

Entrepreneurship
Professor Bhaktavatsala Rao
Department of Management Studies
Indian Institute of Technology, Madras
Lecture 42
Beyond Founders and Founder-Families
Part 4

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Greater the Challenge, Greater the Need for Cultural Buy-in

In today's competitive world, investors (including the founders and promoters) have a relentless focus on continued growth in revenues and profits



Radical Business Restructuring?	Organisational Disruption?	Long Gestation Times?
<ul style="list-style-type: none">• Detail pros and cons• Articulate and advocate	<ul style="list-style-type: none">• Focus on visible talent• Measure by performance	<ul style="list-style-type: none">• Stage-gate progress• Have course correction plans

The initiatives and plans must be clearly articulated to the stakeholders so that there are no misunderstandings, and a broader cultural buy-in is achieved.



And we have looked at several challenges that occur in the path of the CEO as he moves forward in a new organization and greater the challenge, greater would be the need for the cultural buy-in. In today's competitive world, the investors including the founders and promoters have a relentless focus on continued growth in revenues and profits that is given.

But then when the new CEO comes in and he looks at the situation, there may be 3 questions which would arise. One, is there a need for radical business restructuring? Is it likely to cause organizational disruption and what are the gestation times involved in this? And if radical business restructuring is required, it is very important to detail the pros and cons, articulate and advocate otherwise any business restructuring is bound to fail.

Second, if you are going to disrupt the organization, you must focus on visible talent. You are disrupting the organization for a reason. If you are bringing in talent, it should be for a reason and that reason should be visible. The people who are trained within the organization for new

tasks, the people who are brought in from outside to perform those tasks should be very visible in terms of their performance metrics, in terms of their capabilities.

So once that happens, you can effectively contract organizational disruption that could occur. And third, any project could be of long gestation, particularly in an entrepreneurial setup moving into a mainstream setup. So how do I stage gate the progress and what are the course correction points? So, if these 3 aspects are taken care of through these 6 points, the initiatives and plans are in a position to be clearly articulated to the stakeholders.

And the CEO's responsibility is to ensure that these answers are clearly explained, alignments are properly made, misunderstandings are effectively addressed and broad cultural buy-in is achieved.

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Why Founders Flounder - Quotes

Almost 80 percent of founder-CEOs are reluctant to give up control over their companies. At the crux of the matter, a founder's resistance to change is simply due to his inability to let go and accept that he is no longer the right person for the job

While a founder's passion is vital to take the leap of faith to start a company, passion can be lethal if it is not kept in check and complemented by relevant skills and experiences.

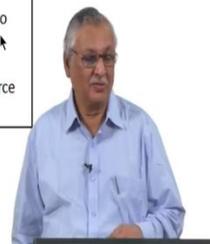
These natural predispositions can lead founders to view situations through rose-coloured lenses.

They often overestimate their own chances of success and have excessive attachment to their ideas, abilities, and knowledge.

Likewise, they often underestimate their competitors, don't fully understand the resource requirements, and fail to anticipate and plan for emergencies

Wasserman, Noam. "The Founder's Dilemma." *Harvard Business Review*, February 1, 2008. Web, March 28, 2015

Suren Dutia, and Ewing Marion Kauffman, "CEO Evolution: Knowing When and How to Transition Founder Leadership to Growth Leadership", Research Paper, November 2015.



We have so far considered that leadership transitions in entrepreneurial firms or even other firms happen because the founders realize the need for leadership transition. But there could also be cases where the founders do not have that realization in such a case what would happen? More often than not if founders are oblivious for the need for leadership change, or certain changes in themselves the founders are likely to flounder.

I have got certain quotes that are developed from 2 papers, very interesting papers which are referenced and which are reproduced below in terms of their details. The first quote is that

almost 80 percent of founder CEO's they have investigated or they have researched, are reluctant to give up control over their companies. At the crux of the matter a founder's resistance to change is simply due to his or her inability to let go and accept that he or she is no longer the right person for the job.

So that is the fundamental foundation for founders floundering in taking their companies to the next level. As a corollary, while a founder's passion is vital to take the leap of faith to start a company, passion can be lethal if it is not kept in check and complimented by relevant skills and experiences, it is like, you know, comparing ownership and possessiveness as being this same. No, they are not.

Ownership is taking accountability to what one is doing, whereas possessiveness is ensuring that nobody else gets into the space because that space is yours. Similarly, passion, if it is taken to the extreme level, it could be a lethal parameter for a company, because it is not allowing others to think independently, it is not allowing others to contribute with their points of view and tunnel vision could be the ill effect of unbounded passion of a founder.

They could start seeing the entire operations through their own rose-coloured lenses. They tend to overestimate the chance of their success and have excessive attachment to the products and businesses that they have nurtured and that is in turn primed by their attachment to the ideas and the abilities and knowledge that they possessed so far.

Similarly, when entrepreneurs are extremely passionate, they fail to see the competitors in that appropriate line. They tend to underestimate their competitors, they tend to underestimate their ability to come up with novel solutions, they do not fully understand the resource requirements and most importantly, they fail to anticipate the emergencies.

So, when the founder's self-obsession or one may call narcissism, it goes to an extreme level. It is likely to lead to their firms floundering.

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Structures and Strategies to be Process-strong

At every stage of the start-up's development, founder-CEOs need to ask tough questions to determine what is right for the company.

The board must help the CEO recognise that the best decisions are the ones that serve all shareholders, not just large investors, management, or the ego and lifestyle of the founder-CEO.

Introspection and reflection from within, and the support of a mentoring board from the inside-outside, founder-CEOs can be facilitated to take the right and timely decisions on moving their companies to the next stage, with or without themselves

So, the only way in which you can again address this is by being process strong. So, there are 3 ways in which you can become a process strong. One is the structural portion. You need to have a board of directors, you need to have a board of advisors and in your team you need to have a process experts that is how to conduct a process properly.

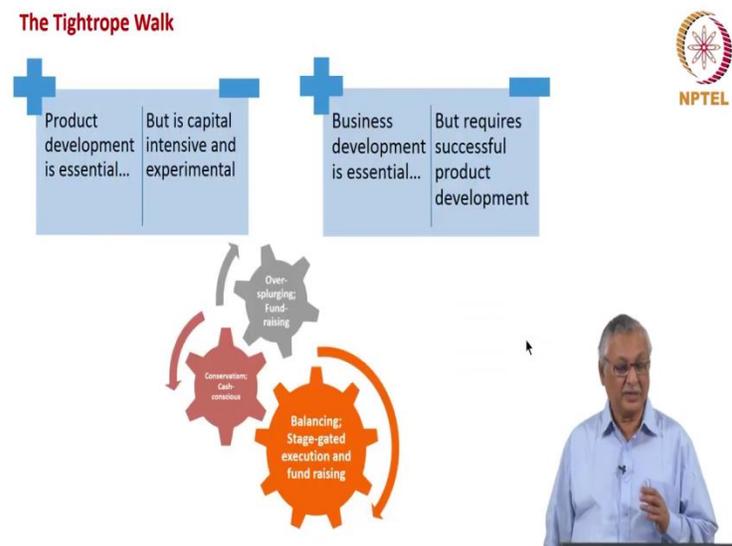
That is if you are doing supply chain management, how do I manage my supply chain or rather how do I establish supply chain and manage it effectively they are the process experts. Then you should have subject matter experts, the technology experts, the material evaluation experts, the quality experts.

Then there should also be execution barriers who know how to go about and install a facility, how to install a machinery, how to construct a facility, that is very important. The second aspect to be process strong is for the entrepreneur himself or the leader to be introspective, reflective and accepting mentoring. These are the 3 aspects of a process strength in an organization.

The third is the openness, which is at every stage of the start-up development the founder CEO's need to ask of themselves very tough questions. Whether what is being done is right for the company, not for once own intellectual satisfaction that one should be doing what one is doing should be right for the company. That is the first set of questions.

In this process the board or the boards, if there are 2 boards, should help the CEO recognise that the best decisions are the ones that serve all the shareholders are not merely a few investors or the founders or few subject matter experts, that is very important, that is the second point and third introspection by the CEO, by the CXO's and mentoring from the outside boards it helps right and timely decision making. It helps create a pool of viewpoints from which the right kinds of decisions can be originated by the teams.

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Again, tightrope walk, managing an entrepreneur organization by a professional CEO is a tightrope walk, which is even more challenging than managing an established organization, because product development is essential for the success of an entrepreneurial organization but it requires increasing investments. It is capital-intensive.

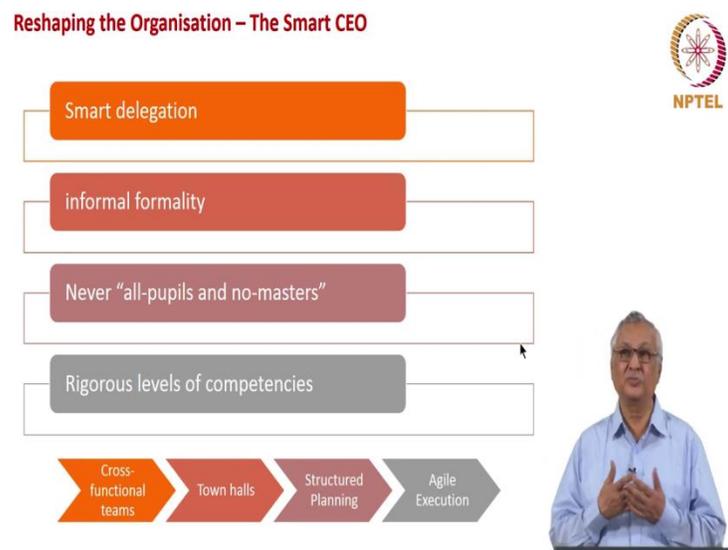
More products you will be successful entrepreneurially, but it is capital-intensive because products are not yet generating returns in an established milieu as you market new products, they generate revenues and they fund newer product developments, but not so in an entrepreneurial context. Therefore, while product development is essential, you have to recognize that it is capital intensive and is experimental.

Second, business development is essential. You cannot just then rest on your own just developing a products, you got to develop your business, that means you got to develop your

markets. You got to have new customer arrangements, but that requires successful product development. Therefore, at the core is the funding requirement. So, the stronger the funding availability, the wider and the stronger would be the tightrope on which the entrepreneur leader is walking.

So over-splurging, fund raising that is one extreme, conservatism, cash conscious is another thing. So how do I balance? You can balance this by stage gating execution and stage gating fund raising. Do not take too much of funds in the beginning, nor should you delay the fundraising to a late stage. So balanced fund-raising as well as balanced stage-getting off performance helps, some helps the leader do the tightrope well.

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Now CEOs should not be only textbooks CEO's. They should be smart CEO's as well. Whole entrepreneur milieu, whole entrepreneur infrastructure or the ecosystem is based on smartness whether it is digital smartness or otherwise the leadership by the CEO must also be smart. How do you do that? One, smart delegation, which is different from auto delegation, is not that you can delegate everything and hope to be in control of what is happening.

So smart delegation, delegate what people can do. You keep to yourself what you need to provide your individual performance to the table. It is not than just being a CEO everything you

are no longer an individual performer and you can delegate everything to all others, it is not so. Even the CEO has to be an individual performer in certain cases and that must be handled.

So, the mix of what you would do as an individual as an individual CEO and what you must give to your team as delegated tasks, that is the smart delegation. Second, yes, the organization has to be formal, but that formality should be handled in an informal manner. So informal formality is the second aspect of this smartness and third, which is another nice way of saying that there should not be any psycho fence in the organization.

We should never encourage a situation where it is all pupils and no masters in the organization. That is if everybody is in a continuous learning mode in the organization who would be providing the capability to lead and ensure that newer things are done. So, there must be a good mix of pupils and masters in the organization.

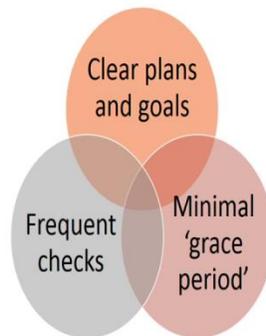
Masters also should be continuously learning and pupils of course would have to learn the earliest possible timeframe and the ultimate objective is to have rigorous level of competency in the organization. So how do you achieve this spectrum of 4 elements? One should have cross functional teams in the organization.

One should have frequent town halls, there must be a structured planning and there must be agile execution. So, when the CEO is able to mix this 8 factors together, the CEO would be a smart CEO.

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Avoiding the Pitfalls

Overcoming distractors and detractors, and inspiring supporters and wellwishers requires authentic management



And how does one avoid the pitfalls that are there in an organization? The pitfalls essentially arise because the distractions and detractive activities that happen in the organization. There will be, from an individual point of view, there will be distractors and detractors and from an activity point of view there would be distracting activities and detracting activities.

At the same time there will be supporters and well-wishers who are wanting you to succeed. So how do you inspire them and how do you minimize the distractions and detractors that require the authentic management. What is authentic management? Authentic management which is something true to itself. Something which is genuine, something which is true, something which is not based on a hearsay.

Something which is not based on biases, and something which is grounded in reality, and something which is very aspirational but which is also transparent. That is authentic management. So, to be able to succeed you should have authentic management which should have 3 components.

One clear plans and goals, second frequent checks and third minimal grace period. You cannot say that I am new enter into this leadership ecosystem, therefore I should be allowed a long period. Maybe say 1 year and 1 year is too longer period in an entrepreneurial setup, probably even 1 month is a long period in an entrepreneurial setup.

So, what is the optimal grace period one must have before one understand the organization. One understands the product market context. One develops a new strategic vision and plan and when he, when one starts executing the project. So that is the grace period one must have. So clear plans and goals, frequent checks and minimal grace period that would enable a new CEO avoid the pitfalls, that could be inherent in any new situation.

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Again, I would emphasis very much that having 2 boards and 1 team. That is the hallmark of success in a new leadership change or new leadership transition and their clear division of responsibilities and accountabilities for these 3 segments of top leadership.

One the board of directors, primary interest is in corporate governance and overall performance management, not integrity of performance, but overall is the performance in line, like or capital requirements likely to be serviced better, or the market share growth parameters in line with what we have measured, when are the first levels of profits going to come up. So, these are the kinds of things and whether this entire management process is being done in principles of a good corporate governance.

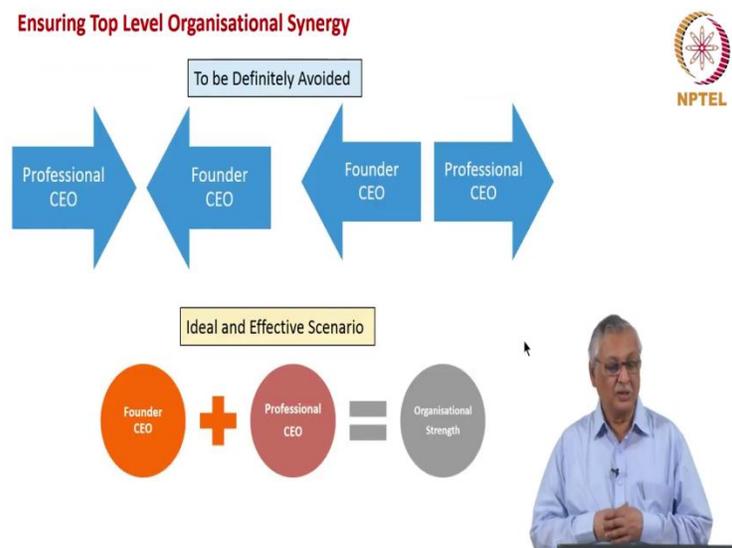
Board of advisors has completely different approach. It is not a questioning board like the board of directors. It is more in terms of coaching and mentoring. It does understand that an entrepreneur firm will have its own vicissitudes and its own challenges and it also understands

that any entrepreneurial activities and amalgamation of several new leading edge technologies and an amalgamation of existing components and new era components. How does one go about it?

So, coaching and mentoring, benchmarking and networking, bringing in new references, bringing in new vendors into the system, helping people go that extra mile in terms of the entrepreneurial effort, that is all the demit of board of advisors. Then CEO and the team, ofcourse, the essence of performance planning for growth with profitability and execution with focus and adaptiveness.

When you have an entrepreneurial leadership team, which has got these 3 important segments, not necessarily equally apportion in terms of the time or the people, but in terms of the overall responsibility, the strategic governance, the intensive coaching and the actual planning and performance. The firm will be a virtuous form and we will be able to sail very effectively in the hot waters of entrepreneurial journey.

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So, if you want to ensure top-level organizational synergy, obviously a great no-no is professional CEO and founder CEO locking horns or in a state of continuous mistrust. Equally bad is a founder and professional CEO going in two a different ways, apparently not interfering

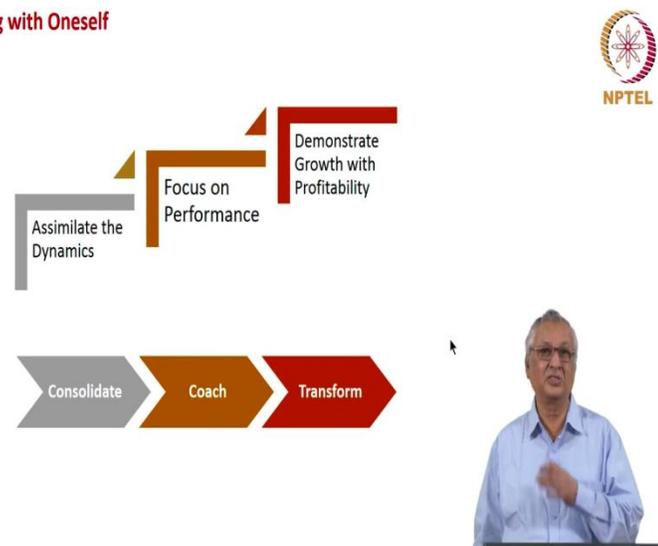
with each other, but that does not help because the organization will see 2 power centres performing in 2 different manners.

The ideal and effective scenario is founder CEO supplementing the professional CEO and vice versa and adding to the organization's strength. In such a situation, it is a likely to be a question of a synergy rather than any erosion of these skill levels of the people and this is the ideal and the effective scenario that must happen whenever a leadership transition happens and that is where the maturity level, the competency level of the founder CEO who is giving space to the professional CEO would matter.

Similarly, that is also the area where the openness and the maturity of the professional CEO in managing the founder CEO also come up as an important contribution. So, both have got their responsibilities to be executed.

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Dealing with Oneself



And to be able to do this we have looked at this from one aspect earlier, the dealing with oneself aspect. So other way to look at is, first assimilate the dynamics of the new situation. Again, this is common in any leadership transition, in any firm, assimilate the dynamics. Second, focus on performance and third, demonstrate growth with profitability and that is the paradigm which one must set oneself to whenever one gets into a new position and how do you do that?

To assimilate the dynamics, you should must consolidate your position. You should understand the organization thoroughly, the product market space thoroughly and then consolidate yourself and the new CEO typically goes, must go, on a listening to all over it's a domain so that how does one achieve this.

One assimilates dynamics only through listening tool, trying to be in the field, trying to understand what are the issues interacting with the personnel and consolidating one's presence in the organizational space.

Second, because this new CEO has come to bring a change to ensure that newer competencies are build coaching that is an important aspect of performance improvement in the organization and third, when an entrepreneur firm is able to demonstrate growth along with profitability, that is the time when real transformation in the entrepreneurial space takes place.

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Characteristics of a Good CEO, Founder or Non-founder



So, whether he is a founder or non-founder, a good CEO must have the following effective parameters. One operational and strategic competencies. Strategic competency means ability to look ahead, far ahead and imagine what would be the mega trend that would shape the industries in future.

As an entrepreneur your role was to discover a problem that has not been discovered by others and invent a solution to solve the problem that has been the role. It is a very technology oriented,

technique oriented and very creative way of looking at things. But that is the seed of an entrepreneurial firm and out of this seed comes a huge tree of entrepreneurial firm.

But these are not the same when the operational parameters are much larger and the company becomes a mainstream company. We need to see what is the next mega-trend that is going to happen. You cannot think that the next mega trend will be shaped by another entrepreneur and you cannot keep looking for that entrepreneur to emerge, while that is one viable strategy of acquiring entrepreneurial firms, but that cannot be the vision for the company.

That is a strategic route to achieve a vision. So, the whole space of discovering a new strategic future and creating a vision for that is one of the important competencies of the effective CEO and that must obviously be supplemented by operational competencies to convert the strategy into effective execution.

The second, at no point of time, the cultural and ethical values should be compromised. There is no shortcut to long term sustainable performance. Therefore, a culture of compliance and ethics is paramount and the sooner that is established in a company, the better will be the long-term sustainability of the company.

The third characteristics of the effective CEO being inclusive and participative in whatever he or she does. The fourth one, we thought about it earlier, we discussed it the introspection and reflection that is dealing with oneself. What kind of leader I am and how could I be a better leader in the current situation that I am there?

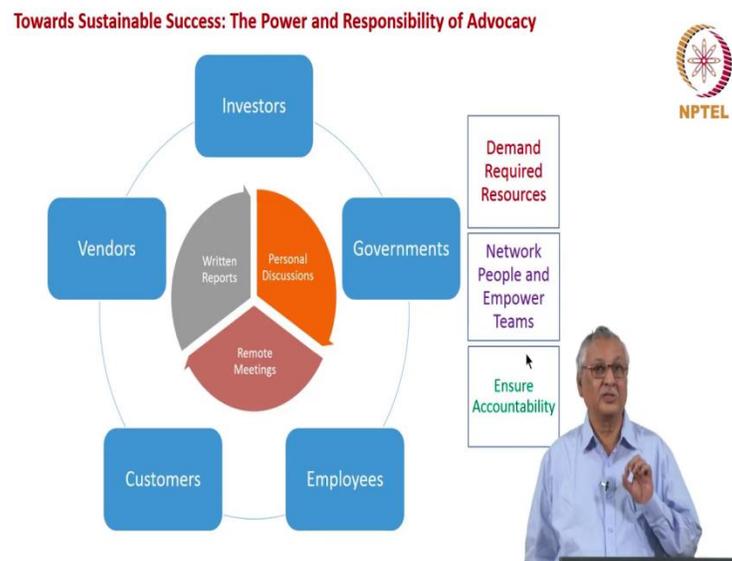
And another important aspect, a leader would be a technical leader or a commercial leader put it differently. The leader could be very good with numbers, particularly the financial numbers, the leader could be very good with the technology and the technical aspects, but the leader who is technologically savvy should also be financially literate and financially competent.

Similarly, if the leader is financially savvy, he should be technically literate to be able to lead a company. The grasp should be very good either way. The leader should be very deliberative but the leader should also be very agile as to how he would execute on his plans or rather how he would even develop the plans and execute on them, monitored them and where necessary change them.

So to kind of summarize, we need a CEO, a good CEO, founder CEO or a non- founder CEO in an organization to take the organization to the next level and the 6 components are related to the operational and strategic competencies, cultural and ethical approaches, the moral compass, the inclusive and participative nature of the leader, ability to be reflective about oneself and then become a better person, better leader in the process.

Being technological and financially competent irrespective of the domain with firm which he hails and being thoughtful but also being very purposeful and very purposive in what he or she does as a leader.

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There is this very important aspect of advocacy in leadership. Advocacy is quite different from discussion. Discussion is basically to bring several points of view onto the table. But advocacy is to shape through discussion as certain final point of view.

As a leader, you believe that the company should do a few things right and a few things in a particular manner to be able to be effective and these perspectives are unlikely to be understood by all of the constituents, by all the stakeholders in an equal measure. So, there is this element of advocacy which is inherent in the CEO's responsibility.

A CEO can never imagine that because of his power and authority, whatever he or she says must be seen as a mandated requirement which will be taken forward by the organization. It does not

happen that way. So, the advocacy again is multifaceted. The CEO has got investors, governments, employees, customers and vendors. These are, let us say, to simplify the paradigm 5 principle stakeholders.

The CEO must address and he or she needs to do 3 things with each of these 3 people. Demand require resources. The CEO should have the gumption and the conviction to say that I have thought about this product, this project and this product or project has got this level of investment requirements, it will provide this level of profitability, therefore please provide me the funding.

And it is the responsibility of the CEO not only to give targets to his or her employees, but also the responsibility to provide the resources to the employees, otherwise he will be seen as more hallow CEO then as a well-meaning, well rounded CEO. So, demanding required resources is essential for the CEO.

It could be even from vendors when the CEO advocates that they should go in for new technologies to support the main company's technologies. That is an advocacy. Then ability to network with people and empower teams. These cannot be, these 5 stakeholders, cannot be switch off and switch on kind of relationships. They have to be continuous relationships.

Obviously, the relationship with employees will be day to day relationship, but typically again the leader tends to have regular interactions with the CXO team and not with the employees. So how do I network with all the people, in all the stakeholder groups and then how do I empower the teams, that is the second and third how do a ensure accountability.

Again, accountability could be seen to be more relevant for employees, but it could also be very relevant for even vendors and customers. Accountability in the sense that your ability to follow certain procedures in providing the feedback. It is less of let us say mandated accountability than more as a voluntary accountability.

When you see a lens announcing that, at the end of every journey that you must, are you please give your feedback in the portal or to the customers relations execute or a message comes to you saying that please rate our services, it is trying to get certain kinds of feedback from the

customers, but also it is encouraging in a very subtle way, certain accountability on the part of customers.

Because providing feedback is one method of improving the service. Therefore, the customers are serving themselves and the other customers better by helping the organization improve its products and services. So, that is one facet of accountability which is not so evident but very essential.

So, 5 stakeholder groups, 3 types of activities and advocacy, typically happens through 3 forms. One written reports, like the annual report, the investor communications, the newsletters, the submissions, the advocacy proposals, etc. Second personal discussions where necessarily you should be willing to go to the particular stakeholder group, make presentations, and then talk to them.

Particularly, let us say in a pharmaceutical company, you have got certain observations from the regulatory agencies. You must be willing to go to the agency and demonstrate your sincerity and commitment as a leader to bring the change that is required.

And third in this digital world, effectively use the instrument of remote meetings to be able to cover as large a population as possible. So, when the power and responsibility of advocacy is well understood by the CEO, he would be able to lead the company towards sustainable success.