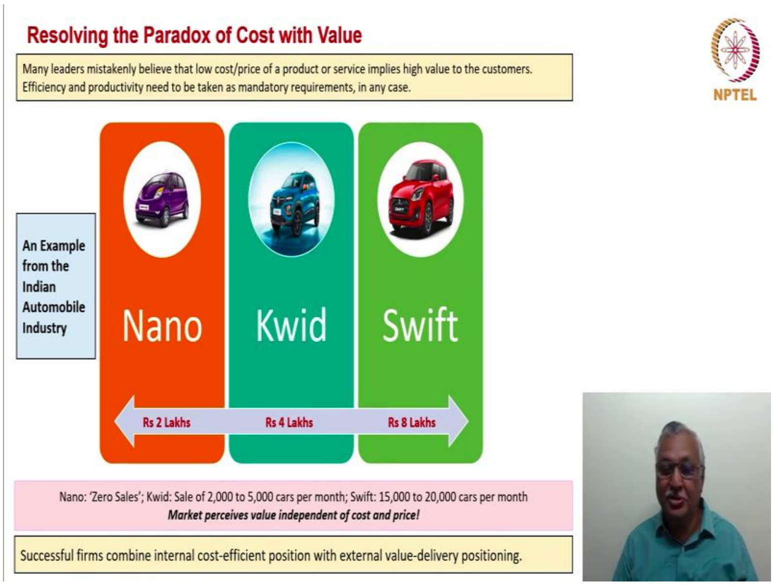
So, you can see that there are so many areas, where there could be dilemmas, there could be paradoxes, there could be competition; but people who are collaborative as leaders can take pretty good decisions optimizing these, apparently conflicting things. You may tend to have large manpower; you may tend to also have excess investments with a view to reduce your dependence on others, so that you are able to compete better. But they lead to internal competition, because you are draining your finances, you are draining your variable costs that is not good.

Let us look at the collaboration that occurred in parts of the value chain with reference to Renault and Nissan. Admittedly they are of course under one common ownership; but nothing prevented them from pursuing different paths. Because they were still different entities, yet they choose to have shared components, common manufacturing and dual marketing.

That is, you look at a car made by either Nissan or Renault, the exterior could be different as for example, Duster and Terrano SUV were; but all the internal components were common. Similarly, they decided to have this common manufacturing show up in different marketing aspects in the marketplace.

So, common manufacturing and dual marketing was their credo. Apple and Samsung compete fiercely, but they have shared components. Therefore, collaborating in parts of the value chain is very much feasible and that is one good solution to have the benefit and strength of mitigated competition and heightened collaboration. The ability to optimize investments and maximize returns would depend on the ability to walk this tightrope between collaboration and competition.

(Refer Slide Time: 25:49)



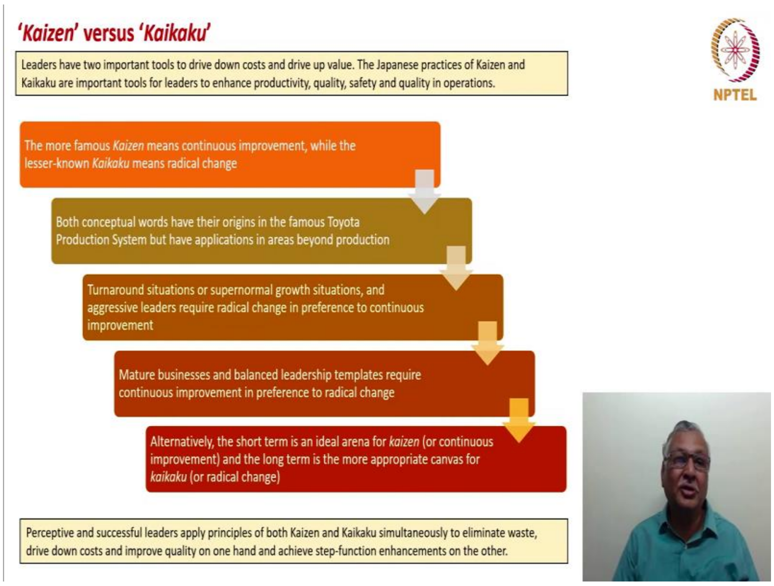
Then, let us look at the paradox of cost with value. Many times customers as well as leaders believe that the lower they cost, the better is the product. It is unfortunate that many leaders mistakenly believe that low cost or low price of a product or service implies high value to the customers. Efficiency and productivity, however, need to be taken as mandatory requirements in any case.

Let us look at an example from the India automobile industry. We have three types of cars which we have seen over the last few years. Nano priced at rupees 2 lakhs, originally, it was priced at 1 lakh; Kwid, a Renault product which is priced at rupees 4 lakhs and Swift rupees 8 lakhs car.

Nano had ‘zero sales’, in fact, production has been stopped. Kwid has a sale of 2000 to 5000 cars per month and it is somewhere in the small scale or mid square rage. We have Swift which is a market leader in its class and it sells 15000 to 20000 cars per month. Therefore, it is very clear that notwithstanding the higher price, Swift has been selling in much greater volumes. Market perceives value independent of cost and price.

Successful firms combine internal cost-efficient position with external value delivery positioning. That is important.

(Refer Slide Time: 27:14)



Then the other, so called conflicting hypotheses could be 'Kaizen' versus 'Kaikaku'. You would have heard the term Kaizen, which means continuous improvement all the time; but we have not really heard about the word Kaikaku which is also a Japanese word. It is about radical change or transformative change.

These Japanese practices have been two important tools for the Toyota production system and also, the general industrial system in Japan to enhance productivity, quality, safety and compliance in operations. Both words have got their origins in Toyota production system; but have applications in areas beyond production.

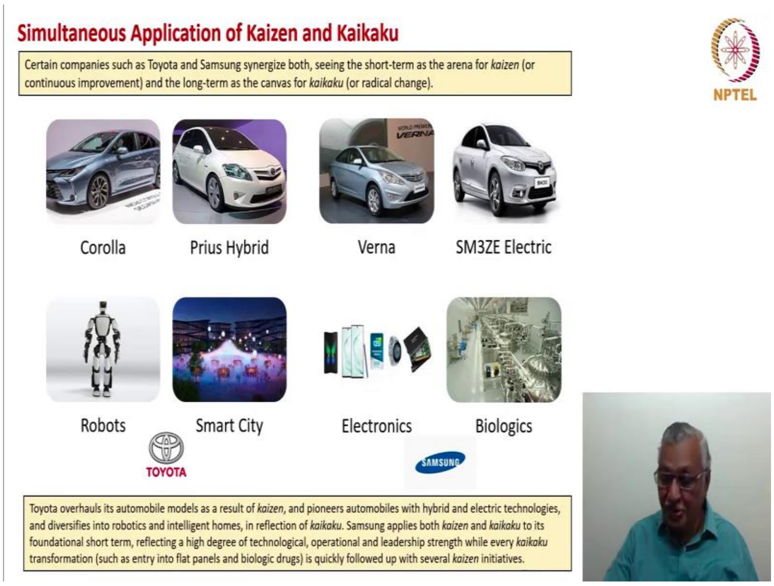
Turnaround situations are supernormal growth situations, again at two polarities and also aggressive leaders require radical change in preference to continuous improvement. On the other hand, mature businesses and balanced leadership templates require continuous improvement in preference to radical change.

At times, the compounding impact of continuous improvement could be far more impactful than the step flatter function of having radical change every 5 years or 10 years. Alternatively, the short term is an ideal arena for Kaizen or continuous improvement and the long term is the more appropriate canvas for Kaikaku or radical change.

Perceptive and successful leaders apply principles of both Kaizen and Kaikaku simultaneously, so that waste can be eliminated, cost can be driven down, quality could be improved on one hand, and also, achieve step function enhancements on the other. Every time for example, you undertake a complete product renewal, probably that is the time also to have a significant change in the manufacturing establishment and also, have a transformation in the way the products are going to be sold.

So, that could be a radical transformation across the entire value chain; but until then, you might probably be doing continuous improvements in all the parts of the value chain.

(Refer Slide Time: 29:19)



Let us see the simultaneous application of Kaizen and Kaikaku by Japanese companies and also, Korean companies. You could see Toyota doing this. Corolla is an example of outstanding continuous improvement. The models continuously evolved so much so, that it is the best selling a singular product line up in the world in terms of its branding and the product is always as modern as a car could be.

On the other hand, the company also achieved the hybrid revolution, it brought in a radical transformation in the car technology by bringing in the Prius Hybrid. Similarly, from a business philosophy, radical transformation is being attempted by getting Robots by the company, by getting into the business of smart cities. See what a difference or a what a transformation or a step change from the original car manufacturing that the company has been committed to.

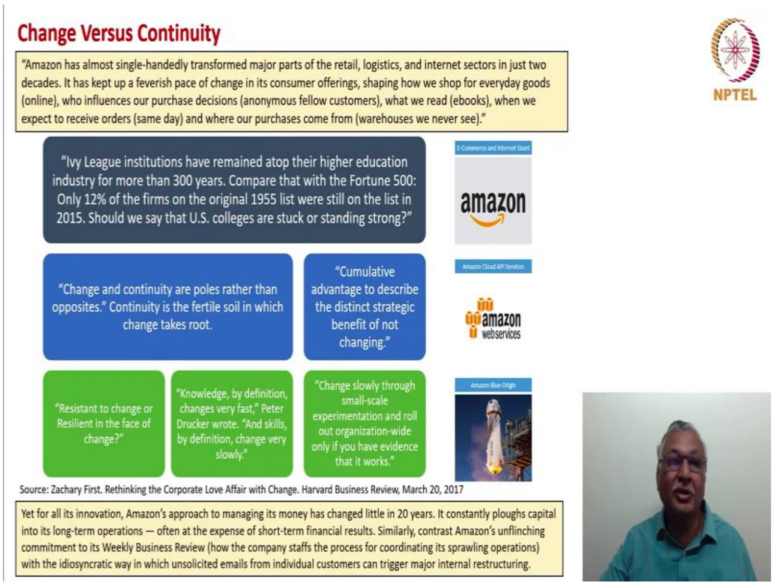
So, Kaizen and Kaikaku can work on a horizontal dimension of continuous improvement in the existing product line or get into radical transformation in a completely new line of business or new line of product. Similarly, we have South Korean manufacturer Hyundai having Verna and also going in a big way for a completely electric vehicle.

Samsung is a great leader in electronics, but it has quietly become a leader in Biologics as well. You can see the quality of the manufacturing infrastructure that Samsung biologics has been made. Toyota overhauls its automobile models as a result of kaizen, and pioneer's automobiles with hybrid and electric technologies, and also diversifies into robotics and intelligent homes, there is a reflection of the Kaikaku method set, coming also with the Kaizen foundational mind set.

Samsung applies both Kaizen and Kaikaku to its foundational short term, reflecting a high degree of technological, operational leadership strength, while every Kaikaku transformation such as entry into flat panels and biologic drugs is quickly followed up with several Kaizen initiatives.

So, the leader's capability is not in terms of choosing between Kaizen and Kaikaku, but having a kind of role over of Kaizen and Kaikaku very efficiently and effectively, within the leadership decision making.

(Refer Slide Time: 31:42)



We have the other hypothesis; change is important or continuity is important. When we look at Amazon, we will understand that Amazon has almost single handedly transformed major parts of the retail, logistics and internet sectors in just two decades. It has kept up a feverish pace of change in its consumer offerings, it has redefined how we shape for every day goods online, it has created a universal market place which is impossible to replicate in any other mode of selling.

And also, it has taken to influencing our purchase decisions through anonymous fellow customers, through what we read e-books and when we expect to receive orders, same day the prime and where our purchases come from, warehouses which we never see. So, there is the complete paradigm shift in the way the products are insourced and also sold.

In a different type of example, Ivy league institutions have remained atop their higher education industry for more than 300 years. Compare that with the Fortune 500 company listing, only 12 percent of the firms on the original 1955 list were still in 2015. Therefore, should we say that US colleges are stuck without change or their standing strong with some kind of change.

So, change in continuity or poles rather than opposites. Continuity is the fertile soil in which change take route and it is important to define the cumulative advantage to distinguish between the distinct strategic benefit of changing and not changing. We should understand, how change would benefit and how non-changing would benefit, that is important.

So, the questions that arise are as I posed, what is the cumulative advantage to describe the distinct strategic benefit of not changing? You should question yourself by not changing, am I getting something for the company additionally.

You should also understand am I simply being resistant to change or am I being resilient in the face of change. Which is more important? Obviously, the second one. “Knowledge, by definition, changes very fast,” Peter Drucker wrote. “And skills, by definition, change very slowly.”

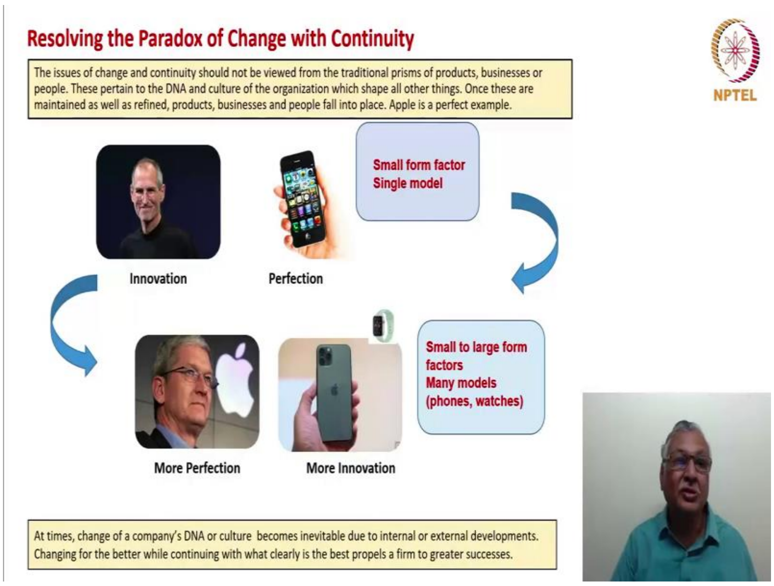
When we forget the knowledge aspect of it and focus only on the skill aspect, you may be more successful in machining a product on the lathe. But when we do not have the knowledge to reprogram the lathe digitally, then we are making the skill irrelevant. So, knowledge which changes very fast must be applied on skills which change very slowly so that we have the optimal combination.

"Change slowly through small-scale experimentation and call out organization-wide only if you have evidence that it works." These and a few other nice approaches are discussed in the article which I have sighted. Yet for all its innovation, Amazon's approach to managing its money has changed little in 20 years.

It constantly ploughs capital into its long term operations often at the expense of short term financial results. Similarly, contrast Amazon's unflinching commitment to Weekly Business Review to the idiosyncratic way in which unsolicited e-mails from individual customers can trigger major internal restructuring.

So, there are standard stoic management models which the company still adopts, such as the cash management of the highest order and responsiveness to the customer in the traditional ways as well. So, change versus continuity is not a dilemma. It is something which is to be implemented together by successful corporations.

(Refer Slide Time: 35:35)



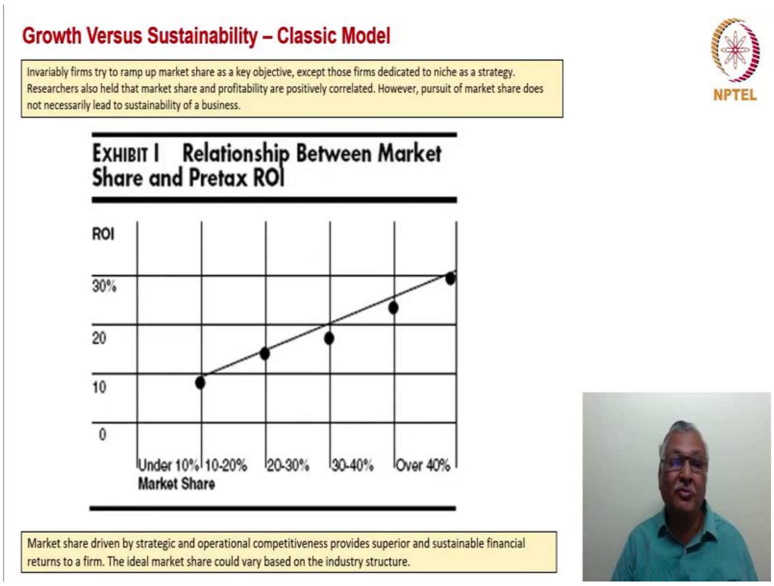
How do we resolve the change of continuity? Let us take the example of Apple. When Steve Jobs was there, the company was noted for its innovation and perfection. We discussed perfect innovation as an ultimate achievement for technology leadership. At that point of time, Apple had small form factor and a single model.

As I said, up to almost Apple iPhone S, but when Tim Cooks came into the shoes of Steve Jobs, he changed some aspects of the business. But he did not change the foundational aspects of the business; perfection became more perfection, innovation became more innovation.

So, where is the change and where is the continuity? Change is there when new products are brought out to through more innovation. When small form factor was changed to large form factor and one model was allowed to lead on to several models, then it became change.

Continuity was in terms of the emphasis on perfection and innovation as foundational factors. At times, change of a company’s DNA or culture becomes inevitable due to internal or external developments. Changing for the better while continuing with what we have as the best practice is always the appropriate way to go with this concept of change and continuity working together.

(Refer Slide Time: 37:01)

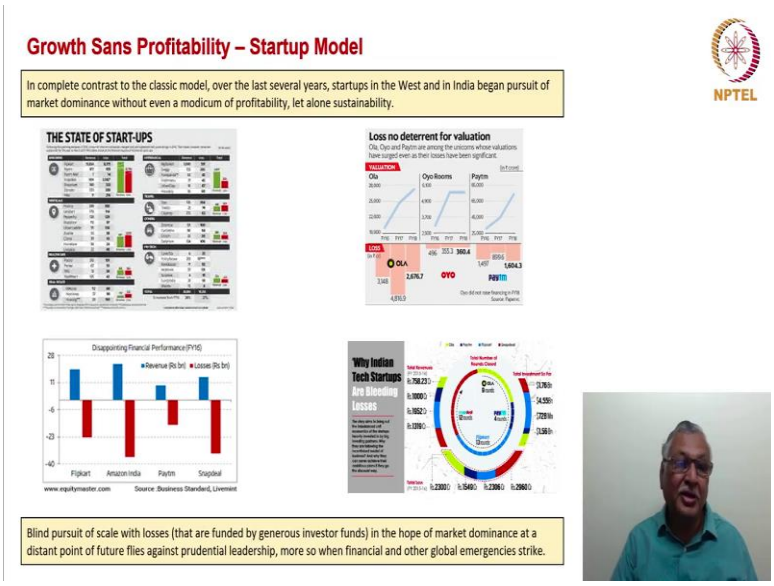


Growth versus sustainability. What was the classic model? The classic model was that if you have higher market share, you will have higher profitability. The relationship between market share and pretax ROI was described very well in a hardboard business review, landmark article, several years ago.

However, pursuit of market share does not necessarily lead to sustainability of a business, we have gone through that. In fact, Simon Kucher partners, founder has talked about pursuing profitability rather than market shale in one of the management thoughts leadership lectures, I have taken earlier. So, you can relate to that.

Market share driven by strategic and operational competitiveness provides certainly superior and sustainable financial returns to a firm. However, the ideal market share could vary based on the industry structure.

(Refer Slide Time: 37:52)



Growth without profitability is of no use, even if you have high market share. The reason why many startups are funded in a very aggressive pace by equity investors is the following. The higher the market share, the higher is your market presence. If your startup also has got certain radical technology, very soon you will be able to occupy the entire market space through the higher market share and the transformation technology you have.

Therefore, it makes sense to fund a startup to acquire the best possible market share at, even if it is at the highest possible premium level for the shareholding, as long as the long term vision is of the radical technology capturing the market space. That is why you see, many companies which are valued highly, even as Unicorns having high levels of losses; Ola had high levels of loss even pre COVID, so did Oyo and even Paytm.

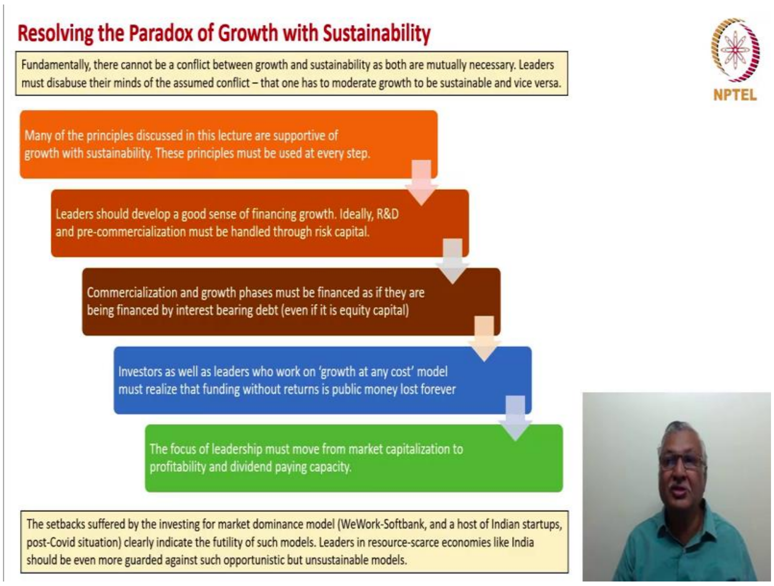
Similarly, the biggies in E-commerce Flipkart, Amazon India, Paytm, Snapdeal, they have disappointing financial performance and they are bleeding losses for a number of reasons. If you see this circular pi chart, you will see how at different levels of revenues, you also have different level of losses and the total losses have also been snowballing.

Blind pursuit of scale with losses that are funded by generous investor funds in the hope of market dominance at a distant point of future, this flies against prudential leadership, more so when financial and other global emergencies strike. We had recently a case of Reliance acquiring a Unicorn at fire sale price may be about one-eighth of the price, it commanded at one point of time.

That was possible because the model itself was deficient and could not stand the test of robust financial management, robust business management. So, while having certain principles of start up in mind that is radical technology intend and ability to attract and covert the market, we cannot also fly against prudential principles of having a business model built on profitability.

That is important. It cannot happen in the first year; but it should be allowed to happen at least in the second year or third year.

(Refer Slide Time: 40:16)



Then, we have the paradox of growth with sustainability. There can never be and there should never be a conflict between growth and sustainability. As both are mutually necessary for the industrial and economic development. Leaders must clear their minds of the assumed conflict that one will have to moderate growth to be able to be sustainable and vice versa.

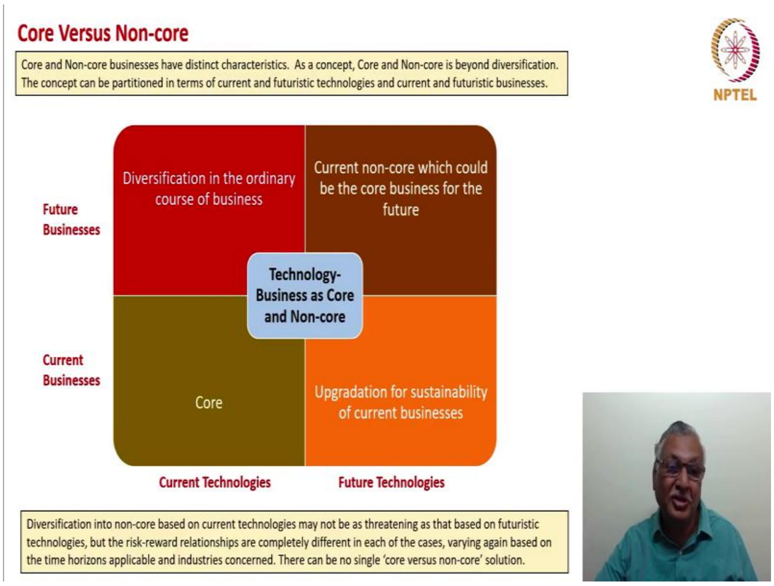
Many of the principles we have discussed in this lecture are supportive of growth with sustainability and these principles must be used at every step. Leaders should have a good sense of financing growth, ideally R&D and pre-commercialization must be handled through risk capital; whereas, commercialization and growth phases must be financed as if they are being financed by interest bearing debt, even if it is equity capital.

Going back to the same startup example, you can conceive of every startup being in two phases one the R&D phase and the other the commercialization and growth phase. If you have different levels of funding and different types of funding, for these two phases which is linked to some accountability in terms of product development and in terms of growth capability, then the kind of losses you are seeing in the startup space and the missed expectations would not take place.

So, investors as well as leaders, who work on growth at any cost model must realize that funding without returns is public money lost forever and that is more relevant and more appropriate in a resource scarce economy like ours. The focus of leadership must move from market capitalization to profitability and dividend paying capacity.

There have been really very strong setbacks in this market dominance model, that is growing without recourse to profitability. WeWork Soft bank and a host of Indian startups, post-Covid situation, clearly indicate the futility of such models. Leaders in resource-scarce economies like India should be even more guarded against such opportunistic, but unsustainable models.

(Refer Slide Time: 42:12)



The other challenge we have is in discussing and debating and finally, deciding what is core and what is non-core for a business. Core and non-core businesses have distinct characteristics. As a concept, core and non-core is beyond diversification. The concept can be partitioned in terms of current and futuristic technologies and current and futuristic businesses. This matrix presents that.

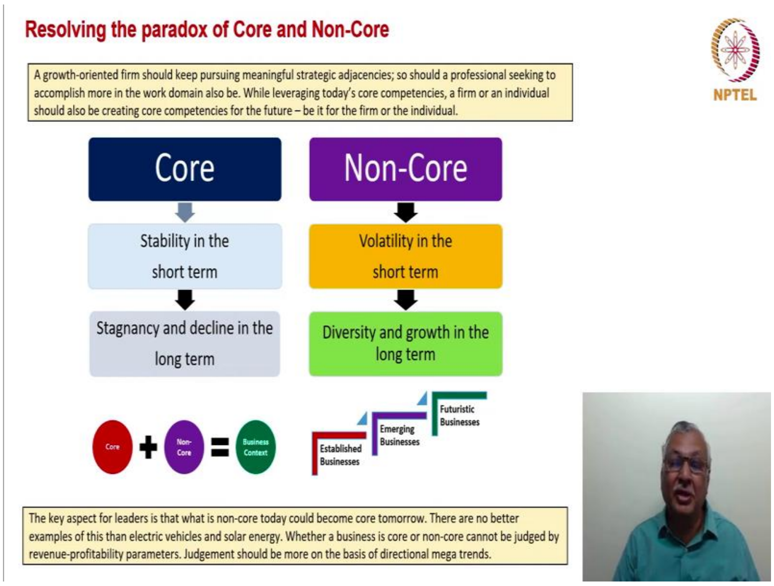
If you have current technologies which are functioning in current businesses, you can say that you are in the core business. If you adopt future technologies for current businesses, you can say that you are upgrading for sustainability of current businesses. If you are developing future businesses out of the current technologies you have, you are undertaking diversification in the ordinary course of business.

On the other hand, if you are deploying future technologies for future businesses, you are having a current non-core which could be the core business for the future. It could be viewed as non-core because technology is futuristic, business is futuristic. But that could become the core business for the future.

Diversification into non-core based on current technologies may not be as threatening to leaders as that is based on futuristic technologies, but the risk-reward relationships are completely different in each of the cases, varying again based on the time horizons applicable and the industries concerned.

There can be no single commonly applicable concept of ‘core versus non-core’ strategy for various situations. It has to be individually contextualized by the leader with reference to the firm and the industry and also, the possibility of creating a whole new firm and whole new industry as well.

(Refer Slide Time: 43:54)



So, how do we resolve this paradox of core and non-core? A growth oriented firm should keep pursuing meaningful strategic adjacencies; that is strategic adjacency of getting into a particular line of business which can utilize some of the competencies which you already have; it could be design, it could be manufacturing, it could be marketing.

Similarly, a professional seeking to accomplish more in the work domain, must pursue strategic adjacencies. If you are a specialist in finance, you should have a strategic adjacency in accounting. If you are great in finance in accounting, you should go for secretarial capability and so on.

While leveraging today’s core competencies, a firm or an individual should also be creating core competencies for the future, whether it is for the firm or the individual. Core gives us comfort, stability in the short term; but it leads to stagnancy and decline in the long term because not every company is going to stay still with the core businesses.

Everybody is going to venture into non-core businesses which could be future cores. Non-core will have volatility in the short term, but will certainly give diversity and growth in the long term. The business context is set by a combination that too a judicious combination of core and non-core.

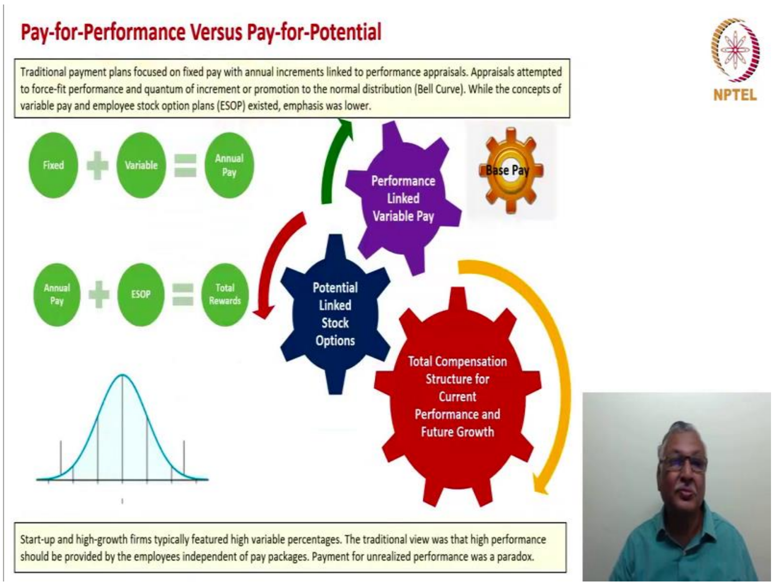
It is also going to define the three horizon strategy of established businesses, emerging businesses and futuristic businesses. The key aspect for leaders is that what is non-core today could become core tomorrow, I have illustrated through the reliance situation, how for an energy major retail was completely non-core, so was telecommunications. But now, they have become the core businesses and tomorrow something else could be the core.

Therefore, the key aspect for leaders is that what is non-core today could become the core tomorrow. There are no better examples than electric vehicles and solar energy. Today, Adani Green is the world's largest green energy company in terms of the green energy power it has contracted to develop and supply.

So, that was never a line of business few years ago, but the group chose to be in the current business of ports, transmissions, enterprise activities and also, green energy and also, gas and also, airport management. So, nothing related to each other; but bringing in these business aspects into a strategic decision making, the group was in a position to get several non-core areas into the core area.

So, whether a business is core or non-core cannot be judged by revenue profitability parameters. Judgement should be more on the basis of directional mega trends. But the difference between the startup examples we have and the difference between the reliance examples we also considered is the clear path for profitability which established companies, which are thinking entrepreneurially for non-core is following. That is the main difference.

(Refer Slide Time: 46:57)

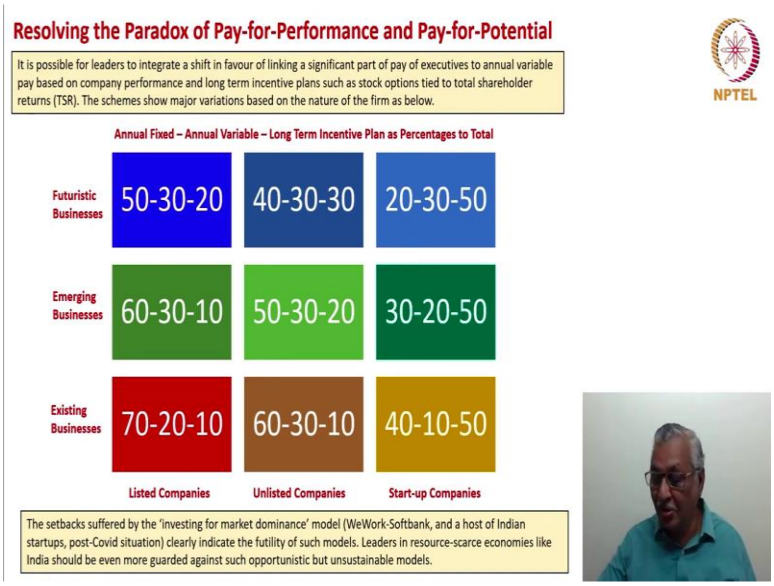


Another one pay-for-performance versus pay-for-potential. Fixed plus variable used to be the annual pay. At one point of time, actually fixed pay was the annual pay. Now, we have a fixed plus variable as almost the standard. However, that annual pay when combined with ESOP, it becomes the total rewards which an individual could get and this total rewards follows a normal distribution.

Some are high performance, they get highest level of total rewards; some are outliers, they would get outstanding total rewards along with a stake and share in the company's ownership as well as company leadership and those who are laggers, lose out. So, if you look at the total compensation structure for current performance and future growth, you can see these gears in pay; base pay, performance linked variable pay, potential linked stock options.

Start up and high growth firms typically featured high variable percentages. The traditional view was that high performance should be provided by the employees independent of pay packages that has been over turned by the startup and high growth firms. Payment for unrealized performance was considered a paradox. But start ups and high performance companies decided to break that paradox by bringing in both variable pay of a high order and long term incentive plans of a high order.

(Refer Slide Time: 48:25)



So, how do these companies break these paradox? We can integrate a shift in favour of linking a significant part of pay of executives to annual variable pay based on company performance and long term incentive plans such as stock options which could be tied to total shareholder returns.

There are schemes which I have provided here. Let us say annual fixed - annual variable and Long Term Incentive Plan, LTIP are the three components of the compensation plan and we are trying to define through these matrix percentages of these three payment patterns.

Let us say, we have listed companies, we have unlisted companies and we have startup companies. Let us say we also have existing businesses, emerging businesses and futuristic businesses. If you look at a startup company which by and large operates in futuristic businesses, fixed pay will be lower; variable pay will be little higher; but the long term incentive plan will be substantially value creative.

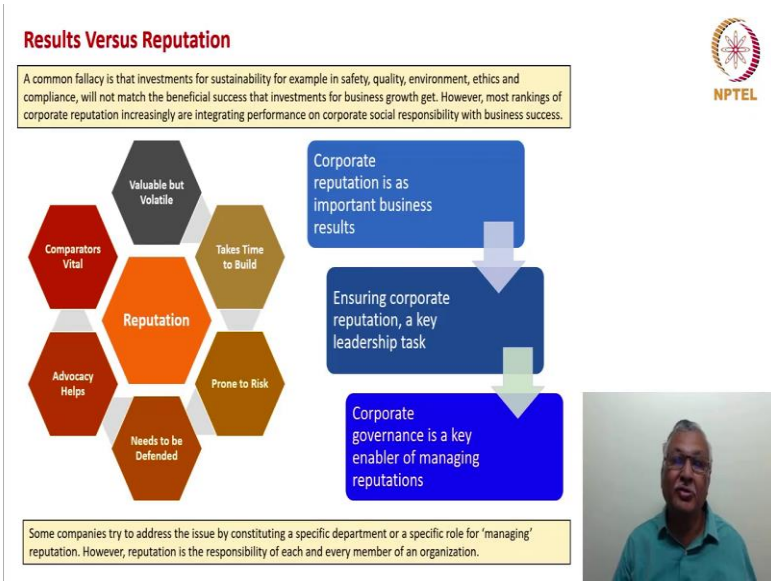
But if you have a listed company operating in the existing businesses, the fixed pay will be very high; variable pay will be let us say 20 percent and the long term incentive plan will be even less. The reason, it is very difficult to take the company to dramatically high level in an existing business and particularly, when it is following certain methods of operation in a listed space with diversified ownership and probably, also with strong promoter holding that, that is why it is less.

But on the other hand, the reverse is the truth in respect of startup companies which operate in futuristic businesses; because there is great potential to inspire the employees to transformational developments by having LTIP as a huge part of their wealth creation and various other businesses fall in various types of categories; 70-20-10, 60-30-10, 50-30-20 are the ratios for listed companies in the rank up of existing emerging and futuristic businesses.

And suppose a startup has made its business existing established business; obviously, the ratios will change. Fixed pay would increase; variable pay will decrease; but in order not to lose these startup entrepreneurial skill, the company would still have long term incentive plan as a big portion of the performance paradigm so that newer startup ideas can come about.

We have to keep in mind that certain aspects of performance management and total share holder rewards management are actually interlink. They are not in contradiction of each other; they are actually mutually supportive of each other, provided we understand what is the nature of our company and what is the nature of our business and what is the potential for either continuous improvement or long term transformation.

(Refer Slide Time: 51:16)



Another very important hypothesis, do we pursue results or do we pursue reputation. A common fallacy is that investments for sustainability; for example, in safety, health, quality, environment, ethics and compliance will not match the beneficial success that investments for business growth will get.

If you put 100 crores in expanding the product line, it will fetch immediate revenue and immediate profit. On the other hand, 100 crores in making your facility zero carbon facility or zero discharge facility is unlikely to add anything to your top line or bottom line. But let us keep in mind that most rankings of corporate reputation increasingly are integrating performance on corporate social responsibility with business success.

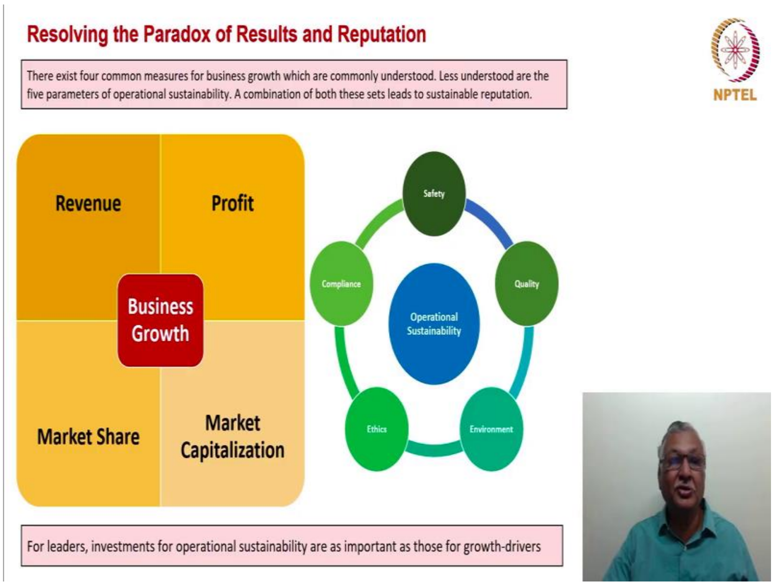
Let us also understand that this method of integrating high caliber of performance that is environmentally complaint, environmentally empathetic, socially responsible and well-governed performance with day to day strategic and day to day operational performance or planning is actually related to higher levels of performance capability for a firm. That is why ESG has become an extremely important aspect of leadership as well as investment philosophy.

So, reputation is something which has to be protected at all cost. It is valuable, but volatile. It takes huge amount of time to build; but it is prone to risk. It needs to be defended. Advocacy helps that yes how do my reputation indicators serve the society and comparators are vital.

Corporate reputation is as important as business results. Ensuring corporate reputation is a key leadership task. You cannot be happy that I am increasing my market share, you have to be concerned about the reputation the company has while doing that. Therefore, corporate governance is a key enabler of managing reputations.

Some companies try to address this issue by constituting a separate department or a specific role for within course ‘managing’ reputation. But that is not the right approach. Reputation is the responsibility of each and every member of the organization and is an outcome of each and every step of the organization from design to through manufacturing to delivering the marketplace.

(Refer Slide Time: 53:42)



How do we resolve the paradox of results and reputation? As I said, business growth is driven by revenue, profit, market share and market capitalization, that is the standard matrix. But we should aim at operational sustainability by having safety, quality, environment, ethics and compliance. Safety including also occupational health and safety, that provides the operational sustainability.

If you have operational sustainability which could mean as per the lectures we have considered, resource effectiveness that is you use less materials for more output or you extend the product life cycles and various other means. Then, you have operational excellence as well coming through operational sustainability.

Then, automatically business growth develops in terms of the four factors, that I have presented here. So, for leader's, investment for operation, sustainability is as important as investment for growth drivers. That is what we need to keep in mind.

(Refer Slide Time: 54:42)

Resolution of Paradoxes is Mutually Reinforcing

Each paradox can be resolved on its own, and resolution of the paradoxes take place synergistically. For example, 'core and non-core' and 'short term and long term' are mutually synergistic. Many combinations are possible.

SN	Principle	Synergy With
1	Empowerment Vs. Accountability	6 and 9
2	Short Term Vs. Long Term	5, 6 and 7
3	Competing Vs. Collaborating	4
4	Cost Vs. Value	3
5	Change Vs. Continuity	2, 6 and 7
6	Investing for Growth Vs. Investing for Sustainability	2 and 9
7	Core Vs. Non-core	2, 5 and 6
8	Pay for Performance Vs. Pay for Potential	2
9	Results Vs. Reputation	4 and 6

The leadership skill lies in deriving mutual reinforcement from several tactical and strategic actions rather than viewing them individual or pitting one against the other.

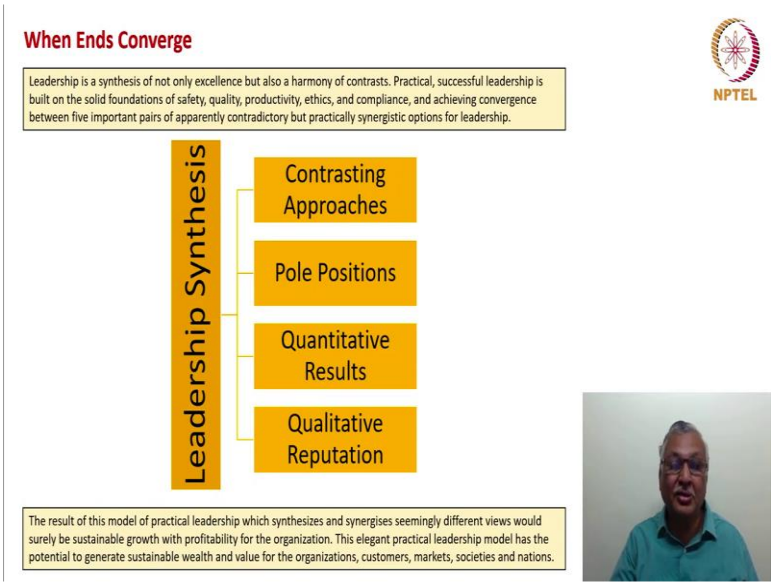
So, this resolution of paradoxes is mutually reinforcing. Each paradox can be resolved on its own; but resolution of the paradoxes can take place synergistically as well. For example, core and non-core and short-term and long term or mutually synergistic, many combinations are possible.

When we look at empowerment versus accountability as a principle, principle 6 and 9 have synergy with that principle. Short versus long term has synergy with the change with versus continuity, investing for growth versus investing for sustainability and core versus non-core.

So, short term and long-term and change continuity, growth and sustainability investments and core and non-core strategies are all interlinked. Pay for performances was versus pay for potential is linked to the short term and long term performance of the company; similarly, result versus reputation, cost versus value and pay for performance versus pay for potential. Besides being in relation with every other good management and leadership practice, we discussed.

The leadership skills lie in deriving mutual reinforcement from the various tactical and strategic actions that we have discussed, rather than viewing them individually or fitting one against the other or even trying to resolve one paradox by itself, instead of looking at all the common paradoxes we face in our leadership journey and try to resolve them holistically. That is extremely important.

(Refer Slide Time: 56:13)



So, when ends converge, you will have the absolutely highest level of leadership. Leadership is the synthesis of not only excellence, but also is a harmony of contrast. Practical, successful leadership is built on the solid foundations of safety and health, quality, productivity, ethics and compliance. It achieves convergence between these five or six important pairs of apparently contradictory; but practically synergistic options for leadership.

Leadership therefore, has to be viewed in the synthesis capability; taking together contrasting approaches, balancing the pole positions, balancing the quantitative results with qualitative reputation, integrating all of these things at the highest levels possible in each of these areas.

In certain cases, the highest levels may not be simultaneously possible. For example, trying to meet the short term as the long term, you cannot say that I will do only one; you have to do both. But you have to do it in a reasonable way so that the business can last or a perpetuity.

On the other hand, having qualitative reputation and quantitative result could always be at the highest level on both these dimensions. So, the result of this model of practical leadership which synthesizes and synergizes seemingly different views would surely be consistent growth, sustainable growth and consistent profit as well as sustainable profit for the organization.

This is a very elegant practical leadership model. It has the potential to generate sustainable wealth and value for the organizations, customers, markets, societies and nations. We have to make this type of converges possible in our leadership journey.

Thank you. We will meet in the next lecture.