Pharmaceuticals Families of India - Towards A New Dawn

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Is there any institution more enduring or universal than a family business? Before the multinational corporations, there was family business. Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business, but the question is does this prevail in today's changing times?

In many of our most productive countries, like, the United States, Germany, Spain and China, to name just a few, families control up to 90 percent of the businesses and contribute more than 50 percent of the gross domestic product. In the emerging economies, families are the developmental foundation for new business and future prosperity. Until now, the focus on ensuring prosperity through family businesses was to help them preserve wealth and survive from one generation to the next. But with changing times, the families have come to understand the requirements for long-run growth and productivity that can generate prosperity for many generations to come. A critical facet of all thriving businesses and growing economies is no secret entrepreneurship.

Even in India a large number of businesses are owned and managed by families, which though always may not be considered as a weakness, as long as the families are able to:

- Differentiate between a family and business interest
- Bring in a strategic focus in business, instead of trying to do everything that appears lucrative
- Strike a right balance between their short and long term strategic business goals with a sharp customer focus
- Build a human capital for the organization and appoint the best professionally-fit person for the key positions
- Decentralize the decision making process with both authority and accountability. (Unfortunately many Indian entrepreneurs still feel that an organization can be termed as a professional one just by hiring outside professionals and keeping all major decision making authority within the family and close friends)
- Institute good corporate governance within the organization.

Only about 30% of the family owned businesses successfully transition to the second generation of family ownership! Less than 5% successfully transition to the third generation of family ownership. A recent study indicates that heir succession is associated with worse performance than outside succession. If my son is such a bad choice, why insist? Would it be even worse if I don't? The key consideration, again, is whether and to what extent my business is special, hard for outsider to learn or for family to inherit, and it is best to keep it that way. As Warren Buffet said,

"Heir succession is like choosing the son of a 2000 Olympic swimming champion for winning the 2020 Olympic swimming contest."

In India, almost hundred percent of the domestic Pharmaceutical companies are family run. As most of these companies started showing significant growth only after 1970, we usually see the first or second generation entrepreneurs in this family run business.

The most successful Indian Pharmaceutical Company, so far, with global foot prints is Ranbaxy. Unfortunately, in the very early third generation of entrepreneurship, the business was sold off to Daichi-Sankyo, probably for some very valid business reasons.

Even in the second generation of entrepreneurship, we have witnessed some well known Pharmaceutical Companies, like Glenmark, Elders etc. getting split up between brothers. Perhaps in future we shall see more of such splits and consolidations.

What could possibly be the reason of such changes within the family managed Indian Pharmaceutical Business? Could it be due to an overlap between family and business interests? Could it be that a professional manager at the helm, devoid of the concerned business family interest and reporting to a professional board of directors could have managed the business better? Is it then an issue of business leadership? Most probably it is so.

Let us now try to deliberate, if the family decides to hand over the reign of business to a professional CEO, reporting directly to a professional board of directors, while retaining majority of voting rights, how could the family address this situation?

It is reported that at the close of 2007, the Chairman of Eli Lilly & Co. said publicly what many industry observers have been saying privately for some time, "I think the industry is doomed if we don't change". The accompanying statistics painted a grim picture of the traditional big pharma business model going from blockbuster to busted. The old business model – sprawling organizations, enormous capital investments, and spiraling costs, underwritten by a steady stream of multibillion blockbuster products – is simply no longer feasible.

In search for a new and more viable business models, some boards of directors have been selecting CEOs of substantially different backgrounds to lead their companies through the current industry crisis.

It's a bold new direction and being adopted by a number of leading companies. However, entails significant risk that boards should fully understand and take steps to mitigate.

The family run Pharmaceutical Companies in India should take a note of the changing dynamics of the professionally managed global pharmaceutical business while selecting the helmsman and may wish to get some message out of those newer trends, as and when they would decide to pass on the baton to a professional CEO reporting directly to a well competent professional board of directors.

Changing dynamics of the Big Pharma . . . .

Although some global pharmaceutical companies are still following the traditional succession planning model, many leading pharmaceutical companies have started adopting different new models for succession planning. I have tried to classify those models into 4 categories, as follows:

GenNext Insiders: Preferring to seek leaders with pharma experience but with new perspectives, some boards have selected youthful industry insiders to take the reins:

- GlaxoSmithKline, Europe's largest drug maker, has designated Andrew Witty to succeed Jean-Pierre Garnier as chief executive officer in May 2008. At 43, the new CEO, who has been with the company since 1985, will be its youngest-ever leader.

- One month before Witty took over at Glaxo, Severin Schwan, 40, became the youngest-ever CEO of Roche Holding AG, where he has spent his entire career.

Dare Devils: Other boards, also seeking the combination of pharmaceutical experience and new perspectives, have sought industry insiders from functions that don't ordinarily lead to the top job:

- In 2006, Pfizer named Jeffrey Kindler, the company's general counsel, to succeed Henry McKinnell.

- James M. Cornelius, who was named CEO of Bristol-Myers Squibb in September 2006, spent 12 years as CFO of Eli Lilly.

Youthful Outsiders: Pursuing a leadership model that represents both the promise of youth and of outside perspectives, some companies have selected young leaders from other industries, initiating them into the pharma industry and then promoting them to CEO:

- In 2000, Thermo Electron (now Thermo Fisher Scientific) named as COO the then 41-year-old Marijn E. Dekkers, who had previously held several executive positions at Honeywell International, and who became CEO of Thermo in 2002.

- In 2007, Novartis brought 47-year-old Joseph Jimenez aboard to lead the Novartis Consumer Health Division and named him CEO of Novartis Pharmaceuticals shortly after. He brought with him extensive experience in consumer products at ConAgra, Clorox, and Heinz.

Seasoned Outsiders: Although a 50-something executive from outside the industry would offer an attractive combination of an established record of leadership and fresh perspectives, this model has rarely been tried. The scarcity of examples is surprising, given that such a strategy is less risky than bringing in youthful outsiders, and I expect to see this new model adopted in upcoming nominations.

Enabling It To Work…

One will observe that the risk in all of these new representations is high but doing nothing is inherently riskier. In the meantime, I would recommend that Indian Pharmaceutical Companies who may contemplate to examine one of these models should try to explore the following three steps to ensure long-term success:

Employ the most sophisticated assessment techniques available:

In all four versions, the most difficult challenge is evaluation of talent.

GenNext Insiders lack the extensive leadership background that might indicate how well they will perform over the long term.

Dare Devils are difficult to assess for competencies they've rarely been required to exhibit.

Youthful Outsiders not only lack extensive leadership backgrounds but also pose the question of how well their talents will apply to pharma.

Seasoned Outsiders pose the same challenge.

Arguably, these new leadership models have expanded the pool of potential CEO candidates, but they clearly require boards to exercise great diligence in assessment.

Continually plan for succession:

After installing a new CEO, the Indian entrepreneur along with its professional Board of Directors shouldn't assume that the company is set for the next five to ten years. In the event that the new leader fails to produce over the first 24-36 months, the board should have a Plan B already in place, as the markets will not be as patient. Defining skill sets, aligning search committees, and recruiting a new leader takes time, and the average length of CEO tenure continues to shrink. Thus through ongoing succession planning, the board can be ready for any eventuality. It is wise to engage in constant succession planning at the top in any industry, but it's essential in an industry searching for fundamental shifts in its business models, through new leadership.

Create a pipeline:

For an Indian Pharmaceutical Company, in a short span – the search for CEO talent will become even more challenging. The professional board of directors will understand this today and insist that their companies take action to create a talent bench now, by bringing in executives from other industries and providing them with development plans that can potentially lead to the top job. Stakeholders and markets are unlikely to wait patiently for success in this period of profound transformation in the industry. Whichever leadership models the boards will choose, they should take every precaution to get it right the first time.

The saga continues …but...

The glorious history of the family run Indian Pharmaceutical Business will now face even a more challenging future. The valor and resolve of these entrepreneurs would be tested by the product-patent regime, the ever evolving product portfolios, the environment of intense competition and consolidations.

With global business opportunities, together with the product patents issues, Indian Pharmaceutical entrepreneurs are expected to separate the 'business' from the 'family', appoint a professional CEO, reporting directly to a competent professional board of directors, to face squarely the "Challenge of Change" and be accountable to deliver the agreed deliverables.

However, at the end of the day, the passion of the industry should continue to revolve round providing quality and affordable healthcare to all, in an attempt to achieve one of the cherished goals of the humanity – **“A Disease Free World.”**