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CONVOCATION ADDRESS BY MR. VIKRAM LAL  
at the Indian Institute of Management, Ahmedabad  
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1. I am deeply aware of the honour of being invited to speak at this year's convocation at India's most prestigious business school. But even so, it has taken considerable persuasion by Prof Saha and my colleague Bhuvan Chaturvedi, who is an alumnus of this school, to get me to stand here before you today and give this speech. The main reason, you can by now guess quite easily, is that I am terrified of public speaking. I have no talent for it, and have avoided it like the plague all my life. Luckily for me I could do so because I have been my own boss, at least at the workplace, almost throughout. So now the only way I can handle this address is by reading out from this bunch of papers, and I hope you'll bear with me while I do so.
2. I can imagine the air of expectancy around each student of the graduating class. Your eagerness to get into real life is probably tinged with some apprehension regarding the pace of progress and of achievements, and of course, you would have many questions about the future in general. When I was asked to give this address, another doubt that I had was about what I could say to you that would be of interest, and of some use, because my entire work experience has been in just one family-owned organisation, and that too without the benefit of any formal management education. But based on whatever my experience has been, what I hope to do is to leave you with a perspective on some issues which I consider worthwhile.
3. All of you by now have a comprehensive grasp of cases, theories, models, procedures, and the different systems of management. But often, the right side of the brain, the part responsible for the intuitive processes, is not encouraged in business schools. As a result, honest self-examination is not a skill students are taught to develop. But there is now a growing awareness and acknowledgment that business is more about people than systems, and it seems clear that all behaviour is somehow determined, and so much of it stems from inner needs, from our fantasies, which we cannot access because they are often hidden in the unconscious. We may find ourselves impelled or propelled in certain directions without being aware of the real reasons. So what I would like to focus on this evening is the importance of knowing yourself, of being connected with your innermost feelings and needs, and to clearly acknowledge them at least to yourself.
4. 32 years ago I joined the failing family business as a 24-year old half-baked engineer. I had just returned from Germany after 7 years of training and studying mechanical engineering, but unlike you, I had no understanding at all of management, or of dealing with people, or of finance, or of marketing. All I had was some technical knowledge, and I would say an analytical bent of mind that helped in problem solving. And above all, I carried a grave uneasiness at doing the wrong or unfair thing. I had this feeling and need

to generally take what I considered the fair or right decision. This by itself is not an unusual feeling, and millions of Indians have been quietly doing just that in their daily lives, doing it naturally, and thinking nothing of it. It is just that I was acutely aware of doing the same thing even in business because that's what seemed right and natural.

5. A strong influence in my life has been the writings which came to our family through people we call Yogis. We never met them, but they wrote regularly to the family on all kinds of topics in a one-way communication for about 25 years. The Yogis came through an unbroken lineage from our ancient tradition. This is, however, not the place to explain how this very unusual connection came about, but all I can say is that the letters of the Yogis were a mysterious but very important part of my growing years. With the hindsight of experience, I feel that some of these concepts are universal, and could be the basis for all decisions and actions in life.
6. A concept that has always stayed with me was that of *Bhaav* and *Bhaavana*. *Bhaav* could be translated as the outward expression of one's self, and that what we express, and *Bhaavana* would be the inner needs and desires. What I understood was that the ideal one should strive for is that the outer self should be a true reflection of the inner self. My own experience is that our inner self knows the difference between right and wrong. It is the very core of our upbringing. We know what is moral, even if at times we are unwilling to accept it, for whatever reason. I have seen it several times and I am sure it would happen again amongst us all gathered here. If we were to sit down in small groups and work out a code of ethics for an organisation, the same 5 or 6 items would be there at the top of each list.
7. Continuing with the concept of *Bhaav* and *Bhaavana*, the Yogis often wrote that *Bhaavana Apney Liye Raasta Banaa Leyti Hai*. I think the nearest translation would be 'that our inclination creates a path for itself'. Simple as it may sound, this is quite a profound thought, and calls for some reflection. If indeed we end up where our inclination takes us, or put another way, if our inclination determines our destiny, then it becomes really important to reflect on our priorities and assess them from time to time.
8. It is not as though I had consciously thought of this or ever imagined what the future held in store for me or for the company. In fact what I recall as our most pressing problems in the 60's were an acute cash shortage; the interrelated problem of getting supplies from an almost non-existent ancillary base; the ethical problems of running a factory and a company; and finally the contentious issue of industrial relations. The problems of cash and supplies became manageable as soon as the company started doing better. However, industrial relations and the managing and motivating of employees became a special field of interest for me.
9. This is not to say that I enjoyed dealing with labour problems or negotiating with unions. Far from it. I can recall how my knees used to turn to water

when I heard the slogan-shouting at the factory gate, and with what reluctance I went to work when an agitation was in progress. It was as if a whole army was out there to get me. In fact I hated the whole idea of conflict. Since in my mind I was very clear that I did not want to take undue advantage of workmen or of any employees, or deceive them or treat them unfairly, I felt we had to find a more reasonable way of resolving our issues. And so it set us thinking hard as to how to correct this relationship, how to free it of prejudice, how to make it into a harmonious one between people who were interdependent and who basically wished each other well.

10. This search brought us the understanding that at least 95% of industrial relations problems are caused by the inaction or wrong action of management; that industrial relations was not the responsibility of the union, and certainly not of the individual employee, but solely that of management; that building trust took many years, even decades, but could be easily shattered. We realised that the strongest driver of conflict was the feeling of being treated unfairly; and that the greatest motivator was recognition for the individual employee. It dawned on us after years of experience that no one goes to the work-place to quarrel or fight except under immense provocation, and that each one looks for a sense of achievement, of accomplishment, at the end of the workday.
11. One thing that truly delights me is that industrial relations within our organisation have steadily improved, notwithstanding problems from time to time. A major landmark in this progression was the letter to the plant management from the union of our Engine Plant in Alwar, Rajasthan, in December 1996, stating that it will, until further notice, not negotiate wages and conditions, and that it trusts management to do the right thing for workmen as it has been doing for staff and executives.
12. This did not happen out of the blue. It happened because both management and union realised that the 3-yearly exercise of wage negotiations lasting weeks and even months were always fraught with uncertainty and danger as things could (and at times still do) get out of hand; --- as a matter of fact, the Royal Enfield plant in Chennai is locked out right now --- ; and no matter what, this is always a very painful and wrenching experience.
13. Industrial relations is really not a separate subject, and only suffers if it is treated like that. It is all about relationships between people. In the final analysis it is about what goes on in our minds and hearts, which is often not rational in the sense that we all carry our prejudices, and they more or less colour our vision, our perceptions, at all times and in all things. It is only through frequent introspection and the resulting awareness that any person is able to reduce his or her prejudices to a tolerable level.
14. The Eicher Group has long been regarded as professionally managed, and as highly professional in its approach. To explain the genesis of this professionalism, I would have to go back once again to the start of my

career. At that time the company was in severe trouble, with losses as high as twice its share capital, and it was continuing to make losses. How such a thing was possible can only be explained in the context of the protected environment in which Indian industry existed at that time.

15. For me, as a member of the owning family, the conditions were extremely tense-making. I therefore decided very consciously to distance myself from the results and accept the worst case, which was that the company was going to fold up. And then, I treated myself purely as a professional, and worked hard to make it survive. As a result, the management was unified, and not divided between owners and executives. It is true that I became the CEO because it was a family company, but apart from that, there were no special advantages, no hidden incomes or perquisites, no real differentiation between any of the top managers.
16. Professionalism to us did not mean that a team of professionals were managing the affairs of the company. It meant dealing with every aspect of the operations of the company in a professional manner, be it materials management, or distribution, or dealer management, or any other function. Technical aspects were easier, but when it came to those matters where changes affected people, they invariably became much more difficult issues.
17. And so our professionalism found its greatest challenge in the area of personnel management, and more specifically in industrial relations. I can recall that the first thing we did when we recognised the importance of changing the paradigm of industrial relations was that we abolished the position of the IR Manager. The responsibility was handed over to the production manager, because all the unionised workmen worked under him. The main result of this change was that supervisors and managers had to take complete responsibility for the people who worked for them, and resolve all their grievances.
18. However, the logical culmination of professionalisation is the separation of management on the one hand, and of the supervision of management on the other, and that is the core of 'Corporate Governance', which is being debated all over the world, and on which there are many differing points of view.
19. For me it became an important subject because our Group needed a solution. Having surveyed the scene in India, I found that Indian companies fall into three categories. The public sector, though professionally managed in theory, lives a very distorted and artificial life. MNCs and the subsidiaries of foreign companies are, by and large, professionally managed. But with the ownership located outside India, they are subject to the customs and culture, and the laws and regulations, of their respective countries. And finally we have the Indian private sector. I was staggered by the revelation that this entire sector is owner-managed, with perhaps just one single exception of Larsen & Toubro. But even in this very special case, the promoters were Danish. When

I say owner-managed, it means that a significant shareholder --- in effect --- exercises the powers of the chief executive.

20. I have always been interested in corporate governance, and had therefore read many articles, studied prevailing systems, and discussed the issues involved with others. The understandings that I have derived from this are, that any system of corporate governance for a country must take into consideration the existing legal and social realities. By this I mean that it is impractical to adopt, or even adapt, the Japanese system, for example, for our use because the social and business practices on which it is based are absent here. And secondly, that the most important principle involved is that the supervision of management can only be done by people who are not part of that management themselves.
21. Reviewing the systems of governance prevalent in other parts of the globe, I find that in the Anglo-Saxon world, corporate governance is in flux, with high-powered committees going into the issues involved, and with several highly-publicised board-room dramas in major corporations having taken place in the USA in recent years.
22. Widely held public companies in the US are invariably board managed and controlled. The board of directors is a kind of closed shop. Once in place, it perpetuates itself with little outside influence, whether from shareholders, government or employees and unions. The only indicator of shareholder assessment of management is the stock price, but it is not a clear or reliable one because many other factors influence it. Typically, there is a chairman, who most often is also the CEO. Therefore he or she has extraordinary leverage to influence the decisions of the board. This shows up particularly when the company's performance is unsatisfactory, or when a new director has to be selected, or when the remuneration of top executives has to be decided. With such a structure, boards have a high level of inertia, and a very serious crisis has to develop before the non-executive directors take courage to intervene, as they finally did in the case of General Motors several years ago when they removed the chairman.
23. The point to note in all this is that, in the American system, the supervision of management is based less on structure and more on the character of the individual occupying the position of chairman.
24. Large Japanese companies have enormous boards, whose meetings normally tend to be formalities. Decisions seem to be taken informally by smaller groups of senior people, to be ratified by the board.
25. Some countries in continental Europe have a two-tier system. Typical is the one prevailing in Germany. At the head of the operating organisation is a board of management, which usually consists of 4 or 5 members, of which one is the CEO and is called the 'speaker'.

26. The tier above this one is the Supervisory Board. In large German companies, half the members are shareholder representatives, and the other half employee representatives. The role of the board is quite comprehensive. It approves all major decisions, and generally charts the long term course of the company. Its complete separation from the management enables it to effectively supervise it, remunerate it, replace it if necessary, and generally prevent it from taking risks unacceptable to the shareholders and employees. Members of the Supervisory Board need to spend several weeks a year to fulfill their responsibilities, and are remunerated accordingly.
27. In the Indian context, company boards have many limitations. The most important one is that the board always has top managers whose role and performance are to be assessed, and so it becomes virtually impossible for the board to fulfill its role of supervision. I have sat on several Indian boards, including our own, and my experience is that meetings are generally formalities only. Members are, by and large, friends of the chairman, who is the main shareholder and CEO. Decisions have already been taken, and sometimes even implemented, and the Board is simply expected to approve.
28. Keeping these various factors in mind, I felt that, for our Group, a two-tier structure would be the most suitable. The Group Management Board already existed. The second tier, called the Supervisory Board, and consisting exclusively of non-executives, was created last October.
29. The role of the Board is not that of management or of leadership, but rather to ensure that these are in good shape. Its major responsibilities are to ensure that a good strategic plan is being implemented; to assess the performance of the Group, and that of top management, and ensure smooth succession; and to keep the shareholders' risk within limits.
30. Since there is no provision for it in the Indian Companies Act, in the strict legal sense, therefore, the Supervisory Board is an Advisory Board for the Group. However, inasmuch as it shares the powers of the majority shareholders, it can play its role effectively.
31. I took the consequences of my new role, and resigned from the boards of all group companies and also relinquished all executive responsibilities as well as the title of Group Chairman. From the present 3, the size of the Supervisory Board should increase to 5 members in the near future. My analysis of the kinds of people who would be suitable for the Board revealed that no active executive or businessman could possibly fulfill the role since it would require 2 to 3 weeks of their time every year. The choice has to be made out of those who have retired recently, and have the time.
32. The new system of governance of the Eicher Group is not an experiment. It is a journey for which we have to chart the course, evolve procedures and develop standards to ensure its effectiveness for the purpose that it is intended. This is going to require a great deal of sensitivity and discipline ----

discipline in resisting the urge to interfere with management, as well as persistence in staying on course.

33. At present I don't see many Indian groups or companies moving in this direction. But when circumstances do push them, they will need to follow this --- or some other solution to their problems. And once there is sufficient experience in this area, Parliament may amend the Companies Act to ensure effective corporate governance from the point of view of the common shareholder.
34. The question I'm asked most these days is why I chose to quit active management at the age of 55. I read somewhere that a mild heart attack in mid-life is the best thing that can happen to a person. And that's what happened to me when I was 43. Of course, it didn't seem like the best thing at that time, but it did force me to pause and take stock, and to review my priorities. In order to avoid stress, I distanced myself from the operations of the company. This process was aided by my predilection, which has always been to delegate as far as possible.
35. Letting go is an unattractive proposition because there are always concerns about one's own legacy, even intangible ones, such as corporate culture, or the interpretation of the company's vision. The urge to protect this legacy often creates a major block in giving up. Also, succession reminds us all of our mortality, a thought which no one welcomes. But the challenge is to realise the moment when to change course, and to take the consequences of what you believe is the right thing for the organisation.
36. Change is never without pain, but it can be eased if one can start seeing one's role more as a mentor. I believe the best way to establish continuity in an organisation is when leadership derives pleasure from seeing younger executives standing on their own two feet, taking risks, and making decisions. This, of course, only works in a climate of trust, and when there is true dialogue within the company, and where existing assumptions can be challenged. This is, to my mind, a way to creating a learning organisation which can regenerate itself. Finally, it is best to face the inevitable while the going is good, and in my case this gives me the chance to do a lot of other things that I have always wanted to do.
37. My wife has a simpler explanation. For the past 27 years, she has often called me a maverick, but I am never sure whether it is intended as a kind of reprimand or compliment. Perhaps that is the intention, that I should keep guessing. So you are advised to take my views with a healthy dose of skepticism. Although I wish each of you tremendous success in your careers, more than that, I wish you very happy personal lives, and I hope that you will not sacrifice the latter too much for the sake of the former. Success in any form is highly desirable, but it is the success in creating and sustaining meaningful relationships that makes life worthwhile.