

Evolution of a Family Business - Godrej Group

Case Study

Submitted by (Section C- Group 4):

Abhishek Kumar(PGP11/129)

Balaji Manohar(PGP11/140)

Karthik Kumar(PGP11/151)

Prashant Gangwal (PGP11/162)

Santosh(PGP11/173)

Supriya(PGP11/184)

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INTRODUCTION

This case study on Godrej Group has been written as a part of the Organizational Behavior course at the Indian Institute of Management, Kozhikode. The case analyzes best practices of one of the oldest business houses of India, understanding the factors that enabled it to withstand the changes in the Indian landscape during the last century. It also discusses the influence of family control on organizations and how it changes with the changes in the general and specific environment.

The study is the result of secondary and primary research conducted by the students. The secondary research was primarily based on the websites of the Godrej group of companies. Apart from that, we also covered general news articles, research studies, and analyst reports (refer to Appendix – Exhibit 5). The primary research involved an empirical study in which we targeted more than 700 people who have worked with Godrej. We contacted people from senior level to entry level by using social networking websites, such as LinkedIn and Orkut. A questionnaire including both open-ended and closed-ended questions was sent to the target people. However, we could gather information from 34 respondents due to factors such as non-active members, willingness of the respondents, and time factor. We also received valuable insights from Mr. Srinivas Manda, who has worked with Godrej & Boyce Mfg Co Ltd. for more than 10 years and was the head of marketing for Gujarat and Andhra Pradesh. We also tried to contact other people at the senior level but did not get a response due to time constraints.

EXECUTIVE SUMMARY

The Godrej Group is one of the oldest and most diversified firms in India. From a lock making company in 1897 to a present day conglomerate – the transformation has been phenomenal. It provides us a rich insight into a company that successfully adapted to a dynamically changing environment.

Once synonymous with locks and safes today it has presence in FMCG, consumer electronics, engineering, IT and other fields. Safely ensconced in the protective environment of the license raj, the liberalization of '91 and the ensuing challenges from the MNCs provided yet another stimulus for change. The company shed its image of a closely held family business and moved from a family-owned family managed to family-owned professionally managed organization. The movement has been gradual and marked with a number of hindrances. This can be attributed to the organizational inertia which tries to maintain the status quo.

The two major companies of Godrej group – Godrej & Boyce and Godrej Industries Limited, have sea change of difference in organizational culture and focus areas. While, Godrej & Boyce continues to focus on consumer, industrial and office equipment products, Godrej Industries Limited is more dynamic and focuses on range of sectors including FMCG, retailing, food, IT, real estate, etc. It gives a lot of independence to its affiliate companies and subsidiaries in decision-making. However, the control of Godrej family exists with family members having full control or as board members in some of the companies. The company had other shares of troubles as well, for instance unsuccessful partnership with P&G.

Despite all the troubles, the second and third generation of Godrej families (fourth generation has entered the fray recently), continued to follow the vision of its founders. They diversified, ventured into new areas, and became global. However, they never allowed majority ownership to any of their foreign partner and survived when most of the other businesses closed down. It relies on building well known brands, continues to expand in its own way and not let the majority stake to be ever diluted. The company continues to achieve operational efficiencies by continuous learning and improvement. The HR practices of the group are considered amongst best in the country. The practices have been influenced by family control, which considers employees as the group's biggest asset. The employee-friendly policies have contained attrition rates and increased loyalty. The CSR practices form a part of organizational values and are widely practiced.

The group continuous to learn from its mistakes and understands the challenges it has of making the organization more dynamic and harnessing its vast pool of assets – strong

brand, a wide network of loyal suppliers and distributors, loyal employees and resources, cherishing the vision and values of the family.

OVERVIEW OF THE GODREJ GROUP

An average Indian starts the day with the use of Godrej soaps and Godrej shaving cream in the morning, picks up clothes from a Godrej Almirah, sits on Godrej furniture in the office, drinks coffee from the Godrej vending machines., eats Godrej food products, uses Godrej fax/conferencing equipment for communication, puts money in Godrej safe, plugs Good Night and goes to sleep at the end of the day.

A recent estimate suggested that 400 million people across India use at least one Godrej product every day. Godrej Group today is one of the largest diversified industrial corporations in India. It stands in a strong position today, with annual sales in excess of US\$ 1.7 billion, a workforce of approximately 20,000, and a strong diversified portfolio.

The saga of the success of Godrej group is a story which runs into about four generations. From the humble beginning driven by honesty, integrity and outstanding service to customers now Godrej is a huge empire, which has come all the way as being know as a lock making company for over more than 100 years ago and is an epitome for success. This endeavor began in the last century with Ardeshir Godrej starting at the grass roots level with the manufacture of locks. After mastering the technology thoroughly he decided to manufacture locks, which could compete with locks imported from foreign countries. From then on there has been no looking back. He along with his younger brother Pirojsha went on to make security equipments of a high quality. They kicked off Godrej & Boyce and successfully began the manufacture of toilet soaps from vegetable oils. Ardeshir moved from locks, safes, soaps to biscuits and confectionery and canning and processing and Pirojsha focused on growing businesses. They further diversified into cupboards and furniture. The next generation was dominated by Naval who forayed into ventures like typewriters and refrigerators. The third generation led by Jamshyd, took on the challenge as managing director of Godrej & Boyce and is carrying on its business. Exhibit 1 details the key milestones in the history of Godrej in the last 100 years.

ORGANIZATIONAL STRUCTURE

Godrej group of companies is one of the largest privately-held diversified industrial corporations in India. Godrej Group comprises of more than 20 companies. Post-liberalization Godrej moved from a product division structure to Strategic Business Unit structure (independent units) and entered into a number of alliances. This has led to

- Increased interaction between cross-functional employees - can be substantiated from the results of the questionnaire (Exhibit 5) – 95% of the respondents rated the group as average and above
- Fluidity in the organizational structure - (Exhibit 5) – 71% of the respondents agreeing to it

GODREJ GROUP COMPANIES

Godrej & Boyce Mfg. Co. Ltd. (G&B) is the flagship company of the group which has all other companies in the group as its subsidiaries and affiliates. G&B internally has three major verticals,

- Consumer product division – manufacturing appliances, locks, furniture, security equipment
- Industrial product division – storage solutions, material handling equipment, electrical and electronic products
- Office automation division – printers, typewriters, fax, copiers, conferencing solutions

G&B is chaired by Jamshyd N Godrej, cousin of Adi B Godrej, Chairman of the Godrej Group. The company has several subsidiaries in which it has the majority stake. Some of them (with G&B's stakes shown in brackets) are

- GODREJ INDUSTRIES LTD. (64%) - Industrial Chemicals like Fatty Acids, Glycerine, Fatty Alcohol, Alpha Olefin Sulphonates, Estate Management, Medical Diagnostics and Edible Oils
- GODREJ COMMODITIES LTD. (71%) - Bulk Trading in Vegetable Oils
- GODREJ INFOTECH LTD. (52%) - Infotech Services and Software Development
- GODREJ (MALAYSIA) SDN. BHD., Malaysia (83%) - Steel Furniture and Equipment
- GODREJ (SINGAPORE) PTE. LTD., Singapore (59%) - Steel Furniture and Equipment

Exhibit 2 (Chart 1) gives a high level overview of the different business units that come under the umbrella of the Godrej group

Of the Godrej empire, the wholly-owned Godrej & Boyce is a holding company, and in the two publicly listed companies — Godrej Industries and Godrej Consumer Products — promoters hold 88.4% and 68.2%, respectively. Godrej Industries Ltd has several subsidiaries, joint ventures, associates and equity investments some of which in turn have strategic holdings in their acquired subsidiaries. The subsidiaries of Godrej Industries Ltd are

- Godrej Agrovet – Focuses on Agri sector and animal feeds. Holds two subsidiaries Goldmohur Foods and Feeds Limited and Golden Feed Products Limited through strategic tie-ups and acquisitions
- Godrej Properties – Real estate and property development. Owns Godrej Holiday, Godrej Waterside Properties and Godrej Realty
- Ensemble Holdings and Finance – Earlier a subsidiary of Godrej Agrovet and now 100% subsidiary of Godrej Industries

- Godrej International - Distributing Godrej FMCG products in the Middle East through Godrej Global Mid East FZE
- Godrej Global Solutions – Global BPO solutions and services company and owns Godrej Global Solutions (Cyprus)
- Godrej Hershey Foods & Beverages – core business of Confectionery and Beverages through combined holding with Hershey Company
- Godrej HiCare – Pest Management Company

Godrej Industries also has Joint ventures in

- Godrej Sara Lee - a joint venture company between the Godrej Group and Sara Lee Corporation, USA. It is the world's largest manufacturers of home insecticides with well known brands like Good Night, Jet, Hit and Banish, which have become generic with mosquito repellants today
- CBay Systems - Godrej has also allied with CBay to create a medical transcription production center

Godrej Industries also holds equity investments in Godrej Consumer Products Limited (GCPL). GCPL is a major player in the Indian FMCG industry with a presence in toilet soaps, hair color, liquid detergents and other toiletries.

Apart from subsidiaries and equity investments, Godrej Industries also has a number of associate companies in Swadeshi Detergent, Godrej Upstream, Compass connection, Personalitree Academy, Creamline dairy, Creamline nutrients and Polychem Hygiene Lab.

Exhibit 2 (Chart 2) gives a detailed structure of the family holdings of Godrej group among all its subsidiaries and joint ventures.

COMPETITION

Godrej group's response to competition has been mixed –from being highly proactive to being lethargic to change. As a result it is now a laggard in several fields where it was the leader a decade and a half back. A glaring example of this is in the refrigerator industry. It was the clear leader in this field before the Korean giants LG and Samsung moved in.

Currently it has been pushed to the third spot, although it is still the No.1 in terms of brand recognition and image. This clearly shows the inability of the Godrej management to capitalize on the excellent brand image.

However the growth story has been impressive in the Consumers Product sphere. Godrej Consumer Products Ltd (GCPL) has adopted a two pronged strategy for rapid growth – diversifying risks and tapping new markets. This strategy has helped the company achieve higher than industry growth rates. The entry of ITC in the personal

care segment is a major change in this segment. It will be a real test of GCPL's strategies.

Godrej Sara Lee used product differentiation to maintain its competitive advantage. Also, focus on technologies, such as Business to Employee (B2E) and investment in Knowledge management tools will help it face industry challenge better. Also the acquisition of Sara Lee's business in India will help Godrej efficiently manage its portfolio in South Asia and have access to the Godrej distribution network. A few of the competitors are mentioned below.

Godrej Consumer Products Ltd. (GCPL) is a major player in the Indian FMCG market and faces competition from Hindustan Unilever Ltd, Reckitt Benckiser and P&G

Godrej Infotech Ltd. is in the business of software Development, e-solutions Development, ERP Implementation, Customisation & ERP Consulting Services, Database Outsourcing & Consultancy services and shares the market with big players like Oracle, SAP and several other smaller players like Artech

Godrej & Boyce Mfg. Co. Ltd has various products like Electrical appliances (Refrigerators, Washing Machines, Air Conditioners, Microwaves and DVD players) where it faces competition from foreign majors like LG, Whirlpool, and Samsung

- Locks and Safes where it mostly faces smaller local players
- Office Automation – with 70% market share in office typewriters and a significant presence in distribution of fax machines and conferencing equipment in India.

FAMILY BUSINESS MODEL

The Godrej family holds a majority shareholding (ranging from 50% to 100%) in most of its companies. The role of the family members have been more of a trusteeship one in growing the business and the group has never experienced a single split, in its 100-year old history. The group's senior management consists mostly of the family members, predominantly from the third generation of the family. The fourth generation has just commenced entry into the business.

The young generation of the family has to join at the lowest executive levels like any other executive and be trained and found good before climbing up the corporate hierarchy. There seems to be a strong and systematic succession plan in place and the younger generation of the family is groomed under the guidance of the senior family members and outside professionals.

Post Liberalization of the Indian Economy, Godrej realized that following strong corporate governance practices would provide impetus for long term growth and stability. It led it to move from a family-owned family managed organization to family-owned professionally managed organization. The group companies now are more like Strategic

Business Units (SBUs), chaired by the family members. However, it is mainly on paper, and each company is given a lot of independence. The CEO of the companies have maximum freedom to devise the strategy of the company, though, there is a consultation both at the family and business levels. The companies have defined evaluation criteria in place and profit estimation is based on EVA practice. This model of governance seems to have worked well for Godrej as is evident from the steady growth in the recent years after the economy has been opened up.

KEY SUCCESS FACTORS – FAMILY BUSINESS MODEL

TRUST HELPS IN REDUCING COSTS AND ATTRITION

Trust can be a source of significant competitive advantage to a family business. It has been found out that 'trust' lowers transaction costs, corruption, and bureaucracy. It also serves as a strong retention factor hence reducing attrition in the organization.

SMALL, NIMBLE, AND QUICK TO REACT

By virtue of the fact that there are fewer decision-making gates to deal with, family businesses, both small and large, tend to be quick to react to threats as well as opportunities. Very often, the survival of the family depends on the survival of the business. This results in sharp and decisive action in the face of threats that could be potentially fatal for the business.

GODREJ CONTEXT

Godrej has survived in the open economy, when most other local businesses have closed down, primarily because they never allowed majority ownership to any of their foreign partner. It is a closely held family group and neither the Indian financial institutions nor the Foreign Institutional investors hold any share of its company. The downside of this model seems to be that such close holding by the promoters might affect expansion of the company. For instance, in 1974 when Jamshyd Godrej joined the company, Godrej and Boyce was a much bigger company than even Larsen & Toubro. Today, L&T is much bigger.

However, Godrej relies on building well known brands continuing to expand in its own way and not let the majority stake to be ever diluted. The family fully owns the parent company Godrej & Boyce which in turn has majority stake in other group companies to ensure that there is no threat from any quarter.

STRUCTURAL CHANGE POST LIBERALIZATION

Godrej has since 1990 deliberately undertaken a process of self-improvement. The main problem faced by the group in 1991 was that it was getting too bureaucratic with slow pace, getting bogged down in routine matters, too many slow-moving products and a reluctance to do away with old practices.

The key to break this shackle, Godrej realized is that to make everybody accountable and responsive. Godrej went all out into incorporating corporate governance in all its subsidiaries and group companies (both listed and unlisted). Each group company had a CEO or a President (not necessarily from the family). Full freedom was given to these leaders to devise strategy for the companies and lead Godrej in the liberalized and open economy. However the board of each company still has some family members to oversee the working of the top management and the company and there is consultation at both family and business levels on critical issues.

This change led to the concept of divisionalization with each division as a profit centre, decentralization of decision-making and empowerment of managers at the grassroots level, and Quality the watchword. There was a realization on the part of Godrej that for all their successes in the past, they still fell short of a world class organization and they had to make up for it. Along with implementing innovative techniques like TQM for technology, product and process improvement there was a compelling need to ensure that a balance was maintained between new ideas and enduring wisdom gathered through the century old experiences, especially on the human side by preserving the traditional bonds of trust which the owner-top management had always enjoyed with employees at all levels.

ORGANIZATION STRUCTURE FRAMEWORK – BEST FIT

An organization as huge and as diverse as Godrej cannot be accurately fit to any theoretical models of organization structure, owing to the very dynamic nature of the group and its companies. However from the limited information that is available in the public domain on this topic, it has been observed that **“Product Team Structure”** can be a very close approximation in the case of Godrej group.

Product team structure is a cross between the product division structure, in which the support functions are centralized, and the multidivisional structure, in which each division has its own support functions. In the case of Godrej, few support functions like Recruitment and Business Development happen in a centralized manner whereas each group also has specific support functions like Finance, Operations and Marketing.

A product team structure is more decentralized than a functional structure or a product division structure, and specialists in the various product teams are permitted to make on-the spot decisions. Godrej’s divisionalisation and decentralization efforts were targeted at achieving this goal by delegating decision making authority to managers at the grassroots levels. The figure below depicts the product team structure fit of Godrej

structure. Corporate Unit in the structure has some special functions, such as diversification planning, hiring at the group level, budget allocation to the companies. Subsidiaries A, B are sample subsidiaries of Godrej Industries Limited.

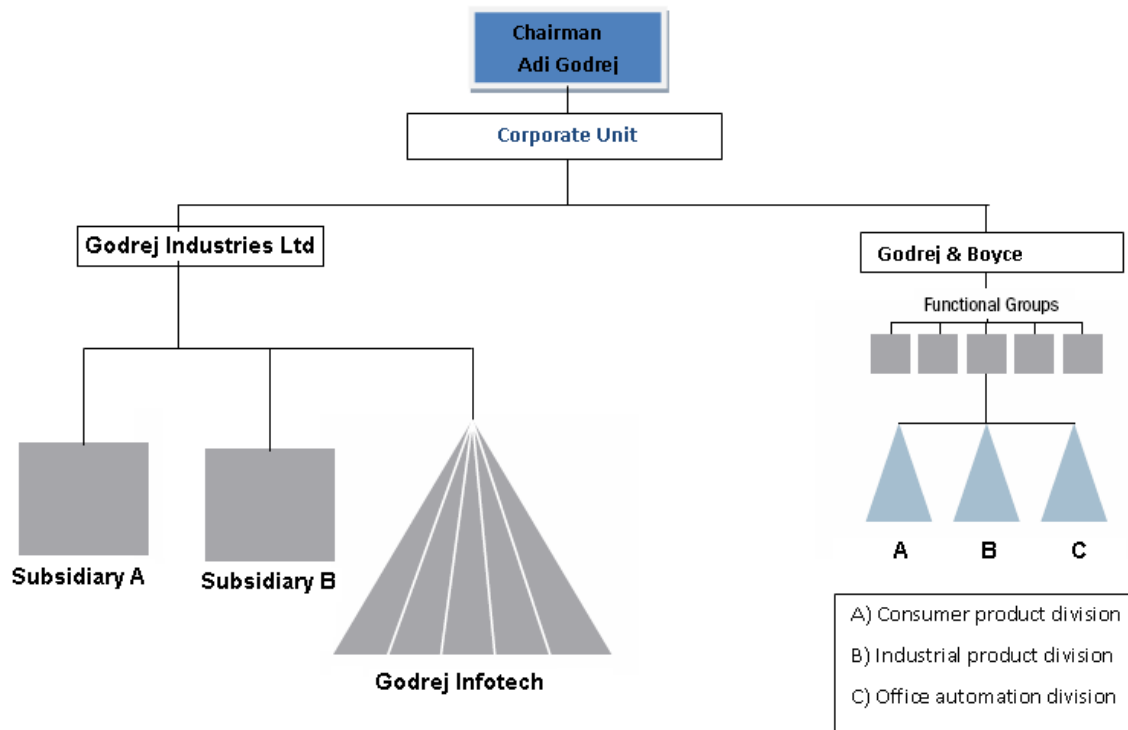


Figure 1 Godrej Group – Product Team Structure

ORGANIZATIONAL STRUCTURE – KEY FACTORS

At Godrej and its group companies, there seems to be clarity in the roles and responsibilities of the employees from middle management to the blue collared workers because of the emphasis on Standard Operating Procedures. However there is considerable amount of freedom given to each employee to conceive and implement improvements (kaizen) continuously in the organization. Organizational culture is also not same across the group companies as the very nature of each company dictates its style of functioning. For instance, the manager-employee relation in a relatively new and dynamic organization like Godrej Infotech might be very informal while in a traditional manufacturing based company like Godrej & Boyce, the relation might be a more formal one.

There exists a clear differentiation across various levels in the organization with a hierarchy of authority and reporting relationships. The mechanism which Godrej adopts to mitigate this differentiation is by informal interactions between the top management

and the employees. An overwhelmingly large number of respondents (97%) believed that senior management is easily approachable, though, 40% believed that power distance does exist. However information on the kind of interaction that happens between the middle management and the grassroots level employees is not available to draw any judgments.

Owing to the divisionalisation of Godrej that happened in the 90s, organizational tasks have been grouped into roles and similar roles have been grouped into functions. Each division of Godrej has functions to take care of the core and support activities. Thus the horizontal differentiation of tasks is achieved in Godrej and integrating these various functions in the group companies is done through Task forces that encourage Kaizen practices across Godrej.

ORGANIZATIONAL CULTURE

The influence of family-controlled business can be seen on the organizational culture. The mission and vision statements are clearly defined for the group companies and the family and the senior management adheres to it.

Vision: Godrej in Every Home and Workplace

Mission: Enriching Quality of Life Everyday Everywhere

Values: Integrity, Trust, To Serve Respect, Environment

About 85% of the respondents rated Godrej above average and above in terms of adherence to the mission and vision statements. However, 43% of the respondents believed that family control has reduced dynamism to an extent and that Godrej has not utilized its resources and assets fully. Godrej's recent foray as Godrej Properties is a step towards capitalizing its vast land assets.

HR PRACTICES

The family control has led to greater employee care and employee-friendly work practices at Godrej (74% of the respondents favored). HR practices followed in Godrej are considered amongst the best in the industry because of which they have been ranked amongst the Top 20 in the 'Great Places to Work' in a study conducted by the Grow Talent Company in partnership with the Great Places to Work Institute, Inc, USA and Business World. Godrej was also honoured with the Best Managed Workforce Award from Hewitt Associated-CNBC-TV18. People Practices at Godrej are guided by six strong, well defined principles:

1. Strong values which have helped in setting high standards of ethics at work place. They form the key principles of behaviour and belongingness which form the core of any culture that prevails in a company. There is no compromise of any kind on this

front come what may. Every employee joining the company has to sign a code of conduct which helps in creating awareness about the rules and regulations that are to be abided by in day to day work. They believe in the policy that “economic success goes hand in hand with ethical responsibility”. Approximately, 66%/24% of the respondents rated Godrej having excellent/good ethical practices, respectively.

2. Providing employees a wide scope and platform to perform. The diverse portfolio of products and verticals provide the employees with an opportunity to work across businesses and functions within the company giving them a great deal of exposure in the business. People are trained to perform multiple tasks and leaders are developed internally (75% of the respondents favoured).
3. *Speed and flexibility in decision making empowering people on the job* – A conducive environment to grow faster, thrive better and succeed together. This has motivated employees to perform better and deliver faster (63% of the respondents favoured).
4. *Freedom and autonomy at work* and freedom to promptly recognize and reward performance. A powerful tool that motivates people to give their best is to link a substantial part of their compensation to a robust financial measure like Economic Value Added. This incites them to outperform their expectations as long as they are within the value standards.
5. A specialized ambience at work to thrive. A very competitive work force, professionally managed entity recruiting talent from top B-schools building professional leaders. Three pronged strategy followed
 - a. Set stretch goals
 - b. Help achieve them by providing development inputs and coaching
 - c. Recognize achievement through rewards
6. Creating an organization that advocates learning amongst its employees. Feedback from employees is taken in multiple ways to get an idea about the kind of perception. Know Your Consumer Programs, internal customer satisfaction surveys, Voice-of-the-Employee Program and 360 degree feedback programs are some of them. Employees have the flexibility to draft their own development plans and take them forward after consulting with the seniors. It has defined performance tools

The group has defined performance tools and processes, which reward top performers disproportionately and identify weak performers. It offers performance-based variable remuneration, which is dependent on EVA of the group. This is essentially a policy of participative management, which instils a sense of responsibility, accountability and also the ability to take calculated risk in the interest of the organization, in the employees. The group gives adequate support to the employees' ideas and say in the functioning of the organization. Approximately, 67% of the respondents rated Godrej, good and above, in terms of, support by senior management to the ideas of the employees. However, strategic decision making lies with the senior management (39% favoured), who get adequate support by the family (28% favoured) and involves middle-level managers as well.

The learning culture at Godrej is based on a conservative, innovative and risk-free approach. This can be interpreted, to an extent, as due to the influence of strong initial family control, which defined the boundaries for the employees. Approximately, 42% of the respondents favoured it as conservative and 37% as innovative and minimal support to the risk taking approach. The group has well defined formal training procedures, with a focus on on-the-job training. It also has continuous training programs to hone the competencies and skills of the employees, for instance, through the concept of "GOLD" - the Godrej Organization for Learning and Development. It helps employees acquire new skills as well as hone existing skills and strengths. The talent management process at Godrej identifies talented and passionate people from diverse backgrounds, take them on board and later help them shape their careers. GCPL has an employee development programme – IDLE (Internal Development of Leaders) through which it provides MBA education to its talented employees through a tie-up with Symbiosis. The attrition issue at Godrej has increased in the last few years, due to more opportunities and desire for higher education. Godrej has taken measures, such as funding the higher education of the employees to contain the attrition rate to an extent.

Godrej has taken various initiatives for care of its employee and their families. It was one of the early adopters of employee welfare schemes, such as holiday benefit, provident fund, bonus, gratuity and medical and food facilities. Some of the other steps include the following:

- Listening, Sharing, Inspiring Employees by using various channels to ensure there is ample communication across and within teams and the hierarchy. Chairman's Tea, voice of the employee and induction programs are some of them.
- Enlightened Employment Policies encompass strict code of conduct, such as non-discrimination and whistle blowing and adherence to safety, health and environment standards.
- Balancing Work & Life by flexi - time working wherever operationally possible, company buses at regular intervals too help reduce commuting stress

Godrej was steeped in traditional values because of the nature of family business. The result was that the organization was conservative. The group could not avoid bureaucracy due to presence of family members at the power centers (as board members or at the senior management). Approximately, 49% of the respondents believed the organization to be bureaucratic. Ironically, this goes against the believed perception of family-run businesses as having lesser bureaucracy. Perhaps, it is the scale of Godrej group's operations, which is responsible for bureaucratic culture. Therefore, even though the family orientated work culture has been fairly successful in winning loyalty and trust of employees, there has been instances of conflicts between family and employees. There are two specific instances to quote, which occurred in 1972 and 1979, when due to aggressive clashes between labour and the family, Naval Godrej and his daughter-in-law and mother-in-law were stabbed. This incident eventually led to the death of Naval Godrej.

Some conflicts are necessary for any organization so as to increase its effectiveness and bring some change. The birth of GCPL from Godrej Soaps Ltd., was a successful consequence of the initial conflicts, giving the shape to what Godrej Industries Limited is today. Godrej Industries Limited managed by Adi Godrej has a very dynamic and open culture and has ventured into diverse sectors. However, Godrej & Boyce continued to follow a conservative attitude and was content with moderate growth rates (of 30%) and was relegated to an also ran from market leader in many segments like appliances, home and office furniture and fast moving consumer goods. It is not sure whether this cautious approach was by design or whether it is the inertia of the pre-liberalization era that still exists in the system, but it created a lot of frustration in youngsters who were yearning for part of the action in the markets. A large part of the management trainees who joined in the nineties have quit the company.

CSR PRACTICES

Approximately, 90% of the respondents have rated Godrej's CSR practices as good and above. Family planning, health care, primary and secondary education, protecting and nurturing of environment especially mangroves, green business initiatives are amongst noteworthy contributions to the society. Some years back the entire Godrej industrial complex was declared a Non-smoking zone, an initiative well ahead of others. Some of the activities/initiatives of Godrej which fall under this heading of CSR are as follows:

- Udayachal Schools: Providing Quality Care and Education – It symbolises the schools' ideal - to help students from even the humblest origins to rise to the heights of a fulfilled life. Today, so many parents are thankful that due to this scheme they have been able to provide so much more towards their children's future.
- Long term employment for the visually disabled – The activity of hardware packet making for chairs has been outsourced to National Association for Disabled Enterprises (NADE) for the last several years. The objective of this decision was to ensure continued occupation for the visually disabled. The employment to the visually and physically disabled people has also gone up from employing seven persons then to approximately 18 people now.
- Godrej Memorial Hospital: Striving to strike the right balance – The objective of the hospitals was to create a balance between the philanthropic hospitals and the private hospitals in the city. For the same purpose, an alternate business model was created which would emulate philanthropic hospitals but have high quality healthcare services at an affordable cost in a rational and ethical manner. This model was adopted with the belief that a wholly philanthropic model would not be sustainable and would grow only in a very limited sense.
- Managing effluents and waste water – Effluent Treatment, Sewage Treatment and Rainwater harvesting are some of the initiatives taken up by the company on this front.

- The Heroes Project – HIV/AIDS campaign – The project is coordinated by Richard Gere and Parmeshwar Godrej and aims to increase the awareness of HIV/AIDS through media and campaigns.
- Godrej Dance Academy – preserves the Indian culture by teaching classical Indian dances

CREATIVITY

Instances of innovation have been few and far that Godrej has never been identified with innovative practices. Kaizen has attempted to change that mindset but it has primarily been aiming at improving existing processes rather than innovation. In fact, Kaizen was implemented in a very traditional manner and could not attract employees' interest. The strict adherence to rules and meetings created psychological pressure losing interest of some of the employees. Godrej had been very slow in adapting to the uncertainty in the market owing to the mechanistic nature of the organization and it clearly shows in the market share of its various traditional businesses when compared with the leadership position earlier it used to command. Approximately, 66% of the respondents rated Godrej as average and below it in terms of innovativeness.

The focus on innovativeness is more in GIL as compared to Godrej & Boyce. GIL introduced the concept of 'blue' and 'red' team, which worked independently to formulate Godrej's future strategies. The results of their exercise had to be evaluated by a 'plum' team, comprising the top management. It was an innovative concept empowering the employees and providing good quality of work. In fact, they also invited management guru, Prof. C.K. Prahalad, for addressing the teams and guiding them on the approach they could follow. The results of this exercise are awaited and it would be difficult to comment at this time.

ORGANIZATIONAL STRATEGY

Godrej group has been active in and outside India in its history of last 100 years. Its progress has been shaped by number of political and socio-economic changes in India during the same period. The strategic decisions are driven by the senior management, with the support of the board members of Godrej family. Some of the salient features of Godrej's strategy are the following;

R-STRATEGY (BLUE OCEAN STRATEGY)

Godrej has been a pioneer in number of sectors in India. It has been maintaining its leadership in security products division since the starting of its operations. The second and third generation of Godrej family continued to follow the strategy of entering into uncharted territories of its founders. Godrej enjoyed first mover advantage in most of its

ventures, as it directly touched the masses and endeavored to improve their quality of life.

- Introduced first lock with lever technology – Anchor brand
- Introduced first Indian safe in 1902
- First company to manufacture soaps from Vegetable oil in 1930, which was later followed by other FMCG players. It manufactured Alpha Olefins from Olechemicals instead of from Petrochemicals.
- Introduced mechanical typewriters in India in 1955 and electronic typewriters in 1985.
- First organized business house to enter into the material storage solutions in 1956.
- First Indian company to manufacture refrigerators in 1958.
- First to introduce Poly Urethane Technology in India in 1957
- First company in India to manufacture high pressure doors for Marine applications.
- Its brands in the insecticide market – Good Night, Hit and Jet are one of most well established/organized brands in this sector.

UNRELATED DIVERSIFICATION

Godrej was synonymous with locks for a long time. The lock making business has evolved to a security products division with products, such as Electronic safety locks, specialized locks (for example, for Nuclear Reactors, Marine applications), ATM safes. in the market. The company started to manufacture steel cupboard and cabinets in 1923. It forayed into consumer appliances sector by manufacturing of refrigerators and microwave ovens, material handling equipment division by manufacturing of forklift trucks, precision components division by manufacturing of satellite components, rocket liquid propulsion engine, cryogenic engines. Some of the other sectors in which Godrej has its operators are life sciences (tissue culture), Life Insurance, Real Estate, Telecommunications and Medical Diagnostics.

Godrej's strategy of unrelated diversification is more prominent in later generations. Essentially, this follows the trend in family-run businesses in India, such as Dabur, Wadia and Murugappa group, which did not diversify during the control by initial generations. The factors responsible were restricted Indian economy during the pre-independence times. The support from government increased during the later generations helped the firms diversify into unrelated sectors. Unlike Murugappa, Kirloskar and Dabur families which have consolidated in the last few years, Godrej has adopted an inorganic growth strategy. Researchers have averred that the strategy of former set of families has been driven by decision-making through consensus, whereas for Godrej it has been by risk minimization and preservation of wealth with family keeping a trusteeship role. Godrej acquired Transelaktra to increase its presence in mosquito repellent market. GCPL made a successful acquisition of Keyline Brands Limited, a prestigious name in the UK, increasing its international brands portfolio with a total of seven international brands. It also made a recent acquisition of Rapidol South

Africa increasing its market share to 80% in South African ethnic hair color market. Some internal restructuring has been taking place as well. Due to independent decision making of various subsidiaries, this has been referred to as acquisition. For instance, the recent transfer of Godrej Global Mideast FZE from Godrej International to GCPL is a step in this direction. Godrej properties is also planning to enter into a joint venture with Godrej Agrovet to develop the land owned by them.

GLOBALIZATION STRATEGY

During the pre-independence period Godrej's operations were focused in India. After independence it started to expand its operations across diverse fields across different geographies. With the economy opening-up in 1991, it entered into alliances with international players. Almost all the Godrej groups of companies have alliances with top Multi-national companies for learning from their best practices in local geographies (Exhibit 3)

Godrej's clientele is impressive including institutions, such as BARC, ISRO, Indian Air Force, Navy, HAL, Indian Parliament and MNCs, such as Hitachi, Reliance, Conoco Philips, Bechtel, Valero, MOOG, Ion America Lab. The group has 20% revenues from operations outside India and it aims to increase it to 30% within next 10 years.

As per Adi Godrej,

"For us globalization is beyond exports and imports. We have manufacturing facilities abroad in countries such as Malaysia, Vietnam, South Africa and the U.K. We will globalize in select businesses where we have the global size and competitive advantage such as Office Equipment, Hair Care and Household Insecticide. 'Godrej' is an umbrella brand for us and we have decided to invest in long term brand accretion".

FUNCTIONAL STRATEGY

Godrej leverages its efficient processes in providing products of low cost and high quality to the customers. Godrej Soaps (parent company of GCPL) initiated Total Quality Management (TQM) by implementation of Kaizen in March 1991. At that time, many organizations embarked on ISO 9000 standard as a benchmark for quality improvements. However, it did not cover employee management and did not reduce operational costs. Godrej Soaps, having identified this issue, switched to Kaizen. By 2001-02, the success of Kaizen at Godrej Soaps was implemented across all the factories. GCPL is working to optimize its inventory levels at the distributor and retailer by switching to an inventory management system based on a Collaborative Planning, Forecasting and Replenishment (CPFaR) model instead of forecasting and push model. The system, having implemented, is expected to reduce the inventory levels by 3-4 days. In this manner, Godrej continues to emphasize the importance of dealers/suppliers in its operations. The image and Godrej brand has been instrumental in winning

suppliers' trust. Approximately, 74% of the respondents believed that the family control has led to strong relations with the suppliers and customers, as well.

Other measures of cost minimization include setting up manufacturing facilities in low tax areas, such as Baddi in Himachal Pradesh and in Assam. Godrej Soaps used the ERP solution– MFG-PRO in 1998 and then SAP to improve its distributor management process. The system integrated suppliers, distributors and customers and reduced the lead times. Godrej & Boyce implemented the balanced score card in 1998 and has achieved operational efficiencies by using it. The lock division of Godrej & Boyce commercialized the computer-coded dimple-key lock, a feat that has been achieved by a very few manufacturers worldwide.

Godrej has taken advantage of its efficient processes by offering consumer products specific to medium-income to low-income segments (though it also targets premium segment). It offers a range of products, with most of the products sold for the common mass. However, it has not been able to successfully target premium class and has been able to attract the medium and low income groups. Godrej No 1 is the largest selling toilet soap in the country. The percentage share of revenue from Soaps segment has reduced as GCPL is focusing more on hair color and toiletries market in India. This segment is high growth segment having low penetration markets in India fetching high margin to Godrej. GCPL is focusing on mass market for selling hair color products. It launched “Godrej Fashion Hair Colour” in sachets of different hair colors costing Rs 10 for mass market affordability.

KEY STRENGTH OF GODREJ GROUP

We believe that the core strength of the Godrej Group is its value system put in place by the founders and has been nurtured all along. The strong relationships with stakeholders – suppliers, dealers, employees, customers, have established Godrej brand in the market and increased loyalty. Some other factors nurtured on the values are as follows:

- Brand name – very loyal customer base, brand associated with durability and quality (especially due to the products like steel cupboards, locks, steel furniture, safes)
- National presence – The group has been able to establish itself in virtually every district of India through a network of dealers, distributors and branches reducing marketing costs tremendously. The trade is nurtured meticulously using a multi-tier approach (local/regional/national contact). The trade partnership sometimes runs into the second generation also.
- People – most valuable asset
- Relationships – nurtured with dealers and suppliers – drives down traditional marketing costs
- Financial strength – ability to take up large projects through internal funding
- Resources – land, machinery, technology, competent management teams, social goodwill

SOME OBSERVATIONS

- The family control has ensured that the vision and values of the founders are adhered to by all the Godrej group of companies. This has set clear goals and objectives for the employees giving a direction to the growth in interest of family vision and values. As the group companies have common objectives in the interest of the group, it has reduced agency costs giving it an advantage over its competitors. The family influence has enabled the group companies to survive and grow even during adverse external conditions. It is believed that family-run businesses less respond to economic cycles and have lower cost of capital.
- A resources based analysis of the Godrej group indicates that it is extremely rich in resources of different types – tangible resources, such as manpower, machinery, technological expertise, land, and intangible resources, such as brand, customer and supplier loyalty and acquired knowledge. This is due to the scale of operations of Godrej, and has increased complexity with time. Some of the long-term goals include investment in quality, infrastructure and enduring relationship with the employees. Godrej also has had a typically higher duration of tenure of the family members. This has helped them invest in long term benefits and also invest in next generation leaders.
- The decision-making in a family-run business can also have emotional implications based on the relationships between family members controlling the organizations. The success of such organizations depends upon the behavior of family members. Many a times, conflict within the family members, may lead to the downfall of the companies, though sometimes the companies have emerged stronger as well. Nevertheless, it is always accompanied from resentment of the employees. With some of the divisions, such as appliances division, which are still facing the losses due to relaxed attitude of the Godrej, the group might have problems deciding the fate of the division. There could be a lot of exit barriers that prevail like the family culture and control, goodwill in the market social and psychological barriers, such as emotional attachments of family members.
- There should be proper succession plan in place in family-run businesses, so as to maintain the family control. This requires producing competent leaders capable of continuing the growth of groups. Godrej has been following a succession plan wherein the younger generation of the family are groomed under the guidance of the senior family members and outside professionals. This is important to ensure that there is no crisis for power between professionals and family members and only competent people reach the helm. In many families, for instance in Reliance, the family members did their higher education from premier institutions of the world, such as Kellogg's (Mukesh and Anil), which provided them a higher pedestal in the hierarchical structure of their family business.

THE ROAD AHEAD

Godrej group has been very successful since the last 100 years. Much of the success of the group can be attributed to the values and vision of Godrej family, which continued as generations passed-by. During the latter half of the century, Godrej adopted strong corporate governance practices and tried to shed its image of a family-run business. However, looking at the vast scale of its operations, Godrej still has a long way to go to overcome the existing inertia in the organization, due to the family control. The current strategies adopted by Godrej Industries Limited are more in line in this direction; however, Godrej & Boyce is still lagging behind. The group has an enormous potential and with lots of opportunities in the India market, it will have to be more dynamic to sustain and grow in the future.

APPENDIX

EXHIBIT 1: KEY MILESTONES IN THE HISTORY OF GODREJ GROUP

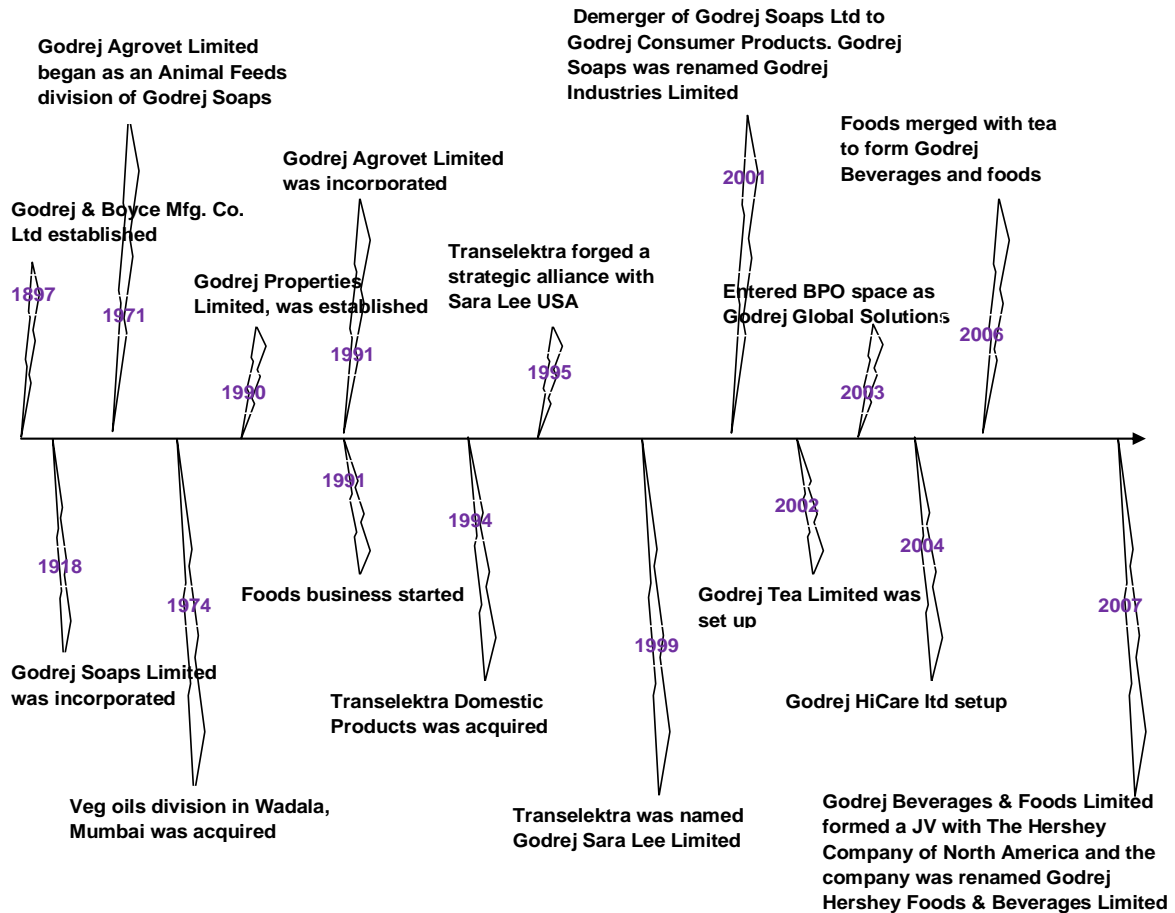


Figure 2 Key Milestones

EXHIBIT 2: ORGANIZATION STRUCTURE

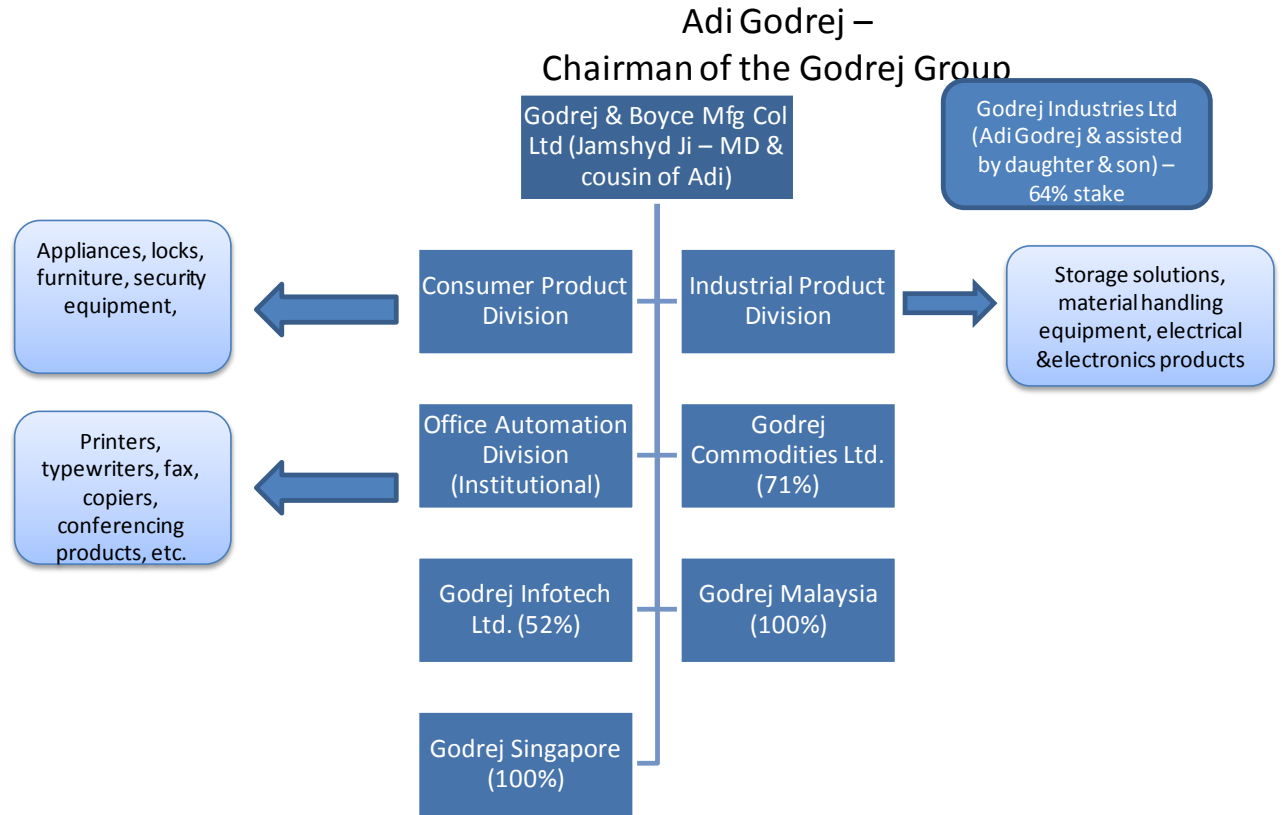


Figure 3 Godrej & Boyce

Adi Godrej assisted by Pirojsha (son) & Tanya (daughter)

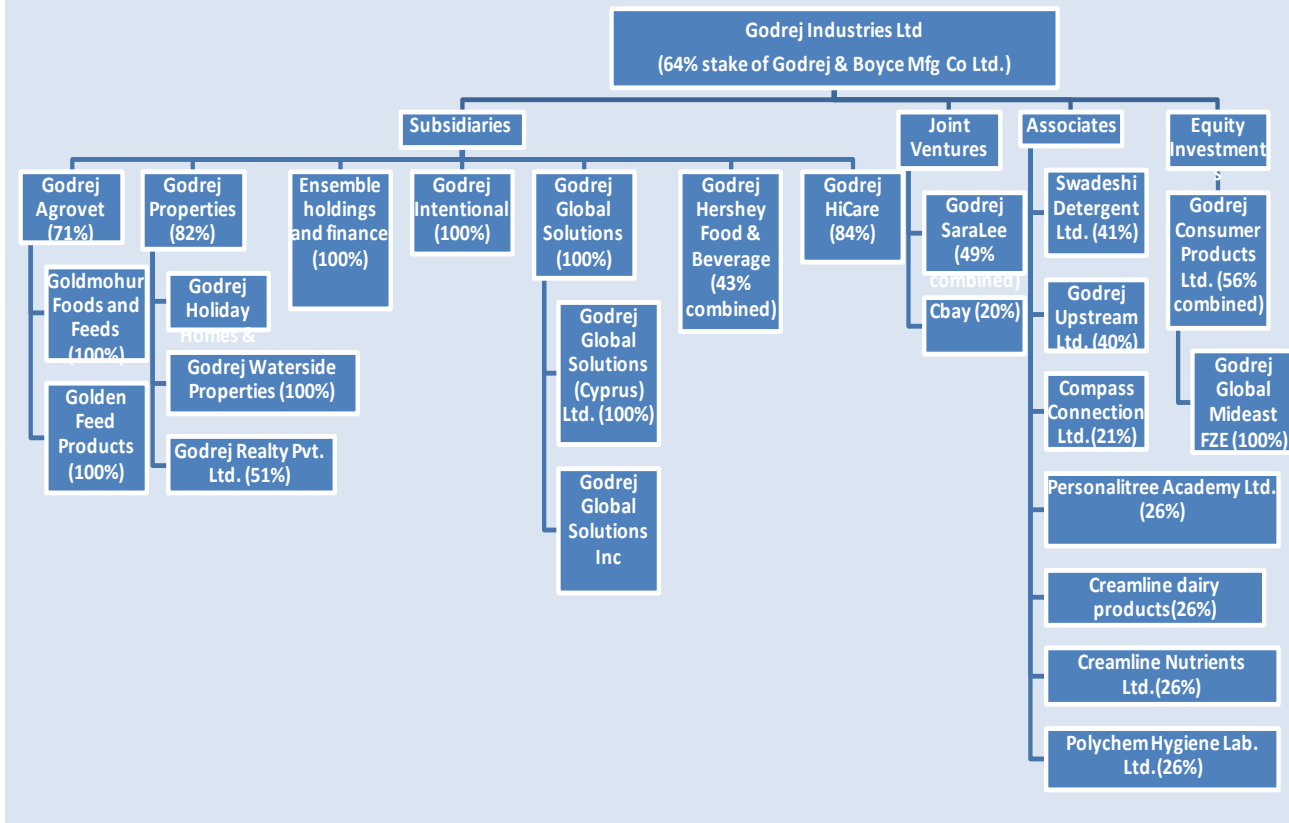


Figure 4 Godrej Industries Limited

EXHIBIT 3: ALLIANCES

Godrej division/company	Alliance partner (yr) (past and present)	Purpose/activities
GCPL (Godrej Sara Lee)	Sara Lee, USA	For producing brands, such as Jet, Good Night and Hit
Godrej & Boyce	P&G USA	Soap manufacturing technology
GGEA (Godrej Appliance Ltd.)	GE	Appliances

Godrej & Kis Ltd. Godrej group Office Equipment Division Godrej Pacific Technology Ltd. Lock division Godrej Efacec Material handling equipment division Electrical & Electronics Division Electrical & Electronics Division Electrical & Electronics Division Electrical & Electronics Division	Fiskars	manufactures and markets Scissors and cutlery
	Kis	Photographic services
	Pillsbury	Packaged foods
	Steelcase	International design and manufacturing
	Tech Pacific, Australia	Distribution alliance in information/office automation sector in Asia-pacific region
	EWA (Austria) & SALTO (Spain) – Global alliances	Electronic and mechanical locking solutions
	Efacec of Portugal	Design & manufacturing of Automated Storage and Retrieval Systems (AS/RS)
	Crown, USA	Selling Warehousing Products
	Henikwon corporation	Distributing rising main and bus duct system of Henikwon
	Energair solutions, UK	Selling intelligent controllers for Air Compressors
Electrak	Distributing Electrak's underfloor lighting trucking	
Centroid USA	Selling CNC controllers	

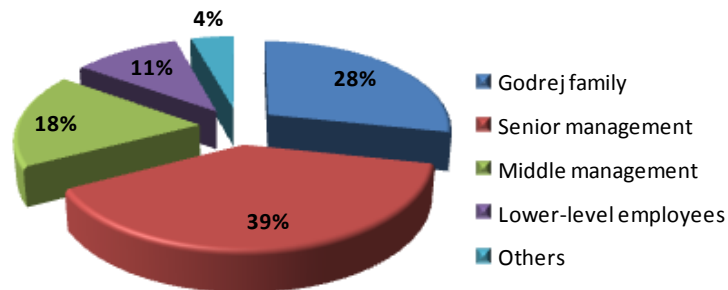
GCPL (formed Godrej SCA Hygiene Limited)

SCA Hygiene Products AB (2007)

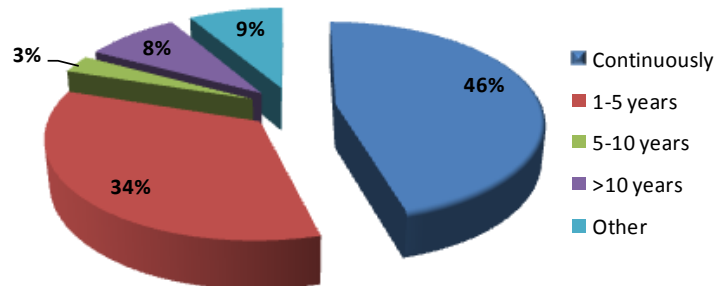
Manufacturing and selling of paper based absorbent hygiene products

EXHIBIT 4: RESULTS OF THE SURVEY

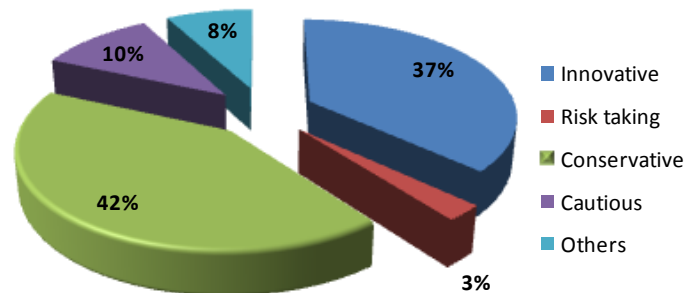
Driving Factor for Change



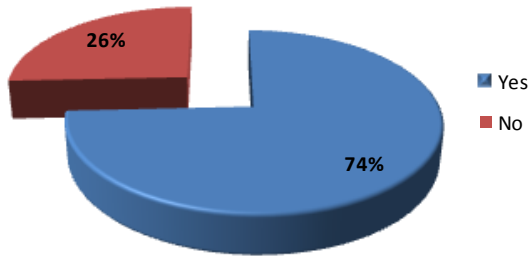
Technological Improvement Rate



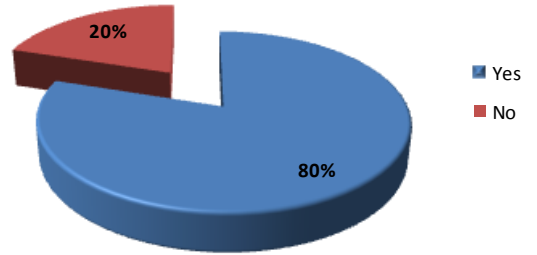
Learning Culture



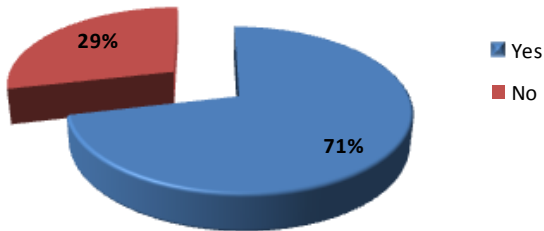
Family Oriented work culture led to Greater Employee Care



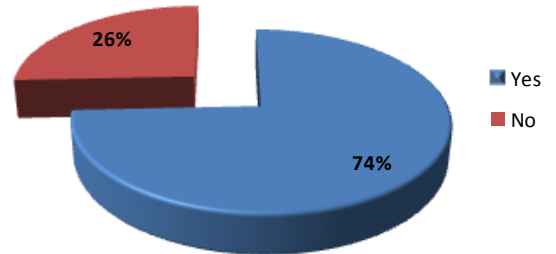
Increased Employee Trust because of Family Environment



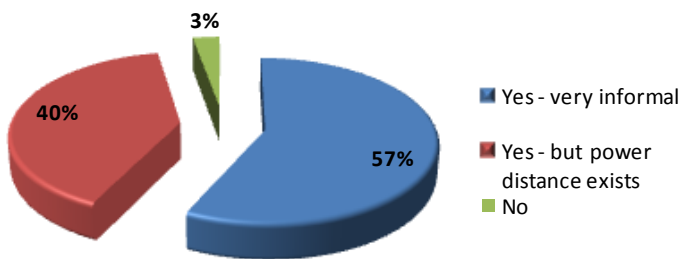
Family Oriented work culture led to increased fluidity in the organization structure



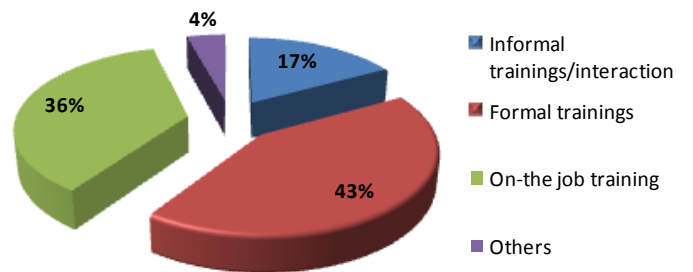
Strong Relationship with Customers and Suppliers

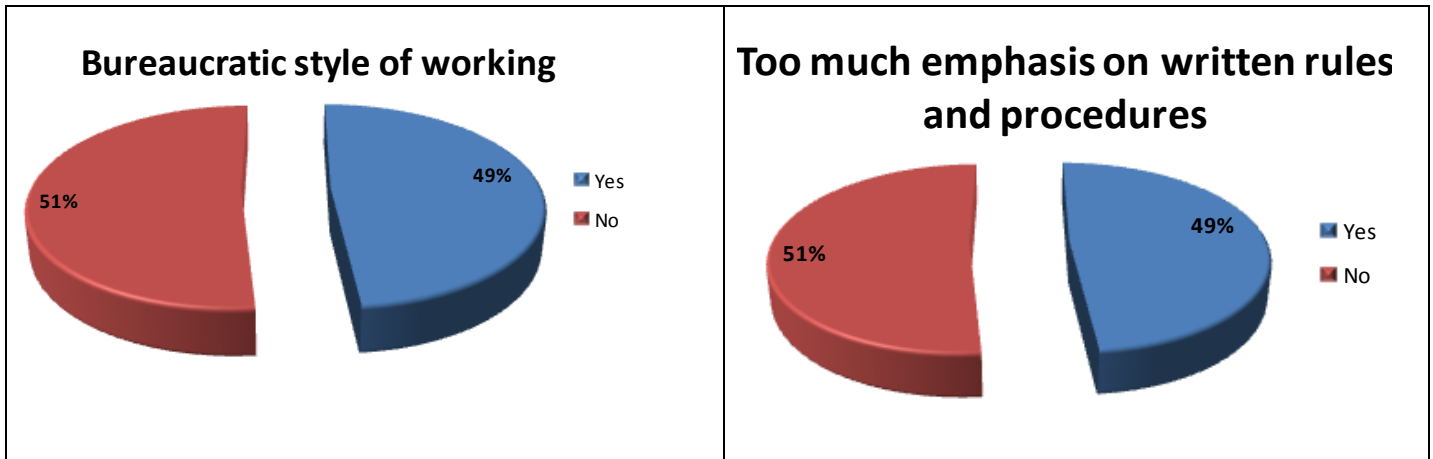


Senior management approachable?



Orientation Programs for new Employees





Where do you rate Godrej on a scale of 1-5?

	1-Excellent	2-Good	3-Average	4-Below Average	5-Bad
Innovativeness	3	12	14	5	1
Support to ideas of employees	6	13	12	3	1
Focus on suppliers	5	12	11	6	1
Focus on dealers	7	19	7	1	1
Corporate Social Responsibility Practices	18	12	4	1	0
Ethical Business Practices	23	8	3	1	0
Adherence to mission/vision statements	13	15	5	2	0
Decision-making power to employees	6	15	9	4	1
Informal interaction amongst cross-functional employees	9	12	12	2	0
Informal interaction amongst employees at different levels	8	11	14	1	1
Total Respondents	35				

Figure 5 Rating of Godrej (scale of 1-5)

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