Dabur India Ltd is undergoing the challenging transition from family management to professional management, while staying true to the legacy and traditions of its founders

Dabur India Ltd

By Dennis T Jaffe, Joseph Rosenthal & Anish Gupta

THE HEADQUARTERS OF Dabur India Ltd stands just outside New Delhi, on a crowded road lined with a variety of old buildings and undeveloped land. Almost as if leaping centuries into the future, you come upon a few tranquil acres of sloping, landscaped lawn and garden, in the middle of which is a silver and glass tower that would not be out of place in California's Silicon Valley. Completed in 2000, the building stands as a symbol of how far Dabur India Ltd (Dabur) has come in the past century.

In 1884, SK Burman began a direct mailing system to send his herbal medicines to villages from his shop in Calcutta. His mission was to make available healthcare at affordable prices to all people. Today, Dabur is a public company, still largely owned by SK's descendents, whose revenues have just passed Rs 10 billion (US$215 million) in 2000. Under the leadership of 4th generation heirs and with the involvement of several members of the 5th generation, Dabur is undergoing the challenging transition from family management to professional management. They are undertaking this difficult task to help them more successfully compete in a global marketplace, dominated by large multi-national FMCG (fast moving consumer goods) companies. Can the strengths that Dabur has developed over the past century enable it to prevail over its much larger competitors? What best practices must the Burman family pursue in order to complete the transition to professional management, public ownership and global presence?

The Dabur transition is a work in progress. For 100 years the Burman family was completely entwined with the fortunes of Dabur. Now, as they transition to indirect leadership through the Board of Directors rather than by day to day management, they must influence the company in other ways. Also, as family members can no longer expect that their futures will automatically lie in Dabur, they must discover other ways to channel their talent and capabilities. The Burman family faces several strategic choices for its future, as it diversifies from significant reliance on one company.

ABOVE:
The Burman family.

Evolution

Through four generations, Dabur *was* the Burman family. Each male family member worked for the company and the executive suite was made up of the family leaders. The stage of owner management continued into the 4th generation.

After SK Burman founded the business in 1884, he began to mass produce his products and ship them into the villages of Bengal from his store in Calcutta. His son, CL Burman, took over and continued the successful business. He in turn had two sons, PC and RC, who both entered the business.

PC and RC formed a natural partnership. When PC entered the business, he gravitated naturally to the formulation and production of products. Brother RC had a more outgoing personality, and he entered the sales and marketing area. For more than a generation they added new products and steadily grew the business.

As a Hindu family in India, they lived in a shared household in Calcutta. PC's sons AC and VC, and RC's sons GC, Pradip and Sidharth grew up as 'brothers' in the same household. They regarded their cousins and brothers alike as their "brothers"; they were one family. Following tradition, each son prepared to enter the family business.

AC, seven years older than VC, and 11, 13 and 15 years older than his uncle's offspring, acted in the role of quasi-parent to his brothers, and to this day, he is the family patriarch. Each family member of the 4th generation entered the business in turn. AC, working under his father and uncle, focused on broad strategic issues to develop the company. VC focused in the sales and marketing area, and was trained by his uncle. A few years later GC came on board and, by temperament, was drawn to production; he was guided by PC. Thus, there was a sort of family balance with two family executives of the next generation trained not by their fathers, but their uncles. Pradip joined the business and looked after the engineering aspects of the plant in Calcutta while Sidharth worked in the sales area.

> 'In order for Dabur to grow, the company needed to go public. Needless to say, family members were somewhat sceptical'

In 1969 unrest and business uncertainty in Calcutta led the family to expand its manufacturing operations in Delhi. A few years later the sales organisation also shifted to Delhi. When the family moved to Delhi, the 'brothers' each set up separate households. This brought a change in culture and tradition that has current consequences for the management of Dabur and the organisation of the family council. While the senior members fondly remember growing up together in Calcutta, their children have only heard about the tradition, not experienced it.

Pradip held fort in Calcutta while the rest of the family shifted to Delhi. In Delhi, Sidharth took up the finance portfolio and rationalised the borrowing costs for the company. However, lack of immediate opportunity within Dabur led Pradip and Sidharth to pursue ventures funded by the family and independent but related to Dabur. For the first time, family members found that there were not enough executive positions for everyone, although they continue currently on the Board of Directors. As a result, they started a new company, Vidogum and Chemicals. Subsequently Pradip started Dabur Ayurvet Limited while Sidharth is currently based in Dubai.

The titular leadership of PC and RC continued until the end of the 1980s. First PC and then RC decided to step down, leaving the chairmanship to AC, who was the eldest and clearly the next generation's leader. PC passed away in 1991 and RC is quite frail.

GC was in charge of building the operations of Dabur in Delhi. Production started at a rented facility initially, moving to a dedicated factory near Delhi in 1976.

In the two decades between 1970 and 1990, Dabur had strong growth. At the turn of the 1990s it was on the verge of being counted as one of the leading Indian FMCG companies.

1993: Going public

In 1993 AC, as the leader of the firm and its' chief strategist, decided that in order for Dabur to grow, the company needed to go public. While it had a solid roster of products and a tremendous following within the country, Dabur needed additional funds to expand its production, establish new factories, launch a more diversified line of products and remain competitive as large multi-national consumer goods companies entered their market.

Needless to say, family members were somewhat skeptical. The Burmans had run the company without outside oversight for a century and they did not look forward to the perceived 'interference' that went with a public operation. Using his authority as family leader and patriarch, AC prevailed. The public issue was oversubscribed and the share price remained strong. The company grew at a rate that outpaced their industry.

Even as a 'public' company, the Burman family remained at Dabur's centre: AC, VC, GC and Dr Anand Burman were all at work every day, overseeing different parts of the operation.

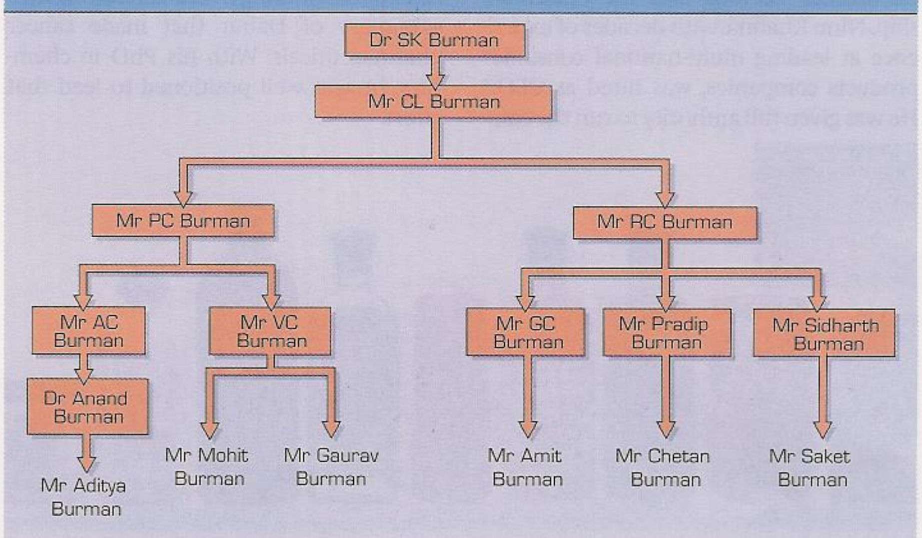
However, there continued to be indirect pressure to re-evaluate the role of family members as part of everyday management. For example, every family business learns that it is hard to recruit skilled and entrepreneurial managers when family members occupy all the top spots and there is no prospect of promotion for non-family managers. So as the company grew and prospered, the family began to consider changing its traditional owner-manager model.

1998: Professional management

In 1997 Dabur initiated a major study and redefined the roles of family members in management of the company. At the same time, additional plans for development and expansion were set in motion. The new headquarters was designed and product expansion into new areas was initiated.

The study concluded that in order to attract, hire and install an experienced professional management team to lead the company, family members would have to leave executive roles in the com-

Burman family tree



Note: daughters not included in the family tree

Figure 1 – Business structure (sample) contribution to total sales of Dabur India by business unit [2]

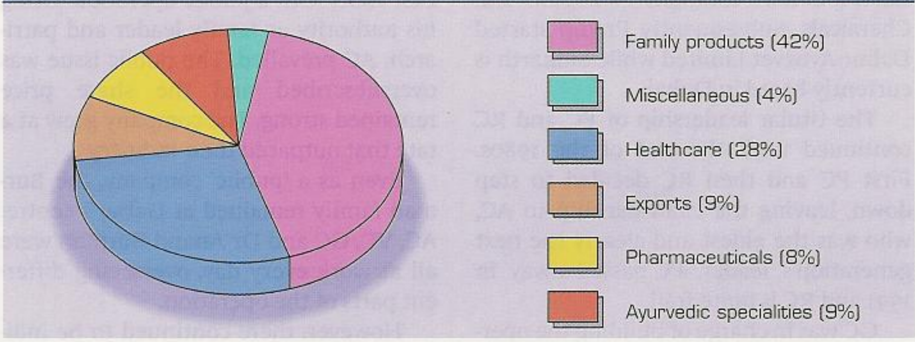
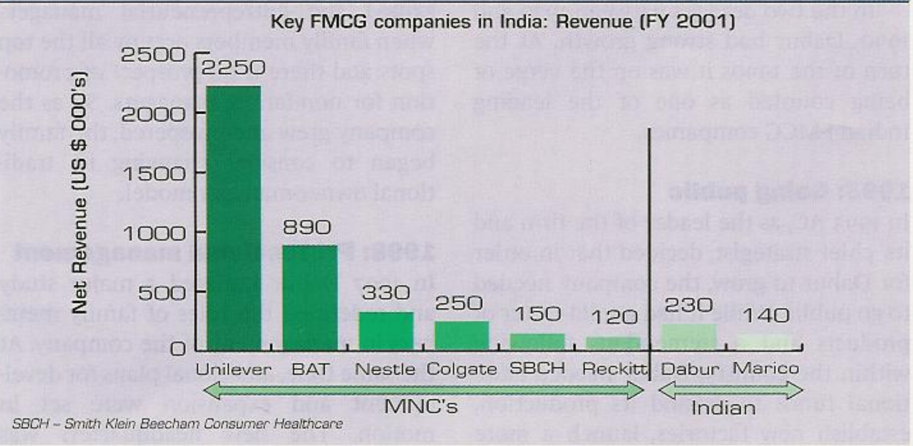


Figure 2 – Dabur's positioning in the Indian marketplace



pany. This was a major undertaking and a necessary step to demonstrate to outside investors that Dabur was seriously ready to compete in international markets.

These recommendations were accepted in principle, and AC set an example by retiring as Chairman, giving up his office in the company headquarters, while his brother VC took over the Chairmanship. Ninu Khanna, with decades of experience at leading multi-national consumer products companies, was hired as CEO.* He was given full authority to run the company, with GC becoming Vice Chairman and Managing Director, acting as the representative of the family. They worked side by side and the company continued to grow. A transition plan was also worked out, where after 3-5 years, GC would become chairman and Anand, AC's son, would be nominated Vice Chairman. Anand was working in London setting up a subsidiary of Dabur that made cancer pharmaceuticals. With his PhD in chemistry, he was well positioned to lead that effort.

But the changes did not stop there. As the company moved into its new building, the family members agreed that they would no longer have offices in the company headquarters. Instead, they moved their offices to a family office complex away from the company. Only GC, as managing director, would have an office in the company headquarters.

The family office in downtown Delhi consisted of offices on several floors of a small building, and there the family is located. Apart from offices for family members, there are offices for several family advisors, including PD Narang, who has held key positions in Dabur (including a Director on the Board) and has been working with the family for many years as a business advisor.

> 'Dabur has developed a tier of non-family managers in charge of each business unit and functional area, many with experience in large multi-national consumer goods companies'

In the last three years, Dabur has developed a tier of non-family managers in charge of each business unit and functional area, many with experience in large multi-national consumer goods companies. The focus has been on helping Dabur shift from a 'family centred' organisation to an 'institution', adopting professional management techniques of accountability and performance management similar to other large firms. Khanna feels the company is full of great product ideas and that they need to develop the

LEFT:
A selection of products produced by Dabur India Ltd.

FOOTNOTE:
** Mr Khanna has recently resigned from Dabur.*

Key events in Dabur India Ltd

- **1984** – Dr SK Burman lays the foundation of what is today known as Dabur India Limited. Starting from a small shop in Calcutta, he began a direct mailing system to send his medicines to even the smallest of villages in Bengal. The brand name Dabur is derived from the words 'Da' for *daktar* or doctor and 'bur' from Burman
- **1896** – As the demand for Dabur products grows, Dr Burman feels the need for mass production of some of his medicines. He sets up a small manufacturing plant in Calcutta.
- **Early 1900s** – The next generation of Burmans take a conscious decision to enter the Ayurvedic medicines market so the healthcare needs of poor Indians can be met.
- **1919** – The search for processes to suit mass production of Ayurvedic medicines without compromising on basic Ayurvedic principles leads to the setting up of the first Research and Development laboratory at Dabur.
- **1920s** – A manufacturing facility for Ayurvedic Medicines is set up at Nearendraper and Daburgram. Dabur expands its distribution network to Bihar and the north-east.
- **1936** – Dabur India (Dr SK Burman) Pvt Ltd is incorporated.
- **1940** – Dabur diversifies into personal care products with the launch of its Dabur Amla Hair Oil. This perfumed heavy hair oil becomes the largest hair oil brand in India.
- **1972** – Dabur shifts base to Delhi from Calcutta. Starts production from a hi red manufacturing facility at Faridabad.
- **1979** – The Dabur Research Foundation (DRF), an independent company, is set up to spearhead Dabur's multi-faceted research. Also this year, commercial production starts at Sahibabad. This is one of the company's largest and most modern production facilities for Ayurvedic medicines in India at this time.
- **1986** – Dabur becomes a public limited company through reverse merger with Vidogum Limited, and is re-christened Dabur India Ltd.
- **1989** – Hajmola Candy is launched and captures the imagination of children.
- **1994** – Dabur India Limited comes out with it first public issue. The Rs.10 share is issued at a premium of Rs.85 per share. The issue is oversubscribed 21 times.
- **1994** – Dabur reorganises its business with sales and marketing operations being divided into three separate divisions.
- **1997** – The Foods division is created, comprising of Real Fruit Juice and Hommade cooking pastas to form the core of this division's product portfolio.
- **1997** – Project STARS (Strive To Achieve Record Successes) is initiated by the company to achieve accelerated growth in the coming years.
- **1998** – The Burman family hands over the reins of the company to professionals. Non-family professional joins Dabur as the Chief Executive Officer.

Dabur is 'dedicated to the health and well being of every household' and is guided in these efforts by the words of founder SK Burman: 'What is life worth that cannot give comfort to others'

capability to execute major changes that he has seen in larger multinational companies.

The family link

Although family members have taken a back seat in management, there are still several family links to Dabur. Six family members are on the Board of Directors. There is also an arrangement whereby many family members receive a salary from Dabur for serving on the board, or for working in the company. The family has also traditionally offered younger generation family members the opportunity to pursue a working internship in the company, where they experience several areas of Dabur, learning about the business.

The disconnection of family from Dabur management is proceeding in steps. Anand, AC's son, is creating a London pharmaceutical subsidiary, Dabur Oncology. He bought a manufacturing facility, hired a first rate professional team and is about to go into production with several cancer drugs. VC's younger son Gaurav is an investment banker in New York, and his older brother Mohit, after working for a time at Dabur, is creating a new venture that the family will invest in. GC's son Amit entered Dabur after working for some years at Colgate and receiving his MBA from Cambridge University, and started a food subsidiary that manufactures fruit juice. Chetan, Pradip's son, also entered Dabur for a time, but left to pursue a family-funded venture developing local honey growing capability in Nepal.

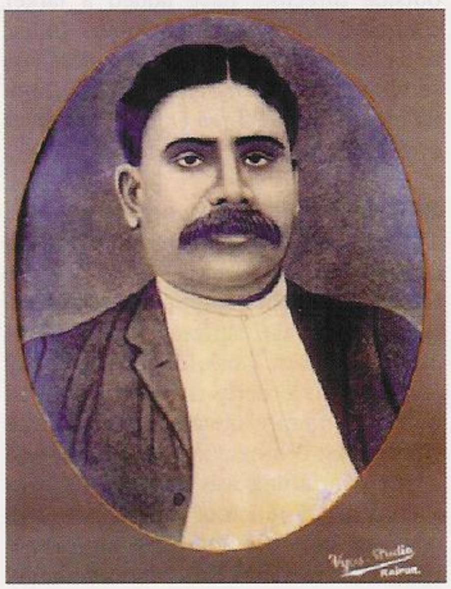
In order to maintain confidence in the company and continue to attract buyers, other changes are also being made. New regulations specified that a public company had to have at least 50% of its board as outside shareholders. Dabur began to recruit leading business people to be on the board, including the former chairman of Unilever India, Mr SM Dutta. The outside directors have added a larger company perspective to Dabur. Today, there are nine outside board members serving the company, along with six family members and three Dabur executives on the Board.

2001: Managing the unexpected

The separation of family from Dabur was proceeding in orderly stages, when tragedy struck in September 2001. Without warning, GC suffered a fatal heart attack while at work, disrupting many facets of the orderly transition. He had been the family member who, in the words of his brother, "knew everyone and where everything was located". GC was the keeper of much of the "tacit knowledge" of how the company ran, something that was now lost. The non-family CEO of Dabur, deferred to him in many areas and many employees felt secure in the transition knowing the family was represented by GC on the premises. Now it seemed that this sense of security might be at risk.

The neat family plan was thrown into disarray. GC had been scheduled to take over the position of Chairman from his cousin VC. Now, VC would temporarily keep the chairmanship. Anand was working hard in London to set up Dabur's oncology subsidiary. Consequently, he would not be able to devote adequate time to working in Delhi. The family's business and financial advisor, PD

ABOVE:
Mr GC Burman, former Vice-Chairman and Managing Director of Dabur India Ltd, who suffered a fatal heart attack in September 2001.
BELOW:
SK Burman, the founder of Dabur India Ltd.



Narang, was sent to work with CEO Khanna as a special advisor, representing the voice of the family. At present, the future chairmanship of the Dabur board is uncertain.

> 'The Council would clarify and clearly define the policies and structures for governance for the benefit of the next and succeeding generations'

The tragedy had the potential to create a setback for the process of transition from family to professional management. In order not to fall back into the former pattern of family management, the family took up the following challenge: to use the tragedy as a driver to further clarify the family's rules and policies about family involvement in Dabur and other business ventures, while implementing plans to continue the transition to professional management. Utilising some of the best practices they had heard about from other family businesses, the Burman family began working together to create a Family Council. The Council would clarify the policies and structures for governance whereby the family exercised oversight of Dabur and other ventures, and clearly define these policies for the benefit of the next and succeeding generations.

Toward explicit family governance

To meet this challenge, the family convened in an unprecedented series of meetings. Their commitment was clear – they wanted to create a foundation in the family that would free Dabur to develop as a public company, and to support the family in defining its own future development with a diversified portfolio of businesses. Unlike many other large Indian business families, the Burman's wealth rests largely with its significant ownership of Dabur.

An initial series of family meetings defined the issues involved, and began consultation around utilising international family business 'best practices' to facilitate their development. In conversations with each of the family members involved in the business, a set of key issues were defined. Following the 3-circle model of family business, transitions have been proposed in each sphere:

- Family – given the presence of several family branches and new family members coming of age, there is need for the family to meet regularly, to enhance communication and build regular policies for family involvement in various family ventures. This involved the formation of a Family Council.
- Board – the consensus is that there are too many family members (6) on the Board, and that the board needs to be streamlined and its functions clarified. This involved recruiting more outside directors, and having the family become less directly involved on the board.
- Management – the family has decided to move, over time, towards a situation where family members do not hold executive positions in Dabur.

> 'Each family member was clear that they wanted to adopt the best practices and was willing to question the way things were currently done'

Family constitution and council

The family has already begun to draft a set of policies that would govern their operation. This 'family constitution' is an expression of fair principles by which all family members would participate in the family's business ventures. It also incorporates the family's values and the legacy of Dabur – things they hope will never change and will help guide them in their transition. The constitution will also define the 'Family Council' and how it interacts with their various ventures. The family understood that by developing a constitution and council, they would be questioning some long-held family practices. Each family member was clear that they wanted to adopt the best practices of family businesses, and was willing to question the way things were currently done.

The Family Council is a forum where

all adult family members will gather several times a year to oversee both the 'business of the family' and the 'business of their business'. The Council is different from the Board of Dabur and from any of their other ventures. It acts as a vehicle to express the desires of the family shareholders in relation to each of their business and charitable ventures.

The establishment of the constitution and Council are big steps for the Burman family. It is helping them make the shift from a family centred on Dabur to a family centred on the Council.

Future family roles

Since the family decided it would not step back into active management, of Dabur, their involvement would be through the Board of Directors. To enable that, family members had to make several plans for the future. First, the Council made the difficult decision that Burman family members should not be encouraged to work at Dabur in the future.

> 'The family expects that the transition will create a renewal of the family spirit that has characterised the Burman family for the past century'

Presently, two family members are in management roles. Anand heads the pharmaceutical division and Amit is in charge of a new food business. In the aim of moving family out of active management roles, the family has already initiated a process that will make these two divisions independent subsidiaries of Dabur, with a family member as a leader of the independent business. This was picked as the model for further family involvement.

A family member can also bring a business idea to the family for funding. He could receive seed funding and each family member could decide to invest in the venture. Several such ventures are in development currently and will be encouraged. This is quite different from the former practice of family members beginning with an internship within Dabur, and then working as executives within it. The family envisions the family making a variety of new investments and having several thriving businesses in the future.

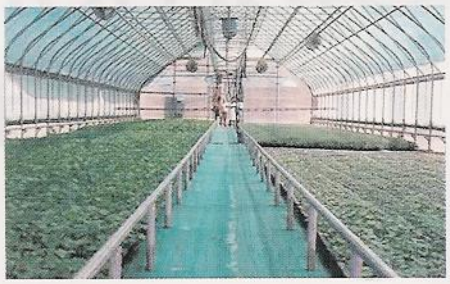
The Council also agreed that the number of family members on the Board of Directors needed to be reduced. The current family allocation of six seats was not in keeping with the desire to have a professional company, which should be led by a professional board. Therefore, the family has developed a plan to reduce the number of family members on the Board. This will allow more space for outside professionals on the Board, but still ensures the family's voice, as owners, to be heard.

However, the family also can make its ideas and concerns known through a process less formal than the Board. At each Council meeting, the CEO and other executives will make a presentation on the performance of the business to the Council, thereby allowing the exchange of concerns and ideas between management and family. This will further reduce the formal involvement of the family, but still give them a voice.

The Council is also evolving ways to support family member development. As members of the Burman family, each family member can count on family support for their growth and development. The Council will act as the distributor for family dividends to family members. Over time, the Council will develop ways to involve female family members and spouses.

At this time the Council has had two meetings and has agreed to hold a meeting every quarter. The family expects that this transition will create a renewal of the family spirit that has characterised the Burman family for the past century. Certainly, it is a work in progress. ■

Dennis T Jaffe *is a professor at Saybrook Graduate School in San Francisco, and author of* Working With The Ones You Love, *and* Working With Family Businesses. **Joseph Rosenthal** *is a partner with Hanover Strategies LLC, a consultancy focusing strategic business development with non-governmental organisations, multi-generational family businesses facing transition and governance challenges and* Fortune 100 *companies.* **Anish Gupta** *is a senior manager in Accenture's New Delhi office. He focuses on issues of business strategy and governance and has worked with a number of family businesses in these areas.*



TOP TO BOTTOM:
The ayurvedic herb; inside view of the greenhouse at Banepa, Nepal where kut, *an endangered medicinal plant is cultivated; a research laboratory where phytopharmaceuticals are being developed; microscopic cancer research.*