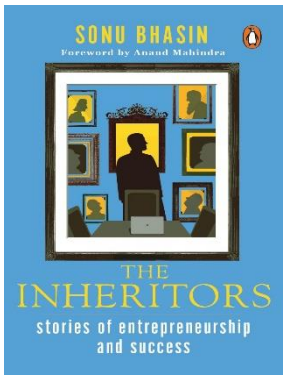
Guest blog + Book extract

Corporate Governance – A Generational Shift for Family Businesses

The last twenty-five odd years have not been easy for an Indian promoter. They have seen a complete change in the way the business is run. But they also realize that there is no going back and the world, and India as in integral part of the new world, is changing each day.



After 1991, the era of liberalisation in India required the family business owners to change the way they ran their businesses. With License-Raj crumbling, the promoters had to quickly find their feet as they saw the world businesses come rushing into the country. The global businesses brought with them their products, their services and also the practices of corporate governance. It was this - focus on corporate governance – that caused the greatest discomfort to the promoters. The reasons were not difficult to understand.

A new product, service or manufacturing technique - all this could be addressed by getting in new expertise. However, they kept control over their levers of power – board composition, appointments of KMP's, capital allocation including dividend – all falling under the ambit of governance. If we focus on just one area within corporate governance – transparency – it is easy to understand why the Indian promoters were tardy in adopting this global practice.

The meaning of the word transparency is clear - no puns intended. It means nothing to hide. For a promoter it means that processes and transactions within his company have to be available for 'outsiders' to see. For a promoter an 'outsider' is anyone who is not part of his close group. Further, all legal requirements are to be followed and certified so. Disclosures, as mandated by the various bodies, need to be made and within time.

Imagine what a shift this would have been for the promoters. They were used to running their family businesses as personal fiefdoms with their own set of rules. Only a very few close confidantes were party to the decisions and the workings of the business. The board of directors, if any, was a collection of friends and family. The auditors were people who 'understood the requirements' of the business. The employees were part of the promoters' extended family and who ruled over all of them like a benevolent patriarch.

The promoters were actually in sync with the general working of the economy pre-1991. The black box of license raj had ensured that no one knew how and why some businesses flourished while the others struggled. The individual businesses and their promoters did well, no doubt, but India suffered as it was not the preferred destination of investment then.

The process of opening of the Indian economy coincided with another phenomenon. It was in the eighties that many promoters started sending their children overseas for higher education. In the late-nineties the promoters were quick to call back their gen - next. They hoped that the foreign investors would find the gen – next, with their 'foreign education and exposure' easier to deal with.

The returning gen – next were quick to spot two very significant facts; one that India had the potential to be the toast of the investing nations; two that India would lose its attractiveness very quickly if the management-style did not change.

It is significant that the late nineties saw some family businesses take an active lead in their attitude towards their own businesses. The Burman family in the north and the Murugappa family in the south are two examples where the family decided to move out of active management of the business. External CEOs were brought in and the process of professionalization started. Some other families like the Munjals and the Danis continued being part of the management but brought in senior professionals. The green shoots of corporate governance in family businesses thus started sprouting.

Transparency – one key pillar of corporate governance – became a necessity both within and outside. The pressure was brought from within by the changing nature of employees who wanted more of structure and less of ad-hoc-ism. Promoters who persisted with the '*mai-baap*' attitude saw their business flounder as talented professionals moved on. The Mafatlas, the Srirams, the Ruias were marquee names at the start of 1990, but lost out in the new era.

The push for transparency came from outside the business as well. The capital markets in India had opened up post 1991 and private mutual funds were allowed into the country. These funds became institutional investors and the promoters had to get accustomed to answering questions during the analyst meets/investor calls. The large investors were helped by one of the key changes brought in by SEBI - the introduction of Qualified Institutional Buyers (QIB) and today fifty percent of the total new-offering is reserved for these QIBs. Institutional investors, with their expertise, ask tough questions during their calls with the businesses. Thus, the promoters have had to bring about a change in their own attitude and have to share much more information with 'outsiders' than they would have liked to in the 'good old days'!

Through all this churn in the promoter business life there was one comfort that remained – that the Board of directors continued to be from a set of personal network! The regulator, too, left the board and its matters as it had other matters to focus on. The Satyam fraud of 2009, however, shook up everyone including the regulators. This was a company, a family owned no doubt but one with international operations, that had a venerable set of directors. The high-profile board had a Harvard professor known for his expertise in corporate governance and also had the dean of one of the top management institutes of India. The question that everyone asked at that time was "what was the Board doing?" and then "What was the Regulator doing?"

The Satyam-matter, as it is called, started the process of breaking down the last remaining comfort zone of the family business owner. The workings of the board came under focus, and to the horror of many promoters, tough guidelines were laid down on the form, format and composition of the board. It was the gen - next that realized that the patriarchs needed to bring about a change in their own attitudes if they wanted to survive and then prosper.

The last twenty-five odd years have not been easy for an Indian promoter. They have has seen a complete change in the way business is run. But they also realize that there is no going back and the world, and India as in integral part of the new world, is changing each day. Transparency is not requested but demanded by all. Corporate governance will only increase, and more decisions of the business would come under question as institutional investors start asking questions at the periodic meetings. The silver lining for promoters is that they have many shining examples of their peers and their businesses prospering in the new environment. The Mahindra Group, the Aditya Birla Group and the Max Group are examples that prove that the generational shift in corporate governance does work.

Book extract

Amit Burman set up Dabur Foods outside of the parent company as he wanted to have autonomy in his business of fruit juices. The fruit juice market in the mid-nineties in India was an underdeveloped one.

“Looking at the market I obviously felt that India was going to be a big market for my juices,” says Amit. “In the West everyone had fruit juice for breakfast so I thought that India could develop into a big market,” he adds. Developing the product of fresh fruit juice with no preservatives and no added sugar seemed just what India wanted at that time. “I thought to myself ‘this is crazy. Why has no one launched fresh fruit juices?’,” he says.

Amit found out the reason pretty soon! He launched his Real Fruit Juice with no added sugar and no preservatives. To his great disbelief, no one liked it. “We found that Indians pretty much liked their juices with sugar and colour!” says Amit incredulously. “When people opened the pack, and saw the juice they did not believe it was orange juice. They thought it was mango juice!”, laughs Amit. Since there was no colour added the orange juice was more yellow in colour than reddish orange. The Indian customer rejected it completely!

However, even before the juice could reach the customer, the young team was faced with a number of challenges, especially at the stage of transportation and stocking.

“Everything that had to go wrong went wrong,” says Amit. “We had no idea, initially, how to package and transport the product so there were problems of puffing,” he adds. Amit had naturally, started by using the Dabur distribution system which was a well-oiled machine. However, Dabur sold products that had a 2-year shelf life.

Real Fruit Juices had a shelf life of only six months. “We realized soon enough that the Dabur distribution system was not capable of handling my product,” says Amit. The juice cartons would sit on the shelf, in many cases in non-airconditioned stores, and the juice would spoil.

While Amit along with his team battled all these business problems on one side, he had to face the questions from the Burman family on the other. Dabur Foods, the company that Amit set up to manufacture Real Fruit Juice, was not part of the parent Dabur company but was a subsidiary. Therefore, the financials of Dabur Foods were added back to the parent Dabur company. The 150-year-old Dabur was not accustomed to seeing losses in any of its new products. “What would happen is that Dabur would launch a new version of hair oil, say, almond. If it did well, it continued. But if it tanked it would quietly be withdrawn from the market,” explains Amit patiently. Dabur Foods, on the other hand, had a separate balance sheet. Therefore, all costs were visible as they were stand-alone and there was no place to hide the losses. They were in plain sight for all to see.

The losses were not a pleasant picture especially for a company that was not used to seeing losses. “I remember there were many Directors on the board of Dabur who wanted this business to be shut down. They kept asking ‘what the hell are we doing in this business?’,” says Amit.

The pressure on the young team was immense and Amit is convinced that if his last name had not been Burman, he would have been fired in the blink of an eye. “But because I was who I was they said ‘let’s give him another chance. The poor boy is trying very hard!’” he laughs self-deprecatingly. When the fruit juice business was started, it was a small side-bet for Dabur primarily to let Amit do something that was of interest to him. “It was like let him buy the machine – it was at a depreciated cost anyway- and let him use the Dabur machinery of distribution and marketing,” laughs Amit. Fortunately for him his father and his uncle had faith in the product and in the ability of young Amit. While he faced the hard questions from the board Amit had to be the perfect shock-absorber for his young team. He had hired seasoned professionals from the industry who had joined Amit to build a new business from scratch. The tensions of the board room were not hidden from anyone and the insecurities have a habit of percolating down to the last member of the team. “Therefore, whatever went on in the Board Room – I had to walk out with confidence and tell my team that all was well,” he says. None of this is taught in any business school and Amit learnt it first-hand on the job.

“Those were tense years. Lots and lots of time there were fights in the board room and I was hammered again and again,” says Amit. But each time he had to walk out with a smile on his face and his shoulders pulled back so that he could shield his team from unpleasantness. The Burman family had appointed Ninu Khanna as the CEO of the Dabur business and had also given him to responsibility to mentor the young inheritor. As a professional Ninu had to keep his eyes firmly on the balance sheet of the parent company. Dabur Foods was a drag on the consolidated accounts. Ninu, most likely, did not want to be seen by the Street as a CEO who could not manage the profitability of the listed company. The classic mismatch between the deliverables of a professional and the aspirations of a Family

Business Owner was played out in this case. Ninu would not allow any new product variants to be launched in an effort to contain the losses which may reflect badly on him. To complicate matters the family members, who were shareholders but not necessarily part of the business, also pitched in against further expansion as losses in the parent company would affect, negatively, the dividends paid out to them.

To give credit to Amit and his team, they put their head down and persevered to make Real Juices a success. It was a long road but little by little the company started showing signs of recovery.

“Slowly but steadily, we started making profits,” says Amit in a measured, slow tone reflecting the speed of the journey of the company towards profitability. The journey continued and today it is a plus INR 1,000 crore brand. There is an immense satisfaction in the voice of Amit as he tells me this. “Real is 10 % of Dabur’s top line today and it is the best business that we have today. It is growing at 20-25 per cent each year. It is the number one brand in the market with more than 60% market share,” he adds. There is, however, no smugness in his voice as he talks of the success that he achieved. Just a sense of quiet confidence of “I-always-knew-that- it-would succeed.”

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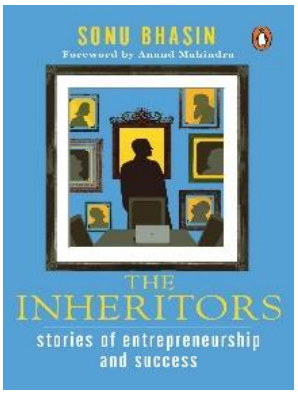

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