

## Mini Conference on Family Business: Excerpts from the discussion

ISB organised a half– day conference on Family Business on “Professionalising and Growing Multi-Generational Ventures” under the auspicious of the Thomas Schmidheiny Chair of Family Business and Wealth Management and the Entrepreneurship and Venture Capital Club of the ISB students.

There were two themes:

1. Discussion with Kiran Grandhi, GMR Group and Thomas, Arthur D Little
2. Discussion with GV Prasad, Dr. Reddy’s Laboratories and Shobana Bharatiya, Apollo Hospitals Group

Excerpts from the discussion are as follows:

**Ramachandran:** Family Business is critical to the Indian economy and we are undergoing major transformation not only on the economy side but also on the family business side. Many changes are happening not only in terms of succession issues, but also Professionalisation, governance and a variety of things. The ISB has been doing a lot of work in this area, and we are one of the pioneers to take advantage of this opportunity and responsibility on ourselves to work in this area. It is in this context that Dr Thomas Schmidheiny has generously donated money to set up this Chair.

### Part I

There are two parts in the current episode of “Coffee with Ram”. The first round is a discussion on “Execution Excellence” with Kiran Grandhi, Chairman (Airports), GMR Group and Thomas Kuruvilla, Managing Director, ADL (Middle East)

**Ram:** Kiran, let me start with you. How do you manage to execute most of your projects within the budgeted time and cost?

**Kiran:** This is one of the cultures that my father has built right from the first project. So the philosophy has been that you have to be in close touch with people; and for this you have to have close interactions with the key stakeholders such as contractors, subcontractors, and employees.

**Ram:** How do you do that?

**Kiran:** First, We have very regular weekly reviews, where we meet and review right from the smallest issues to the biggest issues that we deal within the business. So we are a supporting team, which keeps track of all these things. With each phase we complete, the project value is enhanced by roughly 25 percent. So the moment we commission the project, (for example) when we completed the Hyderabad airport, that means 75 percent of the value is created. So the operational phase is the balance 25 – 30 percent of the value, what you envisaged. We four from the family and other non-family professionals would focus very closely on all the green field budgets and all the high value budgets. So that has been the philosophy. Second, along with strong reviews, we have a process for strong resource mobilisation, both finance and people.

When we started the business in 1985, 90% of the employees were from Andhra, but today it is multinational. So we have the right people at the right place.

The third is the risk management. We ask our team members what issues they anticipate to come up in the next 6 – 12 months time. We build the possible scenarios and get prepared to address them as any of them start emerging.

**Ram:** That's very interesting. Thomas, what are your experiences on excellence in project execution in the Gulf region?

**Thomas:** There are definitely groups that have done very well in project execution. Let me give you a background to the context in the Middle East. The difference is that size of the family is generally big with each male having 3– 4 wives and 10– 15 children. So the issues are multiplied manifold, and the major reason for business failure there is fight between the children of different spouses. Yet another aspect is that in the Middle East capital is not a constraint. If you need money it is mostly available on the basis of trust.

However, when you try to bring in professional managers you need transparency. Companies that have been successful are those who have been able to very clearly handle the issues of family governance and bring in professional managers. In good companies, the owner briefs his professional managers about a set of key performance indicators and objectives. He forces them to have a share in the company. And then he doesn't interfere.

**Ram:** Kiran, do you have any such issue of incentivisation in your organisation?

**Kiran:** My own understanding is that it requires a lot of synergy across the organisation. The cohesion and communication becomes very crucial. And this is a dynamic process. Also, outside India influence of external stakeholders is 20-25 percent. In India it is 65-70 percent. In 1999-2000 we started with organisation development to focus on how to do projects in future. Initially it was difficult to make people discuss the future. But we slowly started opening up the discussion to the senior leadership team. Today on a quarterly basis we have discussions about the current activities, challenges, capabilities, new ideas, and we are very careful. We ensure that we do projects, which we can deliver.

**Ram:** Normally what we see is growth, consolidation, and growth kind of pattern. In GMR, it is simultaneous growth and consolidation. Thomas, do you find many organisations like this in Middle East?

**Thomas:** Definitely this is there in every organisation. What we have started doing in the middle east is that we try to segregate the day-to-day operations and the long term strategy. Otherwise, it is almost impossible to address.

**Ram:** This means that the quality of communication has to be phenomenal and there should not be any misunderstanding. So, Kiran, how do you manage communication? Do you have any success formulae for that?

**Kiran:** We started regular communication between the family members quite early. I formally joined the management team in 1998. We have always had high level of communication between

all the family members. We ensure that every Saturday we have 1- 2 hours discussion either through video conferencing or in person.

**Ram:** And you have the policy to rotate your roles, instead of creating silos, right?

**Kiran:** We do have that policy. For example, I started with corporate finance, new business development and HR, when I entered the business. Afterwards, my father asked me to move to projects. The same thing happened with my brother and Srinivas, my brother-in-law. That has helped us in aligning with professionals. But in short term it does affect because the person has to start studying all over again.

**Ram:** Just to add one more thing, one of the key things that G M Rao mentions is that you have to clean up the communication pipeline from time to time, otherwise it gets clogged. I would add that it would have been very difficult for you to shift from one business to another business if the understanding that you have been able to build up, was not there.

**Kiran:** We have two types of cycles. One is at the business level with the professionals, and the other with the family. It really helps in communicating and clarifying in terms of hard issues. We have a very healthy debate. We have been lucky. Our father is very open to it.

**Ram:** Thomas, we were talking about family governance. How do they manage this governance part in the Middle East?

**Thomas:** They do not manage it properly. In the Middle East, there is no open discussion possible between father and children, and children do not go against their father's wish. So we as consultants are trying to bring transparency in the decision making process by documenting their practices in the corporate governance manuals. We are trying to take out a lot of informality so that it becomes business oriented and not respect oriented.

**Ram:** Do you have any example of addressing this sibling rivalry within family businesses there?

**Thomas:** From the corporate governance perspective, what we have started doing is that because one family is in multiple businesses, we decide and document who among them has the final say in a particular department. All the brothers and father will sit on the board of all the businesses, but one person is appointed as the final decision maker.

**Ram:** Kiran, do family values affect business values and culture in any significant way?

**Kiran:** Yes it does. We have documented the values that have made us successful, and it is more or less similar to our family values.

**Ram:** Changing the focus of our discussion a bit, Thomas is the economic crisis influencing this move of accepting younger generation's views?

**Thomas:** Absolutely. Because of the crisis, they have to bring in lot of structures and systems, which is unfamiliar to the senior generations. So younger generation and professional managers are able to have a better say.

**Kiran:** I think crisis is a great opportunity to cut the cost and also to come together and discuss.

**Ram:** Right. We will close the discussion as of now. The fundamental message coming out is flexibility in terms of approach. Although there are systems, processes and procedures in place, you need to be flexible enough to adapt to the requirements.

## **Part II**

“Professionalising and Growing Family Controlled Businesses” with Shobana Kamineni and GV Prasad

The second round of “Coffee with Ram” is with Shobana Kamineni, Executive Director of the Apollo Hospitals Group and GV Prasad, Vice Chairman and Managing Director of the Dr. Reddy’s Laboratories on the theme, “Professionalising and Growing Family Controlled Businesses

**Ram:** Prasad, in your case you took the initiative to consolidate the two companies that you and your brother-in-law Satish were holding. Is that correct?

**Prasad:** Yes we started with two companies, both in the same business. So we each had freedom to operate but we felt that it was not healthy. Also, both the companies, individually, were sub scale. Some decided to bring these two companies together. It was purely a logical business decision and we have proven it to be right. Today we are a USD 1.5 billion, company, and the experiment is phenomenally successful and both of us enjoy working.

**Ram:** I want to move on to the question of professionalisation. When I talk about professionalisation it doesn’t mean family member or non-family member, professionalisation happens at two levels. One is when the entrepreneur or the family member, who is running the business, delegates, but with a lot of control retained. There is only operational delegation, not a lot of strategy delegation. When it comes to professionalisation, as I understand, the decisions are taken objectively using systems, processes. So how did you achieve that?

**Prasad:** I really do not like the distinction of family run business and professional organisations. I believe that I am running a company, I am a professional, my first and foremost responsibility is to do justice to my job and create shareholder value. When the company was born we were operators. From there the company size has evolved. And then we also evolved as people and said that we are not good at operations any more. When we merged both the companies we created leadership slots under us.

**Shobhana:** I think the only difference we have with Kiran or Prasad is that in our industry we need as much passion as professionalism.

**Ram:** Is it also because the family member has a long term stake in that?

**Shobhana:** We are dealing with a family and for 20 years now there has been continuity and that’s what a business like this needs. So that is a different perspective.

**Ram:** What about passion of the non-family professionals?

**Prasad:** I think again it is very unfair to make a judgment about passion. I know some of my family members have no passion for the company. And I have seen some of the professionals, who are very passionate.

**Ram:** So you have multiple stakeholders and balancing that. And I think that becomes the responsibility of the CEO to ensure that balance is maintained.

**Prasad:** The art lies in not making the goals, it is easy to make the goals short term versus long term.

**Ram:** In most of the cases the CEO thinks that the company belongs to them and their family and they can do whatever they want. And even if you realise that it is not good you may do that. How do you address the situation? Have you had some experiences like that?

**Prasad:** A good professional at the top, whether a family member or a non-family member, will seek good advice, possible advice. We have independent board of directors, who provide checks and balances; and any significant decision has to go to the board. It protects your wealth.

**Shobhana:** There are certain times when the chairman wants to buy a 10 million dollar machine which may not commercially break down. Making choices is not easy.

**Ram:** How do you decide when to professionalise?

**Prasad:** From day zero. To start an enterprise it is always good to have the best people on your side. There is no timing for that.

**Ram:** Did you start passing over the responsibilities to them from day one?

**Prasad:** There is a difference between delegation and professionalisation. You can't afford not to have the best of the best talent if you want to build up this company. That is critical one step. Of course your ability to attract talent changes when you evolve and you grow.

**Ram:** How do you maintain and manage to attract good quality talent and retain them over a period of time?

**Prasad:** This is the primary focus of the enterprise. You make people happy working for the organisation, be fully engaged, and be fully passionate about the purpose of the company. Of course compensation is important, but really they have to feel engaged. You have to create an eco system, where people want to come and give their best. We give them lot of autonomy. And lots of mistakes are made in this process. But you must be tolerant to allow mistakes to happen. Because if you don't give them that space and you start micro managing people, they don't feel engaged and they don't feel empowered to make a difference.

**Ram:** What we often notice in family businesses is that if a family member makes a mistake, it's alright, its learning; if a non-family member makes a mistake, it is bad. Is it not generally true?

**Shobhana:** Mistake is something which every professional will make at any given time. It's not with the family member or the professional.

**Prasad:** Mistakes are normal in business. The decisions which are right, are more impactful than the mistakes we make. And when I say tolerance, tolerance is in terms of judgmental mistakes not the ethical mistakes. That's the distinction one needs to make.

**Shobhana:** To answer an earlier question of attracting talent and retaining them at this point of time, when you are really very small attracting top talent is quite difficult.

**Ram:** I think clarity about the value, and your communicative ability about the value becomes an attractive point for some of the good talents to join.

I wanted to shift slightly to the question of family governance. Shobhana, do you have any formal family governance mechanism? The major challenge is to ensure that you do not go into silos. Is there any mechanism to address this in your case?

**Shobhana:** You know I really liked, what Kiran was saying about role rotation and would have loved to have it. But recently Preetha asked me, so when are you coming back into health care, into running the hospitals. I cried Oh God! I don't think I can handle that anymore, that's not my core competence.

**Ram:** Is it because health care has grown so big, you are in every corner?

**Shobhana:** It is so technical about what you do that I think we need to separate. It is what Prasad is talking about professionals; they really have to be in business. But then all of us are there on the board level and the family governance council.

**Ram:** If Kiran and you are compared, Kiran looked at different businesses as they grew. If you are away from the business let us say for 5 - 7 years, then by that time the organisation has gone to another level. Then understanding becomes little more difficult, whereas, if you keep visiting it every 2 - 3 years there is a process of re-educating yourself. Will this not be better?

**Shobhana:** To answer your question, I have actually worked through the whole spectrum. But now I have settled in retail part, pharmacy division, which is a huge story by itself and then of course health insurance. So there is an expertise level.

**Ram:** The reason why I am asking this question is, when I look at most of the family businesses, the effect of size is very strong. And what I find is that many families are struggling because each brother or sister takes one part of it and then their interest is limited to that, and then you negotiate resources for that.

**Shobhana:** Once you achieve a critical mark, and we have over 42 hospitals at this point of time, I won't sit there and run my business day to day. What we are really talking about is that at the group level we are bringing in professional; none of us are day to day CEOs.

**Ram:** Prasad, in your case you take care of the strategy and Satish takes care of operational responsibilities. How do you manage this synergy?

**Prasad:** All of us including Dr Reddy, Satish, I as well as our team of executives are loyal to the purpose of the company; they are not loyal to me or Dr Reddy or to Satish. With that kind of a

system in place, we have not really felt the need for communication for performing processes. In any case when the difference comes out we first put it for discussion and then decide.

**Ram:** Another area I want to touch upon is leadership succession. In both the families I find changes are happening.

**Shobhana:** We have clear communication among all of us. And we have McKinsey working with us for the last six months. And for months, questions revolved around how the succession planning works; whether it is a council that rotates or one person. At the end of the day we think that strong leadership should also create a family vision, where the other family members are in no way less important to the group. But our father's decision continues to dominate. It was easy for him to take the first born, just like an Indian family.

**Ram:** Prasad, is there clarity about the succession of the business?

**Prasad:** I don't think my son will become a CEO because he is not interested. We certainly feel professionals will succeed. I think there are two aspects to this. It is really whether we want to be king or we want to be rich. If you want to make it multi-generational venture you need to continue to take the right decision, whether it is a family member or a professional. Between Satish and I we have enough equity to say that we are complete business men. So we may choose the best person for the company and that need not be a family member.

**Ram:** In many organisations professionals always have a complaint. They say that their decisions are not respected by owners or family members who are sitting there.

**Prasad:** See as a professional company I would use logic to arrive at a decision. If you can't do that and if you cannot reveal it in a transparent way you won't have respect for the professional and then won't have professionals working for you. As long as you have eminent people on your board, who can really guide the company add value in terms of strategic decisions and give different prospect you will not have such situations.

**Shobhana:** And there is no family owned company in India, which is publicly listed but can't afford to have a good board. That's an underlined rule in all the family businesses today.

**Ram:** Let me summarise the message coming from the discussion.

Professionalisation is critical for any business whether it is entrepreneurial company or a multi-generational family business. And professionalisation doesn't take place automatically. You have to realise that it is an unavoidable part. If you look at all the case studies that we have today, you will find that there is a conscious effort from day one. Professionalisation happens not only in the corporate context but also in the family context. If you look at the three cases, discussed today they said that there are mechanisms for interactions to sustain the process.