# PROMOTER PLAY

**With promoters focusing on stewardship and stake holder value creation, the professionals are becoming more important**

**Moinak Mitra**

A Vellayan

A Vellayan, Chairman of the ₹ 22,466-crore Murugappa Group, one of the oldest family-owned conglomerates in India, is no alien to the rise of professional CEOs in this neck of the woods. He should know since the group has earned the 'Tatas of the South' epithet owing to some strong governance and values. Since the mid-80s, the then group patriarch R Subbiah threw open the doors to professionals to manage the day-to-day affairs of the company with 'qualified' owners representing the board and taking a more exalted view on company matters. Vellayan saw the transition of the complexion of CEOs from the 70s until now. "From the 70s through mid-80s, professionals were largely told what to do and they had to deliver, but now they participate much more in risk-taking and contribute to visioning," says Vellayan. The Murugappa patriarch dishes out instances of empowerment and partnership with professionals from his own backyard. When Murugappa subsidiary Carborundum Universal acquired Volzhsky Abrasives Works in Russia in 2007, it was K Srinivasan, the MD of Carborundum, who identified the Russian acquisition and convinced the board about it. Again, Vellayan points out that the company's nutraceutical, organic pesticide and rural retail businesses were completely looked after by Coromandel International Vice Chairman V Ravichandran, who at that time was the MD of Coromandel. "I step in only with my entrepreneurial ability and facilitate linkages in the ecosystem to accelerate projects," claims Vellayan.

The freedom accorded to professional managers at Murugappa, is of a high degree and perhaps can be matched with what the Burman family of Dabur has done up north in the late 90s. Though the family owns 70% of Dabur, it has over time given up day-to-day control, leaving it to thorough professionals to run the show. So much so that the family members have even vacated the corporate office in Sahibabad on the outskirts of Delhi. That leaves room for CEO Sunil Duggal and a bunch of talented executives to wield the baton without fear or favour. Duggal believes that empowerment at Dabur is even more discernable than some top progressive multinational companies. "The Indian manager has more flexibility to innovate around business strategy, portfolio composition and geographic expansion since MNCs are increasingly getting on to global platforms to define portfolio composition and business strategy, thereby becoming globally aligned," says Duggal. Such empowerment enabled local relevance that in effect garnered a market cap of 12 times in 9 years for Dabur (market capitalization grew from ₹ 2,300 crore in 2004 to ₹ 28,500 crore in 2013).

## Why Promoters Are The Real Pros

Such sterling examples of promoters' willingness to let go for the larger interest of the group are few and far between when it comes to India. A handful of groups, including companies run by Tatasons, AV Birla Group and Mahindra & Mahindra are perhaps other examples where professionals bask under the autonomy provided by the owners. "Just as China is state-driven and America is capital market-driven, India is ownership-driven," says R Suresh, MD of search firm Stanton Chase India.

According to Suresh, since the country is poorly governed, there's a certain maneuverability that only the owner can achieve. "In India, managing the environment is so heavily linked to the success of the company that the very definition of 'professional' is compromised," he emphasizes. For sure, the stress here is on 'managing the environment'. In other words, there is scarcity of talent to manage the environment through fraudulent means. So the evolution of the CEO in the Indian context is to be seen as managing both the external environment as well as the internal ecosystem. After all, the CEO must have the owners consent through thick and thin, or else, it does tantamount to insubordination. Unlike the aforementioned examples of virtuous promoters pulling along a talented pack, most often promoters scout for people with whom they can develop a cosy nexus to pick holes in policy and make a quick buck. Oftentimes, they are governed by P&L considerations and not a sustainable business strategy.

A manifestation of such short-term tactic crops up when professionals are hired as profits nosedive or the regulatory environment seems unfavourable. In the first case, consider the firefighting that debonair promoter Vijay Mallya resorted to by appointing former CEO of Spicejet Sanjay Aggarwal as CEO of the now defunct Kingfisher Airlines in 2010.

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# FOUNDER'S DILEMMA

Earlier, Mallya was the CMD but decided on Aggarwal as the CEO to turn his bleeding airline around. As of March 2010, the air-carrier's debt stood at ₹ 6,000 crore, the largest for any domestic private air-carrier. It had posted a loss of ₹ 1,647 crore in FY'10. Coming to the regulatory environment piece, professionals are often expected to hit the ground running. In 2010 again, Arun Sawhney replaced Atul Sobti as CEO of Ranbaxy, the pharma major that changed hands in 2008 from promoters Malvinder and Shivinder Mohan Singh to the Japanese pharma behemoth Daiichi Sankyo. Shortly, the company came under US Food and Drugs Administration lens and was embroiled in a long-drawn legal battle. Instead of managing the day-to-day environment, Sawhney's main role was a clean-up act to ensure the past liability doesn't catch up, says an analyst at a top-rung HR consultancy requesting anonymity.

## Dowagers And Differentiation

Apart from managing P&L and exigencies, many family owners hire professionals to fill in a void when one generation of owners are either too young or inexperienced to take over charge, feels Gaurav Lahiri, MD of Hay Group India. Take the case of pharma major Cipla. Group patriarch YK Hamied stepped down as MD this year to offer the position to his brother MK Hamied. And since YK Hamied has no children, MK's son and daughter are already in leadership positions in the company.

In the meanwhile, they've hired Subhanu Saxena from Novartis as CEO to whom the children now report. Similarly, the company has hired the services of Timothy Crew and Frank Pieters to lead its US and European businesses. However, the reorientation in business at Cipla is also in line with the company's vision of becoming a $5 billion (₹ 27,000 crore) company from ₹ 8,000-odd crore today in the next 10 years. YK Hamied is on record having stated that he needs professional management to achieve that size.

Lahiri is of the opinion that family owners feel the need for professionals to manage their empires either when the next generation is a little wet behind the ears or when the company enters a new market or business category. When the Wadia family successfully hired Vinita Bali as CEO to steer Britannia back in 2004, much after it had forayed into the FMCG space through a bitterly contested acquisition, the decision was governed by Bali's long stints at Cadbury's and Coca-Cola and her understanding of the FMCG space where the Wadia's had little expertise.

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## The High-handed Professional

While the need for professionals vary according to the situation fam firms find themselves in, there are large Indian companies with so-called 'independent' boards where professionals are at the top for what seems like aeons. Take ITC patriarch YC Deveshwar or L&T's AM Naik, for instance. While Yogesh Chander Deveshwar has been CEO and Chairman of the Board since 1996, Naik has been CEO and MD of L&T since 1999.

Though talent accounts for a large chunk of such marked stickiness, Anand Shankar, CEO of India & South East Asia, Aon Hewitt, comes up with a psychological reasoning. According top Shankar, despite the so-called "independent" boards, professional managers continue as top dogs as they don't seem to identify with anything else other than what they do. Simply put, the incumbency in these companies is so strong that it blocks succession.

Since Shankar is also in charge of the South East Asian market as a whole, he highlights the example of the Singapore-based multi-billion dollar hospitality and real estate group Far East Organisation. Led by one Philip Ng, the company employs 4-5 professional CEOs with a good deal of autonomy. "Ng has withdrawn from day-to-day affairs of the business as he feels his job is that of stewardship ensuring the code of ethics and values are adhered to....it's more about stakeholder value creation than shareholder value," he points out. Promoters must ensure 'wealth' creation, not 'power' point presentations. And there is ample proof that talented professionals can make a more powerful statement than owners.

In his paper Rich versus King, Noam Wasserman of Harvard Business School dissected 460 American startups from 2000s to bring forth what he calls "the founder's dilemma". His statistical analysis showed that, paradoxically, founders maximized the value of their equity stakes by giving up the CEO position and board control.

## How The CEO Came Into Being

Hiring professional CEOs by Indian businesses is a post-liberalisation phenomenon. However, the seeds were sown much earlier when the CEO designation was unheard of. There were managing directors of public sector companies, large multinationals, like Hindustan Unilever, and homegrown behemoths, like Tatas, as they created a cadre of self-fulfilling talent. "In the 90s, most people who gained 20-odd years of experience across businesses, appealed to MNCs which came knocking on India's doors, like Nokia," says Anurag Aman, Principal-Human Capital, Mercer India. While Nokia picked up the seasoned Shiv Kumar from HUL (then HLL) to head its India ops, Citibank turned out to be a breeding ground for talent in the financial services space, telecom companies, consulting firms and banks.

However, Aman echoes the thoughts of many others of his ilk by mentioning that sustainability is still not on the radar for most Indian CEOs as the profit motive surpasses everything else. In other words, lip service to governance is rampant. Global firms, on the other hand, have figured out sustainability as an amalgam of growth, profitability and branding on the basis of which they spell out corporate governance. While the experiments in autonomy are ongoing, India's business families will never let go of real control. Kavil Ramachandran, Thomas Schmidheiny Chair Professor of Family Business and Wealth Management at ISB, has a two-pronged reasoning. First, he argues, is the classical Oriental mindset of protection of property and freedom. "Owners have a lot more freedom to spend, recruit etc." Besides, there is also the added advantage of visibility with power-in his words, "the visiting card value". Business owners feel that they are the trustees of the family's wealth and they're not going to pass that up in a hurry.

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## EVOLUTIONARY ROAD

Historically, Indian business owners have been circumspect while hiring professional CEOs. However, there have been stages of evolution of the professional Indian CEO and Ronesh Puri, MD of search firm Executive Access, carves out four such phases.

**Phase I (1995-2000):** This period was marked by the owner giving little room to the CEO and was always tentative. "Managers and Executive Assistants used to shadow CEOs and report directly to the owners." Obviously, such cloak-and-dagger operations in a general environment of mistrust are short-lived.

**Phase II (2000-2005):** The owners became more current and accepted empowering their CEOs to the extent of valuing their opinion, but not necessarily implementing them. The CEO's opinion though came to be respected.

**Phase III (2005-2010):** This is when the economy truly started firing. Owners wanted to take advantage of a liberalized setup and even go global. So Indian owners wanted to compete with MNCs and needed people who understood the psyche of MNCs. The acceptance of owners grew manifold and the era of implementing suggestions made by the pros trickled in.

**Phase IV (2010-):** It will take a few more years for owners to pursue wealth rather than power and their professionals to finally call the shots. Owners will obviously be integral to the business but as investors and pursue a higher purpose. Since this is an evolving phase, time will tell.