The Muragappa Group

IMD Distinguished Family Business Award Winner 2001
Rome

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The Murugappa Group, headquartered in Chennai (Madras), India has grown from humble beginnings to become a very important conglomerate. The company started as the dream of a driven entrepreneur in Burma in the early 1900s. Today it boasts revenues of US$ 850 million and employs 22,500 people in its 27 business units. The company is presently undergoing a major change, as it restructures its family governance system. It realises that change is necessary if they want to continue to compete in the world marketplace. Though adaptation is not always easy, the Murugappas find strength through their heritage and values.

An entrepreneurial spirit
The family traces its business history to 1760 when the great-great-great-grandfather of the founder was active in trading and money lending. He had five sons who each, separately, built successful businesses that, in later generations, led to leadership in several industries in India. The family came from a long line of members of the Chettiar sub-clan of the Vaisyas caste-merchants and professionals with business interests primarily in Burma, Malaysia, Sri Lanka and Vietnam, known for their scrupulous honesty, trustworthiness, cleverness in trade and proficiency at money matters.

The Group's founder was Dewan Bahadur Arunachalam Murugappa Murugappa Chettiar (known as Dewan Bahadur), the youngest of three sons, born in 1884. Following Indian tradition, the majority control of his deceased father's entire estate went to the eldest son, with Dewan Bahadur receiving virtually nothing for all his work. The unfairness of this policy spurred him to divide his estate equally among his three sons - Murugappa, Vellayan and AMM. He did this while they were young men and while he was still alive to give them the freedom and the opportunity to be a family energetically pursuing business together. He also encouraged free speech among his sons until a decision was taken; then the courtesies due to an elder had to be honoured. This, too, varied from the norm in society at the time where respect for the elder was paramount.

All three of Dewan Bahadur's sons shared their father's venturesome business spirit and complemented each other in their managerial styles. Murugappa was marketing and external relations-oriented; Vellayan was finance-oriented; and AMM was operations-oriented, with a focus on details.

In the early 1930s, Dewan Bahadur and his sons made several decisions that were critical to their later success. At a time when 70% of Chettiar wealth was in Burma, they repatriated much of their monies to India so that the Great Depression, World War II and Burmese national movements didn't bankrupt the family; they had an insight that India was on the verge of industrialisation; and they decided to take the family's first steps into major industry.

With the repatriated funds, they established a sandpaper plant (the beginning of today's US$ 65 million abrasives business called CUMI); they purchased a steel safe manufacturing company; they started an insurance company; and they bought a rubber plantation. The Murugappa Group was born.

In 1931, Dewan Bahadur's eldest son, Murugappa, visited the US for the International Chambers of Commerce Convention. This trip broadened the family's view of possibilities for making money and expanding the company.

When Murugappa returned from the US, he kept an eye out for a business opportunity he could set up and lead in India. When he heard from an acquaintance that there was market demand in India for a quality manufacturer of steel security furniture such as safes, cashboxes and filing cabinets, he moved forward with family support, commencing production in 1940.

A much larger foray, conceived during the same time period, was to enter the business of making abrasives, a product used by manufacturers to sand, sharpen and smooth equipment, materials, components and end-products. The family's rationale was that if world war broke out, the volume and variety of goods imported on British ships would decrease; thus, local manufacturing would expand with the new opportunity. The family cleverly negotiated to buy, dismantle, ship and install an abrasives plant from the American Midwest to its location in India. The plant was operational in 1942.

About a decade later, AMM made contact with the three largest abrasives companies in the world - to seek a joint venture for access to new technologies. When all three were disinterested or very slow to respond, he contacted and struck a deal with Carborundum USA and Universal of UK. Before anything official was signed, the largest company in the field made overtures and showed interest. Since the family had given its word to the British company, they would not go back on it to negotiate with one of their larger, first choice firms. This was the first of many successful joint venture arrangements (since 1952 named Carborundum Universal of Madras, India or CUMI).

After India gained independence in 1947, the Murugappa family was among the first in India to form a joint venture. With introductions by Sir A Rarnaswami Mudaliar, some experience in steel manufacturing of safes and with a vision for bicycles in India, Tube Investments of India (TII) was formed in 1949. TII began as a bicycle assembly firm representing the English Hercules brand in India. The English partner began with a 43% interest. Over time, TII grew, integrated into most all components, and diversified into steel tubes for furniture, industry and other applications. Hercules became the number one bicycle company in India. The British partner eventually departed the industry, turned the Hercules, BSA and Philips brand over to the Murugappas and divested its ownership position.

One of the patterns in the Group's development is that their foreign partners lose interest in the Indian venture due to acquisition, management or strategy changes and sell back their shares to the family at a better than fair price because of the trusting relationship they had built. This happened, for example, with CUMI in 1982 when its UK parent sold back its shares. CUMI, now publicly traded, is 43% controlled by the family.

Adaptation and growth

In India's government-regulated economy, the Murugappa Group found it necessary to adapt in order to prosper. In the 1980s, Indian law prohibited formation of a business group, so the family followed the system of cross-holding controlling shares among separate public companies. Recently that law has changed, and the family is restructuring again to become a holding company.

Because of government regulation in the past, it was difficult to obtain licenses for new businesses. Between 1964 and 1980, the Group applied for 17 licenses. Out of the 17 license applications, one was granted and the other 16 were not. The Group decided not to pursue these because of their values. Consequently, to grow, they sought acquisition of sick units to turn around. In the last 20 years, 17 additional companies have been acquired.

The most well publicised acquisition occurred in 1981 with the purchase of Madras-based EID Parry - a huge, decrepit, yet symbolic business that the Group had been interested in since 1958. Parry, the second oldest commercial name in India, included fertilisers, pesticides, confectionery and also sugar mills. For years EID Parry's creditors were asking the Group to take over its management, given the Group's management reputation and acumen. The family repeatedly turned down the overtures, responding that without control EID Parry wasn't in the family interests. Eventually, the creditors relented and the family gained control of the publicly traded company. The agreement made headlines because it showed the Group's commitment to invest in what many in India felt was a risky venture, but what they saw as an opportunity to grow. EID Parry is now a business with US$ 265 million in sales and is 41% family-owned.

With EID Parry came a 7% holding in a joint venture fertiliser company, Coromandel Fertilisers Ltd Chevron and IMC Global partnered in the fertiliser growth area then later sold out. EID Parry developed a unique organic pesticide from indigenous neem seeds that is often acclaimed to be the best in the world. EID Parry is also in the sanitary ware business. However, not all businesses have been a success. For example, the Group has divested a cement company, sold its electronics business and faced difficulties with its long held construction company.

Business and philanthropy

Today the Group includes seven substantial business units comprising 27 companies in a variety of industries: CUMI, TII, Coromandel, Parry Agro, EID Parry, CIFCO and the only private company, Arnbadi Estates, holder of some of the plantations. TII now has four significant lines: bicycles, chains, industrial tubes and roll forming. CUMI is a full line, vertically integrated abrasives company and Coromandel is a very profitable fertiliser business. With Arnbadi and Parry Agro, the Group remains active in rubber, tea and coffee plantations. EID Parry includes an assortment of businesses including fertilisers, sugar mills, pesticides and sanitary ware. The Group is in the food industry with Parrys Confectionery Ltd. CIFCO is in the financial services of brokerage, vehicle finance, insurance and mutual funds.

The Murugappa Group and family also continue to build on the example of philanthropy initiated by Dewan Bahadur. His decision to set aside a major portion of his wealth for charitable causes, starting in 1924 when he built a hospital in his home village, commenced a tradition of helping, guiding and supporting others in communities in which the companies do business. The family's trust, the AMM Foundation, is sustained by a fixed percentage of annual business profits and family contributions. To date it has built and nurtured four high schools of 8000 students, a polytechnic institute of 1000 students, four no-fee hospitals and a rural research centre. The rural research centre focuses its activities on developing such things as protein-efficient algae, natural dyes, organic farming and technologies for the rural and urban poor. Although by custom, the sisters and wives of the Murugappa men do not work in the businesses, they are the major sources of leadership and guidance in the family's foundation and the institutions it supports.

Family ties

While success seems to overflow for the Murugappas, the family and business have also been shaped by trauma and loss. Tragedy first struck in late 1945 at the end of WWII. Middle son, Vellayan, age 40, was assassinated while in Burma as part of a formal delegation gauging the safety of Indian civilians returning to the newly communist country. From then on, his two brothers functioned in the business roles as 'Mr Outside' (Murugappa) and 'Mr Inside' (AMM), under the overall leadership of the elder - their father until his death in 1949, Murugappa until his death in 1965 and AMM until his death in 1999.

Beginning in the late 1950s, the third generation sons entered the business. They successfully avoided a common family business trap of an enterprise slumping after the founder's generation. This was due to their elders' concerted focus on developing the talents of the younger members as professionals through academic training, international experience, at least two years of work outside of the family business and finally employment at a mid-level in the Group's companies, rising one step at a time. Up through the mid- 1990s, each of the six male family members in the third generation rose to become managing director of one or more of the business units:

MV, first son of Vellayan and the oldest of his generation, set the pace with higher education at a college. While working at businesses within the Group, MV was encouraged by his uncle AMM, the chairman, to play roles in the business world beyond the family, including positions on boards, associations and delegations. He held Managing Director or Joint Managing Director positions at Carborundum, later CUMI, III and Coromandel until his death in 1996.

Muthiah, second son of Vellayan, was adopted as a teen by his uncle Murugappa who had no male heirs. He held several positions with the family firms, including Ambadi Estates where he became a leading authority on planting in southern India. He worked at Coromandel Engineering and was the Managing Director of CUMI when he died suddenly in 1979 at age 49.

Murugappan, the third son of Vellayan trained as a civil engineer in England and used his expertise to successfully scout unique new lines of industrial products to manufacture and sell in India. He took over the Managing Director position of CUM I when Muthiah died and continues as Chairman of CUMI to this day. Since 1999, he has been the family elder, but decided against the leadership of the business, deferring to his younger brother, Subbiah.

Subbiah, the youngest son of Vellayan, has his college degree from the University of

Aston in England. He is credited with a major role in turning ailing EID Parry into a successful business in the 1980s, serving as Vice-Chairman and Managing Director. He also had leadership positions at TI Cycles, as the Chairman of the Murugappa Group and the Executive Chairman of EID Parry. In 1996 he was appointed Group CEO.

Muru, the oldest son of AMM, studied mechanical engineering in England, followed by on-the-job training at Tube Investments Group UK. He worked at, then headed up Coromandel Engineering, the family's construction business. He died in 1995 at age 55.

Algy is the second son of AMM. After schooling in Lawrence at Ooty and gaining his degree in commerce in India, he went to Britain as a Management Trainee with TI. He started his work experience at TI Cycles and subsequently moved up to No. 2 to Muthiah in the plantation business. He was instrumental in starting up the Cholamandalam financial services business. Currently he is Vice Chairman of the Murugappa Group and Chairman of Cholamandalam.

Since the late 1970s, six of seven sons in the fourth generation have also joined the Group, making contributions in the business units at all levels including managing director. All men of the same generation and age who work in the family business receive equal compensation and perks, regardless of title, position, contribution or level of responsibility within the organisation. To enhance individual and Group success, informal mentoring among the family members takes place with older, more experienced and/or accomp1ished members guiding, assisting and supporting younger, less experienced members. As for inheritance, equal thirds of the family's business shares - following the three branches of the family emanating from the three sons of Dewan Bahadur - are divided and entrusted to the males in each generation, whether they work in the business or not.

Transitions

An important transition in organisation occurred in 1985 when the Group hired for the first time a management consultant, AD Little, to look at issues of structure and succession. This effort resulted in a leadership succession plan in which senior members of the family of the 3rd generation filled the positions of Business Unit Managing Directors, COO and CEO until each retired at 65, with the selection process based on merit as well as seniority.

After India signed the World Trade Organization agreement around 1995, the family saw opportunities, including new export-oriented activities. Because of this, they realised the necessity of making speedier business portfolio decisions than was presently possible due to individual family members being emotionally involved in separate business units. In this environment, even when everyone wanted to make a positive business decision for the Group as a whole, it could not be made with the speed and nimbleness necessary in the faster pace of the new global economy.

Despite this realisation, nothing changed until 1996 when Muru and MV both died at early ages. These tragic events acted as a wake-up call. The family elder, AMM, urged a restructuring to improve the future of the business by relying less on family members for the day-to-day management of the business units as managing directors. Leadership of this task fell to AMM until his death in 1999, then to his nephew Murugappan who continues as family elder today, and to Subbiah, appointed

Group CEO in 1996.

The goal of the restructuring was to introduce change without disrupting performance in an atmosphere of openness and support. The family leaders sought the help of an esteemed Indian colleague to help facilitate discussions of change among family members. Several insights about the Murugappa Group's re-organization surfaced which included the need:

1) To be more of a Group rather than a collection of separate entities;

2) To be more flexible in the make-up of the portfolio of businesses;

3) To have less emotional attachment by individuals to their businesses;

4) To shift away from family-led units to non-family-led units; and

5) To mentor the non-family managing directors for the long-term view.

Facilitating change

To facilitate the change process, the family members on the board committed one to two days a month for almost two years. This resulted in establishing a holding company - like board with the intention of becoming an actual holding company in the future. In 1999, the Murugappa Group created the new governance structure. They changed the leadership of the individual business units from family members to professional managers and the family members moved to board positions on the newly formed nine-member Murugappa Corporate Board (MCB). This holding company-like board includes as directors five family members (two from the third generation and three from the fourth generation), three independent members and the Group CFO. The independent board members recognised the importance of their participation in the transition of the company and wanted to work with the Murugappa family members because of their exceptional experience, humility and a willingness to listen. They also wanted to demonstrate the success of the holding company model for family business and to ensure the family business as an important force in the economy of India.

The new structure was innovative for the business and for India. At once, it allowed family members on the board to focus on strategic areas across businesses for the benefit of the entire organisation. Each family member on the MCB serves as a full-time director with three assigned responsibilities. One is for a function across all business units, another is to serve as mentor/overseer for one or more businesses he has typically never led before, and the third is to guide younger family members for future governance roles.

One of the benefits of this arrangement has been the creation of knowledge transfer and technology synergies among the Group's businesses. The move harnessed the substantial business experience and resourcefulness of the family members for the good of the overall company, not just a business unit, and also brought a new perspective from the independent board members.

The family members on the board have noticed great value in the restructuring, although it is not without personal challenges because they are being stretched to perform in areas new to them with different people, operations and situations.

The changes made in management and leadership of the business were also noticed by workers, family and community. The family board members are aware that they are serving as role models of the structural change, especially in bringing along other constituent groups that need to make adjustments to the new arrangement. The new governing structures caused a shift in decision-making to one that is more collaborative - a counter to Indian norms and values of the traditional leadership role of elders in the family.

Future focus

As the business moves from family-operated to family-governed, formalising the family's business approach is being discussed within the family and among the MCB members. The family has taken steps towards articulating what they stand for by developing their Corporate Values and Beliefs. These are listed prominently on their corporate materials, website, and Bill of Rights and Responsibilities for Family Member Owners, all of which can be amended by family consensus but not by vote. The development of a Family Constitution is seen as the next important step, but the form the Family Constitution takes - whether it should be a formal written document or an understanding by custom and practice - is under discussion. Independent directors are trying to get the family to formalise procedures because the businesses' complexity demands it.

Family and independent directors of the board realise that the future role of family members in the business is evolving. They are aware that family members in future generations will have more choices in terms of profession than in the past and may opt out of the business. Those who enter the business need education, development and training to be future leaders in the family business at the governing level, although they will not be managing directors of units.

Up until April 2001, the MCB was headed by a family member, Subbiah. At that time, he stepped aside and independent board member NS Raghavan took over as the MCB's first independent non-family executive chairman on an interim basis. The reasons for this change were to create an environment that encourages creativity and fuels growth and to make decision-making even more rational and less personal. The board is proceeding slowly to find a permanent non-family MCB chairman, preferring to wait for a person who is just right for the position.

In the last decade, the Group has looked at its portfolio of businesses with an eye towards future growth. Although many of the Group's long-term companies are in low margin, old economy manufacturing, there has been a continued focus on investing in and maximising research for the good of the business. Several of the business units have launched products developed as a direct result of its proprietary research investments that could have global markets. The value of supporting research for product innovation is a priority.

The company also seeks to balance and reduce its portfolio of companies to the six business areas it knows well and in which it holds leadership positions. The Group plans to shift reliance away from low but steady growth manufacturing to opportunities in the high growth financial services sector through its business unit, CIFCO, where it has managerial and financial capability. The Group is increasing exports and is exploring entirely new opportunities in industries that are global employing the highly talented, yet cost-effective Indian workforce. One such endeavour under development is information technology enabled products.

For the Murugappa Group family business leaders, the last three years have been times of great structural changes, shifts in thinking and adaptation, all the while managing a major spectrum of successful businesses and opportunities in a marketplace that is increasingly fast-paced and global. Sustaining them through these substantial efforts in meeting success in the future have been the valuable lessons of their family's heritage. Throughout the generations, family members in the business have used situations presented to them as springboards from which to creatively adjust, flex and move forward for the good of family and community. They have anticipated change, shown a willingness to adapt and to take risks. As fourth generation Murugu reflected when he accepted, on behalf of his family, the IMD Distinguished Family Business Award in October 2001 in Rome, "We consider ourselves custodians to a heritage and trustees to a tradition, both built on togetherness, trust, mutual respect, ethical values and above all dignity, independence and discipline. As the scope and magnitude of the family and business leadership changes, we are preparing ourselves for the great challenges ahead. This award reinforces our faith in family and also in our ability to build business and public institutions."

Best Practices of the Murugappa Group

• Business Philosophy: "The fundamental principle of economic activity is that no man you transact with will lose - then you shall not." The Founder's philosophy that continues to guide the family today.

• Entrepreneurial Spirit: Each new generation of the family has received the existing businesses and developed several new businesses.

• Adaptability: The Murugappas manage the evolution of their businesses and governance structures very deliberately. The make up of their portfolio is very dynamic. Governance adjusts to family and business circumstances.

• Philanthropy: The Murugappa Group and family continue to build on the example of philanthropy initiated by the founder. Sisters and wives are the major sources of leadership and guidance in the family's foundation and the institutions (schools and hospitals) it has founded and supports.

• Family Development: The older generations focus on developing the talents of the younger members, as professionals, through academic training, international experience, at least two years of work outside of the family business, family mentors, and a career path that provides broad experience.

• Transitions and Re-organization: They strive to introduce change without disrupting performance through an atmosphere of openness and support. They draw strength during change from their heritage and values.

• Succession: Leadership roles change in a clear and unselfish way.

Speech in honor of the Murugappa Group, India
by Thierry Lombard

MM. Lombard Odier & Co, Bankers since 1798, Geneva

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