Creating Emerging Markets – Oral History Collection

Adi Godrej, Chairman, Godrej Group
Interviewed by Tarun Khanna, Professor, Harvard Business School
May 2, 2013 in Mumbai, India
Video interview conducted in English

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Preferred Citation: Interview with Adi Godrej, interviewed by Tarun Khanna, Mumbai, India, May 2, 2013, Creating Emerging Markets Oral History Collection, Baker Library Historical Collections, Harvard Business School.

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TK: I wonder if we could just start in the recesses of time, perhaps going back to your formative years or the formative years of your company, or indeed the Parsi community, which has had such an enormous role in the development of Bombay and India?

AG: Well, our family business was started by my grandfather’s elder brother, Ardeshir Godrej. He was very motivated as an Indian to start a business to help India gain independence. He felt without economic independence it would be difficult to get political independence from the British. He was very nationalistic. He supported the freedom movement. He donated to the Indian National Congress. He was an inventor. He was a lawyer by profession, but an inventor. So that led him to get into several businesses. Some of them failed. But he succeeded in making locks, and from that our enterprise grew.

My grandfather was much younger than his brother, and joined the business later… not much later… and he was the builder. And my great
uncle died at a relatively early age. Then my grandfather built the business over the years, helped by my father and my two uncles.

The business grew very considerably, starting with locks, and then organically grew into many other areas like safes, security equipment, then furniture, and then from one product to the other. And my great uncle had also started, a little after he had started the locks business, a soap business. He was motivated by making soap from vegetable oil. In those days, soap used to be made from animal tallow, which had problems for some Indian consumers. So he decided to try making soap from vegetable oil; he succeeded, and from there our soap business grew.

And from the locks and the soap business we went into other areas, to engineering products from the lock business, and Fast Moving Consumer Goods from the soap business, and that’s how the business expanded. But it was very strongly motivated by economic independence for India from the British.

**TK:** So your origins of the soap business are very interesting. So was that first in the world to make soap from vegetable oil?

**AG:** That’s difficult to say. There used to be some soaps made from olive oil in Mediterranean countries. But olive oil was not available here. So it had to be made from Indian oils.

**TK:** So it is a nice example of something that you see lot of now.
AG: Yes. There are many things caused by raw material restrictions and many issues caused by consumer acceptance. The bottom of the pyramid products have become of great advantage in India, which is now taken off across the world and we have done that very successfully so that’s working very well.

You mentioned the Parsi community. The Parsi community has always been very entrepreneurial, so I think that helped. In fact, my great uncle was financed by others in the community, and that also helped. The community always paid attention to entrepreneurship, to, of course, professionalism, so overall I think that helped the origins of the business.

TK: Now on the soap, what year was that roughly?

AG: 1918.

TK: So it was considerably after the locks business started.

AG: Yes, 1897 was the start of our locks business.

TK: So I was reflecting on the Sepoy uprising, but that was much earlier. Is there any family lore about connectivity to different parts of the freedom struggle?
AG: Yes, there is, in the sense that my great uncle was a good friend of Gandhiji, and a good friend of [Freedom fighter Bal Gangadhar] Tilak’s. I think once Gandhiji was asked to endorse a product from some other manufacturer, and he said that no, he holds my family in high esteem, so he won’t endorse any product that competes with Godrej products.

TK: That’s nice of him! Moving forward, I wonder if you could pick any instances in the several decades since that you think similarly had formative influences on any of the businesses you got into?

AG: Yes, I think in many cases our product portfolio grew by being the first in India to do something. So, for example, we were the first to make safes and security equipment. We still have a very high share of the market for safes, bank vaults, and security equipment in the country.

We were helped tremendously by a major explosion in the Bombay docks during the Second World War. There was a ship carrying ammunition which exploded in the docks, and it created major damage in the Fort area of what was then Bombay. A lot of offices suffered destruction and many of the British safes were destroyed, whereas almost all the contents of our safes were perfectly alright. And that led to great success later for our safe business.

My grandfather had patented a process where he put an exothermic chemical between the two safe walls, which put out water in the case of a
fire, and that saved the contents; we still use that process and it helped our business tremendously. That made the brand grow much faster thereafter.

Then we grew organically into different products because imports into India in the '50s and '60s became difficult. So then we went into all kinds of furniture, we went into appliances, we started making refrigerators in the '50s, and then started making typewriters. Of course then there were manual typewriters, and we went into electric, electronic typewriters; now there is no demand for typewriters, but one after the other we went into other products.

Also, during the Second World War, imports into India were very difficult. So we couldn’t get the machine tools we needed for our various factories, which were growing quite a lot during the Second World War. The economy was doing well during the Second World War, supplying the war effort, etc. So, we couldn’t get machine tools; so my uncle stripped down some of the machine tools we had and copied them and started making machine tools in India and we built a strong business. Thereafter we got into making chemical plant and equipment, and we supplied the Indian nuclear and space programs. So those businesses grew again out of not having access to machine tools, otherwise we may not have gone into those businesses.

**TK:** Where was this exothermic reaction patented?
AG: I don’t remember the exact year. But it was patented well before the Second World War.

TK: But it was an Indian patent?

AG: Yes, it was.

TK: Very interesting. We don’t get to see big businesses built around patents.

AG: In our group we’ve had several patents and we still use some of the technology from those patents, although some of the patents have expired.

TK: So moving forward with Gandhiji, and his support for your great uncle’s initial business forays, the explosion in the docks, do you have any other reflections on that period when India was completely closed? On things that were particularly hard for you to do?

AG: Even when I joined the business in 1963, India was a pretty closed economy by that time. It was very socialist. Growth rates were like 3% per annum. Per capita GDP growth used to be around one percent or slightly higher. And things didn’t move much. There were a lot of government restrictions on expansion: you needed a license to make anything new; you needed a license to expand; you needed a license to look at new factories.
So things were pretty tough. And as a result, some of the British and international companies which were established from pre-independence days had certain strengths, because they could get around some of these problems, like import restrictions, by suggesting to the government that the global companies would pay for the foreign exchange for the imports, etcetera. So there was a lot of competition. It was tough doing business for Indian companies.

Growth rates were low until the economy opened up in 1991. After which growth picked up much faster. But historically over the last fifty years we still grew by a compounded annual growth rate (CAGR) of about 17%.

But now we have an objective to grow to what we call ten-by-ten, growing ten times over ten years, which is a CAGR of about 26%.

**TK:** But my reflection is that your companies are growing faster than that?

**AG:** Yes, in the first couple of years of the ten-by-ten we have grown a little faster, above 30%.

**TK:** That’s an average across businesses?

**AG:** Yes that’s right.
**TK:** So let’s come back to the socialist era. Were you somehow better able than others to get around, to be creative with, some of the restrictions? Or conversely, were you disproportionately affected adversely, as compared to others?

**AG:** I think we did a little better than most Indian businesses because we were among the few Indian businesses which had a strong brand. Also our businesses were consumer oriented; although we have B2B [Business to business transactions] businesses, several of them in the group, our main businesses are B2C [Business to consumer transactions]. Currently about 500 million Indians use one or the other of our products every day. So in terms of the number of consumers, I would imagine we are the largest Indian Group. Companies like Hindustan Unilever have more consumers than us in India, but I consider them a foreign business. We could also be one of the largest in terms of the number of consumers among companies headquartered in the developing world. The only company we definitely know which has more consumers than us is China Mobile, which has about 650 million consumers. But we have more consumers than any other Indian-owned Group.

I think that helped us grow because we put a lot of emphasis on branding. That helped us increase the number of consumers and it also made us pay a lot of attention to business processes, improving the way we operated, and getting more output from the same plant, etcetera. So it honed some of our skills.
**TK:** I remember as a boy growing up in Bombay, like in many other Indian households, Godrej cupboards or safes were a fixture in many houses. At what point in your history did that become sort of an iconic brand or an iconic fixture?

**AG:** Yes, most Indian households had a Godrej cupboard, as you rightly put it. And in many cases it was called just Godrej. They didn’t call it a cupboard. It became a generic name. Of course that clearly helped us. The cupboards business still does quite well, despite the fact that now lots of modern homes have built-in wardrobes. But it still does very well. It’s given as a wedding present quite commonly in India. So that still continues, and I think some of these sorts of products helped us grow considerably.

Our Fast Moving Consumer Goods business also grew over the years. It’s our largest single business now. And over the years the number of consumers who use our soaps or detergents or household insecticides has grown quite considerably.

The other reason I think we did well was that, in the early years, until the economy opened up in the ’90s, we had no tie-ups with any companies. So we were private, we had no listed companies, and we could navigate the very high Indian tax regime well. As a result, we managed to pay very high taxes without diluting our hold on the companies by selling the shares. We had two major companies and we managed by selling the
shares of one company that the family owned to the other company. Being able to pay very high taxes, we still retained control of the companies.

**TK:** The taxes were punitive?

**AG:** Yes, the taxes were punitive; many of the large groups unfortunately had to dilute themselves when they were already listed on the Indian stock exchanges during those times.

**TK:** It occurs to me that, as you emphasize the consumer-facing orientation of the Godrej group, you have had quite an important role to play in the evolution of consumer advertising in the country. Can you reflect on the interplay between the rise of advertising and the evolution of your brand?

**AG:** So we are one of the few groups which paid a lot of attention to brand advertising, and of course it was not by design, but one of the interesting facts was that we used the family name, which was also the name of the companies, in the branding. Our cupboards were called Godrej Cupboards, our refrigerator was a Godrej Refrigerator, and our locks were Godrej Locks. In Fast Moving Consumer Goods, since we would have more than one soap, we would have different brands, but they would all be prefixed with brand Godrej.
So the Godrej brand ran across many categories; it was an important brand, it became a well-known name and the same for many of our businesses later on. For example, our real estate development business has leveraged the brand strength very well. The brand is known across the country. We sell everywhere. I mean sometimes when I’ve gone trekking in Ladakh, or visited the remote parts of the northeast, we see our products in the stores there. So that helps us very considerably.

TK: As you mentioned Ladakh and other parts, India technically is perhaps the most diverse, ethno-linguistically diverse, large country in the world. I wonder if you have any reflections on variations of consumer tastes and preferences across the country.

AG: You are very right. India is a very diverse country. We advertise; I think perhaps we used to advertise in even more languages than we do today. But we advertise in several languages today, across the country. So our advertisements are produced in various languages. For some products we make different films for different parts of the country, depending on the need in that part of the country, in different languages. So it is a complex country to market within.

Also, not too many people realize it, but India is a very diverse country. India has never been a unified country, except under empire: the Mauryan empire in the very old days, then the Moghul empire, and then the British empire. So the tastes, the diversity, are very considerable, creating
complicated marketing dynamics. It also means that if you are successful, then it is difficult for other competitors to enter.

The other thing that creates a very interesting differentiation, and an entry barrier, is sales. So India has about 8.5 million retail outlets. I think the second highest would be China where there are 4.5 million, and Indonesia and the US have a little less than a million retail outlets each. So our products are found in about 4 million retail outlets in India, and that’s a major entry barrier for competitors, which has helped us over the years.

**TK:** What are some of the other companies in India that have a comparable reach?

**AG:** I think the Unilever subsidiary here called Hindustan Unilever has a very high reach. Some of the Fast Moving Consumer Goods companies have good reach. The consumer durables companies don’t need to have that strong a reach, but our strength also lies both in the brand and our distribution systems, in that we are both a significant marketer of consumer goods and consumer durables. The durables being appliances, furniture, locks, etc.

**TK:** Do you see any limits to where the brand can be taken?

**AG:** It could apply to many areas and, in fact, we have very successfully taken the brand into real estate development. A lot of people approach us as
to whether we would like to get into financial services, or insurance, or telecommunications. I think we are a little careful because it is not just the brand; we must have other capabilities in businesses. We’ve been very good in manufacturing and then marketing manufactured products, for example. So we would like to avoid getting into too many other areas. We’ve tried to get into some other areas, but now we have decided to focus on the areas where we are strong, both in India and outside, rather than getting into diverse businesses.

So lot of people have approached us even for joint ventures in things like financial services and insurance where the brand could be leveraged, but we are a little careful about going into businesses we understand well, and we can do justice to, not just areas where the brand could be leveraged.

**TK:** Before we move into the post liberalization era, when the social shackles were shed, what about setbacks? What comes to mind—things that were really important learning influences, either for you personally, or your family, or the group in that time?

**AG:** Fortunately, being in consumer products, if your brand is doing reasonably well, and if it is growing, then you don’t get affected by setbacks of other kinds. You are in businesses which don’t go up or down very much, depending on economic growth or other factors but, at the same
Emerging Markets Oral History

time, when the economy is doing very well, you don’t grow exponentially like some other kinds of businesses can at those points in time.

As a result, we never really suffered from any major setbacks. Many Indian groups which were very strong say in the 1950s or in the 1960s, some of them almost disappeared because the socialist regime created difficulties for growth, unless you were clearly very determined to both improve the business processes of your group and the success of the businesses. We were fortunate that the brand carried our success quite strongly. But many of the very strong groups in the 1950s and ’60s don’t have a major presence today.

TK: So let’s shift to that time period. I guess in my mind liberalization really started in the mid-’80s with Rajiv Gandhi, and then kicked in 1991. Can you comment on how your group navigated that changing political time?

AG: I think we welcomed the opening up of the economy, which was not true for all Indian businesses. Many Indian businesses were worried that international businesses would swamp them, etc. We welcomed it.

But we made a significant strategic change thereafter. We took some of our companies, which we thought could grow, public. We started listing our businesses, starting in 1993. And we also started with joint ventures because we thought we needed to get into joint ventures with strong international companies in order to learn better business processes,
learn better R&D, technology, etc. So we started partnering with top notch companies in the world. We went into a joint venture in our appliances business with General Electric. We went into a joint venture in our consumer business with Procter and Gamble. And we started a couple of other joint ventures over the years.

These joint ventures did not last very long, but I think both our partners and we benefitted a lot from them. In our case for example, General Electric and Procter and Gamble were some of the best companies during those times. I mean General Electric is still considered a great company; Procter and Gamble has started wobbling a little bit, but in those days it was a superb company. We learned a lot from both in terms of marketing, market research, R&D, and human resource development. And that helped us grow. The joint ventures did not last very long because I think both of us learned what we wanted to quite quickly, and we amicably separated thereafter, which I think was a good decision from our point of view. Our brands all came back to us on a 100% basis.

We also partnered with Sara Lee Corporation. We bought a household insecticide business, which we went into a joint venture. We leveraged the Sara Lee partnership because we got paid by Sara Lee for their 51% share what we had paid for the business originally, so it came free to us, and then three years ago we bought out their 51%. So that’s now wholly owned and merged with our other consumer products business.

Then in 2001 we demerged one of our old companies. We had two old companies. One was called Godrej Soaps. We demerged the consumer
businesses into a focused consumer products company, called Godrej Consumer Products. The rest of the business was renamed Godrej Industries because the soap business went to Godrej Consumer Products. It was a listed company already when we demerged it. Since then it has added tremendous value. So overall Godrej Consumer Products over the last twelve years has had a share price compounded annual growth of over 40%. And the remaining business, Godrej Industries, was about 46% per annum. So they’ve grown extremely well.

Our other company, which is an engineering company, is still a private company. It is called Godrej and Boyce, which is both a major holding company in the group, and also all our engineering businesses, including the consumer durables business, are a part of that company.

**TK:** So Godrej Consumer Products has soaps?

**AG:** Soaps and now household insecticides, the joint venture company which we bought back. It has become quite a global company because over 40% of the sales turnover now comes from outside.

**TK:** And Godrej Industries? What does it consist of?

**AG:** Godrej Industries has our chemicals business and it’s a holding company for a lot of other businesses we have developed over time. For example, we have a major agribusiness company. We went into animal feed
and other agribusiness like palm oil plantations, that’s Godrej Agrovet. Then we started Godrej Properties which went into real estate development.

**TK:** So coming back to the joint ventures, can you reflect a little bit more about how you managed to communicate some of the nuances of working in India to let’s say P&G and GE? What were the mechanisms in retrospect that seemed to work out well, and things that didn’t?

**AG:** GE of course had several joint ventures in different businesses. So I won’t say that they only learned from us; they clearly learned from other joint ventures they had. GE has a major establishment in India. But Jack Welch had set a rule, that unless they are number one or two in any business they would get out of it. So our joint venture was in appliances. We were number one in the appliance business, that joint venture, in India. But they looked at their geography as Asia. And because the Koreans and the Japanese were doing so well, they were not even in the top five in Asia. So they got out of the appliance business in Asia and we bought their shares.

P&G of course has grown considerably since our joint venture. But our joint venture with P&G was for distribution of all the consumer products, and in the soap business. So they had developed their Camay brand, we had put our soaps brands into the joint venture. Now Cincinnati decided that soap was not going to be one of the focus areas going forward, so they wanted to get out of the joint venture. And what we did was we sold
them our share in the company, which was mainly in distribution. We got our brands back. We got paid handsomely. So it allowed us to invest further into our growth. So that’s how those joint ventures came to an end.

But we learned tremendously from P&G. We learned a lot about marketing, market research, logistics, and manufacturing, which helped us very considerably in growing our consumer business. What we learned tremendously from GE was human resource management. For example, we were one of the first companies early on to introduce 360-degree rating for all our managers, which we picked up from GE who was the initiator of that idea. So many great ideas we have been able to put into our group very successfully from these joint ventures.

**TK:** *During this time as you pointed out, starting in 1993, you were listed on the exchange, and I guess you developed another touch point with the Indian consumer. Instead of them using your soaps and things like that, they presumably invested in you. Can you comment on that dimension of interaction with the consumers?*

**AG:** Yes, that’s helped us a lot. It focused our attention, as there is no long-term unless there is strong short- to medium-term also. So I think catering to the investor helped us in many ways. Fortunately we went public at a time when taxes were already reasonable in India.

We have gained strong control over our listed companies. In fact recently two of our listed companies we had to issue further shares to the
public so that we could comply with the norm that has been made, which is that the maximum promoter holding can be 75%. So we have a strong holding in all our listed companies and the stock price has risen quite well. So whenever we had to raise capital we have been able to do it quite well.

One of the new businesses we started in 1991, our real estate business, we listed afresh in 2010 because it will need new capital going forward. Now, my grandfather had bought a large tract of land in a place called Vikhroli, which is now within the municipal limits of Mumbai, during the Second World War. And that has been an extremely useful asset for us. We have expanded in Vikhroli away from our old factories, which were in central Mumbai; we have moved them all to Vikhroli. Of course now we have expanded all over the country. But that tract of land, which is about 3,500 acres, is very valuable now. And we have reserved about half of that land, which is a mangrove forest, as a forest. It’s like Bombay’s lung today. There’s a lot of wildlife there. It is one of the best mangrove forests in the world. Children come and see what a real forest is like in a concrete jungle. So it’s very good.

We are developing Vikhroli now that the Urban Land Ceiling Act has been repealed. So since we had this strong asset when the economy opened up in 1991, we figured to develop this better it will be great if we get into the real estate business, and to learn it well, which we did. But because there were legal restrictions in developing in Vikhroli, we started developing across the country. The business has been extremely successful over the years. We have leveraged our brand very well. We think in the
long run it will be the fastest growing business in our group because real estate development is a huge overall business in India. We don’t have to worry about market share or category size in our real estate business. We think we can grow very well. We are growing extremely well. And now that company is listed too.

TK: Now that affords an interesting window into the way regulations change in India. When you think about the Urban Land Ceiling Act and the time that you decided to get into the real estate business in 1991, I believe this Act had only recently been passed?

AG: Well, the Urban Land Ceiling Act was repealed many years ago, but each state had to further repeal it, and Maharashtra was one of the last ones to do so.

TK: Why is that?

AG: Well, it’s just lethargy. It’s lack of belief in development. It’s still the old socialist ideas, still continuing in some political minds. So unfortunately, to my mind, if India were to liberalize and globalize much faster, it could do much better. There is always this...you’ve seen recently actions against Foreign Direct Investment in retail, etc. Still people, both business and Government, tend to be myopic.
**TK:** You think opposition still comes from parts of the business community?

**AG:** Definitely. I will give you an example: Foreign Direct Investment in multi-brand retail. Now for a company like us, if you look at the very short term, it is not very good for us. If international retailers come in, they will go into more private label businesses. It will be more difficult in terms of selling to large chains than it is to sell to millions of small stores. So clearly if you take a myopic, short-term view, it is not good. But from a long-term view, it improves India’s logistic chain, it improves India’s agriculture, and it will add to GDP growth. So it is good for us. If you look at it only from a myopic point of view, then you will say I am opposed to it. But we have always supported it. And that’s how I think India should react to changes. But not all businesses do, not all politicians do.

**TK:** To stay with that theme, if you look at organizations, apex bodies like FICCI [Federation of Indian Chambers of Commerce and Industry], Assocham [Associated Chambers of Commerce and Industry of India], or CII [Confederation of Indian Industry], have you had your group and your colleagues on occasion advance this reformist agenda in an activist way? Or do you think it is more productive in the social milieu here to do it by virtue of example behind the scenes?
AG: I was president of CII last year and I have always supported liberalization and globalization very strongly; CII has always supported it. I believe it will add to GDP growth in the country. I do believe very strongly that our country can easily grow at 10% per annum with the right policies, despite the present atmosphere of doom and gloom.

For example, our indirect tax reform, called the Goods and Services Tax reform, would add 2% of GDP growth, other things being equal. So I think if we get on that path we will grow very well. The country is well-poised to grow dramatically. There are many macro factors which help us, especially our demography and that needs to be leveraged.

TK: So something like this Goods and Services Tax, there must be some vested interest that benefits from its continued existence?

AG: The only vested interest that would be set back by the Goods and Services Tax would be small and medium-sized businesses that evade taxes. Evasion of taxes becomes extremely difficult once the Goods and Services Tax comes in. That is the opposition. Some of the opposition parties represent small and medium-sized businesses. I think the state units, etc. get affected by that. Secondly, the opposition sometimes does not like very good reforms to pass during the regime of their opposition. That happens in the US; it happens in other countries.
TK: Coming to more of the current economic environment, you’ve spoken about your bullishness about the long-term future. A 10% growth rate is something that will be very exciting to a lot of people, not least of all Indians. I assume you are spread across the world, taking some of these bottom of the pyramid, so to speak, goods and services, and some of the very high quality products to places like South Africa and elsewhere. This has become an important growth engine for you. Can you comment on when that decision to globalize kicked-in in some concrete way and how have you taken it forward in any of your businesses?

AG: Well, about five years ago, my daughter Nisa, an HBS MBA, initiated PROJECT LEAPFROG to study our consumer products businesses and how we could accelerate growth. We throw up a lot of cash in that business. We work on negative working capital in India because we are selling to so many small retailers through our distributors. So we collect cash from our distributors and get credit from our vendors. Thus we work on negative working capital. Our cash generation is more than our profits. We do not need too much capital equipment for expansion in that business.

We used to pay very high dividends and did several buybacks. Then we figured after this study that we could create better value for our shareholders by using this generation of cash for acquisitions, both in India and internationally. But we were clear it should be in the developing world. So we made several acquisitions in Asia, Africa, and South America. And they’ve been very accretive.
We also use EVA [Economic Value Added, a corporate performance measure that aligns employee incentives with shareholder interests] as a major financial metric across many of our businesses very successfully, for many decision making criteria. And we have a very strong EVA-linked variable remuneration for a large part of our team, which has been very successful in aligning the interests of our employees with that of our shareholders. These moves have helped us grow very substantially.

So we have had a high growth both in our top line and bottom line through many of these acquisitions.

**TK:** *So the acquisitions are primarily in what area?*

**AG:** Only in our Fast Moving Consumer Goods business called Godrej Consumer Products. There we follow a philosophy called three-by-three: three continents in the developing world, as I mentioned, in three categories where we are quite strong in terms of technology and products in India. So it’s our hair color business and our household insecticide business, where we are extremely strong in India—we have about 50% share of the market—and personal wash, because our soap business is a reasonably strong business in India.

Our hair color business is especially a very profitable business for us. L’Oreal is the largest company in the world in the hair color field, and they are a leader in every country in the world except about twenty-two countries in which we are leaders, in Africa, South America and Asia. They
are not leaders in Japan and Germany, in addition to the countries where we are leaders.

It’s a very successful company but we are very low-cost, using bottom of the pyramid technology. We make a powder hair color in a sachet, which is a fraction of the cost of the L’Oreal product. It is very easy to use—you just tear it up, mix it in water, and apply it. We sell it to a lot of male users in India, who like to look younger so that they can get better temporary jobs, etc.

So we have taken some of these technologies. We have exchanged some of these technologies between our geographies. We have brought a South American technology of crème hair color, high quality crème hair color, but in sachets, into India very successfully. This kind of exchange of bottom of the pyramid technology from one country to the other has helped us very significantly in our international growth.

**TK:** The entry into South America or Africa with hair color is an acquisition, or an organic growth?

**AG:** All our businesses in other countries have been acquisitions. Once we acquire a business, then we add on organic products to that business or growth ideas. But we don’t start organically in any countries except neighboring ones. It would be very difficult to take a new brand organically in the FMCG [Fast Moving Consumer Goods] category into other
countries. It would be very costly, very time consuming. A good acquisition makes much more sense.

**TK:** What is your either immediate, or medium or long-term view on the transference of the Godrej brand to any of these acquired entities?

**AG:** We are very clear on that. We have acquired companies which have a strong brand in their geographies. We do not necessarily want to take the Godrej brand into those geographies. Some new products we may take with the Godrej brand once we are already there, but we strongly support the local brand.

For example, we have a company in South Africa which is very strong in hair color, and now a leader in about fourteen countries in Africa in hair color, and the best in South Africa. We’ve taken our powder hair color technology, which that company did not have when we acquired it, but in the Inecto brand, which is the brand of that company across Africa. The same product as in India, here it is sold as Godrej powder hair color, in Africa it is sold as Inecto powder hair color.

**TK:** So I think you mentioned earlier in that company 40% of the sales are overseas, correct?

**AG:** In Godrej Consumer Products more than 40% is now international sales.
TK: What does your management team in Mumbai, or India, learn from exposure to Africa, Latin America, or Indonesia?

AG: A lot of marketing ideas. We are able to bring very good business processes. These were mainly family run companies; they were very entrepreneurial, but did not have great business processes. So we’ve been able to bring good business processes there like IT, connectivity, etc.

We’ve also decided, unlike the multinationals we worked with, not to centralize decision making. So in most cases we have retained the management there. Or even in cases where we need to recruit people, we try and recruit local people. We’ve also recruited some Indian people but mainly those who were already working in those countries. We send only one to four people from India to each of these companies and I think that works well. We saw that the centralization of decision making in some of the multinationals that we worked with was not working too well for them.

TK: You are referring back to your joint ventures?

AG: Yes, referring back to the joint ventures. And what we are also particular about is that we are looking for size and scale. So, for example, our per capita Fast Moving Consumer Goods sales in Indonesia, South Africa, Argentina, Uruguay, and Chile, are higher than our per capita FMCG sales in India.
TK: And when you think about the mind of the Indonesian consumer for instance, is it different from the mind of the Indian consumer in some fundamental sense? Or are you better able to read it than some American brand?

AG: I am not sure. I think many American companies, be it GE or P&G, do a very good job in many ways. But we’ve tried to avoid what we think are their pitfalls. We’ve tried to bring in new thinking and, to my mind, each country has its peculiarities. So for example, the South American countries we work in have very high per capita sales of beauty products, compared to, say, India. And we need to learn from that. The Indonesian market is not very different from what it is in India.

We’ve seen very successful product ideas which are transferable from one geographic area to others, as I mentioned, which we have done very actively. And that has been successful.

TK: And the general idea is still that the cash generation from the Indian business is providing a foundation to finance some of these businesses?

AG: Yes. So what we did was most of the expansion internationally we did by further equity issuance, where we found some good opportunities, but most of it has been done by borrowing. Then it is paid back from cash
generation from those businesses, plus cash generation in the Indian business.

TK: So let’s switch from the interface with the financial markets and the negative working capital and those aspects, to the talent side. You mentioned early on that your engagement with the likes of GE gave you some ideas on how to manage, when you mentioned your EVA-based compensation to senior managers. I certainly think of the Godrej group as being a home for professionalism. Can you speak on how your views about talent, and in the group, have evolved over time?

AG: Yes, we’ve changed tremendously in our human resource development approach. Early on we had some strong HRD [Human Resources Development] practices but after our joint ventures, learning from GE especially, and recently with my children joining the business, they’ve brought tremendous, both strategic and human resource development practices into the group.

We’ve hired a lot of excellent talent from outside. We’ve changed incentive systems very strongly in the group. We’ve changed our evaluation systems very strongly in the group. In the old days people joined our group as youngsters, as management trainees, and retired from our group. Now that’s a little different. We have very strong selection systems. We always categorize about 5% of non-performers at the bottom of the ladder and we work towards having them leave the group. With the top
10% performers, we work towards giving them much greater responsibilities at a young age, etc.

So our entire human resource approach has very successfully changed. Our strategic practices have changed greatly. And I think we have a fair amount of talent from the best business schools in the world, including Harvard Business School, Wharton and MIT-Sloan, etc. I think that’s helped a lot.

The other thing I must emphasize is that we are still a family-controlled business, but we insist that anybody in the family who joins the business must be at least as much professionally qualified as our external talent. So we don’t divide it between family members and professionals. We always insist on everybody being professional, be it family or non-family professionals running our business. Today a lot of our businesses, most of our businesses, are headed by non-family professionals.

I have three children in the business and I am by far the oldest in my generation, so the other children have not fully joined the business. One of my nephews is in the business but he is currently studying abroad, doing his Master’s degree. My two daughters who are in the business have very strong strategic roles. My daughter Tanya handles marketing and the Godrej brand across businesses. So family members are much better equipped to handle things across businesses than non-family professionals. My daughter Nisa handles strategy, innovation and human resource development across businesses. Now, of course, she has just been appointed as an executive director of Godrej Consumer Products. She was
always on the board, but she has just been appointed as an executive director. The only exception is my son Pirojsha who is managing director of Godrej Properties after having worked there as an executive director.

**TK:** Are you in a position where you can tap into the talent from the Indonesian and South African subsidiaries and do something outside of their home countries? Is there a talent flow back-and-forth as yet?

**AG:** We have not yet moved people from one geographic area to another. Nor have we moved anybody from those countries into India yet. We might do it at a later stage. We will also be recruiting new management trainees from the local areas, which has been a very strong forte of ours in India. We started recruiting management trainees from the first graduating classes of the Indian Institutes of Management, almost fifty years ago. That hasn’t started yet, but we would look forward to that in the future. But we do send very talented people from India in a restricted number to these foreign subsidiaries.

**TK:** So there are two other areas which we haven’t touched upon which are a little bit outside the mainstream business. One of them has to do with, if you will, social responsibility and philanthropy, and how do you think about it as an entrepreneur. And the second actually goes back to your education in my backyard, in Boston at MIT, and some of your continued
relations with that institution and higher education in general. So perhaps you could talk about them.

AG: So I will talk about that first. I went to school in India, and I finished school at a very young age. I finished school at fifteen. Then I went to university for two years. At seventeen, I went to MIT to study as an undergraduate. And because I had already gone to university for two years, I could get credits for certain courses in mathematics and science early on. Once I went to MIT I started studying mechanical engineering. But I soon realized that I was not exposed too much to economics or other subjects like philosophy or business in India; there were no business schools outside of the United States in those days. So I decided it might be most useful for my career if I studied business also.

So MIT had a very flexible program in those days, where you could do a Bachelor’s and Master’s degree together. So I registered for that with mechanical engineering as a minor, and I studied at the Sloan School. I think the management education was extremely useful because I was the first management graduate to join our group. I was able to bring in a lot of management input into our operations across the board. That enabled me, at a young age, to distinguish myself in the group. So my father and my uncles, because of the input and success I could demonstrate, started giving me more and more responsibilities. And I think my four years of studies at MIT were extremely useful. Subsequently of course other members of my family have studied at great schools in America, including my younger
brother, my cousin, and my three children; they’ve all been to Ivy League Schools. All have studied business in some form or the other.

**TK:** On the issue of the role of business particularly in a country like India, we had a little bit of discussion about this already when you talked about your role at CII and how you’ve been a vocal advocate for liberalization. But if you take a broader sweep of the society, not just politics, how do you see the Godrej Group or you as an individual—your angle—playing the role of expressing yourselves in that area?

**AG:** I think we’ve been reasonably successful over the years. Of course there have been some Indian groups, especially entrepreneurial groups, which have started recently, that have been extremely successful too. And clearly some entrepreneurial groups have grown much faster than we have. Some of the earlier groups, especially the Tatas and Mahindras, have grown very well. Some, as I mentioned, have not grown well. So I think, like business anywhere in the world, some companies drop out, some companies grow well, and some companies get into historical success models. It’s not very different from other parts of the world. Of course what still distinguishes India is a lot of the large businesses are family controlled, also there are very good professional companies, listed companies, developed in India.
TK: What role should business play? These days all around the world there’s a lot of discussion about different forms of social responsibility. What is business’s role?

AG: I think it is very important. I think businesses that pay attention to philanthropy and social responsibility benefit tremendously also. So in our case we have put 25% of the shareholding in our major private holding company called Godrej and Boyce, which is also a major holding company in the group, which owns shares in many of our other companies, into the Godrej Foundation. A large part of the dividends of the group go into philanthropy and I think that’s worked very well.

We also have a very strong emphasis on corporate social responsibility. We have a program called Godrej Good and Green, which emphasizes corporate social responsibility across our group. So we have a program, which started about two years ago, to train about a million youth in practical successful trades. We strongly believe that there is no unemployment in India; there is only unemployability. Almost everybody with a good background in training or education will be able to get employed reasonably well.

So we have this program to train people in areas in which we have good knowledge, like sales, or hair salons, or agribusiness, poultry breeding, and other areas where we can develop good strengths amongst the people. And the good part relates to environmentally viable business practices, including environmentally friendly products. One of our
philanthropic areas, which we pay a lot of attention to, is the environment, green business. So we have founded the CII-Godrej Green Business Foundation in Hyderabad, which helps Indian industry realize that green business is good business. A lot of our philanthropy is directed to environmental areas of importance.

TK: Do you subscribe to the idea, I think it is sometimes erroneously attributed to Milton Friedman, “the business of business is just business”?

AG: Well, I wouldn’t fully subscribe to Milton Friedman. I think the business of business being business is extremely important. I think government interference in business should be minimal. I think when something goes wrong, unfortunately in countries like United States or India, we react by trying to put more controls on business. That’s the wrong way of going about it. But I feel in the modern world, it is very important for business to interact with the community, especially in the developing world. And so this emphasis on social issues, on what we call good and green types of activities, I think is very important. But I still do believe that business should concentrate on business, improve how they do business, and government should have minimal interference with business.

TK: So it’s interesting. I mean the way I’ve often thought about that and I’d love your comments on that is if the state is weak, if the government is weak, and generally speaking organized private sector activity is the only
Emerging Markets Oral History

effective game in town, then it is incumbent on an organized private sector to lend a helping hand. I wouldn’t go as far as to say as to get into government, but the private provision of public goods in effect becomes a necessity.

AG: I agree. I think it is very important. For example, I believe strongly that low tax rates, especially in the developing world, end up collecting much more tax revenue. So this temptation to raise tax rates, to increase tax collection, is not the way to go about it. So you incentivize business, and then business should contribute to what otherwise people expect government to do. If that is combined well, I think it works very well. And I think that’s the way forward for business and government to combine, join hands, for fast development of the developing world.

TK: So on that note, I remember you referred to the new entrepreneurs, and Infosys and the software companies began to list. My recollection is that they had a major effect on corporate governance practices in India because the listed entities and traditional businesses could no longer say that we don’t want do that because this is India; because companies, like the new software companies, were aspiring to maintain global standards. In my mind, that’s an example of a private entity raising the general quality of public governance in India.
AG: Yes I fully agree with you. I admire the software industry, one, for building a great entrepreneurial business in India, building a totally new area of business which India could very well fit into, but more importantly, coincidentally, all of them put a lot of emphasis on corporate governance, all of them emphasized their responsibility to the nation. And I think that has added a strong dimension. That also has focused thinking in the country that when the government does not interfere too much, businesses tend to perform very well and contribute very well. So I think it’s a good example to cite when government tends to go the other way.

TK: So, Adi, you are such a good example, your family is such a good example, of family business, which is a ubiquitous feature of many developing countries and many developed countries as well. I wonder if you could help us understand the evolving role of this generation, you and your cousins and siblings and so on, and how the transition is happening from them to the next generation.

AG: Well, two or three things we followed in our management of family business. One is that we have divided our ownership in my generation exactly equally between five owner cousins, if you will, including my brother of course. That avoids any disputes in ownership within the family. The other is we have a very strong family council which meets regularly, exchanges notes, discusses issues, and we have set an important rule that
only professionally qualified family members can join the business. The others can of course be shareholders.

So I have a cousin who is a wildlife photographer, he has not joined the business; he likes what he does very much. There could be others who do not wish to join the business and unless they are professionally qualified we wouldn’t permit them to join the business. That works reasonably well.

**TK:** And that’s a philosophy that is transferring over to the next generation?

**AG:** Yes to the next generation, very strongly. Now I think even the youngsters who wish to join the business clearly realize that they would not fit in if they are not well educated; they would not qualify. In the old days when the taxes were very high, it was difficult to survive just as a shareholder, and so if you joined the business you could at least enjoy some perquisites from the business. Now of course that’s not necessary at all.