CASE STUDY

INDIAN FAMILY BUSINESS SEPARATION AS CONTINUITY – GODREJ

Managing a family business for generations and passing the baton is critical for harmony in relations and the longevity of the business, especially when the company has a legacy of over 100 plus years. Godrej is a case in the history of Indian family business separation that managed business continuity and family relations, amicability and equality through family settlement agreement. The case focused on process, which separated businesses without denting the Godrej brand. Researchers derived lessons for the family business owners for sustainably and strategic process when different branches of the family develop diverse interests and separate the business.

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Introduction:

Family businesses are unique when it comes to legacy, relationships, and enterprise. While longevity often stems from strong values and stewardship, it may create tensions when different branches of the family develop divergent visions that imbalance the family business dynamics. Unlike high-profile family disputes, Godrej's 127-year transition was characterized by foresight, governance discipline, respect, and dignity for family members, employees, regulators, and all stakeholders, as well as maintaining harmonious relations among family branches and investors by announcing the separation of the business. It was beyond their business legacy and transformation, following mutual consent at the board meeting held on April 30, 2024. (Family Settlement Agreement)

Back in October 2021, Godrej Group has thought for separation and taken advises from external partners, instead of going to an arbitrator, Godrej group has started separation process amicably and equitably (Times of India 2021-1) which resulted into first ever official announcement of splitting business in October 2023 (Live Mint 2023), and after a long discussion internally and family settlement agreement was finally announced separation of the group on 30th April 2024.

Separation:

The long-awaited strategic decision for the Godrej group was to pass the baton to the Next Generation and take a leap towards achieving a new horizon through family settlement and succession planning. Godrej, headed by Mr. Adi B. Godrej and the Board, was concerned and prepared for the strategic separation, having planned for it since 2005. The first concern was discussed publicly in 2005. (Singh N. 2005) and planned to pass a baton through the separation of business with divergent strategic approaches without denting the 100-year-old legacy of the Godrej brand. Later in 2019, the family looked forward to divide the group into two entity within the siblings but valuation of the key property holding by one of the entity Godrej & Boyce (G&B) was challenge hence seeking the advise form industry experts and legal expert (Lashkar A. Sapam B. 2019) for the valuation and taxation aspects of the family settlement of property of over 3000 acres of lands own by G&B in Vikhroli, Mumbai. (CNBC-18, June 2019). After considering the legal complexities of taxation and valuation through the separation of business, Godrej headed towards a family settlement and separation of business in 2021, taking a step to split the business amicably and equitably, without involving a third party for settlement. (Times of India, 2021-2). After considering the business aspects and consent from the family members, including G&B and Godrej Industries Group (GIG) owners. The family entered into a settlement of their family business separation to maintain legacy, trust, and respect to all other family members, stakeholders, and to establish a long-lasting, harmonious relationship amongst the family members and set a benchmark in the area of succession planning and dispute-free family settlement and separation of family businesses through a family settlement agreement published on 30th April 2024. (Giriprakash K. 2024, Gopalan K. 2024, Modak S., SethurammS., Mishra B. et.al 2024).

> "An insightful analysis of how Godrej achieved an amicable, equitable family business separation through foresight, governance, and legacy-driven succession planning"

As one of the largest Indian conglomerates, Godrej has a diverse portfolio of multiple businesses, making it a challenging task to separate the group from a valuation perspective. The family has decided to separate the group into two broader categories: listed companies under the leadership of Adi B. Godrej (ABG) and Nadir B. Godrej (NBG), and GIG, and unlisted companies under the leadership of Smita Godrej (SVC) and Jymshed Godrej (JNG) , collectively known as the Godrej Enterprise Group (GEG). (Family Settlement Agreement)

The Legacy

Godrej was founded by Mr. Ardeshir and Pirojsha Godrej in 1897 in Mumbai (then Bombai), India. After a few initial failed ventures, Ardeshir Godrej started manufacturing Locks, which were well received by the market. Godrej was the only Indian company to start manufacturing the first 7 lever locks made in India in the era of the *"Swadeshi-Movement"* during British Colonial Rule in India. After achieving success in lock manufacturing, Godrej brothers started manufacturing Safe and the *"Almirah"* brand, named "*Godrej",* which was popular in India. The business gained success over time. As time passed, the brothers focused on diversifying their business and expanding their presence in multiple businesses, including Soap Manufacturing and Furniture Manufacturing (1923). As demand for Made in India products increases and trust is built through quality, innovation in new product development, and durability, Godrej has experienced remarkable growth in the Indian market for consumer goods. Then, Godrej gave enough time for their products to settle and expand into associated products. Godrej launched its new soap, "Cinthol," which remains one of the most popular products among Indian consumers. A product that has survived and continuously increased sales for more than seven decades has proven the brand legacy that Godrej has created, establishing a strong presence in the minds of Indian consumers and making Godrej the first choice of customers in India.

Godrej also ventured into real estate, agro-products, and animal feed, creating an empire under the umbrella of the Godrej Group that spanned three and four generations; however, different family branches had assumed stewardship of distinct businesses. Divergence in strategic priorities and different horizons for business priorities and leadership style became clear.

> A study on Godrej separation, demonstrating how respectful dialogue, legal clarity, and shared values preserved unity of the family while enabling divergent family business visions

In 1951, Godrej delivered 1.7 million ballot boxes for the Indian election. As demand dictated, Godrej diversified its business to stay relavent to the market needs. Godrej believed in constant updates in its products to serve the consumer better.

As a journey of innovation and new product development, Godrej has diversified its business from consumer goods, such as soap manufacturing, to consumer durables products, including the home appliance industry, and launched its first refrigerators in 1958. As part of its business expansion, Godrej took a new leap into the animal feed industry as a subsidiary of Godrej Soap in the early 1970s. Later, it was formally incorporated in 1991 as Godrej Agrovet Ltd. and went public in 2017. Continuing the journey, Godrej ventured into real estate in 1988, and in 1991, further expanded into the food industry

Status Before the Settlement:

Godrej was operated and managed jointly as a group before the settlement, which includes all listed and unlisted entities. The market capitalisation of the Godrej Consumer product stood at 1280 billion INR, Godrej Property 639 billion INR, Godrej Industry 263 billion INR, and Godrej Agrovat Ltd. 93.60 billion INR. Astec Life Sci was valued at 21 billion INR. Altogether, the combined market capitalisation of all the listed Godrej group companies stood at 2298 billion INR as on 31st March 2024. (Source: NSE-INDIA) While the market capitalization of unlisted companies was not publicly available.

Family Settlement Agreement:

Here are the extracted important terms agreed for the settlement of business: (Sattlemtn agreement)

The family observed that the divergent interests of the third and fourth generation family members, along with varying perceptions of the business in different areas, were at the center of the settlement agreement. The extracts of the agreement include the business separated under two broader heads; ABG and NBG for GIG, and JNG and SVC for GEG. For the settlement of the business, neither group will be directly involved in managing the other company. It was agreed that by allowing both the separated businesses to use the Godrej brand name, they would maintain the legacy of the brand and respect the values and trust of both group businesses. It was further agreed that the other family group should protect the strategic importance of the business.

Once the realignment of shares transfer is done, the promoter group shareholders will be removed as promoters' quota, and they will become ordinary shareholders if they acquire any further shares of other groups of companies.

Shares of G&B held by members of the NBG Family on or after the effective date were not permitted to be transferred to competitor(s) identified under the Family Settlement Agreement, except either with the prior consent of the Branch Heads of JNG Family or SVC Family or through a non-negotiated on-market sale in the event the shares of G&B were traded on any stock exchanges.

The ABG and NBG family shall have the exclusive right to adopt, use, own and register the 'Godrej' name and brand in businesses such as fast moving consumer goods (including cosmetics, domestic and cleaning supplies, sanitary care, toiletries), foods and beverages, dairy products and services, financial services, pharmaceuticals, pharmacy, diagnostics, sexual wellness, agriculture and agriculture related services, fertilizers, chemicals, oils and fats, etc., other than to the limited extent specifically agreed. The JNG and SVC family shall have the exclusive right to adopt, use, own and register the 'Godrej' name and brand in businesses such as space, aerospace, defence, furniture, durables, heavy engineering, locks and architectural hardware, EPC services, construction materials, home and office automation services, home and commercial interior design services, medical devices, software solutions, IT/ ITES, machines, energy, electric mobility business, vending machines, security products and solutions, intra-logistics, transmission systems, etc., other than to the limited extent specifically agreed.

The family has also agreed on certain non-compete protections for their existing and exclusive businesses, which shall apply for a period of 6 years from the effective date. No group company can start or enter into any business of another group company.

The shareholding of GIG will be realigned, such that ABG and the NBG family will hold the control of the listed companies.

Challenges:

Valuing land and business – listed and unlisted business depends on many uncontrolled variables. Combining both kinds of assets and giving each faction a 'fair share' was complicated in this case. There's a risk that one faction ends up with disproportionate value or burden without careful structuring, considering future business prospects or land values diverge. Land value may appreciate or remain latent, while businesses have different life cycles; matching present business value with long-term real-estate potential is inherently uncertain.

Retail investors and stakeholders in listed companies may be uncertain about how the split affects future strategy, leading to stock price volatility.

The announcement of the group's division triggered a mixed but largely positive market reaction, with several listed entities such as Godrej Consumer Products and Godrej Agrovet rising as investors welcomed clearer ownership and governance structures. However, companies with higher real-estate and industrial exposure, like Godrej Industries and Godrej Properties, saw short-term declines due to valuation uncertainties and concerns over future asset restructuring.

Lesson for Family Businesses Ownership:

Wise family businesses should take separation as a proactive approach, along with systematically and generously planning for the succession and continuity of the business. The case reframes separation as continuity and suitability, rather than a failure; it can be a deliberate strategy that allows each family branch to pursue its vision while preserving shared heritage and family relationships.

Godrej is an exclusive case of a family business being separated amicably and equitably for the continuity of business in Indian history. It was observed from the case that the ownership structures must be revisited periodically by the family business owners. Generational transition inevitably brings new ambitions and capabilities. The Godrej family anticipated divergence early and initiated structured discussion. Rather than wait for conflicts, Godrej acted proactively and settled the issue in time.

Ownership structure and decision-making authority must be reviewed consciously, along with a scenario for scenario planning for unit versus separation, and maintaining continuous communication among family members regarding business succession and separation considering the legal obligations. One should not forget that clear governance, backed by legal documentation, is always non-negotiable for the success of a family business.

The settlement was based on a robust family settlement agreement that included provisions for non-compete, brand use, and board restructuring. Family constitutions and other legal agreements, along with clear governance and roles, must be discussed continuously and frequently in the family council and owners' council.

There should be respectful and transparent, empathetic communication within the family that will transform conflicts into constructive outcomes. The Godrej family emphasized respect and mindfulness in their process. (Arun.M.G. 2024) Business owners should adhere to the norms of respect by maintaining clear communication protocols and sharing a legacy of business ethics.

Owners should keep in mind that asset division should reflect managerial capabilities and strategic intent, not just valuation. Family business owners must envision long-term growth analysis and balance risk stability, considering capability matching. Always remember that the family reputation is a shared inheritance and requires good governance. Godrej Group has focused on safeguarding brand integrity and joint heritage initiatives, and both groups agreed on usage terms to protect the Godrej name. (Arun.M.G. 2024)

For the longevity of the business, planning must be transparent, competency-based succession, and it should be time-bound. The agreement mapped a clear leadership transition, including Pirojsha Godrej's planned elevation in 2026 (Mondal D. 2024). It should have leadership principles, transparent timelines, and merit-based criteria that should also be taken into consideration while passing the baton to the next-gen team.

Conclusion:

In conclusion, separation should be generous and not conflicting; one can learn from Godrej how business has been divided with mutual trust, respect, and harmony, thereby preserving the legacy. Family business owners should not delay difficult conversations; instead, they should discuss them respectfully regularly. Put governance on paper and always follow it. Various business lines should be matched with leadership, and the family name should be protected as social capital. It is advisable to plan beyond the family and beyond today to secure the future of the family and ensure business continuity. The learning from the case includes maintaining a harmonious relationship after separation. The case can be described as separated by business, united by brand, and bound by family relationships. Finally, widening horizons for business growth should be the ultimate vision of separation. MA

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