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A Family Member Is Only A Trustee

E Kumar Sharma May 27, 2019

What should companies, young in their generational progression life cycle, focus on so that they can see many more generations?

The most important thing to do is to draw up a family contract early, very early - in the second generation itself, when there are three or four people involved. If you leave it to the third or fourth or fifth generation, there will be more and more people involved and it will become nearly impossible. The family contract or a constitution or any legally binding written document should lay down all the rules and regulations for eventualities like if somebody wants to leave the family business, then who can run the business; how to split the dividends; and a lot of other things that a good family lawyer would know and can help come up with a good draft, one that will make it difficult for a family member to opt out of that contract. You need to put it all down in writing and clearly define a family member and ensure that all participate. Never make the mistake of offering an option to sign the contract. Any family member who comes of age or inherits shares should automatically become part of it.

What happens in cases where a daughter- or son-in-law is good at running a business?

You have to differentiate between ownership and management. So, if the son/daughter-in-law is brilliant, he or she can run the business and one can give part of the ownership to him or her. Every person - son-in-law, daughter-in-law, an adopted member - is a family member but may not be allowed to vote for the family board or for change of contract. But I, as the owner, can pass on some of my ownership to my wife, son-in-law or daughter-in-law and they will have the same rights as the owner. The difference is, if they decide to separate, then the spouse (not having the bloodline) will have to surrender his or her ownership.

Often, founders or family business patriarchs are unable to let go after retirement. How does a family business leader disconnect after leaving?

This is an old problem. When I got in, I reintroduced the 75 years age limit. When I turn 75 in five years, I must go and there will be no office, nothing. No involvement thereafter. It has to be in the family constitution.

Each generation deals with a different cultural environment. How can all be aligned to the written document? How did you achieve this?

It is very difficult. It is one of the challenges. We are in the process of achieving it. I tell the youngsters: Never forget that you are just trustees and nothing else. You are here only to pass on the share of the company you own to your children and grandchildren. If your forefathers had not done this, you wouldn't be sitting here. Many people work for the company (more than 52,000) and their families are dependent on it. All that the family members need to do is ensure that the heritage is passed on from one generation to the next. The next generation has to understand trusteeship clearly.

You have to educate and train them. We have programmes for it and the family university - the Merck family university. A young family member who has obtained a university degree or an apprenticeship and gained outside work experience can apply. Those who meet the assessment criteria are given a five-module course at the university. (These modules include Merck's history, finance, accounting, family business, family governance, leadership and digitisation.)

What are the values that are underlined?

If you look at the car parking when we have a family gathering, the biggest car is an E-class Mercedes. No Rolls Royce or Ferrari. It is not our style. You should demonstrate your entitlement by your merit and not by your wealth.

For a research-driven, innovation-oriented company, how challenging is it to sustain this interest in the family across generations?

You cannot expect a family to produce scientists or science-driven people generation after generation. If you look at the young generation in the family, there are some, including girls (nieces), who are quite good. Some are biologists, some PhDs and chemists, though only one really wants to be a scientist. So, what we have to do is create a set-up within the company, funded by the family, to attract outside scientists. Merck today has 3,500 scientists and more than 40 per cent of our general staff are from academics, which is logical, given the businesses we are in.

In the pharma industry today, blockbusters are few and far between. How do you ensure that the focus on innovation is maintained and yet revenues increased?

It is nice to have a blockbuster from time to time. We have one drug now in our pipeline, which definitely looks like one that could be a blockbuster. I cannot name it but it is in the oncology space, it is a space that we understand.

Our research pipeline at the moment looks extremely good but still the chance of success is 50:50 or less. When we see a potential blockbuster, we team up with, say, an American company because we cannot cover the 300 million people strong American market. But it

is a market that can pay for it. You need to recoup the amount invested in R&D.

Many family businesses do not last beyond the third generation. How did Merck overcome the third generation challenge?

If you look at the statistics, a high number of family businesses collapse in the third generation or the family loses control of ownership. What they did in the third generation at Merck is too long ago for me to say, but one thing is clear: they all worked towards continuing the business and began looking more at its scientific side. In 1827, Heinrich Emanuel Merck, who was a sixth generation member and who had scientific education, began manufacture of alkaloids and other chemicals. Later, in 1890, his grandson established Merck in the US. We lost the US subsidiary after World War I. It was nationalised and subsequently re-established as an independent American company.

What is your typical day like? How has your role changed over time?

I get up very early, at 5.30 am. Whenever young people ask me what they need to do to become successful, I tell them, be in the office half an hour before the others and leave in the evening half an hour later. I get to office at 7 am. I have always spent long hours at work but now I am 70 and tend to leave office for home by 5.30 or 6 pm.

How are you trying to ensure a smooth transition? We understand one of your sons is working for a pharma company.

My children are young. In any case, in our structure one has to be elected to the family board. Yes, one of my sons, who is 32, works for a pharma company but as long as I (father) am there, he can't be elected to the board. My cousin is the possible successor and will take over.

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