

executive stripes

By Avdesh Mittal

In his acceptance speech for the Business Transformation Entrepreneur for the Year award in 2007, Raghav Bahl, CEO of Network18 group, attributed his success not to individual effort, but to the contribution of all the employees of the Network18 group. An old guard of the industry, Mr. Bahl is recognized for his vision in transforming a small setup into a giant media powerhouse. He should also be applauded for having the vision to bring on Haresh Chawla as Group CEO as early as 1999 to assist him in building Network18. Similarly, in 1995 another old guard, Prannoy Roy, hired K.V.L. Narayan Rao as Chief Executive Officer of NDTV, one of India's largest private television producers.

In our discussions with entrepreneurs and investors across the country, however, it is evident that many entrepreneurs are still ambivalent about 'handing over their babies to outsiders' who can help achieve the next phase of growth.

Looking at the explosive growth expected of India's media industry, this ambivalence and wavering might come at a very high cost. From Internet and

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print to outdoor and cinema, overall media investment is growing at an annual compound average of 21% according to GroupM, a global media investment management company. “India is currently contributing 3 – 4% to annual global media investment growth, which is comparable to Japan, Canada or the largest European countries” states GroupM director Adam Smith.

India’s media industry is expected to be worth \$10 billion by 2011 and it is the early movers who will enjoy the best opportunities to take advantage of this growth.

New market entrants such as UTV, Reliance Entertainment and 9X are diving in to tap on this phenomenal growth. Existing players are expanding; for example, TV18 acquired MTV while NDTV launched NDTV Imagine.

Top media-savvy talent, particularly those with international experience, are therefore in exceptionally short supply, leading to executive churn at the highest levels. In 2007 alone, C-level changes were seen at STAR, Walt Disney Television International, Yahoo! and McCann Erickson, just to name a few.

In a market as hot as India, however, it is increasingly challenging for young companies to convince executives to come onboard when they are offered salary increments of as much as 30 to 50 percent elsewhere, often at companies with brand names that are already recognized, and respected, internationally.

This environment has only made it harder for start-ups to attract experienced executives, especially when candidates are expected to take on some risk in exchange for an exponentially larger payout later, by agreeing to a cut in their salary packages. While the economy may have raced ahead, it would seem that attitudes to bringing on world-class talent to local start-ups are still lagging behind.

Traditionally, start-up executives have accepted pay cuts as a means to demonstrate their entrepreneurial mindset and their commitment to wealth creation at the start-up. In a market as hot as India, however, it is increasingly challenging for young companies to convince executives to come onboard when they are offered salary increments of as much as 30 to 50 percent elsewhere, often at companies with brand names that are already recognized, and respected, internationally.

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A start-up CEO's compromises go beyond immediate financial rewards. In closely-knit communities, one also has to consider social implications and family pressures.

“You could be working just as hard as your old colleagues, but you feel the stress and pressure a lot more,” says one start-up executive. “Also, the perks of working at a start-up are very different, or should I say, non-existent. This becomes very apparent when you meet friends at the airport, only to move down to economy class when they travel on business or first class. Sometimes you do ask yourself if it is all worthwhile. Such sacrifices can be a drain on motivation and morale.”

While the upside of any investment has exciting possibilities, the potential downside for an investment gone wrong can be acutely damaging for an executive.

Investors often take such risks into account by diversifying their portfolios, and it is general knowledge that even if one of six investments becomes successful, investors will be ‘in the money’. Similarly, most entrepreneurs would have captured some value by the time their businesses start looking for senior executives for their next phase of growth.

Failed entrepreneurs are often said to have earned their stripes even if their ventures fail. “Our view is that failed entrepreneurs should be accorded respect for their courage and hard work. We place a real premium on execution experience, regardless of the outcome,” said Rahul Khanna, Director, Clearstone Venture Advisors.

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Rajat Jain, Managing Director and Chief Executive Officer at Mobile2Win explains, “Taking on a start-up leadership role is similar to walking a tight rope. There’s the clear opportunity of wealth creation if you reach the other side, but this path is mired with very different kinds of challenges; most of which you may not have faced before. It needs a different set of behaviors. The hit rates globally are not high and it is not everyone’s cup of tea. You have to consider the costs and repercussions on work/life balance, your family, your environment etc.”

Start-ups must address the issue of personal risk if they are to attract the executive leadership needed to take their businesses to the next stage of growth. To do this, investors and entrepreneurs can consider several approaches.

1. Resolving Asymmetric Information

Entrepreneurs and investors often have much more first-hand information regarding valuation, the market, the product offering and team than aspiring start-up CEO candidates. Open and frank discussions are key. The more informed candidates are, the more amenable they will be to taking on the risks. Meetings with bankers and voluntary sharing of financial and statutory documentation also help build confidence.

2. Flexible Compensation Structures

With such open tripartite conversations, it is possible to structure executive compensations and wealth creation mandates that are better aligned with their interests.

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3. Safety Nets

Offering roles in other portfolio companies and clearly outlined severance packages in the event of failure is another approach. Such safety nets help them look at start-up opportunities more favorably.

4. Budget For Hot-shots

Most of all, investors and entrepreneurs need to realign their expectations and budget for start-up CEO compensation so as to more accurately reflect market rates. Where the success or failure of a business largely depends on the quality of human talent deployed, there should be no compromising on the quality of executive leadership.

A good fit and open relationship with start-up entrepreneurs and investors is the first step in the right direction for India's enterprising executives to start earning their stripes in the world of media.

India's executives are more adventurous than ever. Many are genuinely keen to explore entrepreneurial opportunities with a view to creating wealth and retiring early in order to embark on more interesting, life enriching pursuits. A good fit and open relationship with start-up entrepreneurs and investors is the first step in the right direction for India's enterprising executives to start earning their stripes in the world of media.

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