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Context to the nugget conversation

Tarun speaks about how Entrepreneurs think about the Principal Agency problem when it comes to recruiting CEOs. Entrepreneurs are often playing the “infinite game” with the enterprise while the leaders they hire are often there for a stint. He speaks about the distinction between how developed markets like the US deal with it versus how Indian companies often deal with it.

Transcription

Deepak Jayaraman (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?

Tarun Khanna EP2 (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 micromanagement 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 feedback 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 practicing 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.

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.

End of nugget transcription

Nugget from Sukhinder Singh Cassidy that is referenced: [Decade long coaching journey](#).

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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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