



Leadership, Managing Stakeholders and Succession Planning

December 2015

Leadership

Leadership has many facets and has been defined in different ways. It is generally defined as one of many styles – autocratic, democratic, authoritarian, etc. However, according to Mr.Khusrokhan, personal leadership style is only a small part of leadership. In totality, leadership is a process which ideally should be standardised across an organisation. While the structure of the process can differ across organisations, it needs to be standardised within a company. Standardisation sensitises people to the fact that leadership goes beyond personal styles, and makes leaders across the organisation behave in a similar manner. This creates an organisational culture and gives employees a comfort level.

Managing Stakeholders

Managing various stakeholders is an integral part of a Chief Executive’s work. Unionised staff, regulators, press and public and increasingly environmentalists need to be handled with extreme care and tact as how they perceive a company and react to its actions can affect a company’s fortunes to a very large extent. Managing mergers and acquisitions is increasingly becoming complicated to handle and need an additional skill set. Lastly, proper succession planning results in smooth transfer of power.

Handling Staff

The three most important steps in staff handling are setting up a corporate value system, ensuring it is followed across the organisation, and establishing a system through which grievances can be redressed. The corporate value system should be set up to identify the core values that are held dear by the employees, and to ensure that these are then practices by everyone. It is imperative to convey to every level in the organisation that following the value system should be a way of life in the organisation, and is not optional. It is very important to ensure fast resolution of grievances, as it leaves less chance for problems to foster. In order for this process to be effective, the problem area within the organisation needs to be identified. The level at which the process is breaking down needs to be determined, and remedial actions need to be targeted at that segment.

Handling Unionised Staff- The Pharma Experience

Homi Khusrokhan joined a pharmaceutical company early in his career as an accountant. After some time he was moved to the marketing division. The initial few months made him realize that managing area managers and medical representatives was a completely different experience. There was a lot of dissatisfaction among the employees at different levels.

The Situation

Immediately after the initial settling down period, employees at different levels started approaching him with complaints and issues. Area managers approached him requesting him to bring about a change in the prevailing management style, as they felt that they were getting sandwiched between the upper management and the medical representatives. They had to put pressure on the latter to achieve targets set by higher management, and the latter were reacting by not showing any respect for them. However, the sales representatives had a different story to tell. They felt that they were at the mercy of the area managers.

The situation worsened over a period of time, and the different offices of the firm started joining an aggressive external union one by one. Homi realized that the existing management style was extremely authoritarian, and decided to change it.

The Solution

The company conducted value workshops for all the area managers, and they were asked to list out various corporate values that were most important for them. Integrity, respect for people and trust appeared at the top the maximum number of times, hence were decided upon as the corporate values that the area managers would mandatorily have to follow in their dealings with the medical representatives.

As the next step, a grievance committee chaired by Homi was formed to listen to sales representatives' problems. This committee met once a quarter, and tried to address the issues as fast as possible. Homi believes that employees being able to express their viewpoint and grievances acts as a safety valve, and prevents issues from boiling over.

It was very clearly conveyed to the area managers that the new system would need to be accepted and followed by everyone, even though it necessitated the dismissal of a few of them who were not falling in line.

The Result

The atmosphere in the organisation improved and became so effective that all the offices withdrew from the external union within two and a half years from the start of the process.

The Lessons

1. The middle management is very important in an organisation, and the organisational culture depends a lot on how people at that level interact with their juniors. This understanding is critical to identifying the problem area and finding appropriate solution.
2. Even if the leader is held in very high regard, it is not possible for him to change the organisational structure singlehandedly. He needs to take a number of people in confidence and appropriate them into the process.
3. Soft skills sometimes prove to be extremely useful in the process of determining the value system of an organisation, and especially in implementing it, the latter always proving to be more challenging than the first.
4. The leader being accessible and open to the employees approaching him with their problems, reassures the staff about his sincerity, and helps in issues being resolved faster.

Conflict among members of the staff is a common occurrence in any organisation. Handling such situations and resolving these issues to everyone's satisfaction is a complicated task.

Conflict Resolution

In Homi's experience, the most important rules for the senior to whom the conflict is brought for a resolution are that they should be total impartial, and keep their views about the concerned parties and situation to themselves. At the same time, organisational need should always take precedence over personal issues. Conflict resolution is a two-step process that involves first speaking to the parties individually, and then together.

While meeting the conflicting parties individually, the following points need to be kept in mind:

1. Each conflict is unique, the root cause of the conflict needs to be established.
2. The people involved should be allowed to tell their side of the story and to let off steam.
3. A distinction needs to be made between the differences that can be resolved and those that cannot be resolved. The former need to be concentrated upon.
4. The commonalities of thinking in both individuals need to be determined, so that these can be built upon to resolve at least some parts of the conflict.

These meetings prepare the ground for a combined meeting, where the following ideas help:

1. The ground rules of the meeting need to be established and communicated to both the parties before the meeting. The rules could be simple ones like they will not insult each other, or that no one will interrupt the other, etc.
2. Using the information gathered during the first stage like which are the resolvable issues and what are the commonalities in thinking, suggest solutions that are likely to be acceptable to both.
3. These solutions should reflect total fairness and impartiality, and create a win-win situation for both the parties.

Handling External Stakeholders

The most ethically run companies can face situations where something goes wrong and becomes public knowledge. It could happen due to either irresponsible behaviour, carelessness or unethical behaviour on the part of the management, an employee, or even an outsider. When the situation involves public harm, there is sometimes an extreme reaction from the regulators and public. It is more so in these times of public activism. At such times, negative coverage by the press only adds fury to the fire.

When such situations arise despite due care being taken by the company, it is natural for the management to take offence at the extreme reaction by everyone. A lot of times, they respond aggressively. Mr.Khusrokhani's experience is that this response unnecessarily aggravates the situation. It also makes it more difficult for the company to later extend an olive branch to all concerned.

Instead, the company should do some introspection and find out the reason for the mistake. Even when the event has not happened due to the company's mistake, it is sometimes better not to fight back and aggravate the situation. It serves the organisation far better to correct their

mistake, convey the fact to the public, regulator and the media, and reassure them against a recurrence. Disclosing the steps that have been taken to ensure that the event does not recur, helps everyone in understanding that the company is serious about addressing the issue. Humility on the part of the organisation in general and the management in particular, goes a long way in such circumstances. Finally, identifying who and what went wrong, meeting out justified punishment, and conveying these facts to the various stakeholders helps in everyone achieving a closure on the issue.

Glaxo's FDA Crisis in 1994

The Situation

In the early 90s, Betnesol was one of the medicines being manufactured by Glaxo. It was sold in ampule form. The authorities discovered that some low-priced ampules were being sold in the market in Mumbai, and traced them to a person staying in Dharavi. The said person was accessing the company's rejected ampules from their scrap-yard in Worli and their rejected labels from within the company, putting them together and selling them in the market.

Upon this discovery, The FDA commissioner decided to scrutinise the case. A lot of press reports started appearing against the company accusing them of not practicing international best practices in India, though they were followed abroad. Doctors started questioning the company. Public opinion started turning against them. Finally, the FDA issued them a notice of suspension of factory licence.

The Action

As soon as the source of the sub-standard ampules was discovered, the company decided to change the discarding process for its rejected ampules. Instead of being sent to the scrap-yard, they were crushed within the factory.

Hence, when the FDA commissioner started scrutinising the case, it was perceived by the company as unfair, as they had already taken corrective action. This fact, along with the negative media coverage prompted the company to buy space in print media and issue advertorials rebutting the charges. Homi went around meeting doctors trying to convince them and attempting to restore their faith in the company and its products. As the FDA issued the notice of suspension, the company decided to go to court against it. However, the courts rejected the company's contention.

The Result

The FDA ordered the factory to be shut down for two weeks. The company had to take the punishment and start an effort to rebuild its reputation and win back doctors' and public's faith. Homi invited a journalist to visit the factory premises and observe the processes himself, so that he would be convinced that the company was indeed following international best practices and the loophole had been closed. At the instance of a lawyer, it started an internal investigation and identified the culprit who was made to leave the company. This was a huge step for the company as it was till then quite soft in its approach towards employees. As the public witnessed punishment being meted out to the person responsible for the fiasco, faith in the company slowly rebuilt, and within a few years it was voted as the most trusted company in India.

The Lessons

1. Even if a company takes due care to avoid such incidents, and they happen due to either the negligence or the connivance of an employee, the company is still accountable to the authorities and the public. Trying to defend the indefensible results in worsening of the situation.
2. Corrective measures should be taken immediately and the fact should be communicated to the agents and consumers of the company and the public at large should be reassured that a recurrence of the episode will not take place.
3. The leader of the organisation – even in the face of public outcry and negative press coverage – should have the courage to meet the company’s most vocal critics, whether they are consumer organisations or people from the media.
4. The company should itself invite public scrutiny of its premises or processes, as the case may be. Such an invitation, along with the willingness to meet stakeholders helps in reassuring the authorities and the public that the company has nothing to hide.
5. Even if the company believes that it is not in the wrong, it should be humble its approach rather than being arrogant or hard-lined. It helps avoid worse public opinion, ensures faster resolution of the issue, and lets the company rebuild its reputation faster.
6. The culprit behind the event needs to be identified and punished, and the public be made aware of all the facts of the case, in order to let the stakeholders have a closure on the issue. Otherwise, the event would keep coming back to haunt the company.
7. If things are managed properly, even a big negative event would not result in the company losing goodwill for ever. Reputation can be rebuilt, even if it takes a lot of hard work and efforts.

Now-a-days, another category of stakeholder is making its presence felt – the environmentalists. They are not only more vocal than earlier times, their voice is increasingly being heard by governments, regulators and other stakeholders. It is natural for the views of an organisation on the effect of their projects on environment to be extremely different from that of environmentalists, given that the environmentalists are not concerned with either the financial or technical viability of projects. It is also not unknown for environmentalists to take an extremely tough stand on issues which the organisation feels can be sorted out with a few simple steps.

It is essential that the top management starts looking at the issue at the first sign of trouble, and not ignore early warning signs. The CEO should get actively involved, and should also involve people who are established authorities in the area. The fact of the CEO’s and experts’ involvement should be brought out in the public domain at the early stages. Active engagement with critics is necessary, and if despite the company’s best efforts the issue cannot be resolved, it is better to withdraw from the project in a dignified manner, than to be forced to do so and appear arrogant and uncaring regarding public view.

The Case of Lake Natron

The Situation

During Homi's stint with Tata Chemicals, the company bought a Kenyan company. As a part of that company's operations, it ran a soda ash factory that sourced its soda ash from a natural lake full of brine. As the intense sun used to shine on the lake, it used to dry up leaving behind around 30 metres of crust, which had to be just calcified to get pure natural soda ash.

Witnessing the soda ash being successfully commercially exploited, Government of Tanzania invited Tata Chemicals to repeat the experiment at Lake Natron, which was a similar lake situated on the Tanzanian side of the border. However, there was an impediment to the project, as the lake is the one of the few remaining nesting sites for lesser flamingos, which is a near-threatened species, and the project could have threatened the delicate ecological balance and in the process harmed the breeding process.

As the pending project became public knowledge, the company was warned by a representative of International Union for Conservation of Nature (IUCN) that trouble was brewing. The company conducted a public meeting laying out its plans for the site. As predicted, there was a lot of public backlash, with Homi getting hundreds of mails and the Managing Director getting a flood of letters against the project.

The Action

Upon first getting the invitation from the Government of Tanzania, Tata Chemicals got an Environmental and Social Impact Assessment (ESIA) conducted by professionals, whose report gave a go ahead with the only condition being that the factory should be located away from the nesting site. This was considered implementable as the lake was around 7-10 kms across.

When the public opinion started pouring in, the first reaction of the company was that of disassociating itself from any responsibility, stating that the project belonged to the Government of Tanzania, and they had joined the project on being specifically invited. There was also a degree of denial involved, as the company believed that the Tata reputation itself will make the problem go away.

As the problem intensified, Homi approached the IUCN representative for help and guidance on managing it. She sent one of the world's leading experts on species' survival to guide him. The expert put forth the condition that he would guide them only if they made his recommendations public and gave a public commitment to follow them. The company had no other choice than to agree. It gave the commitment on its website, and also posted the expert's suggestions there. Homi also started responding to all the mails and letters personally at the suggestion of the expert.

The Result

Despite the company's best efforts, the environmentalists did not back down, and the Kenyan partner of Bird Life International invoked the "precautionary principal", cautioning that the project should not be carried out, as it was not sure that the solutions put forward by the experts would work. At this stage Tata Chemicals, decided to withdraw gracefully from the project. Although the company had to abandon the project, the Tata's reputation did not get negatively affected due to the actions taken by them.

The Lessons

1. The speed of response is very important. It is essential to be seen as proactive and open

and responsive to public sentiment.

2. Public trust can be retained only if the company is seen to be serious about addressing the issues being raised. Posting the expert's recommendations on the website and making a public commitment to implement them helped Tata Chemicals retain people's faith in the company and their reputation stayed intact.
3. Engaging even with the most vociferous critics is crucial. Sometimes unforeseen benefits can accrue from such engagements. For example, after the project was withdrawn, Bird Life International suggested to Tata Chemicals that they should approach the Tanzanian government with a proposal to develop the area as an ecotourism site.
4. Despite best efforts, if it is clear that the project cannot go through, it is better to accept defeat gracefully and withdraw from the project.

Managing Mergers and Acquisitions

Glaxo - SmithKline Beecham (SKB) Merger

Glaxo and SKB were both British pharmaceutical companies, which analysts and media alike thought were perfect candidates for a merger. However, the operational philosophies and culture of the companies were too different, as they were shaped by the location of the respective headquarters. Glaxo, being headquartered in London, was understated, polite and humble, while SKB, with its headquarters in Philadelphia, was quite outgoing, brash and arrogant.

As the driving force behind the merger was economy of scale, there was too much focus on cost. In line with that focus, the company made a public announcement on the first day of the merger that it expected to reduce its combined workforce by 60%. As a result, there was a lot of uncertainty among the workforce.

The disagreements among the two companies were quite public. The combined entity could even decide on the location of its headquarters and kept operating through both the original ones. All these factors resulted in the merger process being quite choppy.

Tata Tea – Tetley Merger

In the year 2000, Tata Tea, an Indian company acquired the British company Tetley Tea that was triple its size at the time. The acquisition was considered quite audacious at the time, and the press and analysts in both the countries were quite against it. It was expected to destroy both companies' value. In fact, the biggest challenge proved to be handling of the external perceptions about the merger.

However, managing the merger internally proved to be easier, as the companies operated in different geographies, and the driver of the merger was mutually aided growth rather than cost cutting, which meant no staff pruning. There was no need to create a single merged entity, and as both sets of managements were experts in their own areas of operations, there was no need for retrenchments at the top level either. There were some cultural differences in the way the companies operated, however, as the operations were not required to be merged, the differences proved to be complimentary and contributed to the

acquisition being a success. Learning about and respecting each other's culture was more important than imbibing it.

One area where Homi had to put in extra efforts was changing Tata Tea's management's outlook towards Tetleys'. Initially, their behaviour was akin to a conquerer's, as they assumed that since they were the buyers, the Tetley management would simply do their bidding. Homi had to make them sensitive to the fact that as the British company had been running successful operations that were three times the size of Tata Tea, and doing so profitably, with the profits being double that of the latter, they had a skill set and knowledge that should be utilized and not ignored. Building a global brand required both sides working together as a cohesive whole, which did happen as a result of the acquisition.

Learnings

Homi witnessed six mergers and acquisitions in his stint with Glaxo and the Tata group. The following are the distilled learnings:

1. First impressions last. It is important to reach out to the other company and establish your credentials. It makes the process smoother.
2. Whatever changes are required, particularly the unpleasant ones, should be made in the early stages when everyone is expecting them and is prepared for them. Problems left unaddressed tend to fester and come back to haunt the company some day.
3. Adopt, announce and practice a merger philosophy. It removes uncertainty and people know what to accept.
4. There should not be any witch hunts. Even the people who have to leave should be able to do so without loss of face. It should be remembered that peoples' actions are based on company policies and processes, and hence they may not be individually to blame.
5. A detailed structure, process and tight timeline for the integration serves everyone well and reduces uncertainty.
6. The CEO should not keep the strategy and reasoning behind the merger to himself, but share it with his top management team. The top team's understanding and the resultant buy-in is very important for the merger to be successful. Mergers are major strategic decisions that require everyone to be on the same page.
7. Matching of organisational philosophies is a must for a merger to succeed. Similar philosophies help in values and beliefs to be integrated. The difference in cultures, on the other hand, needs to be identified early and understood and respected by the parties involved. Integration of culture is an impossible task and should not be attempted.
8. The focus of the merger has to be on value building and growth rather than just cost cutting.
9. Communication across the merged organisation is essential for nipping rumours in the bud. Savings and achievements should be regularly shared.
10. Key talent should be spotted quickly and the right signals sent to them so that they can be retained.
11. External stakeholders like unions, press, analysts, local communities have to be managed actively.
12. A feel good factor has to be ensured, particularly in the entity taken over.

Succession Planning

Every CEO faces a situation at least once in his life time, when he has to hand over charge to someone. He should try to ensure a smooth transition, so that he leaves a cohesive team behind.

Handing over the Mantle at Tata Chemicals

Situation

Homi had 24 months' time to identify his successor and to create a situation which would not leave the company in turmoil. There were three clear contenders for the post, and he preferred that the two not chosen to take over from him do not leave disgruntled.

Action

The company used to follow a 360 degree feedback system. Every six months, the top management team used to go for an off-site retreat, where everyone could give a feedback on everyone else, including the MD. Homi made the group go through two such exercises, one six months prior to the succession announcement, and the other just three weeks before it. This resulted in everyone being aware of the strengths and weaknesses of all three candidates.

During the second exercise, he put the three contenders in a room and informed them that one of them is likely to be his successor. He asked each one of them (in front of the other two) as to how he will handle the other two contenders, should he be chosen. The situation forced them to focus on each other's strong points and think about how to utilize their talents in the most effective manner.

On the day of the announcement, he held a half-session with the three of them, reminded the chosen one of these commitments and informed the three that his intention was to leave behind an organisation that ran smoothly rather than one that got mired in internal politics.

Result

The transition was extremely smooth, without the company going through a turbulent settling down phase. It led the Chairman to remark that "it was a benchmark transition".

Lessons

A lot of planning needs to go into handing over charge to someone without causing a lot of disturbance. The existing processes of the companies should be used wherever possible. The various contenders need to be made aware of the strengths of their competitors for the post, and be made to put in efforts to think how to utilize them to the best of their potential post the announcement, rather than marginalising them or forcing them to leave the organisation.

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