ISB | Thomas Schmidheiny Centre for Family Enterprise

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Family Enterprise *Quarterly*

Editors' Desk

We began this journey over 18 years ago! That was when ISB offered the first training programme for family business owners in collaboration with Professor John Ward, who pioneered similar initiatives at the Kellogg School of Management. Recognising the contribution and importance of family businesses to the economy and the need to educate its key stakeholders on the possibilities and processes of building lasting family businesses across generations, we embarked on a journey on mission mode. Thanks to the generous support provided by Dr. Thomas Schmidheiny since 2007, we have followed a multi-pronged strategy to address the cause of family business in India and outside and thus be a change agent. That was also the birth of our bi-monthly communication, first, as the Family Business Newsletter that was later renamed as Family Business Briefs (FBB).

Every issue of FBB not only explained practical implications of some of the best research articles but also summarized case studies as well as our research findings. We took care to cover several important areas of relevance to family business practitioners. In the process, our reach of FBB crossed the 10,000 mark.

Over the years, we grew both in terms of the breadth and depth of our activities. Thus was born the Thomas Schmidheiny Centre for Family Enterprise in 2015. We have always believed that we have a responsibility as well as an opportunity to offer services to the family business community. We have always explored new and interesting ways to add further value to our stakeholders. The need became imminent with the explosion in the domain of family business as an academic discipline and globally accepted multi-dimensional practice. Hence, a need was felt to revisitand enrich the Centre's knowledge dissemination strategy to the family enterprise community.

One such is the upgradation of FBB into a full-fledged family business magazine, full of learnings and insights for the benefit of the multi-stakeholder led family business community. Here we are with the launch of the Family Enterprise Quarterly (FEQ) as an enriched publication.

Our vision for FEQ is to be one of the best sources of knowledge and wisdom for the benefit of all stakeholders of the family business domain across the world. We provide insights and practical implications from cutting-edge research and deep insights and experiences of various family business leaders.

While designing the content of FEQ we ensured that there is something of value for each of the significant stakeholders in the family enterprise. Be it the family business leaders or non-family professional CEOs, or the emerging leaders from the next generation who aspire to head their family businesses in the future, the FEQ will provide useful guidance to all of them.

Similarly, our focus on women in family business is an effort to highlight the often-ignored critical challenges faced by women in the family enterprise context. History is an important source for learning, hence the FEQ would draw from the life stories and achievements of prominent family business leaders from the past.

Kavil Ramachandran,
Founding Executive Director

Sougata Ray,
Current Executive Director

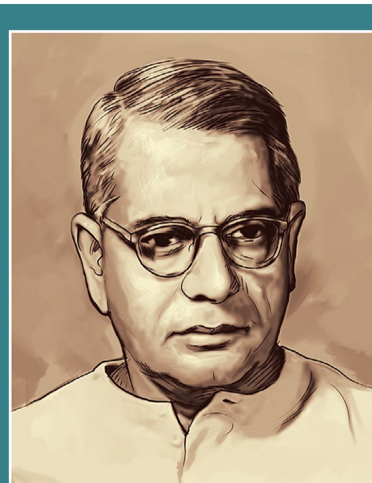
Thomas Schmidheiny Centre for Family Enterprise, ISB

Besides the large family businesses that are often highlighted in the media, there are thousands of young and emerging family businesses that are earning a place for themselves in regional business circles. The FEQ would highlight the stories of their struggles and success, which would surely inspire other family enterprises that aspire to grow. Next-generation members are an invaluable human capital of family business; hence, FEQ would have a dedicated section bearing the interview of a next-generation family business leader who has been a beacon for growth and transformation in the family business. The FEQ will also have a section on important learnings and experiences shared by an ISB alumnus. Books are known to be our best friends, hence, to keep our readers abreast with the important book tiles in the field, the FEQ will bear an objective review of a recent book relevant to the family business community.

This inaugural issue of FEQ is meticulously curated to meet the above goals. We have shared summaries of three important, recently published family business research studies and their practical implications. We bring to you first-hand knowledge and experiences of a wide spectrum of family business leaders such as G.V. Prasad (Dr. Reddy's Laboratories), Puneet Dalmia (Dalmia Bharat group), Harsh Mariwala (Marico), Sangita Reddy (Apollo Hospitals group), Sunil Reddy (Dodla Dairy) and Vijay Dalmia (MLD group and an ISB alumnus). We have sections that cover new knowledge on sustainability, important family business updates and our viewpoints on those stories. Also, we briefly discuss enhancements to governance mechanisms at Glenmark Pharma.

We hope that our readers will find the FEQ as a uniquely comprehensive blend of concepts and practice, experience and wisdom from the past and the present of women and men, and seniors and next generation. We look forward to your feedback and continued support! •

Contents



Mukesh Ambani looks to Walton family playbook on succession

THE CHAIRMAN and Managing Director of Reliance Industries, Mukesh Ambani (64), is considering moving the family holdings into a trust-like structure that will control the business. The move is planned to facilitate a smooth and seamless intergenerational transfer of family wealth. Adopting the template of the Walton family of USA, the Ambani family members will exercise oversight as board members, while day-to-day business operations will largely be managed by a team of non-family professionals. Well laid out ownership structure and governance mechanism will help avoid future uncertainty about succession and prepare the incoming generation to take charge of business leadership. •

Viewpoint by TSCFE@ISB

Learning from bitter conflicts in the past, Indian business families are now adopting systematically structured succession plans that are timely, inclusive, and equitable. Governance structures such as, a trust or holding company, can effectively facilitate planned separation between business ownership and management.

(Source: The Economic Times, Nov. 25, 2021)

Companies Built on Values will be Sustainable, says Harsh Mariwala

THE FOUNDER of FMCG major - Marico Limited, Harsh Mariwala, underscored that organizational culture and values, such as, empathetic leadership, play an instrumental role in creating an enterprise that can sustain across multiple generations. Mariwala explained that empathy is an invaluable trait that helps organizations become resilient and survive one-off events that create an economic shock, such as, the COVID-19 pandemic. He also highlighted the critical role of technology and the digital ecosystem in cutting down lead times and facilitating businesses to venture into new avenues. •

Viewpoint by TSCFE@ISB

Steward leaders ensure that family values are imbibed and practiced by later generations. Family businesses that are firmly rooted in values are more likely to survive environmental shocks and sustain family wealth through multiple generations.

(Source: The Economic Times, Nov. 25, 2021)

Glenmark Pharmaceuticals included in Dow Jones Sustainability (Emerging Markets) Index for fourth consecutive year

GLENMARK, A FAMILY-owned pharmaceutical company known for its relentless emphasis on achieving high standards of corporate sustainability, has been once again included in the emerging markets category of the prestigious Dow Jones Sustainability Index (DJSI). DJSI is a globally accepted benchmark for sustainability, that analyses sustainability performance of firms on a broad range of indicators. The inclusion of Glenmark in the DJSI is emblematic of its strong resolve to advance corporate sustainability. •

(Source: Business Standard, Nov. 16, 2021)

Viewpoint by TSCFE@ISB

Family firms are consistently leading Indian businesses on sustainability performance indicators. Strong socio-emotional bonding with the community, intergenerational long-term orientation, and value-based ethics are the key drivers of sustainability performance of Indian family businesses.

Back to the Future: The Effect of Returning Family Successions on Firm Performance

Study by Mario Daniele Amore, Morten Bennedsen, Isabelle Le Breton-Miller, and Danny Miller

CEO successions are important milestones in business organisations, especially because they affect various corporate outcomes such as, accounting performance, survival rate, labour policies, and innovation. However, in the family business context, most research studies have remained focused on scenarios in which the top leadership position is being transferred from one family member to another or to a professional manager. In this article, the authors study family business leadership transitions in which the outgoing CEO is a non-family professional and the controlling family decides to transfer the CEO position back to a family member. The authors examine this phenomenon employing data from 489 Italian family firms with departing non-family CEOs. This summary briefly describes the study, its findings, and implications.

Type-R Successions

The leadership succession which represents the return of the family CEO after a period of leadership by a non-family professional, is termed by the authors as 'Type-R succession.' This type of leadership transition is very unique to family firms. A non-family CEO implies the controlling family's preference for professionalism and merit over parochial kinship-ties. Whereas a family CEO signifies leadership capability to leverage the unique, intangible assets of the family. However, the return of a family CEO symbolizes the best of both worlds because a meritocratic and motivated family leadership is more likely to emerge.

Performance Effect of Type-R Successions

Type-R successions represent the families which are socially extended and have longterm orientation as opposed to the ones with restricted socio-emotional priorities. Due to the smaller size of talent pools within the controlling family, the family managers may lack administrative capabilities compared to the ones available in the labour market. However, the family CEOs leverage the family name, reputation, and relationships to access financial and social capital. When family firms appoint a family leader following a period of professional leadership, they would have already depicted a positive inclination towards selecting a competent non–family manager reducing nepotism and narrow priorities of the family. The new family CEOs could become good stewards of business resources and stakeholder relationships. Hence, the authors argue that firms with Type-R successions are likely to register improved financial performance.

Environmental Contingencies

The family's intangible assets are important when there are a stable set of stakeholders, e.g., customers who value the firm's - brands, reputation, and traditions. However, their significance is minimized when industry conditions are turbulent. Similarly, the firms that rely on cutting-edge technologies and innovation require people with expertise and administrative talents than the family members with legacy and reputation. Hence, the authors hypothesized that industry volatility and reliance on innovation inputs negatively affect the performance advantage of Type-R successions. The results of statistical data analyses confirmed the hypotheses.

Practical Implications

- Type-R succession provides a unique opportunity to a family business to spur its performance, driven by a motivated family CEO with a clear strategic direction.
- Family firms can strategically execute Type- R successions to regain the family control over the business and leverage intangible family assets to their advantage.
- Successful implementation of Type-R successions in family businesses is contingent upon a good understanding of its environmental context and various factors that moderate business performance.

Source:
Strategic Management Journal (2021), Volume 42, Issue 8, pp. 1432-1458.
DOI: 10.1002/smj.3273.

Our Board, Our Rules: Nonconformity to Global Corporate Governance Norms

● Study by Michael A. Witt, Stav Fainshmidt, and Ruth V. Aguilera

Good governance mechanisms are crucial to ensure sustained business performance. Despite many recommendations to adopt "best practices," many firms do not adhere to the global corporate governance norms. Firms either under– or over conform! Scholars have examined the drivers and outcomes of corporate governance practices. However, there is limited understanding on when and why firms do not comply with governance norms. In this article, the authors study different national, institutional, and organisational conditions that affect firm's conformity/ nonconformity towards global governance practices. The authors examine this phenomenon using 521 observations during 2014 and 2017 from banking industry in 18 countries. This summary succinctly presents the study and its implications for family business.

National Institutional Determinants of Nonconformity to Governance Norms

Corporate governance structures are shaped by national and organisational factors. Three important national institutional factors are: ***(a) Shareholder rights, (b) Labour rights, and (c) Managerial discretion***. A nation's institutional policy framework determines the rights of various categories of foreign, institutional, block and minority shareholders. Diverse and empowered shareholders tend to favour higher levels of board independence. Similarly, labour has the power to shift board independence towards under- or over conformity, depending upon its relationship (congenial or conflicting) with the management and its mutual interests with other major actors. Managerial (CEO) discretion is another mechanism that influences corporate governance practices. Distinction between ownership and management is determined by the legal and policy framework of a nation. High levels of managerial discretion often lead to non-conformity to board independence norms.

Organisational Determinants of Nonconformity

Distinct characteristics of an organisation's shape its structure and behaviour. These characteristics can bolster or attenuate the power of shareholders, labour, and management. The three organisational conditions that determine the power configuration are:
(a) Firm ownership,
(b) Organisational size, and
(c) Board leadership structure. In the context of conformity to governance practices, the type and concentration of ownership become very salient. In family firms, the block holders/ controlling family drive their interests in shaping governance structures. Hence, they prefer lower levels of board independence (i.e., under conformity). In contrast, foreign investors are more likely to influence firms to conform to global governance practices. Firm size and board composition affect the under/over conformity. The authors argue that both small and large firms are not likely to conform depending on the powerful actors steering them. Similarly, the under/over conformity of board leadership structure depends on the susceptibility of the firm and its influential actors.

Statistical data analysis identified six patterns of under-conformity to governance norms, while the presence of empowered shareholders was found to be a strong predictor of over-conformance to norms.

Practical Implications

- Family firms must be aware of various combinations of national and organisational factors that can influence board structures and adherence to norms of corporate governance.
- Family businesses need to strike a balance between over and under conformity to preserve board independence while retaining its autonomy to make entrepreneurial decisions.
- Diversity in shareholding pattern and balanced empowerment of shareholders, labour, and management, will help family firms adequately conform to corporate governance norms and avoid both extremes. ●

Source:
Administrative Science Quarterly (2021), pp. 1–36. DOI: 10.1177/00018392211022726.

Strategic Nepotism in Family Director Appointments: Evidence from Family Business Groups in South Korea

● Study by Seung-Hwan Jeong, Heechun Kim, Hicheon Kim

Family firms endeavor to protect their socioemotional wealth (SEW) by engaging family members in the company leadership. However, qualifications and preparedness of the family leaders is crucial to safeguard SEW without forfeiting the financial wealth of the company. This is often viewed as nepotism or a mixed gamble where there are trade-offs. The extant literature does not provide adequate understanding of these trade-offs. Hence, this study examines how the controlling families can shape them in their favour. For this research, the authors probed 155 family business groups in South Korea from 2004 to 2009.

Strategic Nepotism

Strategic nepotism is when families engage in nepotism strategically to maximize the gains of SEW and minimize the financial losses. Family business groups offer an important context, as they have multiple firms under their umbrella and family leaders can be placed in any company of the controlling family's choice. There are two types of strategic nepotism mechanisms – resource-building nepotism and stigma-avoiding nepotism.

Resource-Building Nepotism

Controlling families engage in strategic nepotism to build their managerial resources. These include human capital (knowledge, skills, abilities), reputational capital and social capital. The controlling families decide when and where to appoint family members within the businesses they control.
The authors hypothesize that family members are appointed to the board of directors in firms with high market performance, reputation and intra-group interlocked firms. These help family business leaders learn best practices and provide them access to information.

Stigma Avoiding Nepotism

The stigma associated with nepotism is detrimental to both SEW and financial wealth. Leaders disassociate themselves from firms that can cause damage to their reputation and careers. The authors argue that family members are not appointed on boards of the firms which are in financial distress because it threatens their reputation. To avoid stigma, family members are also not likely to be appointed on boards that already have a large number of family members.

Intergenerational Deterioration

The findings from family firm literature reveal that compared to earlier generations, later generations are likely to have lower capabilities and managerial talent. To ensure intergenerational family control, firms engage in strategic nepotism. The authors hypothesize that the controlling family is more likely to engage later generations in resource-building nepotism and not likely to engage them in stigma avoiding nepotism.

The statistical data analysis confirmed the preference of reputed family firms in appointing family members to build capabilities and skills in a protected environment. Family members were found to be refrained from potentially stigmatizing appointments. Strategic nepotism was found to be concentrated on later generation family members as firms aimed to overcome the deterioration of management capability across generations.

Practical Implications

- Family businesses need to strategically appoint family members to corporate boards, systematically train them for leadership and purposefully shape their career paths.
- Effective board participation and corporate governance experience help family members develop leadership capabilities and prepare them for future responsibilities.
- Family firms must safeguard family members from stigmatizing appointments that may affect their capability building efforts. ●

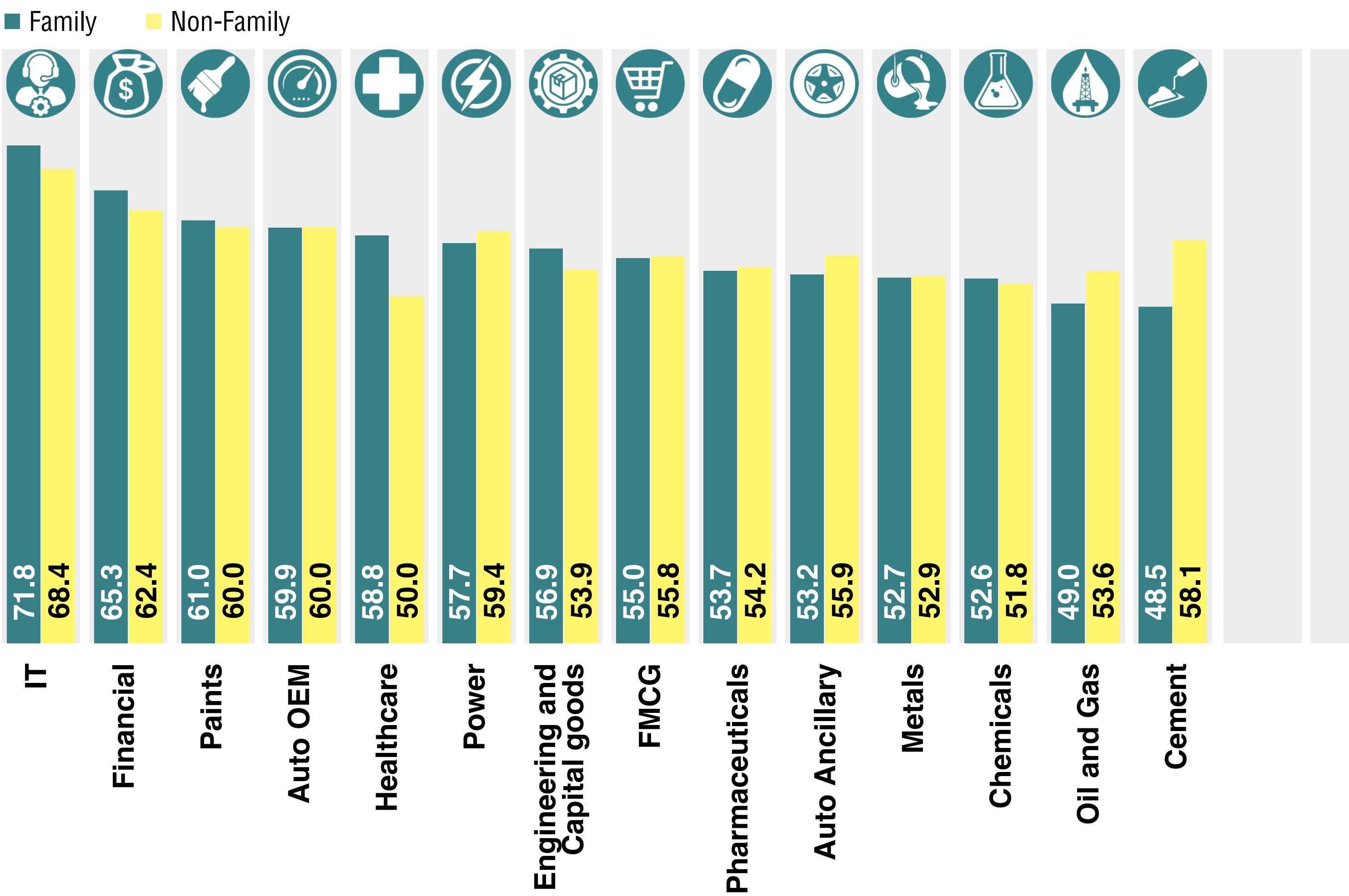
Source:
Academy of Management Journal, (2021), pp. 1-57. DOI: 10.5465/amj.2018.1418.

ESG Score by Industry

Globally, corporations are increasingly realising the need to adopt sustainability practices, that involves the impact of their operations on Environment, Society and Governance (ESG) aspects. Investors and stakeholders have become more conscious, especially in the wake of Covid-19, social unrest in many parts of the world, and natural disasters. The interconnectedness between businesses and society cannot be brushed aside. ESG needs to be part of the core strategies of the company, rather than an aside.

One of the non-financial goals of the family in a family business is to pass on the business to their next generation. The next generation, that is Gen Z, is more driven to make an impact, adopt sustainable practices, and drive change (Petro 2021). Therefore, family firms have a clear motivation to be the change agents through adoption of clear ESG strategies.

Using data from Crisil (2021), we look at the ESG performance of family firms vis-à-vis the non-family firms in the same industry and find that on an average, family firms have better ESG performance in the service sectors when compared to non-family firms. Whereas, in the manufacturing sectors,



Note: We have compared the scores of only those industries where we have both family and non-family firms in the sample.

> *"Gender, diversity, and work-life matters belong in the environmental, social, and corporate governance goals that are increasingly used as screening standards for investors"*
>
> **Indra Nooyi,**
>
> Former Chairman and CEO, PepsiCo (Nooyi 2021)

the non-family firms have better ESG performance (Exhibit 1). The family firms in the manufacturing sectors need to brace up and adopt ESG goals at the earliest.

If we look at the heterogeneity within family firms, we find that family business group firms (FBGFs) generally have better ESG performance when compared to standalone family firms (SFFs). This could be due to the greater need for FBGFs to preserve their legacy and reputation, as they are older and larger in size when compared to SFFs.

All firms, especiall family firms, must realise that inaction on ESG goals is not an option! ●

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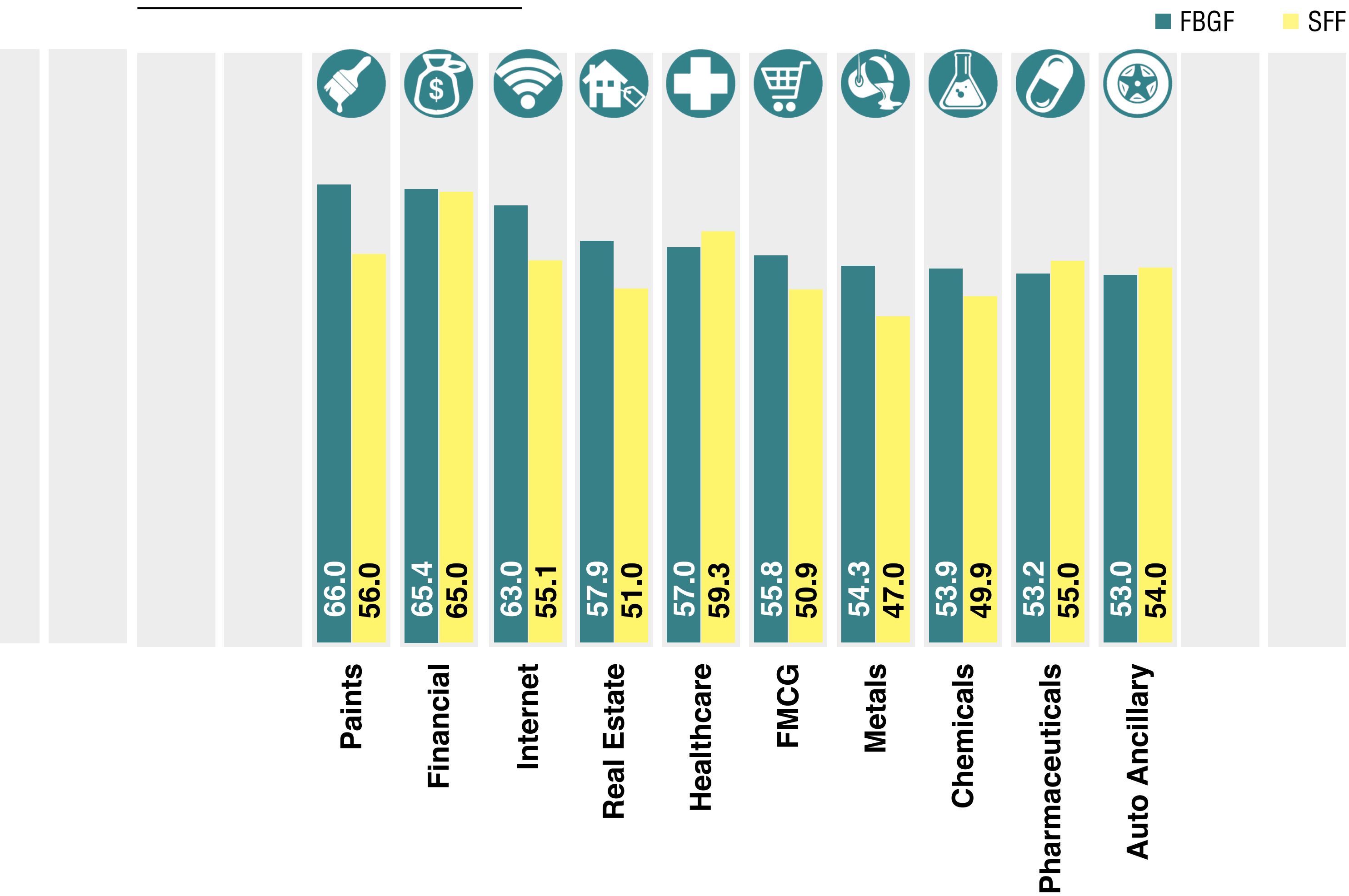


Note: We have compared the scores of only those industries where we have both FBGFs and SFFs in the sample.

Case Study

Governance at Glenmark: **Developing an Effective Formulation**

● Navneet Bhatnagar and Moksh Garg

After a long experience in the pharmaceutical industry, Gracias Saldanha invested his accumulated pension earnings to establish Glenmark Pharmaceuticals in 1977. Glenmark commenced its business as a generic drug manufacturer, entering the dermatology segment in 1979. During the early growth years of 1980s, Glenmark started exporting its products and established large manufacturing and R&D facilities. In the 1990s, the company further expanded its production capacity and entered new markets in Asia, Africa, and South America. The company launched its IPO in 1999 and became a publicly traded firm.

Named after the founder's sons - Glenn and Mark - the company had family entrepreneurship encrypted in its DNA. This 'familiness' was strengthened when Glenn, the elder son of Gracias, joined the firm as a director in 1998. He had worked with PricewaterhouseCoopers in USA. In 2001, Glenn became the CEO of Glenmark and under his leadership the company diversified into Active Pharmaceutical Ingredient (API) manufacturing the same year. It began to sell its products in the US - the largest pharmaceutical market - in 2005. This was a significant milestone.

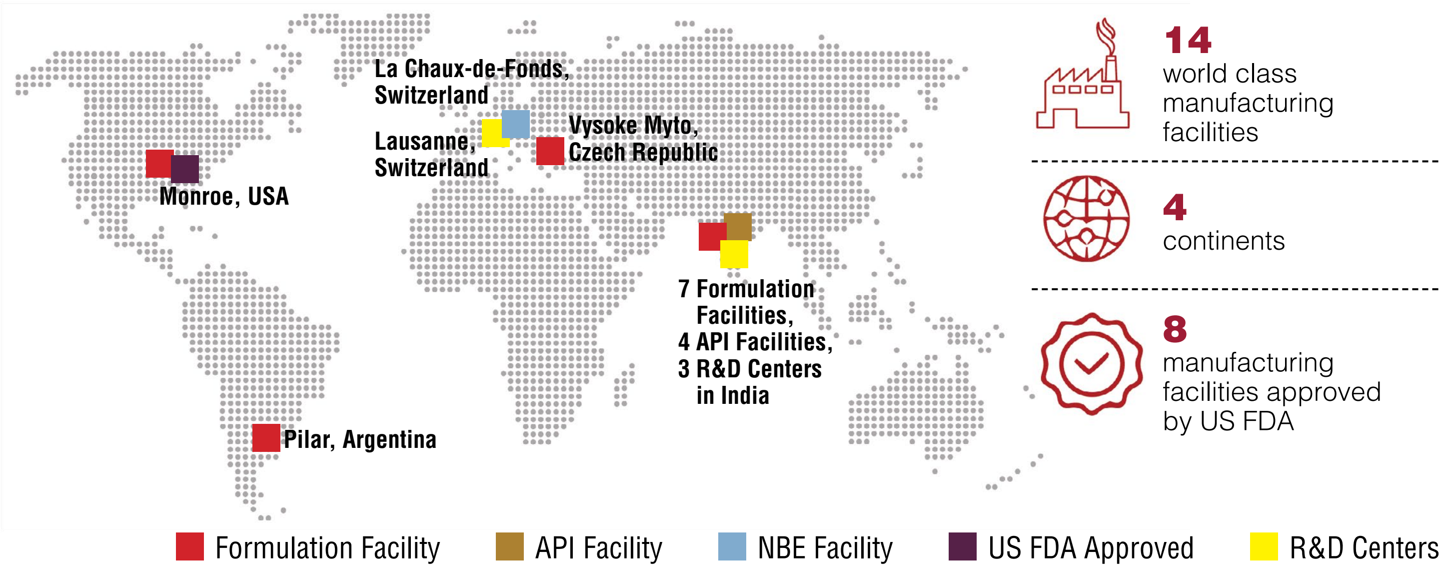
Thereafter, Glenmark established its Swiss subsidiary, intensified its R&D and licensed-out several of its novel biologics molecules to large global pharmaceutical companies. By 2016, it started making respiratory and oncology drugs. Along with dermatology, these became key therapeutic focus areas for the firm. By March 2021, Glenmark operated in over 80 countries, supported by 14 world-class manufacturing units.

Professionalisation Efforts

Soon after taking the leadership charge, Glenn professionalised the business operations. He brought in a keen focus on process and quality improvement. A culture of excellence and stringent internal checks resulted in the firm gaining acceptance for its products by drug regulators from the US, UK, Canada, and the WHO. Glenmark also invested significant efforts and money on developing its R&D facilities. The company spent around 11% of its sales on R&D compared to an industry average of 6%. This helped it develop a rich pipeline of new molecules. Due to a strong R&D base, the company transformed itself into a globally recognized generics and API manufacturer. Glenmark also improved the speed of strategic decision-making. Quickly responding to the changes in market environment, it made several acquisitions and divestments since 2001. These decisions helped Glenmark in calibrating its portfolio while keeping a relentless focus on an innovative and differentiated product pipeline.

Corporate Governance: Board Composition and Empowerment

The most crucial improvement that Glenn brought in at Glenmark was in the area of corporate governance. Throughout the organization, policy-based decision-making mechanisms were adopted with clear norms for regular reporting and effective oversight. Glenn's sister Cherylann (a



pharmacy graduate) and his mother Blanche (experienced in exports), served on the Glenmark board. Complementing existing capabilities, Glenn brought in a diverse set of competent, independent professionals on the board and empowered them. This elevated the standard of corporate governance at Glenmark. The company also developed a familiarization programme for independent directors, so that they could effectively oversee executive decisions.

As of March 2021, nearly two-thirds of the company's board comprised of independent directors. These directors chaired powerful committees such as the Nomination and Remuneration Committee. The controlling family had only one executive director. The board included three women members and over 80 per cent of its members had extensive experience in the pharmaceutical sector. Signifying its commitment to sustainability, the Glenmark board constituted an Environment, Social and Governance (ESG) Committee headed by Glenn. Owing to its ESG performance, the company was included in the Dow Jones Sustainability Index (DJSI) for three consecutive years (2019 to 2021). Thus, Glenmark leveraged its robust and inclusive corporate governance practices to create long-term value for its stakeholders.

> *Glenmark leveraged its robust and inclusive corporate governance practices to create long-term value for its stakeholders*

Learnings for Family Businesses

The key takeaways from this case study are:

- Professionalisation is the key to progressing towards the next orbit of organisational growth. It makes family enterprises more efficient and roots them into a policy-driven decision-making mechanism.
- The inclusion of professionally competent and experienced yet diverse individuals on the board and their adequate empowerment, enhance the quality and effectiveness of decision-making.
- The adoption of a sustainability-based governance framework can help family businesses improve overall performance outcomes from the perspectives of multiple stakeholders. ●

Source:

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Tiruvellore Thattai Krishnamachari (TTK)
(1899–1974)

Tiruvellore Thattai Krishnamachari (TTK) was an entrepreneur, political leader and educationist born in 1899 to a Tamil Iyengar Brahmin family in Madras (now Chennai). His father T. T. Rangachari was a judge in the Madras High Court. After his initial schooling, he went on to graduate from the Madras Christian College (MCC). He had four sons.

Initially, TTK worked as a Visiting Professor in the Department of Economics at MCC and was a member of the Madras Music Academy for few years before he began his career as an entrepreneur.

In 1928, TTK laid the foundation of TT Krishnamachari & Co (TTK Group). As a young and dynamic businessman, he set up a distribution network for a wide range of products ranging from foods, personal care products, and writing instruments. The various brands included Cadbury's, MaxFactor, Kiwi, Kraft, Sunlight, Lifebuoy, Lux, Ponds, Brylcreem, Kellogg's, Ovaltine, Horlicks, Mclean, Sheaffer's and Waterman's.

The group has stood tall as a market leader in kitchen appliances over the past six decades and is the second largest and TTK Prestige has business plans to become the world's largest manufacturer of pressure cookers in the world by 2022 according to Mr. Jaganathan, the grandson of TTK. There was a gradual evolution in terms of their product journey with a focus on the five pillars of Trust, Innovation, Smartness, Health, and Modernity.

The Prestige brand has evolved into one of the most loved and popular and kitchen solutions provider and TTK Prestige is today considered to be the flagship company of the group. The iconic ad - *Jo Biwi Se Kare Pyaar, Woh Prestige Se Kaise Kare Inkaar* [translates to: the one who loves his wife, how can he say no to Prestige (pressure cooker)] - highlights the group's efforts to make Prestige pressure cooker an integral part of the Indian kitchen.

TTK Prestige is now an Indian business conglomerate with 7 group companies and a turnover of about INR 30 billion. It spans across 30 product categories, retails over 600 products, has presence across several segments of industry including consumer durables, pharmaceuticals and supplements, bio-medical devices, maps and atlases.

In 1937, TKK decided to move to politics and got elected to the Madras Legislative Assembly as an independent member. He joined the Congress in 1946 and served as the Minister for Finance, Commerce and Industry and Iron and Steel from 1952 to 1965. He brought in some path-breaking tax amendments during his stint as Finance Minister. His most famous budget, 'The Krishnamachari-Kaldor Budget' on import licencing system and the setting up of the Export Risk Insurance Corporation to protect exporters were done in 1957. During 1947-1950, he served as India's Deputy Viceroy.

TTK left his mark on the Indian Constitution as a member of the Drafting Committee and was considered as one of the founders of modern India

TTK played a key role in setting up India's major steel plants and financial institutions like IDBI, UTI and ICICI. He was also responsible for schemes such as the Rajasthan Canal Schemes, Damodar Valley Project, Dandakaranya Valley Project and the Neyveli project. He expanded pension schemes by introducing the concept of 'Family Pension Scheme' in 1964.

TTK left his mark on the Indian Constitution as a member of the Drafting Committee and was considered as one of the founders of modern India. He served as the founding Governing Board member of the National Council of Applied Economic Research.

In 1965, he resigned from his Cabinet post but continued to lead an intellectually stimulating life. He breathed his last in 1974. Mowbray's Road in Chennai was renamed as TTK Road in his honour. The Department of Posts (DoP) released a commemorative postage stamp on TTK.

"Millions in India have woken up to new desires and new wants for the first time in many generations. With knowledge that a better future for all is possible has come the aspiration that the desired improvements should take place without delay." - TTK on rising aspirations of Indians. ●

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G. V. Prasad,
Co-Chairman and Managing Director,
Dr. Reddy's Laboratories Limited

"I have always laid a lot of **emphasis on authenticity**"

G. V. Prasad leads the core team at Dr. Reddy's Laboratories that has contributed significantly to its transformation from a mid-sized firm with largely domestic operations into a worldwide pharmaceutical conglomerate. After taking over fulltime as the CEO in 1990 and later as Co-chairman and Managing Director, he has steered the company on a path of continuous growth; leaping from $50 million to nearly $2.5 billion in revenues by the end of financial year 2020. He has led the global expansion of the company, especially into developed markets, through both organic and inorganic moves.

Prasad's emphasis on research, innovation, transparency, business ethics and leaner corporate structures has helped shape Dr. Reddy's into what it is today - an organization of global repute, recognized industry-wide for scientific innovation, progressive people practices and high standards of corporate governance. He is driving the necessary imperatives for Dr. Reddy's to engage even more deeply with the human aspects of health.

What do you think are the building blocks of a lasting organisation? How did you prepare Dr. Reddy's Laboratories as an institution?

Let me begin with my own journey at Dr. Reddy's. Our founder, Dr. K. Anji Reddy, was an entrepreneurial scientist who was driven by his passion for science and technology, and his enthusiasm for pioneering work – doing innovative things for the first time. He also had great faith in people. He empowered and trusted leaders once he found them to be good, and left the details of operations and execution to them.

I happened to join the company at a time of crisis triggered by the departure of the leadership of one of the group companies, Cheminor. It became quickly obvious to me that the company had been disproportionately dependent on a small set of leaders until then, making it vulnerable after the loss of those leaders. This episode acted as my motivation to transform the organisation into an entity that would be self-sustaining and one that would have the ability to be resilient through any kind of change – be it change in its leaders, products or technologies. My biggest priority was to bring about this transformation.

The first step was to improve governance at all levels – to bring in transparency, remove adhoc-ism, have clear role definitions, and consistency in policies and practices. This laid the foundation to attract, engage and leverage high-potential talent. We also worked to build a culture of respect for each individual, ethical conduct at all times, and creation of value for all stakeholders and not just the promoters. Being a reliable partner, meeting unmet patient needs, innovating to maintain differentiation as a business and developing a people culture that set our employees up for success were all important focus areas. Over the years, leading with deep science and technology, good governance and progressive people practices became the three core tenets of the organisation.

As a result, today, I feel my mission of making the company grow and thrive independent of any individual leader or stalwart has largely been accomplished. What's more, our alumni have gone on to lead some of the biggest generic pharmaceutical companies. We are known as the university for talent in the industry.

If I were to reflect and sum up, I would say that the journey of Dr. Reddy's from operating like a start-up when I joined, to today, becoming a lasting organisation for the future has benefited from a set of key constantly-reinforced elements that are:

1. An enterprise-first approach by the promoters – putting the company's interests ahead of everything else and making this a core value of the company.
2. Building value for all stakeholders— patients, healthcare professionals, partners, customers, investors— through innovative and pioneering products, services and businesses.
3. Creating a culture that helps employees realise their full potential – it nurtures and develops the next set of leaders for the company and the industry, and it is through the empowerment of every individual that the full potential of the company is fulfilled.
4. Committing to the pursuit of excellence in everything we do – mediocrity and complacency lead to stagnation.
5. Doing well by doing good – being a force for good and making a difference to society through our core business work, our efforts in sustainability, and leading with purpose have been central to our strategy and approach.
6. Business based on the bedrock of uncompromising corporate governance – always doing the right thing, even when no one is looking.

Over the years, leading with deep science and technology, good governance and progressive people practices became the three core tenets of the organisation

What are the key learnings from your leadership experiments and experiences?

The lessons from over three decades could fill a whole book! Let me recount some of the most significant ones:

1. Attracting, retaining and engaging talent is a very critical but undervalued aspect of building a company. Honing of talent is also a very nuanced process that needs careful approach. Dr. Reddy's has had the good fortune of having some of the finest industry leaders. We are what we are today due to the efforts of many people. In the beginning, one of my operating assumptions as a leader was that you hire the best people and give them freedom. Do not tell them what to do as micro-management is always counter-productive. However, I discovered that it is necessary to watch out for mis-alignment of leaders to the essence of company strategy. A lot of energy is dissipated when the top team, however capable, is not completely aligned to the organisation's strategy. This can slow down execution, lead to confused priorities and wasted effort. Therefore, one of the lessons I learnt through my own journey is that it is not enough to simply hire great talent and give them space; before doing so, a good leader must ensure that the talent is completely aligned to the organisation's strategy and goals. If I had to relive my leadership journey, I would focus on balancing alignment and fitment along with intellectual capacity of the talent.
2. Another very important value is authenticity. Everyone looks up to their leader, what they do and how they conduct themselves under various circumstances. What you do rather than what you say matters more. Hence, leaders who don't

walk the talk can be disastrous. I have always laid a lot of emphasis on authenticity. If authenticity is missing, there is nothing else that can compensate for it.

3. Leadership is shaped by experiences. I have found that diverse experiences make a leader much more capable and open to different points of view. I also found that leaders who have interests beyond work bring a richer perspective to their leadership actions and decisions – being passionate about anything creative or productive, be it sport, the arts or personal hobbies helps a leader bring that same passion and creativity to their work.
4. Developing leaders is a long-term task, and requires committed investment in people. Building self-awareness, coaching, challenging work assignments, and on-going mentoring, all play a role in moulding a capable individual into a leader. Our formal leadership development programmes at Dr. Reddy's are a blend of all these and I have seen individuals transform into powerful leaders through the years when given the right attention and nurturing.

What are the key challenges you faced in this journey and how did you address them?

As a company and as a leader, there have been different challenges at different junctures.

At the time of my joining, the company was going through a period of uncertainty. The co-founder of one of the group companies quit and several staff went with him. Coming at a time when the company was on the cusp of growth and when I was just settling into Dr. Reddy's, this period gave me my first big learning as a leader – no organisation should be this vulnerable and depend on one or a few individuals. My first priority was to ensure the company was built for resilience, permanence and remained independent of individual 'stars'.

As the company grew and expanded its horizons amidst a globalised world in the 1990s and 2000s, we found that we were faced with a lack of key competencies to compete effectively and gain market share in the global markets. For example, lack of professionals with deep knowledge in Intellectual Property (IP) regimes started to surface as a key constraint in overcoming IP challenges. Similarly, we needed expertise in navigating global regulatory landscapes, quality systems and legal knowledge as we entered new markets. We discovered that these skills were not always readily available in India. Building key specialist functions brick-by-brick through extensive education programmes, expert talks and learning from the environment globally helped build organisational capabilities. We augmented this by building select functions at global locations such as USA and Europe.

Entering new markets, globalisation and internationalisation of the company also meant integration of executives from all over the world. Bringing together leaders of various nationalities into a cohesive unit and setting them up for success to thrive in the global markets on the one hand, and operationally setting up our global offices, facilities and networks around the world on the other hand were very memorable twin challenges.

Every organisation faces pains of growing too fast. Likewise for us, with high growth came complications accompanying scale-up – our operations and quality systems could not keep up with the scale and complexity. The organisation transitioned to a size that threatened to become unwieldy if we did not act quickly. I realised that the organisation could no longer be run on the basis of the supervision of senior leaders alone, however capable and committed. We needed to build strong systems and processes. The organisation needed to move from being person-dependent to system-centric. As we undertook this transformation, I learnt that such a culture change was as much about mindset change and some of our key leaders were not equipped with these skills. We supplemented the leadership team accordingly.

> ***We have taken on the task of creating a cadre of business leaders who can manage businesses end-to-end whilst retaining an entrepreneurial mindset***

I have always been obsessed by the pursuit of excellence and have an in-built fear of mediocrity. Once we established systems and processes, I realised that without the right rigour and focus, standards can deteriorate. Excellence is an ongoing process and if you are not improving a system every day, there will be a steady decline. The status quo of any system is decline if not improved continuously. In our business we deal with chemicals and make life-saving medicines. Lack of rigour could easily lead to safety issues as well as quality issues.

In the latest leg of our evolution, we have taken on the task of creating a cadre of business leaders who can manage businesses end-to-end whilst retaining an entrepreneurial mindset. Over the decades, I realized that the future growth and success of the company would depend on factors such as having a winning mindset and having the right mix of talent – our aspirational behaviour framework at Dr. Reddy's is designed to reflect exactly that.

How did you make the leadership succession smooth when you redefined your own role?

I am not sure there is a definite single recipe for this but in my view, three of the most important elements that contribute to the overall success of succession planning are – (1) each individual playing to their strengths and complementing each other;
(2) clear division of roles;
(3) and value-alignment.

Beyond that, for the most part, I would say that it is dynamic and a work in progress. Over the decades, between Satish Reddy, who is the Chairman of Dr. Reddy's, and myself, we tried to ensure as much clarity in our roles as possible. We had a strong mutual understanding that I was the operations person who would delve into detail, develop and execute new business ideas. Satish's strengths were connecting with people, managing external relationships, public affairs, Corporate Social Responsibility, policy and related matters, while leading Board discussions.

We always kept each other updated, and this practice continues today. We chose Erez Israeli to lead the company as its Chief Operating Officer in 2018 and then its Chief Executive Officer from 2019. Having worked for a long time at one of the largest generics companies in the world, Erez brings to the table requisite experience in managing scale which has been one of our primary challenges. Erez also brings an accountability-driven managerial leadership, which has helped Dr. Reddy's execute better.

Post Erez's induction, I have redefined my role to support Erez in his efforts and to be a thought partner to him. My personal interest and passion for purpose, patients, people and products motivates me to stay involved in areas such as science and technology, innovation and people practices. I also see myself as a preserver of the soul of the company – helping the company and its people stay true to our principles such as being purpose-led, ethical and compliant, sustainability-focused and being a pioneer in serving patient needs. I also mentor select executives.

For all three of us—Satish, Erez and myself—this division of roles and transition has happened quite naturally as it plays to the strengths of each one of us. We carry a shared outlook and idea of success, shared values and put the company above any of our individual interests. If everyone puts their companies ahead of their narrow personal interests and can overcome the individual egos that come in the way of taking the right decisions, succession would be smooth.

What is your advice to families about building successful family businesses?

Broadly speaking, I shall outline a few lessons that I learnt and would like to share with people running family businesses:

Firstly, that there is actually no difference between family-run or professional businesses in a basic sense – both need great leadership, need to be ethical and compliant, work towards solving societal problems and need to be well managed and governed. The benefit of family-run enterprises is that they can be much more long-term oriented than purely professional-led companies. They can take bigger bets and also wait longer without feeling the pressure of quarterly earnings.

Secondly, the 'maximising personal wealth at all costs' approach leads to disaster. We are witnessing how companies focused on wealth for a few have crashed badly, and in the process lost not only their value but also the goodwill of all stakeholders. A company has many stakeholders. Creating increasing value for all — be it employees, customers, shareholders, or even the society at large—should be the starting point and goal. Wealth creation for promoters will follow from that. To me, this is what true sustainability is all about. Taking short cuts and cutting corners may seem easier and faster but is fraught with risks and usually irreversible damage in the long run.

Lastly, building a thriving business which is a force for good is a very noble task. All families in business have the opportunity of using this unique privilege wisely to create something that everyone can be proud of. Solving the most important needs of society along with wealth creation should be the legacy that we must focus on. This will also ensure sustainable growth and longevity of the enterprise. What can be more motivating than doing good while creating value and wealth for all stakeholders! ●

Vijay Dalmia,
Director, MLD Group

“**Thinking big and respect for your professional peers** would be the two most important lessons I learnt at ISB”

Vijay Dalmia is a Director of the MLD Group and is an alumnus of ISB from the PGP 2003 batch. He is currently enrolled for the EFPM course at ISB.

What are your learnings and experiences from your journey as a business leader and message to other family businesses?

Like many orthodox ‘Marwari’ family owned businesses, I too was introduced to my family’s businesses fairly early in life; over the dining table conversations, on vacations, through various social, formal and informal interactions. It was assumed that I would be a part of the same at some point; sooner than later. When I expressed my desire to instead pursue science and engineering as a career choice as over commerce it was met with a lot of trepidation to say the least. Having undertaken this journey, and today while heading my family’s traditional Tea Business as a Chemical Engineer to begin with, has reinforced my belief that it is indeed generalists who triumph in a specialized world!

The way to succeed is by sampling widely, gaining a breadth of experiences, taking detours, experimenting relentlessly and juggling many interests. My message to all families and patriarchs would be to encourage the future generations / heirs to explore the world, pursue varied interests, while staying deeply connected and rooted to their family's business and traditions.

Describe some of the initiatives spearheaded by you that brought significant changes to the family business.

I am fortunate to be part of a family business which is now in its 102nd year! My family has been in the business of tea plantation since 1919. With rich legacy also comes legacy systems! Systems and models which need to change with time. One of the key changes which I spearheaded in our tea business was the adoption of the Bought Leaf Model in 2004, a year after completing my graduation from ISB. Under this model, the tea business evolved from a fully integrated system of cultivation and manufacturing to one in which tea cultivation was outsourced to small farmers and large manufacturing units were set up to process tea leaves to their final form. This contributed significant growth and profitability to the tea division.

I also spearheaded the family's decision to significantly expand capacity in the group's commodity packaging business. Economies of scale and size have ensured that the family now enjoys a leadership position in this sector. This business constantly faces existential challenge from the anti-plastic lobby. I led the group's initiative to establish it's plastic business as a 'zero carbon foot-print' entity. Waste recycling, zero water, air and solid pollution, and use of 100% renewable energy has helped establish the group's position as a 'green manufacturer of plastic products' in the country.

What has been the role of 'ISB experience' in your professional journey?

Thinking Big & Respect for your professional peers! These would by the two most important lessons I learnt at ISB during my one year of post graduate program (PGP) and again later while pursuing the executive fellowship program in management (EFPM). I am fortunate to be amongst the initial batches of ISB and can claim to have grown with the school over the last 2 decades. I was privileged to have been given a firm base by my family, when I entered my professional life, in the form of a diverse business entity. The think big culture and the growth appetite acquired at ISB has played a pivotal role in pushing me to lead my family's businesses.

My message to all families and patriarchs would be to encourage the future generations to explore the world, pursue varied interests, while staying deeply connected to their family's business and traditions

My stay at ISB and subsequent interactions with the alums has constantly reinforced a deep respect for professional peers. Sustained growth is not possible without a team. As owners and leaders of family businesses we sometimes tend to forget this. I realised this very early in my career and I made it my family's business strategy to recruit for tomorrow. We have followed this since; constantly appointing senior team leaders from much larger organisations at much bigger leadership positions. Their unsatiated hunger for growth and size when coupled with the family's vision has ensured that the group has been consistently recording double digit growth year-on-year for more than two decades now. ●

Sangita Reddy,
Jt. Managing Director, Apollo Hospitals Group

"In today's hypercompetitive marketplace, **gender diversity is good business**"

Dr. Sangita Reddy, the Joint Managing Director of Apollo Hospitals is a global healthcare influencer and social entrepreneur. She is passionately committed to transforming healthcare systems through technological advancements. She was the President of the Federation of Indian Chamber of Commerce and Industries for the year 2019-2020.

What are the major challenges women leaders face in successfully managing professional and family life?

Balancing a career and taking care of the family is tougher on women, particularly, when the children are young. This is primarily because, most women end up taking up a larger share of the responsibilities of running the home and providing childcare. In some organisations, this can lead to unfair bias or stereotyping of women leaders.

At Apollo, we refer to ourselves as a family, and this ethos and culture is pervasive. Our employees are empowered to seamlessly straddle and manage their homes and work. This has helped with employee retention, lowering the attrition and also invaluable contributions, from our team, even during the toughest of times, like the lockdowns.

What do women leaders contribute as family business owners and directors?

In today's hypercompetitive marketplace, gender diversity is good business and it wouldn't be prudent to grow a family business with a leadership team that is made up of exclusively men or women. This is important as women bring a diverse set of experiences, different ideas and perspectives to the table that enrich conversations and lead to better company decisions. The positive financial impact of having women on a company's Board resonates with this aspect as well.

Through generations, women have been raised to be more sensitive to the needs of others and in business, this often translates into them encouraging individuals and teams to pursue new business opportunities, embrace change and make decisions on their own and a heightened appreciation of consumer requirements and sentiments.

In a first, India mandated female representation on company Boards. Furthermore, promoting gender-balance at the board level opens the door for family businesses to increase a trickle-down effect of greater female representation, across the organisation.

What are your learnings from the leadership experience at Apollo, especially with multiple women directors from the owner family?

It has always been a pleasure and privilege to work with my sisters - women directors and members of the founding family of Apollo. We are well aware of each others' strengths and have always harnessed them to be complementary and also to build on our individual strengths. Moreover, as professionals, we are wholly appreciative of diverse opinions and feedback, as our singular goal is to enhance clinical outcomes and patient experience while growing and fulfilling the healthcare needs of our country.

Being a leader is a cherished responsibility, and in healthcare, it is an honour as patients and their families repose their trust in you and the organisation. Since our inception, more than 200 million individuals have honoured us with their trust and this aspect motivates us every single day, to keep pushing the realm of care, bringing the world's best to India and going beyond "sick care" to preventive and healthcare.

Describe Apollo's major focus areas and key challenges as it gears itself for growth in the future?

Apollo is committed to becoming a Digital First organisation as that would allow us to stretch the care continuum, be much more accessible, even beyond our physical centres, and also adapt a lot quicker to technological shifts.

Our care models are dynamic and we are mindful that with a youthful demography, patients from across the world will look to India for advanced medical care. Most developed nations are grappling with a huge paucity of human health resources and aging populations. Apollo is working closely with the State and Central governments to develop the medical tourism opportunity, as it would help us serve humanity, be an engine for job creation and development of world class health infrastructure and also a huge foreign exchange generator.

> *Promoting gender-balance at the board level opens the door for family businesses to increase a trickle-down effect of greater female representation, across the organisation*

In addition, Apollo is also stepping up efforts in preventive healthcare, in light of the growing prevalence of non-communicable diseases. In several states of India, 1 in 4 Indians has a chronic disease and with over 80 million diabetics, our country is second in the world with this disease. This worrying trend requires concerted pro-health measures, and as a pioneer, Apollo is championing the effort.

Our role as a leader is also to embrace socially important principles of environment protection, gender diversity, socio-economic inclusion, education, CSR and good governance. ●

Puneet Dalmia,
Managing Director, Dalmia Bharat Group

"The role of the family changed from **running operations to being a strategic architect**"

Puneet Dalmia, Managing Director, Dalmia Bharat Group has been the driving force behind the exponential growth witnessed by the Dalmia Bharat Group since he took over the reins in 2007. He has transformed the organisation and built a professional team that led it on the path of accelerated growth while maintaining the core values of the Group. Mr Dalmia holds a B.Tech degree from IIT-Delhi and is a gold-medallist MBA from IIM-Bangalore. He has a keen interest in education and serves as a Founder and Trustee of Ashoka University. He was awarded the EY Entrepreneur of the Year Award (Manufacturing) in the year 2017.

1. You brought significant transformation into your family business. How did you become a catalyst for growth and implement this change?

I joined the business in 1997 after doing my Engineering and MBA and it was my first job. My first priority was to understand the business and the culture more deeply. Simultaneously, I wanted to build my own perspective on the long term opportunities and threats in our industry and specifically in our business. For this, it was important to understand the macro context of India and the industries we were in and also the micro context of our business which included key people, decision-making process, capabilities and beliefs.

Macro context in 1997 – India liberalising and huge domestic market

The macro context was that India had just started to liberalise and it was clear to me that the skills and government protection which helped businesses succeed in the license raj era would become irrelevant over time. We would face more intense competition from multinational corporations (MNCs) and brand building in product, talent and capital markets will be important differentiators. In each of our business sectors, cement, sugar and refractories, there was huge opportunity as India's per capita demand was low and we had a large domestic market.

Dalmia context – very profitable and efficient, high goodwill but small scale

Our micro context was that we were a very profitable and highly efficient company and had a strong balance sheet with very low debt. We also had enormous goodwill with our stakeholders whether it was our employees, dealers, bankers or the government. Most of our employees and distributors had multi-decadal or in many cases, even multi-generational association with us.

But we were a small player in each of our businesses in terms of scale. We were below the top 10 nationally in each sector. Our overall management style was very hands on and each business was run by one family member as the SBU head. My uncle (Tauji) Mr J.H. Dalmia ran the refractory business, my father, Mr Y.H. Dalmia ran the cement business and my cousin Mr Gautam Dalmia ran the sugar business. We were content and satisfied and there was very little long term planning in terms of next 5-10 years goals or vision for the group.

Moving 2500 km to plant site was an important decision

My first job was to head sales and marketing for the cement business. I had then recently got married in December 1996 and in May 1997 when I joined the business my father asked me to move 2500 km away from Delhi (where I grew up) to Dalmiapuram (Tamil Nadu) where our only cement plant was located.

I later realised that it was a very important and strategic decision by my father to encourage me move to the plant site. I was able to understand the management style, the thinking process of senior people and build personal connects with all the important local stakeholders. I also visited the main

markets of Tamil Nadu and Kerala every week on a scooter with our sales officers and sometimes in an Ambassador car to meet our dealers. It was a lot of adjustment for my wife Avantika as she had to learn a new language (Tamil) and was all alone with no entertainment avenues of a city like movies, restaurants, and malls. But since the two of us were alone, it gave us a lot of time to be with each other.

I quickly understood that operating plants was our core strength. We were super-efficient and were one of the lowest cost producers. I had to build my credibility in marketing. We were a commoditised product and there was very little differentiation between brands. I decided to launch two new brands called SuperRoof and SuperFoundation cement which were based on applications. SuperRoof did very well while SuperFoundation

How do you create a culture of constant innovation and continuous change is the most important skill companies have to learn

flopped even though it was a superior product, exactly as our sales team had predicted. We got a 5% premium over the highest priced brands on SuperRoof cement and it became 25% of our product portfolio within the first year.

Our own sales team lacked the conviction to sell SuperFoundation and told the dealers to buy SuperRoof. I realised that building internal conviction and internal selling is more important than external selling.

The strategic imperative to build scale

I lived in Dalmiapuram for two years and realised that we had to expand our capacity to remain relevant. We were producing 1 million MT per annum (pa) (1% of India's and 5% of our region's capacities) which was almost irrelevant. So I made a proposal to take our capacity to 4 million MT pa. In my view, it was a low risk project as it was brownfield expansion - same location, same product and same market. We had already invested in infrastructure, brand and distribution and could leverage it over a larger scale and the cost was not too high as the demand for cement machinery was quite soft, and we were getting a good deal. Scale was important as during a boom commodity cycle you can make enough money to invest in the bust cycle.

But before building scale, first need to build credibility

My father asked me about the investment needed and I told him that it would cost Rs 500 crores.

His next question was, "Who will implement the project?"

I told him, "I will do it."

Family businesses need to over-invest in attracting the best talent and empowering them

He quietly told me, "You have no credibility. I cannot put Rs 500 crores behind you."

So I asked him, how should I earn credibility. He told me that he will give me Rs 2 crores of his personal money (not the company money) and I should show him what I could do with it. He told me even if I fail, I could come back and work at the family business and that I should not worry about a safety net.

Two visionary decisions that shaped my career – move 2500 kms away, do something on my own

I realised later that these two visionary decisions by my father – one, to send me 2500 kms away from home at the start of my career and two, to encourage me to do something on my own outside the family business shaped me as an entrepreneur. The two years at the plant helped me understand the company culture, the product and the market and the next five years as a start-up entrepreneur helped me understand how to recruit talent, raise money and handle ups and downs in a business.

2. How did you build trust, credibility, and respect for yourself and your leadership strategy in the business and family?

When I launched my start-up called JobsAhead.com with the Rs 2 crores that my father gave me, we built a team, launched a service, built a brand and raised money from venture capitalists. We were also close to bankruptcy at one point as the market changed suddenly and it was difficult to raise money to buy market share and eyeballs. All the investors who were pushing for growth a few months ago, suddenly wanted to see the path to profitability.

We had to adjust suddenly in mid-air to survive. We cut costs, turned on the revenue model and innovated at a faster pace. We prioritised the top features customers wanted and shortened product development cycle to three weeks instead of three months. The top management took salary cuts, we gave more stock ownership to key employees and secured their commitment. We communicated the bad news and the good news with clarity and truthfulness without any filtering in our monthly town hall meetings. This built trust, confidence and commitment of our people to do their best for the future of the company. With all this, from facing bankruptcy and closure, we became profitable within nine months in 2001.

In 2004, Monster.com and Times of India launched their job sites in India and we got scared that we will again go into losses. We sold the company to Monster.com at 6x earnings for around Rs 40 crores. This gave me a lot of credibility in my family. In the internet space most people had lost money but we made money for our shareholders and employees.

However, Naukri.com went public at 100x earnings in 2007 and Monster.com and Times of India could not make a big mark in the market. I learnt many valuable lessons from my first entrepreneurial stint. They include:

1. Culture trumps everything - Throwing money and vast resources at a market can't beat focus, agility and customer obsession. Don't be scared of large MNCs and big resources but be very scared if you are slow and do not understand your customers.

2. Truthful communication builds trust – Bad news should take the escalator and good news should take the stairs. It is important to share all news with employees (and other stakeholders) so that rumours don't overtake reality and they know directly from the leaders they trust about what's going on and what is the future going to be.

3. Share ownership with employees – When employees own stock, they think like owners and feel more connected with a company. The ability to access each person's creativity comes when people feel they have a stake in the future of the enterprise.

4. Top leaders must take pain before others – My moment of truth came during an exit interview when a call centre girl who was laid off told me, you should get fired instead of me as you took all decisions that brought the company to near bankruptcy. This is the most important lesson for me that leaders need to walk the talk and lead from example.

All these were super important lessons which helped me tackle the 2008 global meltdown and the 2020 Covid crisis. We followed the same playbook of the above four lessons that I learnt during my start-up days and it helped me tremendously to carry everyone along and ensure trust and commitment of the team.

I sold Jobsahead.com and rejoined the family business in 2004. I had credibility but no role. As earlier, each of the three family members were running a business as a Strategic Business Unit (SBU) head and I became the self-proclaimed head of strategy in the corporate office.

Aligning family on new strategy and operating system

The group was more or less the same with a debt-free balance sheet and strong operations but not much expansion. My first goal was to arrive at a consensus on the vision, how we will differentiate ourselves, our decision-making process and our capital allocation strategy.

1. Capital allocation strategy – Our capital allocation strategy was an emotional decision as we allocated capital to ourselves. We, the four family members sat around a table and decided which was the best project. And since each family member was an SBU head there was always some inherent bias to allocate capital to oneself. We had to separate the capital allocators from the capital receivers.

2. Decision making process – Our decision-making process was based on full consensus. Any family member could veto a capex or any major decision. When we looked at competition, our competitors were 10-20x our size and had better talent in each of our businesses. So, we decided that in order to compete we had to be faster and quicker in decision-making than our bigger competitors. This meant a change in decision-making process from consensus to majority.

We agreed that these are fundamental changes in our operating system. We had to build a professional team with each business being headed by a professional CEO and a shared corporate office which can support every business. The big question was how to make this transition and recruit people who can independently handle a Profit and Loss (P&L) unit and have the family's trust. This was a bigger issue as none of our existing senior people could be a CEO – they could head a function at best.

So, initially we said that family members are the CEOs and they must write a five- year business plan and put forward what resources we need to execute the plan. Both my uncle and my cousin brother said that refractory and sugar have too much regulation and uncertainty and hence they don't want to expand right now. So, all the capital got allocated by default to the Rs 500 crore brownfield cement project which was proposed in 1999 and held back as I had no credibility.

We also decided to draft a family constitution to formalise the decision-making process and change it from consensus to majority. As a first step, all family members visited Indian School of Business (ISB) and did a three-day family business course which provided a common perspective and made us realise that our issues are not unique and we can learn from the experience of others. We requested Professor John Ward to help us in our journey and he agreed to support us and was kind enough to give us four days in a year to help us draft a constitution.

We made a constitution covering 10 decision categories and 40 decision types. The unique feature was that we decided to leverage the power of youth and wisdom and the complementary skill sets in the family members. We gave one extra vote to a particular family member depending on his skill. For example, on maximum debt raising, my father had two votes while the other three had one vote each. Similarly, on family member compensation, my uncle (Tauji) had two votes and the other three had one vote each. This meant that if a person is being too conservative or not keeping with the times he could be overruled by the other three, but, otherwise, he had the casting vote in a particular issue where we thought he was most competent to take a decision.

On matters pertaining to business vision, capex, employee compensation, busines closure we gave the casting vote to the younger generation and amongst my cousin and me we decided the best way to leverage each other's skills. This created a framework for quick decision making and leveraging complementary skill sets.

Post this, we decided to work on the vision and the corporate structure.

3. Vision – We decided that to stay relevant we had to build scale in each business and to come in the top 5 in the next 10 years and eventually top 3. This would mean getting the best talent and also raising capital (both equity and debt) as our internal accruals would not be enough to support the growth to reach the top 5.

4. Corporate structure – The existing corporate structure was that of a diversified conglomerate. We had to create pure play companies to attract equity investors. So we decided to split the cement and sugar company with separate balance sheets and sharp focus on growing each business.

Formalising the decision-making and communication platforms

All this was possible due to the support of advisors like John Ward, common perspective-building through ISB courses and instituting formality in communication and decision-making process. In a family, many things are unsaid and informal but we need a balance of formal processes also to ensure discipline and timeliness in decision-making.

We also created a governing owners council in which we included four family members and two advisors, Mr M.V. Subbiah (former Chairman of the Murugappa group) and Mr S. Gurumurthy, which met quarterly to discuss strategic aspects to focus on the well-being of the business and the family. We also had monthly meetings of the Family Council comprising four of us with formal agenda and minutes. On top of this, we had a weekly meeting between me and my brother to catch up on key issues.

Building a top team and professionalising the group

Building a top team was our next priority. We hired people from outside in some functional roles at the corporate office and it created huge internal conflict. They were better paid and were more demanding. This created a lot of attrition as many of our people weren't used to sharp accountability and aggressive goals. We made some hiring mistakes but slowly we settled down and we kept investing in both the cement and sugar businesses.

We set a vision of reaching 10 million metric tonnes (MT) pa by 2010 and then 35 million MT pa by 2020 and we reached both the milestones with a 90% achievement. During the course of the journey, we worked with private equity firms like Actis and KKR and learnt the art of mergers and acquisitions (M&As) and also strengthened the board.

Overall, the role of the family changed from running operations to being a strategic architect and giving more and more power to professionals to run the day to day operations. We also strengthened the board and invested a lot in building a digital infrastructure to bring in more transparency.

3. What are some of the major inter-generational challenges that family businesses are likely to face in the next 10-15 years?

In my view, the challenge and the opportunity is the same. It is to exploit the magic and the power of wisdom and youth. The elder generation has the experience and the wisdom while the younger generation has innovative ideas and the energy. If we can channelise the two harmoniously, it's a huge opportunity. And, if we cannot, then it's likely to cause an explosion.

The power of listening

But to create magic, we need to inculcate powerful listening. It is important to get each other's world, not necessarily agree on everything, but just get the perspective. For this, we need to listen without judging or agreeing or disagreeing. Just need to suspend our viewpoints and listen to understand the other person. If people feel listened to, it is easier to access each person's creativity and ideas and also create buy-in in for alternate views.

In most family businesses, generational transition poses the biggest risk of either survival or continued value creation. Elders are usually preachy and kids are usually dismissive of traditions and values. The world is changing very fast with the onset of digital and climate change and in Charles Darwin's words:

"It is not the biggest or the strongest species that survive but those that are most adaptable to change."

So, how do you create a culture of constant innovation and continuous change is the most important skill companies have to learn and the biggest risk of this is during an inter-generational transition.

Managing your ego – attitude of gratitude and duties before rights

The second issue is managing the egos of family members. Sometimes success creates arrogance either to alternate viewpoints or towards your own invincibility. So how we create a culture where you are grateful for everyone's contribution and grateful to the people who built the business before you is important. It is more important to understand your duties instead of your rights.

4. How can the next-generation members of business families prepare themselves for future challenges and opportunities?

Digital and climate change: The biggest opportunities of the next few decades are in the areas of digital and climate change. And, India is the biggest market opportunity of the century. I would suggest that all businesses must embrace sustainability and digital as the top most priority and find ways to position their business in these areas. Also, invest in research and development (R&D) and keep some capital aside to build skills to invest how to learn what is happening in the digital and climate change domains.

Invest in continuous learning: I also believe that we have to continuously invest in learning. Taking family members and top executives to leading institutions to do summer courses or short courses or even online courses on topics of strategic importance is important.

In most family businesses, generational transition poses the biggest risk of either survival or continued value creation

Win the war for talent: In an increasingly specialised and fast changing world, one person cannot do everything. Family businesses need to over-invest in attracting the best talent and empowering them and this has to be led directly by the entrepreneur. People decisions are always risky and there will always be some mistakes but this should not deter them from taking risks. For us, one mindset that has worked is, "treating professionals like family members and treating family members like professionals."

Formalise family processes: Finally, families need to formalise some of the informal processes like decision-making. Write a constitution and create platforms for communication within the family with formal agenda and minutes, almost like a board meeting. This will help in including everyone and also building a common perspective over time. ●

Sunil Reddy,
Managing Director, Dodla Dairy

Dodla Dairy: **Stepping Stones to Growth**

Dodla Sunil Reddy, Managing Director, Dodla Dairy, began his entrepreneurial journey when he was fresh out of engineering studies. He attempted three business ventures, namely, exporting mangoes, growing mushrooms, and trying his luck in the garment space. However, each one failed, one after the other.

Dodla Dairy was his fourth attempt, and he is grateful that it scaled to where it is today. He attributes a lot of this growth to having the support of his family and associating with right people along the journey.

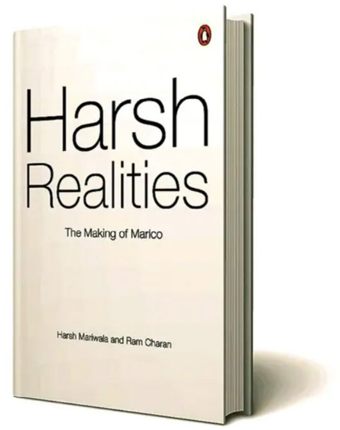
In his opinion and based on his experience, the strategic levers of business growth revolve around the ability to recognise talent and train them within the organisation. According to him, this inevitably entails developing a strong culture of growth, learning, and improvement. The second important strategic lever is to have a clearly laid out plan of short-term strategies which highlight a path to achieving long-term vision.

In order to build a lasting presence, a family-owned business such as Dodla Dairy which has an incoming second generation needs to understand where control emanates from. It is also a lot about having the ability to step back to run the business from a board level, while leaving the day-to-day operations to qualified professionals who are a part of the culture and vision of the company.

Undoubtedly, after a while, every organisation becomes about the people who work in it. The biggest challenge Sunil foresaw was about putting a strong team together at the helm of operations. Having placed utmost importance to this aspect, it was not surprising that the key decision-makers in Dodla were with the organisation right from the beginning. In more ways than one, the company culture is seen as second nature to most employees and management. Turning that culture into a norm for all incoming leaders is therefore part of the company ethos.

Organisational transformation

Every business aspires for going through a smooth organisational transformation and institutionalising governance for the business. Moving from being profit-centric to being purpose-centric is the path that Sunil too would like to traverse as he envisions the transformation for the organisation. He is acutely aware that in order to do this, strong governance would be the key. Not just governance at a board level, but a serious understanding of what good governance must be amongst all levels of the company. This understanding has to mean that each person in the organisation sees the value of governance and not just as a norm that is being forced upon them. Eventually, all this will culminate in what is believed to be transparency. The vision that Sunil has for the organisation is for it to not just share information with all its stakeholders, but to be truly transparent with them every step of the way.



HARSH REALITIES:
The Making of Marico
Authors: Harsh Mariwala and Ram Charan
Publisher: Penguin Business

This book is a classic book that while telling the story of Marico also has all the ingredients of how to build a strong family business. At the same time, while it rolls out the chronology of an Indian family business, management guru Ram Charan's inputs gives it a global flavour.

The history of Mariwala' family business trails back to the pre-Independence period when two young brothers Kanji Morarji and Vasanji Morarji set off from a non-descript village in Kutch to the far-off city of Bombay to test their destiny. **Harsh Realities** is an almost textbook account of how to build a successful family business. It is also a fascinating account of entrepreneurship and how to scale a small business into a large one with a domestic and global footprint.

The development of the Marico company and family business are captured in near sequential manner (which makes reading very absorbing) with the setting up of Bombay Oil Industries, early growth of the joint family and the family business, the predictable split in the family after the third generation, the freedom that Harsh Mariwala got after the separation of the business, professionalization, going public, setting up the vision for the group, building brand Marico and its iconic brands like Saffola and Parachute, incorporating the governance structures, growth strategies, going global and planning for the next level of succession. The book ends with what a global 21st century corporation should be doing: building upon the purpose of a family business enterprise and implementing its social responsibilities. Finally, it concludes on a personal note from Mr Mariwala about his leadership maxims and public responsibilities.

Harsh Realities is an almost textbook account of how to build a successful family business

Harsh Realities brings in a strong element of balance through chronicling lessons from both failures and successes. It is also inspirational in two ways: one, it motivates the large number of small and medium enterprises and their leaders in India to take their businesses to the next level; second, the comments and insights from Professor Ram Charan are true value-adds from a management expert.

It is an end-to-end book in other ways too: the printing, packaging and cover are publishing innovations in themselves; the clever play with the word 'Harsh' in the title, and the scores of excellent reviews from peer business leaders is a testimony to the richness of the book. It is a must read for all stakeholders in the family business ecosystem as well as aspiring entrepreneurs.

Indian School of Business

Indian School of Business (ISB) is a global business school offering world-class management education across its two campuses - Hyderabad and Mohali. The School has grown at a rapid pace since its inception and already has several notable accomplishments to its credit. It is the youngest school ever to consistently rank among the top Global MBAs, one among the select 100 global b-schools to have AACSB, AMBA and EQUIS accreditation, one of the largest providers of Executive Education in Asia, and among the most research-productive Indian management institution. A vibrant pool of research-oriented resident faculty, strong academic associations with leading global b-schools and the backing of an influential Board, have helped the ISB emerge as a premier global business school in the emerging markets. For details visit www.isb.edu

Thomas Schmidheiny Centre for Family Enterprise

The Thomas Schmidheiny Centre for Family Enterprise, at the Indian School of Business has emerged as the foremost authority on family businesses in South Asia. It undertakes teaching, training, research and outreach activities covering all major topics on family business. The Centre collaborates with global academic institutions and leading family businesses in India and abroad for exchange of insights and knowledge among diverse stakeholders.

For further information, please visit ***www.isb.edu/fambiz*** or contact Sushma GNVS at ***fambiz@isb.edu*** or +91 40 2318 7189

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