Attracting professionals to promoter run organizations

Egon Zehnder

Family owned and promoter run organizations are often the best custodians of long term value creation in India. Yet, many of these organizations have had a mixed record in attracting and retaining high quality professional talent from the outside.

Egon Zehnder recently organized a roundtable discussion in Mumbai with a cross section of leaders (Promoters, CXOs and PE professionals) to discuss the challenges and best practices in attracting professionals to promoter run organizations. The diversity of the group made for a very stimulating discussion. This white paper attempts to summarize the insights that emerged from their experiences.

Our discussion focused on four key questions:

- **When is the right time to bring in external professionals?** Very often, particularly in the early stage of an organization's growth, the challenge can be too much management and not too little. Is there an inflection point at which there is a strong case to bring in professionals from outside?
- **What kind of leader is effective in promoter driven organizations?** Individuals who flourish in MNCs are often very different from the kinds of people who succeed in family businesses. What are some of the "must haves" in a leader, for him/her to successfully make this transition?
- **How does one set up the professional for success?** Hiring a senior leader in a promoter run organization is often the most significant hiring decision made by the family. Equally it is a big career move for a professional – often perceived as a big career risk. Is there a way to de-risk the move?
- **What are additional considerations when PE investors are involved?** Private equity investors often bring in external professionals to promoter driven portfolio companies. Leaders brought into these situations have to deal with high delivery expectations and multiple stakeholders. How can they be set up for success?

1. When is the right time to bring in external professionals?

Timing is an all important question. In the early stages of growth, too much management is more dangerous than too little. There is some merit in living with some "chaos" and letting the organization evolve in an entrepreneurial way. Yet successful entrepreneurs typically reach an inflection point where bringing in a different type of leadership talent is necessary to take the business to the next level.

Acknowledging the tipping point: The first step is for the entrepreneur to realize that a different leader is required for the future journey. Symptomatically, this is often the stage when an organization's progress is visibly slowed down by the lack of formal structures, systems and processes. Going external might also be an imperative if there is a sudden shift in the sectoral domain and/or the geographical footprint which might necessitate a certain set of skills that is not resident in the current team.

However, acknowledging a need or gap is not sufficient. For the timing to be right to bring in a senior external professional, there are at least two necessary pre-conditions

Complete clarity on family member roles and expectations from the professional: This clarity is particularly key when more than one family member or founder is involved in the business. It is important to articulate and align on where each member will play a role – and equally importantly where they will not. The professional's role must be thought of in context of the promoter involvement.

Existence of a governance / decision making framework: Role clarity alone is insufficient. Decision making clarity is also needed. Who takes which decision and how? In our experience it is important to have agreement on areas where the family will drive decision making and areas where they will support/endorse decisions made by the professional. Only then is the organization ready to bring in an external professional in a senior leadership role.

The nature of leader to grow an organization from 0 to X is often different from the leader who can grow X to 2X or 5X. The scale where this shift occurs varies by company and industry.

2. What kind of leader is effective in promoter driven organizations?

There are certain competencies that are common to good leaders, irrespective of the organizational context – for example a strong drive for results, strategic thinking ability and the ability to lead and develop a large team. However, over and above these general leadership competencies, there are some traits that are core to professionals who succeed and thrive in promoter led organizations.

Comfort with ambiguity: Professionals working in highly structured and restrictive environments often yearn for opportunities that are more “entrepreneurial”. Yet the irony is that when they join a promoter driven business, the very lack of structure and process can prove to be a big derailer. The individual’s ability to deal with ambiguity and be comfortable in an ecosystem where process does not always determine outcomes is important in determining his/her long term success.

Willingness to experiment and take risks: The individual making the transition must be willing to take a few risks. For instance, unlike in an MNC setup, it may be difficult for a promoter to provide upfront clarity on what the next role could look like. On the other hand, a promoter is often far more willing to place bets on people and create opportunities for nonlinear and accelerated growth – for example enabling moves across functions or offering general management roles to a functional leader.

Healthy EQ: Emotional intelligence is critical in any leadership role. The need for a healthy EQ is even more pronounced in a family owned business where the dynamics between family members and the mechanics of the working relationship with the promoter need to be managed with a great degree of maturity, flexibility and sensitivity. This is further amplified given the emotional attachment some of the family members have to certain elements of the business. The executive must be aware that in many ways he/she is joining a family and not just an organization.

Resilience and stability: The ability to cope with ups and downs and possible changes in direction is very important. Professionals, who view the shift as a journey and look for a career and not just their next role, are more likely to succeed. A stable career track record, with multiple years spent in a single organization, is a good indicator of the individual's stability and patience.

Culture and Values fit: Lack of cultural fit is one of the major reasons why professionals struggle to integrate into a new environment. Seemingly trivial matters like a highly cost conscious culture can cause major stress to a professional who comes from a highly "perked" environment. It is therefore critical for both prospective employer and employee to invest enough time upfront to test for compatibility in culture and values

> "We look for wisdom and not just brilliance. You need a high EQ to make the shift successfully"

3. How does one set up the professional for success?

While hiring the right individual is key, what is often as critical (and often neglected) is ensuring that the professional is set up for a good innings in the organization. How well this is managed has a direct implication on the risk of failure. Some perspectives below:

Ensure alignment in direction: Several promoter-owned organizations have multiple generations of family members at the helm. Firstly, it is imperative that the key owners/key stakeholders align on the vision and the direction the business is headed (including topics such as entering adjacent spaces, international expansion, and business strategy). Once this is established, they then need to buy into the need for a professional to come in and lead the business. Both these levels of alignment are critical to ensure that the environment is structurally conducive for the executive to come in and drive value. This is often overlooked and if the wind is not blowing in the right direction, the executive will not be able to sail.

Drive role clarity upfront and send the right behavioral signals: This is often the first time the owners are hiring a senior leader into the company. It is critical for them to think through the key activities that they would continue to participate in and the areas where they would pull back. In the areas they want to step away, it is necessary to establish how they will transition the role over time and continue to monitor the performance of the executive. This often requires a change in mind-set of the promoter in how he/she conducts on a daily basis. For instance, in one such placement where we brought in a CEO from the outside, customer calls kept coming to the promoter, who in turn kept entertaining those calls (not by choice but by default). The promoter needed to be coached to step back from these conversations over time to empower the newly hired CEO and also to send a message to the customer about the change in roles. It is critical to have an explicit discussion around what the promoter would start doing differently (behaviorally) moving forward. While, often, there might be a cognitive understanding of the change required, it does not manifest in change in day to day behavior. In such instances, if the promoters are willing, one could consider working with appropriate coaches who could translate the cognitive understanding into modified behavior.

Thoughtfully integrate the executive: While clichéd, it is critical to get the first 100 days right. The key element here is Integration. Often companies mix this up with Induction. The first few days often end up being a series of rushed meetings with some of the stakeholders and the executive is asked to start running. Integration needs to be thought through. Just like Corporate Mergers are often structurally set up to fail, external hires are often set up for failure unless integration is conducted in a planned holistic manner. In our experience, the integration should cover

- Helping the hired executive appreciate the cultural nuances and help fine-tune behavior to settle in well and send the right signals to the organization
- Handholding the executive to establish key relationships within the organizations (team, peers, other stakeholders)
- Bringing the individual up to speed on the various tactical and strategic issues around the business
- Signaling the change of leadership to the external world (customers, technology partners, other stakeholders)

Get the basics right and maintain process hygiene: This is critical to ensure that some of the seemingly elementary issues are not forgotten given the frenzy of business activities that the newly hired executive would be sucked into. While there are multiple process elements which need to be looked at, there are three specific areas which need attention to ensure the executive is set up for success.

1. *Aligning on Deliverables and KRAs:* While there is significant discussion around Business KRAs (especially when a PE firm is involved), there is often inadequate time spent on "What good looks like for the executive" in the short and medium term. Having a granular discussion around this upfront ensures that there are minimal surprises along the way. The onus for making sure this discussion takes place must also lie with the executive who is coming in.

2. *Establishing the performance review mechanism:* There must be an upfront discussion about how often the executive will meet with the promoters/investors to monitor performance and what the dashboard would look like. This should include quantitative metrics that need to be tracked but also have appropriate qualitative measures to ensure that the executive is also building the organizational balance sheet and not just delivering the numbers.

3. *Formalizing the Promoter Professional interaction:* Given that the promoters are often interacting with a professional at the highest level possibly for the first time, there is often a need for being thoughtful around deciding the frequency of meetings, agenda content in those meetings, sharing of key minutes/take-away etc. Some of these might sound trivial but often there is a need to provide some lubrication to ensure that the coordination works smoothly and effectively.

Professional should pro-actively take charge: Several of the points above require the professional to be proactive to raise and address the issues. The promoters could possibly be "blind" to the needs of the professional not because of issues around intent but they often have not had an opportunity to deal with a professional at the highest level. Hence, they may not anticipate. It is critical for the professional to do this tactfully rather than go down the path of "this is how it was done in my earlier organization". On a similar note, the professional needs to often take ownership of his/her development and career path and drive that discussion. Often, there isn't an evolved HR department to take care of these issues proactively.

The professional should also look build a network of relationships with like-minded people (within the company or external) so that he/she can discuss ideas in a "risk-free" environment.

"Expect fireworks!. The transition will not be easy, but it can be managed well "

4. What are additional considerations when PE investors are involved?

Private equity investors can play a very positive role in helping portfolio companies bring in external professionals. Even when they have a minority stake, their brand equity and involvement in governance matters improves access to high quality external talent. They can also play a proactive role in setting up external hires for success. However they have to strike a delicate balance on multiples counts. Some crucial considerations are:

Plan early and be decisive Given the hiring is often based on soft aspects (culture fit, chemistry fit with the entrepreneur, risk taking ability, EQ, resilience and stability) and not just on hard skills and industry experience, these searches are often longer to close, In addition it can take well over a year for the executive to truly start adding value once he/she joins the company. The reality is that PE players often don't have the luxury of time once they make an investment. It is therefore absolutely critical to assess the quality of leadership talent early (as early as during the diligence phase itself). It is critical to take decisive calls on senior talent early on in the investment journey.

Make sure the promoter truly buys in to the need and the individual: If an external professional is brought into a senior role without complete buy-in from the promoter, the odds of his/her success are low. At times, given timing pressures, there is a temptation to push things through. But in the long run, without the promoter's support, it is very difficult for an outsider to succeed. Investing the time in building the need and managing the hiring process with sensitivity is a must.

Position the professional as a representative of the organization and not the fund: This is important, even if the PE investor has a controlling stake. The executive has to represent the interests of the company. Without being positioned appropriately it is close to impossible for the executive to win the trust of his/her team and work with other stakeholders

Be patient and realistic in expectations: Executives joining portfolio companies face tremendous pressure to deliver quickly against aggressive business plans that underpin the fund's investment thesis. One executive likened the situation to a Twenty-Twenty cricket match, where a new batsman comes in with 5 overs to spare and with a monumental asking rate!. While it is important for the PE fund to bring in talent who can rise up to a pressure cooker situation, they must also be patient and recognize that the executive needs time and support to deliver.

Proactively play the role of a coach: PE investors often play an active role in recruiting talent, but step back during the integration phase. This can be a costly mistake, particularly when the organization is not accustomed to hiring senior external talent. The PE partner knows the company context much better than the individual coming in. He/she can therefore add huge value by coaching both promoter and executive through the integration journey.

> "If the promoter is not fully bought in, the professional could be "made to fail"

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