THE TIES THAT BIND

Today's second-generation promoters get it easy. But then on, it's hard—they have to fight old business values inside and a doubting public outside

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IF THE ONGOING GLOBAL FINANCIAL CRISIS had not busted India's real estate party, B Teja Raju, elder son of disgraced Satyam Computer Services promoter B Ramalinga Raju, may well have been feted as a young and dynamic second-generation entrepreneur-promoter. As Vice-Chairman of the Raju family-owned Maytas Infrastructure, the 30-something Teja Raju was charting a new course for the family's traditional real estate and construction business with a metro railway project, airports, seaports and industrial construction.

Maytas' role in triggering the collapse of Satyam is now well-documented. And, Teja Raju is suddenly a young scion in the spotlight for all the wrong reasons.

Corporate India is dotted with companies that are family-owned. Father to son—or daughter in fewer instances—has been the succession path for decades. Notable examples of young scions who have come into their own as business leaders include Kumar Mangalam Birla, Chairman of the $28 billion Aditya Birla Group, Gautam Thapar, Chairman of the $3 billion Avantha Group, Prashant Ruia, Director, Essar Group, Rajiv Bajaj, Managing Director of Bajaj Auto, and, of course, the brothers Ambani, Mukesh and Anil, who now straddle their respective mammoth Reliance empires. Yet, despite the success that these men have seen, they and successive generations will now find it tough to shake off the stigma that Satyam has cast on family-owned enterprises.

Credibility Crisis

Post-Satyam, the small shareholder's perception of family-owned businesses in India will never be

INHERITANCE OF LOTS: (left to right) Karan Paul of Apeejay Surrendra Group, Navroze Godrej of Godrej, Neeraj Kanwar of Apollo Tyres, M Thiagarajan of Paramount Airways and Ashni Biyani of Future Group

the same again. Every move that such companies make will be under intense public scrutiny, both by shareholders and regulators. It will no longer be as easy for successive generations to ease into their family enterprises simply because they were born into it. For young scions, who either already lead family businesses or are on the threshold of doing so, the big challenge in the next few years will lie in earning the right to lead their inheritances. And the one quality that will be indispensable in earning it will be credibility.

Second-generation promoters, today, operate in a business environment that is different from the one that their fathers flourished in. A company's credibility is no longer measured just in terms of thumping market capitalisation. Wealth creation for the sole purpose of appropriation by the family is also no longer acceptable. In the new world, credible businesses and businessmen are those who also distribute that wealth among external shareholders and, increasingly, among internal shareholders, notably employees.

Therefore, building flat organisations sans draconian hierarchies and autocratic promoter-CEOs, adopting world-class corporate governance, empowering professional managements and succession planning beyond the family, are just some of the critical issues that young scions have to factor in when taking up the reins.

Much of this still does not exist in India's corporate landscape, particularly in the mid-market segment. "A lot of the second generation today are very educated and eager to make changes. But, it still takes time for the son to move out of the domination of the father. And if there are siblings involved, bringing in changes is even tougher," says Nitin Deshmukh, CEO of Kotak Private Equity, whose investments are focussed on mid-market companies, many of which are family-owned.

One of the big challenges for private equity investors, whose mainstay is the mid-market segment, is to institute good governance practices and professionalise such companies. In fact, many investors often walk away from deals if they find the promoter is unwilling or unable to change. Even attractive valuations do not help. "Valuations are secondary when compared with governance. If companies are not open to adopting better governance, it is probably a good reason not to do the deal," says Bharat Banka, MD & CEO of Aditya Birla Private Equity, which is raising a $250 million fund that will invest in mid-market companies.

Learning On The Job

However, while many companies continue to be set in their ways, there are others that have gone against the grain and ushered in changes. Most are also acutely aware that change can only be pushed after earning credibility within and without the organisation.

"As a young inheritor, I realised early on that you may own the system, but you still have to prove your credibility as a leader and get acceptance," says 39-year-old Karan Paul, Chairman of the Rs 1,500 crore Apeejay Surrendra Group. Paul took charge of the family's tea business in 1992 at the age of 22 when his father, Surrendra Paul, fell to an assassin's bullets in Assam's tea growing district. It took him eight-odd years to thoroughly understand the various businesses before moving to re-shape the group. The idea was to make the old-style family business a more dynamic, best-practice based entity. "We introduced several FMCG-style business practices. For the first time, we researched our brand and put in place a brand strategy," says Paul.

Today, the group focuses on four verticals—tea, shipping, hospitality and real estate—and has got out of the traditional steel trading business. In between, at Paul's initiative, the group had also made a foray into financial services, but sold out in 2006 for Rs 320 crore. Next on the agenda is a Rs 2,000 crore-plus expansion exercise, which Paul expects will catapult the group to being the largest and most profitable family-run business in India. After the years spent coming into his own, his biggest learning, ironically, is, "22 is not the right age for taking charge of any business."

But it is probably a good age to start learning so that when the time comes to take charge, the skills are in place. That is precisely what Future Group CEO Kishore Biyani's daughter Ashni Biyani is doing. In 2006, she went to work at the group's innovation and incubation division, after finishing design management at the Parson's School of Design in New York and a general business programme at Stanford. "Now, I can look at a Big Bazaar spreadsheet and understand why the throughput of this store is x...often I sit at meetings and say this store can do 20% more," the 23-year-old told *Outlook Business* in an interview last November.

Delegation Is Key

If learning the ropes early is one way to earn credibility, the other is to de-centralise decision-making. For M Thiagarajan, the 30-year old Managing Director of Paramount Airways, an important learning after entering the airline business has been the need to empower people to take decisions at the ground level. He subsequently extended that learning to the family textile business, Madurai-based Paramount Group, where traditionally, decision-making has been centralised. "To start with, we extended the 'cost effective service excellence' motto of Paramount Airways to our textile business," he says.

One rub-off of this approach has been the introduction of a talent management programme to groom young people in the group. Over the last two to three years, around 50 people have been groomed and seen their career fast-tracked to mid- and senior-management positions. After three years in operation, Paramount Airways, claims Thiagarajan, is the only profitable airline in the country, and will end the current financial year with a topline of Rs 2,000 crore.

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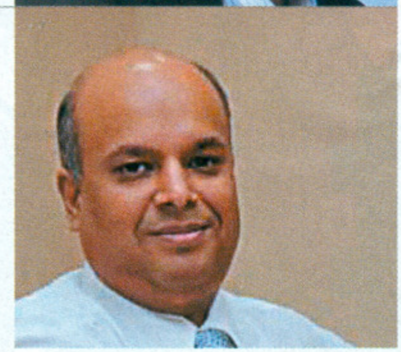

Most second-generation promoters rely on people focus to connect better with their businesses—a big departure from the way older generations did things. Apollo Tyres Vice-Chairman and MD Neeraj Kanwar is a case in point. Since taking charge in 2006, the 38-year-old Kanwar has brought consistency to the company's HR policies and transparency in both internal and external communications. Appraisal cycles were revised and processes were formalised. Increment policies were fixed and other policies changed to bring employees to the forefront. Alongside, he also involved functional personnel in the decision-making process.

Elsewhere, 25-year-old Navroze Godrej, son of Godrej and Boyce Chairman Jamshyd Godrej, has worked with cousins Nisa and Tanya (Adi Godrej's daugthers) to give the Godrej brand a younger look. The change has not just been about a new logo. Says Navroze: "We have to first bring the change in the organisation and then take it out. We have taken each and every employee through our promise of brighter living."

Testing Times Ahead

In the next three to four years, along with building credibility, young scions will be tested in terms of their ability to ride out what promises to be corporate India's most difficult phase yet. The global financial meltdown has seen liquidity dry up in the domestic markets and growth has slowed down. In a way, this is the ideal environment for separating the men from the boys. "Better quality deals will begin to emerge because companies that truly want to build businesses of scale will now become open to change," says Kotak's Deshmukh.

In the current environment, and following the Satyam fiasco, corporate governance will be foremost on every investor's mind—financial investors and retail shareholders. However, according to Banka, bringing about governance-related changes in family-run businesses is less of an issue now than it used to be earlier. "On an average, one out of every two companies we look at is open to adopting world-class corporate governance standards," he says.

The urgency to bring in external capital from non-traditional resources such as the public markets will also force some of these companies to change faster than they would have planned. And, since they now have second-generation promoters with a wider exposure to the global economy at the helm, the Teja Raju example may soon become an exception to the rule. ■