

theirview

The dilemma of leadership transitions

Muhammad Yunus' forcible removal from Grameen Bank raises the question: Why do pioneers feel the need to hang on to their creations?

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The controversy over Muhammad Yunus' exit from the Grameen Bank has again brought to the fore crucial issues about how some leaders manage transitions. The script looks familiar. Why do eminently successful leaders look so vulnerable after tasting so much success? How important is it for Yunus to hold on to the CEO position at Grameen, and can we test him on the basis of the second line of leadership he has built at the bank? Is it okay for him to have used the government when it suited his cause, and sulk when the government uses him for its motives? Without taking away the credit for the phenomenal work done by some of the pioneers in the developmental field, it might be useful to ask some hard questions.

If we rewind to the case of Verghese Kurien—another colossal figure—we find that Yunus' exit looks somewhat similar. Kurien's was also a case in which passions ran high in his favour. There was decades of dedicated work done, there was an unblemished record of grit, gumption and working within a system that could have been hostile—one that threw in several vested interests. The end was similar too—wanting to hang on to an inconsequential position for an unspecified period. Whether it is a lifetime CEO or a lifetime chairman, these are small perks that these gentlemen could have let go of quite easily given the stature that they enjoyed in their immediate social circle or the world at large.

Where does this need to hang in come from? While this is not a comprehensive study on leadership styles, let us look at things that are common. Let us also look at contrasting styles in the developmental field. There would be examples of equal measure in the corporate world as well, but there it is the market-related pressures that eventually make leaders succumb.

The ones who head developmental initiatives, like Kurien and Yunus, are unconventional people. They were success-

ful because they broke conventions and "accepted" practices, and innovated. They set their own rules and lived by them. They were applauded for this. They came across a single significant idea (milk cooperatives for Kurien and microfinance for Yunus) and ran with these ideas for decades. Not that they did not make a foray into other fields, but those were insignificant compared with the success they got in their flagship programmes. Throughout their careers, they took a moral position that was superior to the alternatives and questioned the ex-ante legal position.

Take Yunus, for instance. The incorporation and basic structuring of Grameen Bank were done under a military regime through a decree. Technically, he could never retain control over the organization except through a superior moral position. No wonder the high court struck down his plea—the court takes a legal position. Why is there a global outrage on a legal issue? Is it because the moral issue is so superior that we should make an exception? For both Kurien and Yu-

nus, it appears so. Kurien held his position at the Gujarat Cooperative Milk Marketing Federation (GCMMF) at the pleasure of its members; at the National Dairy Development Board (NDDB) at the pleasure of the President of India. The approvals in either case could have been withdrawn at any time. But their moral position gave them the legitimacy to carry on even after the usual "expiry date".

This moral position possibly tends to make leaders numb. It is a beautiful structure that they have created, brick by brick. How could they let it go and see somebody else destroy it? It is not that they had no alternative. After the Nobel Prize, Yunus was on a global lecture circuit doing workshops on his new idea of "social business". Those lectures remain immensely popular. While conceptually this kind of business seems a challenge to roll out, Yunus could carry his ideas with conviction and aplomb, numbing his bitterest critics. Till the controversy happened, it did not strike many that Yunus continued to be the CEO of Grameen. Does such a large system that has weathered many a crisis still need the protective shield of the patriarch? Yunus maintains that given time, he would have ensured a smooth leadership

transition. So, did he fail to nurture a second line in all this time?

Let us look at a contrasting case. Ela Bhatt, who founded the Self-Employed Women's Foundation of India (Sewa), has managed the transition very well—the Sewa family hardly depends on her for day-to-day guidance. There are at least 10 women who have taken over various initiatives that Bhatt started and they are all capable of independently managing their respective businesses, in addition to carrying out other duties. The story of Vijay Mahajan, chairman of microfinancier BASIX, is similar—from exiting the non-governmental organization PRADAN, which he promoted and ran, to a set of institutions within the BASIX fold that he has let go to the next generation. We certainly will find more exceptional examples within the developmental field, but they are fewer than cases of pioneers doing lifetime service.

Has this got to do with a sense of purpose? After a corporate life, many CEOs and chairmen say they would like to spend their residual life "teaching" or running a foundation. What if you were running a foundation all your life? Do you then go and run a corporation? That possibly is one of the dilemmas that leaders of non-profits face. The secret might lie in choosing a different cause. Perhaps that was what Yunus was trying to do with his social business model. Maybe even Kurien tried that by transitioning out of NDDB and spending more time at the Institute of Rural Management at Anand. Yunus might have let go before the Bangladesh government turned on him. But even in exit, it appears that timing is of great importance.

These are issues that not only Yunus and Kurien must have dealt with. They are also ones that in time the Tendulkars and the Dhonis will have to face. Perhaps M.K. Gandhi provided the best talisman—lead a life so simple and powerful that there is nothing for anybody to take away from you. You can take away a position, a chair, a car and a perk. Never honour. On this count, the credibility of Sheikh Hasina government is more suspect than that of Yunus. But the question remains: is Yunus' fight with the government worth its outcome?

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Co-opting moneylenders for inclusive finance

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For centuries, moneylenders have been disbursing loans to the poor, besides other sections of society. Yet they are more often than not pilloried for the exorbitant interest rates they charge and the vicious recovery methods they employ. In India, moneylenders have developed several distinct practices. First, two-thirds of their lending is for a tenor longer than three years—this generally helps reduce the operational cost per rupee of credit per annum. Second, repayment (principal or interest or both) in some cases is in the form of crops, reducing credit risk on a farmer who grows that crop. This is because the borrowers' ability to repay is now a function of only the quantity of crops grown, not of the quality and price of the crop. Third, many offer a bullet repayment facility for collateralized loans, often in the form of a flat interest rate (unlike an interest rate per annum). This enables the borrower to use funds for a wider variety of purposes.

For moneylenders to be effective in helping the furthering of financial access,

it is desirable that the above good practices are leveraged effectively.

However, most moneylenders are handicapped by the absence of economies of scale. Accessing such economies of scale could have allowed moneylenders to diversify their portfolio, resulting in a smaller credit risk premium. In turn, this would have meant a lower interest rate. This is one of the reasons moneylenders charge interest rates between 25% and 150% per annum. Economies of scale could also drive down cost of operations per rupee of credit per annum—especially considering the potential of mobile phone based payment systems to scale money lending operations in a big way.

In addition, moneylenders have to deal with high risks of loss, given chances of default.

One way of addressing the problem of this low recovery rate is for the state's law enforcement machinery to actively assist moneylenders in bad loan recovery. This may be politically viable (in a democratic

society) when there isn't widespread distress due to drought, floods or famines, for which the state would do well to buy insurance for compensating the moneylender. Further, the state could lend to moneylenders so that they in turn have larger economies of scale. Building a credit rating history of moneylenders would be much more manageable than building a nationwide credit history of 450 million poor people. And in order to avoid leakages, it is best that funds are lent to moneylenders at a price—an interest rate appropriate for the credit risk associated with the particular moneylender. This is important, because the government could otherwise end up subsidizing non-poor people.

Subsequently, what is also required is competition between moneylenders—for example, by lending to them for only the loan amounts disbursed outside their home administrative unit.

With superior creditors' rights, access to funding and competition, we can reasonably expect the price of money—the

interest rate—to come down.

But simply increasing competition will not suffice. In their 1997 paper "Moneylenders and bankers: price-increasing subsidies in a monopolistically competitive market", Karla Hoff and Joseph Stiglitz wrote that new entry raises the cost of enforcing loan repayments, and that "if lending is to be profitable, the threat to the borrower of a loss of future income is also necessary to induce repayment. Part of this threat comes from the fact that if a borrower defaults, his moneylender cuts off access to future credit". So competition has to be complemented with superior bad loan recovery.

Both moneylending as well as law enforcement come under the States list in India. This should be the occasion for state governments to devise a strategy to co-opt moneylenders, at least on an experimental basis in certain districts. The benefits could be enormous.

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