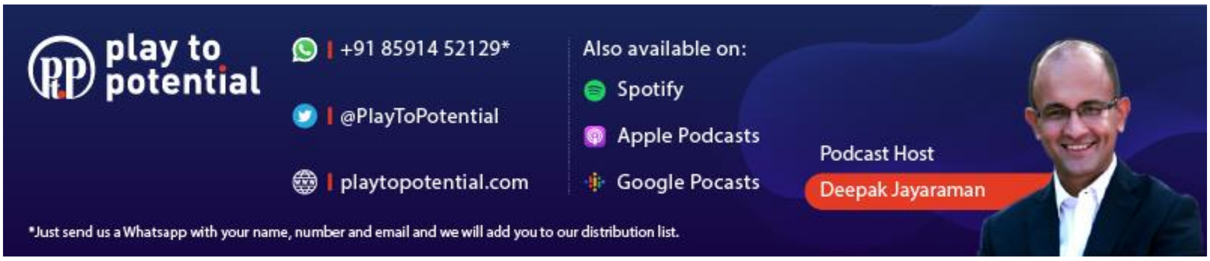

Guest

Tarun Khanna is the Jorge Paulo Lemann Professor at the Harvard Business School (HBS), where he has sought for two decades to study the drivers of entrepreneurship in emerging markets as a means of economic and social development. At HBS since 1993, after obtaining degrees from Princeton and Harvard, he has taught courses on strategy, corporate governance and international business to MBA and Ph.D. students and senior executives. For many years, he has served as the Faculty Chair for HBS activities in India and South Asia. He was named the first director of the university-wide The Lakshmi Mittal and Family South Asia Institute at Harvard in the fall of 2010.

Outside HBS, he serves on numerous for-profit and not-for-profit boards in the US and India, including AES, a Washington DC headquartered global power company, and India-based Bharat Financial Inclusion Limited (BFIL), one of the world's largest firms dedicated to financial inclusion for the poor. He is a co-founder of several entrepreneurial ventures in the developing world, spanning India, China, Southeast Asia and the Middle East. Recently, he co-founded Axilor, a vibrant incubator in Bangalore. In 2015, he was appointed a Trustee of Boston's Museum of Fine Arts.

He has recently Co-Authored the book - Leadership to Last with Geoffrey Jones. In the book, Geoffrey Jones and Tarun Khanna interview iconic leaders in India who have demonstrated leadership to last. There are leaders from South Asia and other emerging markets as well to illustrate that the ideas Indian entrepreneurs speak about are echoed by their counterparts in the Global South. All these magnates–Ratan Tata, Anu Aga, Adi Godrej, Kiran Mazumdar-Shaw, Devi Shetty and Rahul Bajaj, to name a few–have built, to general acclaim and acknowledgement, organizations that are seen as forward-looking and innovative. In our conversation, we unpack some of these insights around leadership required to build such institutions.

This conversation is likely to be relevant to anyone who is keen to understand what it takes to build an institution that outlives them.

Context to the nugget conversation

Welcome to the 94th conversation at the Play to Potential Podcast, a series of reflective conversations from leading people from various domains on three broad themes – Leadership, Transitions and Careers. Just like businesses think about where to play and how to win in the context of their strategy, we all think about the two questions – where to go and how to grow at various points in our lives. These questions become that much harder in a world of abundance, multiplicity of options and limited feedback. Through this podcast, I hope to share some insights that might help you navigate these questions in a more thoughtful way.

While podcasting accounts for 10-20% of my time and effort, my primary vocation is that of an Executive Coach and a Discreet Sounding Board with CEOs/Entrepreneurs. I engage with leaders and organizations with a growth mindset and helping them play to their unique potential. You can learn more about the podcast and my work at www.playtopotential.com.

My guest this time is Tarun Khanna EP2 of Harvard Business School who was earlier at the podcast about three and a half years back when he had authored the book – TRUST – Creating the Foundation for Entrepreneurship in Developing economies. This was back in Dec 2018. We speak at length about how formal structured markets haven't evolved for various contracts and entrepreneurs need to build a network of goodwill around them to get things done. Tarun calls it creating the conditions to create.

He has recently Co-authored the book – Leadership to Last – How Great Leaders leave legacies behind. The book has insights from leaders in Emerging Markets including legends from South Asia such as Ratan Tata, Anu Aga, Adi Godrej, Kiran Mazumdar Shaw, Devi Shetty and Rahul Bajaj to name a few.

Without further ado, let us tune into the conversation with Tarun Khanna.

Transcription

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Deepak Jayaraman (DJ): Tarun, great to have you back at the Play to Potential podcast. Thank you so much for making the time.

Tarun Khanna EP2 (TK EP2): Thank you, Deepak for having me again.

DJ: Before we dive into the book you have just written Tarun with Geoffrey, give us a sense of why you wrote this book. Last time we spoke at the podcast you just published the book on trust. In this context, can you talk a little bit about what's the gap in thinking that this book seeks to address?

TK EP2: Sure Deepak. This book is really an outgrowth of a much bigger project. The book as you know is called Leadership to Last: How Great Leaders Leave Legacies Behind. It's an attempt to bring to the attention of the world, an existing video database that Geoff Jones, my co-author of this book and I have been curating with the help of literally dozens of colleagues at Harvard over the last 10 to 15 years, where we are sitting down one-on-one with amazing people, iconic entrepreneurs from various developing countries. I think we probably have about 20-25 developing countries, about 150 to 170 people who have sat down with us and given us unfettered access to their memories in some sense. And these are people who don't often speak to the public. So, to capture them in first person usually after they have already had 30 to 50 years building their enterprises. Some of them are for-profit enterprises, some are not-for-profit and these are all people who if you tap somebody on the street in that particular country and said, do you know X, do you know of X, with no exception, right, but they all say that's an amazing person or that's an amazing enterprise has been created. It's really shaped the trajectory of some part of the society of their country. So, that's been our criteria for finding these people. Now, these people are not brought to the attention of the world. Even now, I would conjecture that in most countries in the world if you said, who's a great entrepreneur they would say Bill Gates or Elon Musk, it would be the first thing that pop into people's minds. But, you know, the world is a big place and there are people doing amazing creative things all over and we felt it was almost like a responsibility for Geoff and I sitting at a leading institution to contribute to a knowledge stock, so that people who are interested in issues such as this have more to draw upon than simply things, they read in the Wall Street Journal or equivalent newspaper in their countries. So, the book is a distillation of some of those interviews and an attempt to direct people to the underlying interviews.

DJ: And where, for the purpose of the listeners Tarun, where can they find this video library that you talk about?

TK EP2: So, the video library is publicly available. If you just Google Creating Emerging Markets project at the Harvard Business School it should pop right up. What you will see is an interface that lets you search by country, region, industry, setting, gender, all kinds of things and you can also… and that takes you to a place where you could in principle download the entire video. I think the requirement there is that you attest that you are using it for some not for commercial purposes and you can and what we have done is we made about, I think, it's about 500 short video clips from these videos, three minutes, four minutes, maybe at most five minutes long that are searchable by some kind of tag like corruption or innovation or ethics or social responsibility, because those are ways people sometimes want to access material. So, that's you can find them, you can find them all there.

DJ: Lovely and I will add that to the show notes as I publish this conversation.

TK EP2: Yes, thank you, yes.

DJ: Going back to the companies and the individuals you chose to study Tarun, in the book at the outset you say that we are not going after unicorns and people that are creating if I may use the term quick wealth, but we are looking for organisation and institutions that have endured. Can you talk a little bit more about how you drew the line for what's legacy, what's long-term, what have been some of the filter criteria?

TK EP2: I mean a very simple operationalisation of this is two-fold. One is, these are typically people who have been at the creative helm of their organisations for I want to say a minimum of 30 years, more likely the median is 45 years, maybe sometimes 55 years. So, they have really, they have really run the marathon. And the reason is that that gives time for us to distinguish enduring contribution from episodic not, Deepak nothing wrong with episodic contribution. I love the next unicorn as much as you too. I am on the board of several recent unicorns including some from India that are built by my students, I aspire to create a unicorn someday, no problem with that, but this is just a different focus. And the other thing is that as I alluded to a bit earlier these are organisations that without exception if you got hold of a random person on the streets of that country and said do you know Ms X or Mr Y they would say yes, and there would be a sense of pride in that accomplishment, societal pride in that accomplishment. And I think it's not quite a precise sampling mechanism in some ways, but it's not intended to be, its intended to get reflections of people we should all learn from at a time that they are predisposed to be candid, which is another aspect that I think is worth highlighting. They are not here to make you to convince you or me that they are amazing; we know that. They are just here to reflect with us and because they know that it's being made available for the public good or scholarly purposes and for teaching and research and to tell the story of different countries in different ways, they are very candid, that's been such a nice thing.

DJ: It's a great point. It's not so much about, it's not about their PR and them trying to propagate the company's brand. You are right.

TK EP2: I mean one of the activities to use was with couple of my favourite interviews where one was with RNT Mr. Tata. He's very candid about all the mistakes, well, many of the mistakes that he recalls and it is so refreshing to hear that. And another, who I consider a mentor was a Bangladeshi entrepreneur, Abed Bhai. So, Fazle Hasan Abed, knighted by the queen at some point, but really his accomplishment was to build the world's largest non-profit, which is literally now in 15 to 18 countries, Bill Gates swears by it, it's really, really one of the best run organisations I have known of, it's called BRAC, which is an awkward acronym, which used to be Bangladesh Rehabilitation Action Corp. but BRAC has now… BRAC is just BRAC, it's known as BRAC, it's amazing but Abed Bhai was modest to of all, sadly he just passed away, but the modesty and the candour, and the reflection is something that you are much less likely to see from someone in their 20s and 30s, right, just by the nature of human beings.

DJ: And as… building on that Tarun, what also struck me was, you don't just have industrialists and people that build businesses but you had someone like a Mallika Sarabhai on that list. So, I was curious about, it's not it's not somebody I would have thought of in that league of business leaders, I was curious about how you thought about art and institutions in the role they can play in developing society.

TK EP2: Yeah, it's a fair point. I mean, I think the boundaries are a bit blurred, right? One could debate whether someone like Mallika Sarabhai or a Shabana Azmi should be in the collection or some people doing agricultural cooperatives, not-for-profit in the innermost parts of Africa or Latin America should be in the broad database. And at the end of the day, I guess that Geoff and I looked for interesting stories and candour and a sense of accomplishment and as would be clear from the sampling frame so to speak wealth creation is a proxy for achievement but it is not the only proxy. There are lots of non-profits in here who have really been, which have really been amazing. Again, my criteria are shape the trajectories of their own countries in some productive way generally seen by the lay public as having done so and willing to sit down with us and reflect in a candid fashion. Those, I think those are the unifying themes across a very diverse set of men and women.

DJ: Got it, got it. And cutting across these Tarun, when we think about leadership, the first-generation entrepreneur that the organisation…

TK EP2: Can I add one thing?

DJ: Of course, of course.

TK EP2: One really interesting thing Deepak is that I think in the 10 maybe 15 years I forget how long it is since we started nobody has turned us down, not one. One instance I can think of, or somebody I really wanted to sit down with, someone I really respected in India as it turns out and the family declined because of the person's health and sadly he passed away. But other than that, it has never, we have never been turned down and it sounds like we have gotten everybody either, there are lots of people we should have in the database who are not there and hopefully in the fullness of time we will get to it, get to a much larger sample, but I do think it's important to understand that for whatever reason the institution that I am sitting at Harvard appears to have the confidence of these leaders to say that we would not abuse the privilege of talking to them and making it available to the public in a constructive fashion.

DJ: Hmm. No, it's interesting you say this. I was talking to another individual on the podcast and one of the themes he laid out was, this is Ravi Venkatesan actually who is an alumnus of Harvard himself.

TK EP2: He's my classmate, yeah.

DJ: Is he, okay.

TK EP2: Yes, the same class, class of 1992.

DJ: Got it. So, he spoke about different forms of capital and one of the things he says is reputational capital and sometimes when we look at ourselves, we can be a little too narrow and just focus on the financial capital but this seems like a great example of Harvard using its reputation capital to creating a public good.

TK EP2: Yeah, that's very well said, I think most forms of capital are as we say unpriced. They don't have a market price, physical capital can be priced, a financial capital can be priced, you go out and you raise money for a new venture or a new project or an existing enterprise, there is a cost of money. So, it's the money can be priced, reputation is very hard to price. We try to approximate pricing of reputation and all other forms of intangibles whether it's social capital, reputational capital, whatever you want to call it. We try to approximate it sometimes in organisations by creating artificial categories like goodwill or something like that on the balance sheet, but these are very rough and crude proxies, generally speaking those are assets that are hard to imitate, take a long time to build and are easy to squander.

DJ: Got it. Moving to leadership Tarun, last time we spoke you had spoken about creating the conditions to create when it applies to entrepreneurs in emerging markets. When you look at this study where you have spoken to entrepreneurs across several markets and when you look at them and their leadership, are there are a few things that stand out with these people when you sort of compare them to some of the leaders in the West? Any headline unique elements that stand out for you?

TK EP2: So, I am opening my book to read a phrase so I don't misquote it. We were… Geoff and I were when we were writing the introduction, a few pages, I was charged with writing the last paragraph something that brings the introduction to a close and I will read you our summary statement which is two sentences; here it is. Our overall takeaway is simple, we are just humbled by the combination of audacity of intent, humility of demeanour and steadfastness of purpose displayed by the giants whose life lessons are narrated here. And so, I would point to the trio of phrases that we use: audacity of intent, humility of demeanour and steadfastness of purpose. So, I think the stories here in a sense are each and every one of them is an ode to trust, which was the title of my previous meanderings on development in emerging markets in their own ways, in their own kind of beautiful ways. But they have all taken a very long time to painstakingly build, it turns out that's what it takes to build something that can redirect a society. There's a lot of humility in these people, may be to some extent they are, that's what it takes to build coalitions around you who participate with you to co-create the as I said in my earlier book to create the conditions to create with you so that you can collectively be much greater than individual efforts would allow, but they are not shy about what they want to accomplish, they have big goals, they want to emancipate women or they want to cure the world. They are not shy of ambition but they are very cognizant of their human limitations and willing to say sorry and reflect on their life trajectory, and they are willing to take the slow and steady long road, which is why the book is called Leadership to Last with an emphasis, so if you look at the cover of the book, the Last is the biggest word.

DJ: Interesting, I didn't notice that.

TK EP2: There are lots of books on leadership so one of the first things Geoff and I asked ourselves was why in heaven's name are we writing another book on leadership, we go to the airport, there's like 50 books on leadership. And I think the answer to us was at the end of the day those three phrases that I articulated and the fact that we were looking over the very long horizon and this word lasting leadership.

Reflections from Deepak Jayaraman

DJ: This is your host Deepak Jayaraman here. What's interesting is the number of times Humility shows up as a Leadership Trait that is relevant in different contexts, whether it is Leadership to Last or Leadership to create Psychological safety to navigate an uncertain world. Amy Edmondson (AE), also a Professor at Harvard Business School and recently rated as the No.1 Management Thinker in the world for her work on Psychological safety, speaks about three traits that she looks for in leaders and Humility shows up here once again not surprisingly.

AE: *"I am going to say three. Two of them I have already mentioned but then we might have to talk a little bit about how do you measure these because you probably know more about this than I do from a search perspective but the three I am going to say are humility, curiosity and empathy. Now notice, I didn't say brilliance, I didn't say extensive industry experience and all of the rest because I think first of all often there are certain kinds of experience that are just table stakes for you, you are not going to be considered for a job if you have no background that's relevant. And so, I am assuming you have got those. But then humility is that Alan Mulally's sense of I don't have all the answers and I am confident that if we pull the best minds together with a good process around the table, we will come up with the answers we need, right? So, that's humility. It's a confidence in what we can do rather than what I know."*

DJ: Back to what Tarun says, Audacity of intent and Humility of demeanour can feel like opposing forces but great leaders manage to walk that tight rope effectively. Let's get back to the conversation with Tarun Khanna

DJ: And if we could stay with that Tarun, you said right, you looked at people who have run the marathon, proverbial marathon. What have you seen about how they have sort of managed to stay energised around the cause over the long term? Anything that you noticed them do to replenish themselves or refresh that why. Any empirical observations there?

TK EP2: I mean, the only thing that comes to mind Deepak is that there is an inevitable sense of sort of a deep commitment to partnerships of all sorts and partnerships in the sense that I spoke about in my earlier work on trust where you build out the ecosystem collectively with others because you are compensating for institutional weaknesses that are endemic in developing countries. So, that's one kind of partnership. So, in the book we have a variety of stories from Rosario Bozón in Colombia, amazing agribusiness entrepreneur, Jaime Ayala in Manila, Patrick Chalhoub in the Middle East, James Mwangi in Kenya and a whole host in India that would be more familiar to your listeners, Nandan, Kiran, Devi just to take Bangaloreans and they are all collectively creating ecosystems, they are building the institutions as they go along, right? These institutions of course are helping build their individual enterprises, but they are also leaving residues of institutions behind so that others can free ride on those efforts and that's what it takes. So, they are not small-minded to say, oh, I am not going to build this because most of the benefits will accrue to the society, they just do it because there really isn't an alternative. The alternative is to wait for the State and the State takes a while to get around to these things given the reality of political economies of these countries. So, there is that sense of partnership. But there is also, the book starts with a chapter on families and it just turns out that, by the way this is true in the U.S. also but more so in developing countries I think that almost all these enterprises have a deep sense of family as a stabilising mechanism behind the entrepreneurs. So, I often say in my own entrepreneur journeys or when I am working with my students or counselling them one way or another, I always ask them do you have a safety net if you want to be an entrepreneur because it's a rough and tumble kind of existence and it's a lonely business actually, but when I say safety net I mean two things, the easier safety net is the financial safety net. If you have a good idea, capital will often find a way to you but also a psychological safety net, maybe a spouse, may be an extended family, may be a network of friends, something like that. And you find that in the chapter on families. We start the book with that because families to us just loom large in not all the stories but in most of the stories that there's a subtext that the family is, not that the family is only positives. Anyone who is in a large family knows that there are lots of negatives in any family, but people have learned to manage the downsides while accentuating the positives. So, Rahul bhai just passed away unfortunately, Rahul Bajaj, and he had nice quote in there on this just saying that, the brothers in a family are like the fingers on a hand, they are not all the same size and the same capabilities so you have to do the right thing for the right person. So, I would say the ethos of partnerships all the way from partnering with family members or networks of friends to partnering with the more conventional business partners to partnering with the State to collectively create, co-create something.

Reflections from Deepak Jayaraman

DJ: This is your host Deepak Jayaraman here. Tarun speaks about each finger of the hand being different. There are some situations where the family pulls along but I feel it is also critical to call out the quality of conflict management which often can pave the way for extraordinary value creation.

Earlier on the podcast Harsh Mariwala (HM) of Marico speaks about how he went through a separation of business but strived to keep the relationships intact during the separation and subsequently as well.

HM: *"It so happened that there were some issues which led to a lack of trust amongst the family and I think that forced us to separate. So, it was not something which was planned; it happened because of certain circumstances, which was I had never thought it would happen. But when that happened, I thought it better to separate because if there is no trust then you can't exist as partners. So, that event, those set of events, which happened after Marico was formed, immediately after from the first two-three years, led to this situation, where we also separated financially.*

any family financial separation is painful. It's because there is some degree of bad blood at that particular point of time. So, you have a relationship which is very good at a social level but, you know, that phase you because it's financials are involved there tends to be some degree of bad blood. And then there a degree of uncertainty, what will happen, will it conclude properly, will it not conclude. So, impact of that on business is another thing. So, that could lead to a high degree of stress. Number three is, you are managing a business as well as you are doing these negotiations which are time consuming. So, there is that degree of stress. So, I would say a combination of uncertainty, stress and temporarily bad relationships is something you need to go through and there is no other alternative. I think one has to go through but looking back, I mean, those two-three years were painful, were stressful, were taxing, but I think it has paved the way of, the relationships are back to almost back to normal in terms of socially and things like that.

I think somebody has to take an initiative in terms of within the family and normally initiatives start around some events either sad events or happy events in like a marriage or somebody, you lost somebody in the family and that is the time when the family tends to unite because these are very important events. Either very sad events like a demise or a happy event like a marriage and that is *the time when you start thinking, okay, now, let's we have to start feeling united and over a period of time I think it goes on and at least in our case it improved, in some cases, some families it, but I think it takes two to clap. So, both parties have to forget the past, let it be bygones rather than holding on to some event which was a cause of stress at a certain point of time and look at future and you may not be the best of friends, but the relationship is almost back on track."*

DJ: Going back to what Tarun says earlier in the conversation, I guess this is where the humility of demeanour begins to matter in meaningfully resolving these sticky situations. For more, tune into the conversation with Harsh Mariwala.

If you are enjoying this conversation, you might find the conversations at this podcast of interest apart from Harsh Mariwala with Nandan Nilekani, Meher Pudumjee, Harsh Mariwala and Harish Bhat of Tata Group of specific interest. You can find them in the Guests section at playtopotential.com.

If you have a moment, do rate and review the show on Apple Podcasts or Spotify. It will really help listeners discover this content from several other options that they have available. This also gives comfort to speakers that this is worth their time and investment.

Now, let's get back to the conversation with Tarun.

DJ: And staying with families Tarun, when you think about how the baton gets passed from one generation to another, when you look at entrepreneurs that have built successful businesses, what have you seen as some of the practices in the way they deal with the next gen in terms of giving them autonomy to pursue what they want, at the same time thinking about sort of the custodianship of a business if such a term exists and setting them up for success. So, can you talk a little bit about that transition from one generation to another?

TK EP2: Few things that jump to mind, it is not obviously a comprehensive answer with some observations. Well-run families often have a period of apprenticeship for the next generation, where someone the next generation, first of all there has to be some kind of filtering process to decide whether someone is interested in joining and if he or she is interested in joining then do they have the competence to do it and if so, how can it be nurtured to see how far they can go. Lots of families talk about this. Bajaj interviews talk about this, I think, if I remember correctly, Adi Godrej's interview talks about this, the Murugappas in the South talk about this and so on. The Ayala family definitely talks about it, various businesses in Western East Africa you see it. So, this is a theme that comes up all the time is that how do you decide whether X person in the next generation has the interest and the competence to do this and if not, can we find a different way to help them fulfil their aspirations whatever they might be. I am reminded of a close friend who I leave unnamed because, they are in the book, they are a Middle Eastern family in the book and the oldest brother in the current generation said to me that for goodness's sake, it's the biggest one of the biggest businesses in this part of the world but I have zero interest. I want to be a painter, I want to live in Europe and you know to their credit, the family, orchestrated it so that he is a painter in Europe, not a very good one at that but so be it, it's fulfilling his aspirations. And you know a much younger person took over the main business. So, I think those are hallmarks of good…

DJ: And if I stay with that Tarun, in terms of navigating that conservation of skill and will, interest and competence is that do you see these families work with somebody to get to a meaningful place or is it sort of an internal discussion? Is there an insight into how they sort of the, how this unfolds?

TK EP2: You know, Deepak, on that I couldn't really be sure. I can say it from my own personal experiences with maybe half a dozen families in India that I have had the pleasure and privilege of knowing for at least 20 to 30 years that they have all struggled, some have struggled with candour and good humour and some have struggled mightily and unpleasantly. So, it's a little hard for me, it would be a bit disingenuous for me to draw generalisations. There's a whole industry of advisors who specialise in family transitions and I am sure they could be quite useful. But certainly, having someone who is singled out as the most respected in the previous generation is a big, is almost, I venture to say is a necessary condition for transitioning because there has to be someone who's orchestrating and people respect. And even the transition that I can think of in Indonesia, Kenya, South Africa, India, Pakistan that are going on right now that I personally know, all have this characteristic that there is a person who everybody respects, he or she is driving it and there are usually one or two trusted counsellors from the outside who are just lending an ear and trying to give an impartial opinion, but it's a tricky process. I mean, how many of us have seen, I mean I see this in the academic community to take a different context, right? Someone who has been a very successful academic in an institution like mine, which is quite visible and they don't want to let go, right, because that's what they do and what else would I do? I can come tomorrow morning. So, you convince yourself that it's in everybody's interest that you stick around even probably usually long after it is in everybody's interest that you stick around. So… and I have told my wife that if I get to that point, she should drag me out, take me home so…

DJ: Got it, got it. I think on that note you refer to the Murugappa Group in the book and you speak about the notion of someone called a karta, I hope I am pronouncing it right, somebody not necessarily the elderly but somebody who is formally appointed as a person who could sort of solve some of these naughty sorry, tricky situations. Like that have you seen any… could you sort of expand on that or can you think of other parallels where companies formally…

TK EP2: Yeah, I mean, there are, there's a very prominent North Indian industrial family where there are multiple brothers in the current generation, one of whom is a spectacular operator and the would-be CEO and the other is a spectacular ambassador-at-large and each would be terrible at the other's job. And so, one could imagine that it is a very nice division of responsibilities where someone is like in India you would say the foreign minister and someone is the prime minister so to speak or in the U.S. you would say Secretary of State and the President by the divide of the responsibilities. Though I have to say that that's a bit rarer than I would like it to be so the Murugappas make it sound like that is a pretty traditional practice in their community and at that time and I am sure it is but the situation that I just described with this North Indian family I wish they more common. Usually, you have somebody who rises to the top and takes charge and he or she thinks they can do it all and of course nobody can. So, it could be better, let's just put it that way in most cases. But you know Deepak, we are all human beings so we all have plenty of rough edges; I certainly do.

DJ: All of us do. Going back to the point you made about apprenticeship Tarun, when we look at some of these businesses as you reflect on how they get the next-gen, how they think about apprenticeship for the next-gen, once again, any structural themes that stand out for you in terms of what enduring families have done in getting the next-gen the right kind of exposure and immersion in the business?

TK EP2: So, I am reminded of Sanjay Lalbhai's interview of Arvind Mills, it's a very old business family, very story, great history, great tradition, very philanthropic. I did not do the interview but I remember my colleague who did and what struck me from that interview was the extent to which the previous generation from Sanjay's, I forget the gentleman's name went out of his way to make sure that every man and woman in the next generation was given a chance to actualise their own potential and that requires some process of self-discovery, and I suppose if you are fortunate enough to be from a well-off family then you have resources to engage in the process of self-discovery, which is not a luxury available to the vast majority of people in poor countries. That's the thing that stands out is this process of self-discovery for the next generation without ex ante judgment that not being in the business is a failure, which is often a sad thing that people say, I wish my son or daughter would be X and what a great… sorry, I think in Hindi, *itna bada karobaar banaya hai*, this huge enterprise and so it's a tragedy that so and so my next generation doesn't want to run it. But that's missing, it's more like what do you want to do and how can we be productive? And the thinking I think is very much that even if you are not participating, you can still participate in a governance and you can still be on the board, you can still have some stewardship, you can still be the custodian of values, and I think that's a very important thing for families to do.

I am just reminded of the interview that one of my colleagues did with Sanjay Lalbhai. I was not present when the interview was done but I loved the interview because one of the things that Sanjay emphasised was how his predecessor or the head of the family before him really went out of his way to make sure that every man and woman in the next generation had an opportunity to what I would call engage in a process of self-discovery of interests because… and there wasn't really either the implicit or the explicit assumption that the "right or respectable thing to do" would be to take one's titular role as head of the enterprise and it was some kind of a maybe like a soft competition to see who it made sense to run. The ethos seemed to be as I read between the lines and if Sanjay hears this, he might want to correct me, when I read between the lines it's more what we like to see in so-called liberal arts universities in the United States with which I am familiar, which is whatever it is that you do engage in it with passion and with dedication and with depth and find out if you like it. And if you don't like it then the world's a big place and there's lots of areas of intellectual endeavour and you can find something else. So, I think it's this giving free reign. Now, of course, this is a luxury, not everybody particularly in a poor country has the luxury to go on a voyage of self-discovery for years on end but I suppose if you have it, you might as well use it and that allows people to find the right person to take on the family mantle so to speak. One thing I would say about families is that they really are the… it's kind of an obvious point that they really are the custodians of the values. And when I think about my good friend Jaime Ayala, who is I think the sixth or seventh generation of the Ayala family in the Philippines in Manila, and whose family has been credited with essentially building large parts of modern Manila, I think that they are very much as the Tatas of the Philippines so to speak for want of a better rough approximate comparator. But Jaime's conversations are all about stewardship; they are not about unicorns; they are about stewardship and doing the right thing for the society in which they are embedded. Of course, the Ayalas are very successful business people and want to be commercially successful and those are not at odds that commercial success I think can go hand-in-hand with societal progress, broad-based societal progress.

DJ: I would love to come to this point about how institutions think about preserving values, but going back to the self-discovery point Tarun, I just wanted to stay with that for a minute or two to really say what do they… if you could break down a little more tactically what some of these organisations do with the next-gen to help them with self-discovery, could you give us a little more granular sense of the kinds of things they do to drive that?

TK EP2: I am trying to think if I would be so bold as to attempt a taxonomic answer. I am not sure I really can, but let me give it a shot. I think it seems to start from a pretty early age when people are encouraged to think about what motivates them by early age I would say well before someone enters into college and when people start getting exposed. Of course, these families have the luxury that their next generations can be exposed to a variety of stimuli. If you were not exposed to a variety of stimuli, it's hard to know what you like and what you don't like so that's certainly a benefit. They tend to have had experiences outside of the family business so as to be exposed to a different way of doing things. It's almost in modern terminology we might say they are the families' crowdsourcing insight for the next generation. I am reminded of a friend of mine who is Andronico Luksic who is someone who should be in the book but I don't think is, a Chilean mining and construction businessman, and I remember a conversation with him in New York some 10 years ago when he said, I am sending one of my children to Beijing and one of my children to Bangalore, because I think that both these economies are going to be large economies; I am from Chile, Chile is a small economy and I think it's good for them and for me Andronico Luksic and for the Luksic family for the next generation to have a variety of exposures. So, it's interesting that it is and he did that, he had a partner in Beijing for 10 years.

DJ: Sounds like a geopolitical strategy for the family.

TK EP2: Yeah, but it's not that unusual, I mean, if you look even in ancient Indian families, they would have one person in the Army, one person in the government services, one in private. So, it's not that uncommon for the steward of the family to be thinking about who's the right person to take his or her role usually his and most of these traditional society, but also thinking how do you diversify the asset exposures of the family as in toto and that's just one small example of it, but you see it all over. The other thing that you see is the sort of patriarch or the matriarch of the family is trying to, and part of this self-discovery process is also to create mutually separated spheres of influence for the next generations, right? So, somebody might say, okay, you are in manufacturing, the other person is in financial services, the other one is in life sciences, the other one is in something which is another very common thing that you see. I have seen that so often, of course in India also, and in Korea, and in Indonesia, and in Africa again. So, these seem like the universal patterns.

Reflections from Deepak Jayaraman

DJ: I like the phrase Tarun uses. Each person is given an opportunity to actualize their potential and go on a process of self-discovery.

Something similar came up in my conversation with Meher Pudumjee (MP), Chairperson of Thermax.

MP: *"I have always believed and Firoz and I both, I have partnered each other in believing that our children really should decide what they want to do in terms of what they genuinely interested in, what they are passionate about what makes them happy, I don't ever want my children to feel that Thermax is a burden and that they have to takeover or any such thing, I think they need to be responsible owners, they need not to be in day to day management, if they want to do something else with their life, it's entirely up to them, I don't think it's fair for me to prescribe in terms of you shall do engineering so that then you can come and you can join the company and then you can work up the ranks and NO, luckily for us our son is interested in joining the organization at the same time, I have shared with him, in terms of that it would, I have a regret of not joining somebody else before joining Thermax, so if you feel that, that's the right thing to do, I think you might be happy to get inputs elsewhere before you come and join the company so he is in that stage of thinking it through, he started off with engineering and then moved to economics thinking in between that oh if I give up engineering my parents will be really unhappy and we have honestly stuck to our belief of saying really do what you enjoy doing and I would say that my parents said the same thing to Kurush and* *me, they never ever made us feel that you have to join Thermax having said that of course subtle pressures are always there and of course people came in as we were growing up people would come in from Thermax, come home and sit with my parents chat and we would be hovering around, so you are constantly hearing I would go to the factory at some stage on a Saturday."*

DJ: While Meher speaks about this in the context of Family Business, I guess enabling the kids go through the process of self-discovery to actualize the potential has gotten to become part of the Job Description of every parent.

A lot of people say that the world of careers is not an 8 lane highway but more like a maze. To stretch that metaphor further, if we were an automobile, the steering wheel has become a lot more important than the engine to navigate the maze. And that steering wheel, I believe is self-awareness.

Thank you for listening. Let's now get back to our conversation with Tarun.

DJ: Moving to how some of these organisations empower professional CEOs, Tarun, one of the themes I was reflecting on was at some level these entrepreneurs are playing the long game, the infinite game if you will, and professionals often come in and the duration of the I wonder if principal agency problem is the right way to frame this but they often solve for a different duration. So, any observations you have about how entrepreneurs strike that balance of solving for the long-term while getting short-term leadership?

TK EP2: First of all, I would say that generally they don't do it well, even these iconic entrepreneurs, my general observation is that it's pretty hard to do and it's understandable because a hot shot professional who is not part of a family kind of have this feeling that his or her upside is capped and maybe to some extent you can compensate by monetary upside if not titular upside or ability to move up the hierarchy. So, that is an issue it's a general issue. And so, when you think about how the vast majority of these organisations that are profiled here particularly the for-profits not the not-for-profits, but particularly for-profits are family-run enterprises or family-controlled enterprises. That's a downside of family ownership, right that it's not unfettered access to the markets for talent because a lot of talented people would not want to work in there since they know ex ante that their upside is capped. And so, that has to be counterbalanced with the pros of the family enterprise, which is continuity, playing the long game, transmission of values will help you and it's an empirical question which side dominates the pros dominates the cons. But I think the way you said it is correct, there is a principal agent problem; the family is the principal and the agent is the professional and like in any principal agent problem there are incentive issues that have to be dealt with within the neoclassical model of economics, you would deal with it with contracts as you would have formal employment contract with compensation clauses and so on. That process of creating contracts to manage the principal agent problem is perhaps most refined in the United States of all economies and, I sit on a number of boards in the U.S. and including sometimes on the compensation committee and you spend a lot of time designing these contracts. I am just mentioning this because none of that exists in most of these developing countries. In most of the developing countries the contract is more of an implicit one. Of course, it's an agreement on salary and bonus, but that's pretty simple, that's a simple contract. For the most part it's a trust between the head of the company typically a family member or the board and the hired professional. And, of course, a contract like that only lasts as long as it's mutually beneficial. But you find that the implicit contract that is implied by the values are a far more effective way to retain good managers and good professionals than any attempts to micromanage compensation details. In the U.S., you see a lot of micromanagements of compensation details, it is an endless amount of time, there are compensation consultants, they do surveys, people are making sure that the board is at the 60th percentile for this size and this industry and the CEO is not above the 75th and not below the 45th, and it's just nuts.

DJ: Actually, moving to an adjacent theme Tarun, we had interacted when I was at Egon Zehnder with a South-Indian-based, you were on the board of a South-Indian-based company and we were looking for a leader. I was curious if you found any patterns in the kind of people, the kind of professionals that flourish in a business family? Are there one or two strands that stand out for you for the professional?

TK EP2: You know, in India I would say until recently, until maybe 10 years ago to pick a number, I would say there was something that distinguished, the people who worked in family-run enterprises tended to be more willing to play a comparable long game at least over the arc of their careers and that somehow seemed more suited to family-run enterprises, which had this long-time horizon attribute to them. But lately I would say I can't see any pattern because now even the family enterprises are getting more and more dynamic and modern and competing for the same talent pool with standalone de novo ventures if you will, not those that have been inherited from a previous generation. So, it's hard to say Deepak, I don't know what distinguishes them, I would say it's not really the family dimension per se other than the fact that we talked about earlier, which is that the family enterprise has a natural cap on how far you can go just by definition.

Reflections from Deepak Jayaraman

DJ: The point Tarun makes about the Principal Agency problem is true not just in the way Entrepreneurs pick CEOs, but it's also true in the way they engage with various advisors. To the extent they can take a journey view and enrol a few advisors who can walk the long game with them, the better aligned the incentives and the better mutual value that is exchanged in these situations.

I am reminded of a conversation with Sukhinder Singh Cassidy (SC), who was the head of Google Asia Pacific many years back and has written the book – Choose Possibility. She speaks about the benefits of working with a Coach for over a decade.

SC: *"If you give up on having a coach, let us say in Year 2, they have not seen your cycles to reflect back to you. Number two, he has been with me through multiple management teams, is somebody I can bring in, you both have my history but can help new people get to know me and navigate me, help me navigate them, so I have actually used him even as somebody to get my 360 feedbacks from because my management teams know that I trust him. They know that they, you know, so they know that maybe if they want to give me feedback and they are too afraid to give it to me face-to-face, they know that I am providing them a conduit for somebody I trust who can hold their feedback and give it to me. So that history has a lot of value. It helps with pattern recognition. So I would say one of the biggest values is then, like, it is one of my longer standing relationships beside my marriage, and is somebody who can reflect back to me what I said five years ago what can stitch together my own feelings of myself with when I used him to get peer feedback or 360 feedback, other people's view of me and helped give me a holistic perspective. And I know and I think at the end of the day,* *this is the value of coaches. We know that, yes, we may be paying them but their job is to help us be our best selves with no skin in the game other than our success. No politics, it is just like a very peer relationship. And so I appreciate that, like I appreciate having somebody in my corner with whom I can be completely authentic, who has no other vested interest other than my success, and who I also trust to give me feedback, like I trust they have my best intention. So I think it is a conduit for us as leaders. I think that a great coach is a conduit for us to learn about ourselves, probe ourselves, challenge ourselves and that is why I like the history and tenure in that relationship that has had given me disproportionate value."*

DJ: Personally speaking, as a Coach, if I have engaged with a leader for a while, that cumulative context is immensely valuable in my ability to be of value to that leader and that organisation.

If you are building a Business to Last, I guess, the mindset with which you engage with Agents is crucial - whether it is a CEO, a Management Consultant, a Banker, Lawyer or an Executive Coach. Thank you for listening.

Let's get back to the conversation with Tarun.

DJ: The other theme you speak about in the book Tarun is compassionate capitalism, right, with a lot of these businesses where there's a social impact angle. And once again, in the context of a professional transition, I was curious about how some of these institutions ensure that the tightrope of compassion and capitalism sort of the trade-offs are made with a similar lens. Any observations there to how companies manage that retro?

TK EP2: Yeah, that's a phrase that we are hearing a lot more now about more broad-based capitalism or stakeholder rather than shareholder capitalism or compassionate capitalism, I mean, there's overlap across these themes. And in a sense, it also overlaps with the earlier characterisation that I offered in this conversation but also in some of my previous writings, which is that successful enterprises tend to not shy away from the creation of general public goods. And the reason it's the same thing, I will illustrate with an interview that I did of Suresh Krishna, the TVS Group and, I think, that family has been pretty instrumental in taking care of worker safety type issues and in addition to sort of preserving the cultural fabric of some parts of Tamil Nadu in particular especially around Madurai. They have also been pretty farsighted about employment practices and so on and I don't think that's been costly to them in the long run but in the short run yes, you can say that, oh, why are you spending so much more money and I know that when I have sat on the board of some of those companies, I have sometimes complained and said, we can't be the *mai baap sarkaar* of everybody, the *annadaata* of every employee here, that's not our purpose, but the reality is that at some basic level they are right I think that what they are doing is setting a tone, being an example for taking care of a societal actor who is not otherwise taken care of by society because the State has not matured enough to be able to provide those smoothening out mechanisms that are needed in the rough and tumble of life. So, I think the creation of public goods often leans in the direction of what you are calling referring to as compassion in compassionate capitalism.

DJ: And moving forward, you also talk in the book about the choice that some of these companies make around the pace of growth. And you say that if you want to grow with a certain sense of culture and values, you can't grow too fast. How do you observe this play out in how organisations deliberately moderate the pace of growth while ensuring that they are building a unit with stable values and…

TK EP2: You know, I think the simplest way to think of this is that at any moment if you are a reasonably successful enterprise is you are confronted with many more opportunities than you have resources to pursue them. Then the question is what filtering criteria you are using to sort these out. If it's a purely commercial criterion, the chances are you will grow your top line and bottom line fast, but if it's a combination of a commercial criterion and some other let's call it constraint, self-imposed constraint, let's call it values, zero corruption or values or something like that, it's axiomatic almost that you will not grow as fast as somebody who's unconstrained. But another way to say it sometimes business people resist when I say that, they say, no, no, we can grow as fast. But I sometimes say the following way, which they find more palatable, right, which is think of it as a short run investment for longer run growth in some ways. So, you are leaving money on the table to earn the license to exist in the long run. It's no different than an investment in the physical assets and investment in an intangible asset that turns out to pay out handsomely.

Reflections from Deepak Jayaraman

DJ: This is your host Deepak Jayaraman here. I think there two dimensions here to think about. One is Tangible vs Intangible. The other is Flow metrics versus Asset metrics. I guess a lot of us are wired to think of and solve for tangible flow metrics. If we want to play the long game, it makes immense sense to start focusing on the intangible asset metrics as well.

Lynda Gratton (LG) of London Business School speaks about the notion of intangible assets in a personal context that we all could think about especially during mid-life.

LG: *"We talked about three types of intangible assets we talked about Productive assets, Vitality assets and transformation assets and I think really you know in your 40s the productive assets becomes really important because you need to keep on landing you need to keep on building new skills you need to be saying to yourself and to the labour market you know I am still somebody who has gone lot to offer from now until the age of 70s so that's really crucial but also of course transformational assets and those as we said earlier they are they are transformational assets a lot to do with your networks. So if you are 40 find yourself spending all your time with people just like you then that's not gone help you to transform so you should be looking around and asking yourself am I spending time with people who different from me in terms of the nationality or their mindset or their age or their gender"*

DJ: The external world may not reward you for this in the short term but as Tarun says, it might help you earn the license to exist and thrive in the long run.

DJ: Tarun, I think, this sort of brings us to the end of the conversation. Once again, this podcast is titled Play to Potential and when we think about some of these institutions that are being built and some of these entrepreneurs that have built some of these enduring institutions, any headline themes you want to leave the listeners with in terms of playing to potential over the long term in building institutions that endure?

TK EP2: Yeah, so I would say in the world's potential… let me restart. As we are recording this podcast Deepak, Mr. Putin is wreaking havoc in Eastern Europe in Ukraine. It's a surreal situation and still has the potential to spiral out of control so it's very sobering. And that's perhaps an egregious example of how many people today… so there are roughly 8 billion people in the world today. I would say that 7 billion of those 8 billion are kind of locked out of the mainstream of societies. So, when you take the title of your podcast, Play to Potential, the world's potential is completely untapped. We have organised, we as a species have organised that 7/8th of our potential is rendered impotent currently. So, I think the upside is very, very high if we think of what can be done and the people who can show us how to do it are the ones that are profiled not just in this book, but the much broader selection in the Creating Emerging Markets project, which is a life project. So, as we speak, we are adding dozens and dozens more interviews from dozens of countries. These are people who can at least show us how they contributed to a more inclusive way of living that hopefully allows us to bring some of these 7 billion excluded people into the mainstream to society. So, that's the idealist in me, the sappy, naïve…

DJ: That's a wonderful way of framing it. I think there's a huge social impact and inclusion element to the way these businesses have been built and continue to be built.

TK EP2: It's almost, it's almost, I am almost comfortable saying that it's a defining criterion of longevity of reputation and long live success is that most of the benefits of your action don't accrue to you. You may still be a billionaire or a gazillionaire but the fact is that those who are in that category have probably contributed tens or hundreds of billions of whatever the currency is worth of goodness to their societies. So, that seems like almost a defining criterion.

DJ: Lovely, on that note, Tarun, thank you so much for making the time on the podcast.

TK EP2: Deepak, very grateful, especially at this awkward hour for you.

DJ: Sure, not at all.

TK EP2: Good.

Reflections from Deepak Jayaraman

DJ: Hope you found the conversation of value. If this topic is of interest, you might like the conversations with Nandan Nilekani, Meher Pudumjee, Harsh Mariwala and Harish Bhat of the Tata Group. You might also like the Curated Playlist on Entrepreneurship where we feature some of the wisdom around what it takes to build high quality companies that last and make a difference to the society.

Just one last request before we sign off, do take a moment to rate and review the show on Spotify or Apple Podcasts or wherever else you consume the content.

Thank you and look forward to having you at a subsequent conversation at the podcast.

Bye now.

End of nugget transcription

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Nugget from Amy Edmondson that is referenced: Traits that drive psychological safety.

Nugget from Harsh Mariwala that is referenced: Tactful separation.

Nugget from Meher Pudumjee that is referenced: Business continuity across generations.

Nugget from Sukhinder Singh Cassidy that is referenced: Decade long coaching journey.

Nugget from Lynda Gratton that is referenced: Mid-life: a double whammy.

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About Deepak Jayaraman

Deepak seeks to unlock the human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work here.

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