Alexander Hughes
EXECUTIVE SEARCH CONSULTANTS

Succession planning is a key challenge in India
By Pankj DUTT, Interview and article by Ritwik SHARMA
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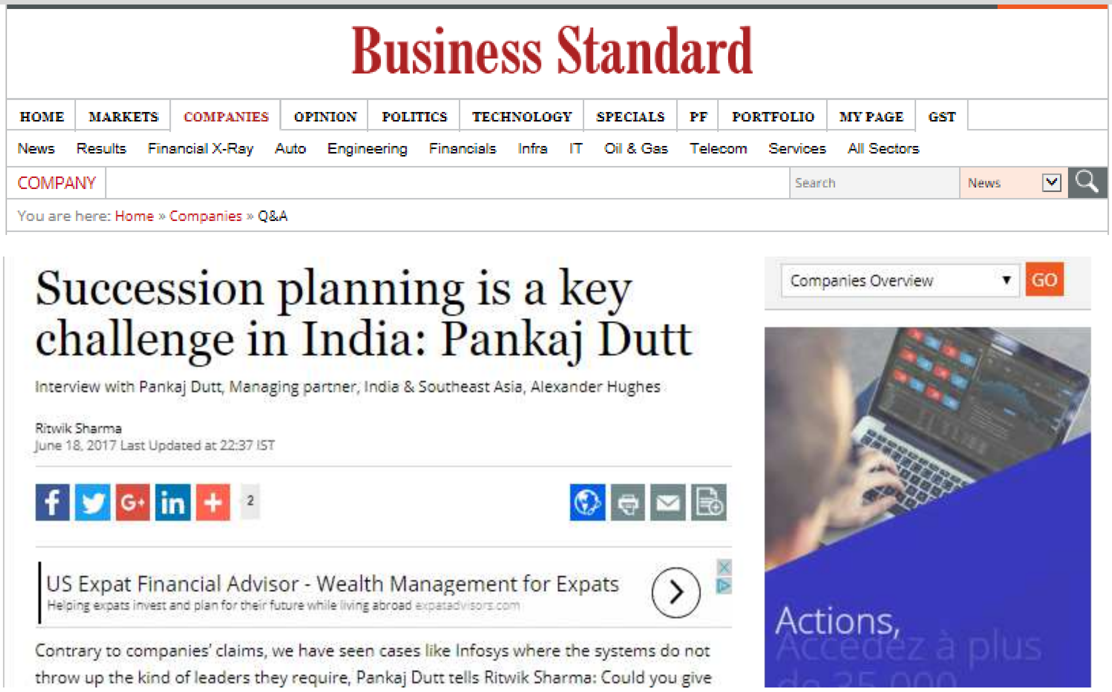
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Succession planning is a key challenge in India: Pankaj Dutt

Interview with Pankaj Dutt, Managing partner, India & Southeast Asia, Alexander Hughes

Ritwik Sharma
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Could you give us a background of the company and presence in India?

We are an executive search firm founded in 1957. We stay focused on executive search and advising boards, which was our core service when we started. We entered India in 2012. In 2011 the management decided that even if we have to start with a nimble presence, we will have our directors in key markets. We see a lot of prospects in terms of the deficits and leadership demands in Southeast Asia. Because pretty much like India firms in the region never had the talent pool of mid or senior professionals. Our first office in Southeast Asia, besides India, was opened up in Kuala Lumpur, and from there we are serving markets like Indonesia, Vietnam, Cambodia, Malaysia and the Philippines.
In India, our practice is growing year-on-year at a CAGR of around 30-35 per cent. Our focus has been to build relationships with primarily Indian-owned companies and groups, because we can help them quite a lot in the global markets. The secondary objective is to provide service to our local clients who have India offices. But our efforts are largely driven by building new clients relations. There is a lot of talent deficit at the top level of companies, a lot of opportunities/issues in terms of succession planning. Contrary to companies' claims of having a very healthy leadership pipeline, we have seen in cases like Infosys that the systems do not throw up the kind of leaders they require. We are also helping a few very exciting, emerging start-ups. Because of our focus on hiring consultants who themselves have been CEOs, our closure rate in comparison to our competition has been pretty high.

What are your observations on corporate governance across industry in India?

What we have observed in Europe is that boards very early moved on from being legally compliant to being transparent and well managed. In India since the time after liberalisation when Sebi was formed the way boards have shaped up has been more reactive to regulatory changes. So, you will seldom see a board creating accountability or bringing transparency to how it takes decisions. Even its communication with shareholders has been very restrictive. This is in total contrast to how you will find boards function. Whether it's a large company or small, board members independently and frequently speak about what they think of the company strategy, their intent of changing the CEO or issues such as mergers or acquisitions or selloffs. In India, the selection of board members has been a tremendously safeguarded issue in 90-95 per cent of the cases, which actually results in this camaraderie or coterie of collusion. You will also see cross-directorships in companies. The regulator cannot enumerate everything that you need to do. Being legally compliant is a just a crucial subset of corporate governance. The governance gets tested on two-three counts. One is how transparent you are; so anyone, even holding one share, can go and scrutinise a decision. Second is being proactive and owning up to issues which have direct impact on shareholders.

How far can regulators help then?

I would say a regulator cannot keep plugging loopholes. The focus has to shift from boards being just independent to being effective. Not every independent board can be effective but every effective board would be independent. That demarcation hasn't sunk in yet, because primarily board governance matters are still driven by majority shareholders.

In India, you will also notice promoters who tend to be shareholders become part of the management. That blurs the line in setting accountability between the management and board. So, an independent director representing 10-20 per cent of the shareholders will never feel the inclination to act against somebody who is a majority shareholder. In abroad, families are never part of the board of family-owned businesses. In India, the shareholder and management has not been segregated very effectively. Perhaps in governance, India Inc. has seen governance 1.0 for the last 15 years, and world is going 3.0.

In what ways can you intervene?

There are a few situations where we are called in. One, when we are asked to audit the composition of the board, as to whether the skills and size on the board are commensurate with the complexities a company faces. A lot of forward-looking companies see that as a practical and professional exercise, where instead of deliberating internally they call in a professional firm like us. When a German automaker was struggling to get into the US market — because automotive can also be a regulated market — we were asked to suggest how the board should deal with it. And we recommended somebody who understood public policy and foreign relations to help them understand how to navigate the policy environment in an unfamiliar country. So, we ended up putting an ex-diplomat in the board of the company.

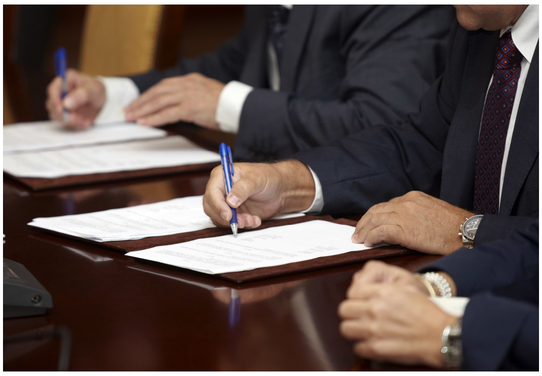
The second situation is where we are asked to find board members sometimes as part of a composition order or as succession planning. The third situation we get engaged by the board is for its evaluation. Unlike some of our competitors, if we do board evaluation we do not recruit any member. The fourth and very tiny area where we get involved with the board is remuneration. It is because the law in India and mostly worldwide doesn't regulate board remuneration, it may put an overall limit to remunerating board members and usually for large companies that limit is very high. I think there is a fine line between how do you remunerate, who you remunerate more. If done professionally, using an independent firm like us, it brings a lot of objectivity and transparency. It's not uncommon in Indian boards to see one member out of six or seven getting twice or thrice more of the other.

What are the question marks in governance among start-ups in India?

In recent phases there was a little bit of a capital dumping, and maybe the overall market missed it because the situation had changed when Tiger Global started investing. Tiger Global was a hedge fund, and if you see the investment strategy of these funds even Kalaari Capital was early stage investors in both Flipkart and Snapdeal. You won't find this in Silicon Valley, because there is a conflict of interest when the investor sits on the boards of both competitors. That also is a governance issue. However, the founders were oblivious to the colour of the money. You had founders who were young and inexperienced. So the only platform they were accountable to was the board. One issue is that they were also members of the board. A lot of these founders were funding because even before they arrived, they had arrived, thanks to again the media. Putting the wrong metrics for growth, allowing founders to sit on the board and review themselves, was in my opinion was highly unprofessional and unethical. I don't think somebody even in Tata group would be getting some of the salaries that were paid. All the VCs (venture capitalists) were not protecting their own money, though they had a fiduciary responsibility towards their investors.

So, the madness, if you ask me, emanated from the board. The lack of guidance about where and how the business should be built should have come from the board and that's where it failed. The fact that most of these investors became board members themselves and were investing in 20-30 companies again is a governance lapse, and generating atrocious salary levels was also a governance issue.

Is there a marked difference between start-ups in India and abroad?



How many investments can you spot Mark Zuckerberg was making when he was building his company? He is among founders who were not distracted. If they were, the board — the shareholders or the VC sitting on the board — would have corrected them. Think about Google, how early they got a professional seal, realising what they could do or would add is conceptualising what Google could be in terms of product. Even then if you see the alphabet and the Google avatar, to invent something new they have formed another company and moved on without robbing their shareholders of value in both companies. How many founders do you see here who voluntarily went out in this way to seek a professional seal?

In India, it was a classic case of investors not knowing where to invest, what to invest, and they thought they'd overplay demand with the money and money alone would be able to generate demand for the product, and they backed and funded founders who looked like themselves. One of the sets of investors who came to India included those who never got opportunities to invest in the US. If you don't have access to good opportunity in the US you will go and try to invest in markets like China, Southeast Asia where you have a consumption story that you can sell. In this start-up race, I don't think you have one winner you can say is like the Mark Zuckerberg or Larry Page of India.

What are the challenges for Alexander Hughes in India as well as opportunities?

We are not designed to work with any and every client. But I think at the board level in five years we never found the right opportunity to offer our services. Even for example, on board evaluation a couple of companies approached perhaps to participate in our assessment, so that they can do a self-assessment. The second challenge we have faced is that more or less the industry in general in search has been very relationship rather than skill oriented. In India instead of consultant hiring the approach has been to hire the firm. So, that is also a mindset challenge which we are trying to deal with and slowly we are changing it. Inherently, our profession is not highly scalable. But 40 per cent of our work here is cross-border, which is outbound, so in any case that differentiates us from thousands of local firms.

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More about us: www.alexanderhughes.com
Media contact: Valeria Brancato – v.brancato@alexanderhughes.com
Réjane Campisi-Barea - r.campisi@alexanderhughes.com