

BUSINESS LEARNINGS

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Business Ethics

- Before regulating your colleagues, you have to discipline yourself. You are not above your colleagues; you are one of them. You have to accept the fact that you are not a privileged person: you cannot break any law, public or private, and whatever the laws and rules of your organization, you have to be the first to conform to them. Only then can you enforce them on others.
- You cannot have any personal bias. In my youth, my best friends were non-Muslims so I had no religious bias. There was a great benefit in growing up in a very non-sectarian environment.
- You have to be fair: a lesson learnt on the playing field. For instance, at Aitchison, when we played cricket it was the norm that the batting side provided the umpire and so the umpire had to give a verdict against his own batsman. When you put on the white coat, you had to give a run out or LBW against your own team player. It is a wonderful training. That to me is what real education is, and you do not learn it in the classroom!
- You have to respect everyone. One of the things that my parents were very particular about was to respect the people working in our house and we were taught to treat them as a part of the family.

Some examples

During Malik Feroze Khan's regime (1957-8), his eldest son Noor Hayat started raising his head as a budding businessman. It was in the Prime Minister's house in Karachi that my brother, Wajid Ali, got up and said, 'Malik Sahib, we understand that your son wants to be a business tycoon but this is not on in Pakistan.' Others tried to quieten Bhai Wajid down but he said, 'No, the price that the family has to pay for your father being the Prime Minister is that you will be denied the opportunity of becoming a businessman.' At that time, there were a number of people who were taking the PM's son as their partner to push their own businesses. There was somebody from Bahawalpur, I think, who had him as a working business partner.

One wrong person in an important position ruins much. In the 1960s, we had the chance of having the Centre for Advanced Studies in Physics when Dr. Abdus Salam was working to set it up in Pakistan. Unfortunately, the then Finance Minister, Mr. M. Shoab, had the proposal turned down and the Centre was instead established in Trieste, Italy.

I was talking to a group of about 60-70 corporate leaders, the second tier of businessmen in Karachi, some years ago. Somebody asked me, 'How come you have had so many successful foreign joint ventures? Why have others who have tried them not succeeded?' I responded that the simple reason was the way I approached business. I said, 'I treat my partner the way I want him to treat me.' Samad Dawood asked 'Why doesn't it work in Pakistan?' I responded 'The general practice among partners in Pakistan, even among brothers, is that the one who is not in the driving seat feels that the partner or brother sitting in the driving seat is having a greater benefit from the company than him. That is why two brothers can fall out; it is even more likely in the next generation, when the children may be cousins but come from different households and hardly talk to each other.' This applies everywhere but more so in our culture.

We don't have any local joint ventures. My philosophy has been to have joint ventures with foreign companies. With foreigners, everything is transparent. My preference for foreign partners may also be inherited from my elders: not mixing business with friendship otherwise you lose both the friend and the money.

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NEGOTIATIONS

To me, the purpose of negotiation is to solve issues or reach a mutually satisfactory agreement in transacting a business. You cannot be cleverer than the other person. You have to know whether you want a deal or not and the relationship has to be on the basis of equality of enthusiasm on both sides. You should know clearly what you want out of a deal but also you do not want either side to feel victorious or losers in a transaction. Both sides must shake hands happily over a deal rather than otherwise. If there is a relationship that we want to build on long-term, then I come in at a very early stage because I do not want the waters to be polluted. When it comes to thrashing out the details I do not get involved but leave it to those who specialize in figures or the 'language'. My brief to them is that the other person should be happy after the deal rather than unhappy, while also ensuring that we are not unhappy either.

It is not a question of scoring points and it is not a question of winning a game. It is a business relationship based on long-term considerations; ideally both sides will want further transactions. In Packages, we know that invariably we lose money on the first order because every job is tailor-made for the customer. We aim to make money on the second order from the same customer and we will get substantial benefit when we do the 100th job. You will not get the second order if the customer is not happy with the first one. The whole idea is to make sure that there is consistency in your performance and in what you have promised to deliver. This is not just confined to the packaging industry, it pertains to all other business relationships. I believe that a relationship in business is long term, not one-off, and this has always been my endeavour.

I was never involved in negotiations with labour in our factories. I have always shied away from it because I believe in good relations with employees and did not want confrontation. I give the same respect to labour as I do to management. I feel that they are a part of the same family whereas the labour leaders feel that unless there is confrontation they have not done their job; their clientele is happy if they are confrontational. Labour leaders visit me in my office and I talk to them as members of the same family.

I learnt to make quick decisions due to my on-the-job training when I was in the Karachi office looking after many activities at the same time - we were buying and exporting cotton, and running the oil mill. I remember Syed Zahoor Hussain Shah (father of Syed Irshad Hussain, the first General Manager of Packages Limited), a PCS officer, visiting me in my Karachi office. My telephone was ringing all the time because I was getting calls from cotton brokers and others. He said, 'Your office seems like Lahore Railway Station Enquiry!' I had to adjust my quick decision making to match diverse people with very different questions.

If you make a wrong decision, you can always go back and correct it. Not taking a decision might hurt you more. If you have gone too far with your wrong decision, then you have to cut your losses.

We have a very transparent and open management style and most of the people one comes across are not that open. For example, people try to be clever and not pay taxes. We do not want to pay more taxes than are due; we will fight for every rupee but we pay all that is due. The Government recognizes us as people who pay their taxes across the board, whether it is customs, income tax or sales tax. At one time, there used to be Excise

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Officers in factories and the least attractive post for any Excise Officer was at Packages. He used to have a good meal here but that was all.

I give here some concrete examples of negotiations:

COCA-COLA BEVERAGES PAKISTAN LIMITED

In 1995, I got a telephone call from somebody who said he was ringing on behalf of McKinsey, the international consulting company, and told me that one of their Partners based in Delhi wanted to come and see me. I said I would be very happy to meet him and asked, 'When?' He said, 'He wants to see you tomorrow.' I said, 'I will be in Islamabad tomorrow' and he said, 'He will come to Islamabad. It is very urgent.' The McKinsey representative travelled from Delhi via Dubai to Islamabad to see me. He said, 'I have been commissioned by an American company to find a partner. I have done my homework. I have gone around Pakistan and I have spoken to people who have been associated with you; your name is at the top of our list.' I said, 'Before I can say yes or no, I need to know which multinational it is.' He said, 'Coca-Cola.' I said, 'Why us?' He said, 'I have done a survey of all the people who have joint ventures in Pakistan and we checked with your partners and your name keeps coming up.' I said, 'Coca-Cola have eight bottlers in Pakistan.' He said that their idea was to buy out all those eight bottlers and have one anchor bottler, with you as their partner. I said, 'I would like to meet Coca-Cola to see what their game plan is.' The Coca-Cola people visited us in Lahore with a very ambitious plan. We told them that we knew nothing about the business but they offered us a 40% share in the new Company. We looked at the amount we had to invest and declared our inability to partner them. I suggested a couple of large Groups they could approach including Engro who had deep pockets, also Fauji Foundation, a large conglomerate. A month later they came back and said, 'We want you. We will accept whatever you wish to invest. We can give you the option and you can put in the money later.' Being part of Coca-Cola has not been a financial success in these first twenty years because, without consulting us, they paid too much to acquire the original bottling companies. They had an American formula for calculating the worth of the bottler and they worked accordingly. Today we own less than 2% of shares in Coca-Cola Beverages Pakistan Limited but now they listen to us as if we are a large shareholder.

NESTLÉ

The agreement with Nestlé went very smoothly and swiftly. I had been running Milkpak for about ten years as the Chairman. We were buying milk, processing it, and selling it, but the margins were very low. I knew that we needed to have brands.

The demand for milk is greater in the summer. On the other hand, the availability of milk is the lowest in summer because the buffalo milking cycle is such that summer is the lean period. We thought we should convert the extra milk produced in winter into powder and during the summer season we could reconstitute the milk and make that into liquid to even out the supply. For this, again, we needed technology. I am a great believer in the futility of re-inventing the wheel so we invited offers for a powder plant with the condition that the powder plant manufacturer was to find us a partner who had good technology and a good brand. Stork Company from the Netherlands found us a Dutch company who were in the milk powder business but they were a co-operative. Their negotiating person was a former Nestlé man. He knew the benefit of coming to Pakistan and we had discussions with him for many

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months. We provided all the information they wanted but we were still not coming to a conclusion. I went to Holland once and I sent my nephew Syed Yawar Ali, the Managing Director, another time. I said, 'Show us the powder plant.' Each time it was under repair! Then I went to Denmark to seek a partner there, which had DANO as their brand. As I walked into their office, the Managing Director recognized me. He was an ex-employee of Tetra Pak. He said, 'Do not waste your time here. We are a co-operative. Our objective is to sell our milk powder in your country. We don't want you as a competitor.' His advice wisened me – I realized that the Dutch didn't actually want the deal either.

In the 1970s, Mujeeb Rashid was Marketing Manager of the packaging company we were managing in Tanzania. Mujeeb's apartment neighbour was Wermilinger, Nestlé's representative in Dar es Salaam. When we set up Milkpak, Mujeeb was appointed as its Marketing Manager. Mujeeb told me that Wermilinger was now posted to Karachi and he was asking for information about Milkpak Limited. I told him to feed all the information Wermilinger wanted but not to exaggerate, only to give him the correct data. After some months, Mujeeb told me that Rudi Tschan, the Zonal Director of Nestlé, was coming from Switzerland and wanted to meet me. I asked Syed Yawar Ali to bring him to me but first he should show him the Milkpak plant, take him to one of the milk collection centres, and show him Packages Limited. Then I would meet him and I would not have to tell him all about our organization and activities. Mr. Tschan came and said, 'Nestlé want to be in Pakistan. Our first choice is to have you as a partner. Our second choice would be to go for a greenfield plant ourselves because we see much potential here.' I said, 'I am looking for a partner but I have been talking to somebody else.' He said, 'Well that makes our task easier. How can we be partners?' I said, 'We control 80% of the shares; 40% of the shares are with our friends who had invested from abroad: Tetra Pak, IFC from Washington, and Danish Turnkey Dairies who supplied the processing equipment, but I can persuade them to sell their shares to you. You take 40%, we keep 40%, 20% is with the public. You run the Company and the price is as quoted on the Stock Exchange today.' He nearly fell out of his chair, and said, 'I cannot ask for anything more.' I asked, 'How long will you take to decide?' He said, 'I will go back to the Board and to the Chairman. Give me a week.' He went back and sent me a long telex saying that their Board had approved the joint venture. Packages had a certain track record and when people here saw us going into milk, many new milk-processing plants came up based on UHT milk, which Milkpak had introduced.

When they planned to enter the Pakistan market, I had warned Tetra Pak that they would be selling equipment to people who would be unable to run the plants because it required management skill. They said they would be able to sell the equipment, attributing my remark to the inaccurate belief that I did not want competition when actually I was concerned that, if it did not work, it would bring a bad reputation to Tetra Pak. When Nestlé bought into Milkpak, Tetra Pak had been able to sell 8-10 plants. They told us that they wanted to exit from Milkpak because they did not want to be seen as competitors to their customers. Meanwhile, Milkpak had gone public and our Rs. 10 share was trading at Rs. 27. Most of the companies to whom Tetra Pak had sold equipment in the early days were not successful and wound up. The investment banks at that time were flush with money. They backed such projects and ended up losing money!

When Nestlé took over, our shareholding was 40:40 while the remaining 20% was with the public. In late 1990s when they wanted to make a large investment in a spray tower, Nestlé's Managing Director came to see me for

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additional equity but we said we could not put in any more money. They said they would put more money in. I agreed with that on the basis of the book value of the shares and not on the market value, which had gone quite high by then. I felt it should be a reasonable price. Nestlé's shareholding in the Company was inching up. When it got to 49%, they said, 'We want to put in new technology, and large investment; do you mind if we have majority shareholding?' I said, 'No problem'.

They started putting Nestlé's name on every product because that was the brand they were building up. They came to me and said that now they had come to a point where we should just have Nestlé as the name of the Company, changing the name from Nestlé Milkpak Limited to Nestlé Pakistan Limited. I said, 'Milkpak is not a sacred name and the Nestlé name will only help to increase the value of the Company. If that will make you more comfortable, make it Nestlé Pakistan Limited.'

I was not interested in putting obstacles in their way only to score a point. It was our understanding that Yawar Ali would remain the Managing Director. I was the Chairman of the Company at that time. I said to them, 'Give him a few years and if you want to bring in your own man, we will have no issue'. After two years, they said, 'We want to bring in one of our top executives as a Marketing Director.' A couple of years later, they said, 'We want to designate our Marketing Director as the Managing Director.' I asked Yawar to become the Chairman in my place and I stepped down to be a Director, so Yawar's emoluments were unaffected. I did not need a rank in the organization. Yawar was not happy, but to me the relationship with Nestlé was more important. Yawar's father, Bhai Amjad, was very resentful but I persisted in the larger interest of the family. The change in management was effected without any delay.

Nestlé is the largest food Company in the world and they have many brands. Today, we have less than a 30% shareholding in Nestlé Pakistan but they give us much respect. Nestlé increased their shareholding by subscribing to the Rights shares while we did not. When Nestlé came into Milkpak, the sales that year were Rs. 380 million. In 2011, they had sales of Rs. 63 billion, an almost 160-fold increase in twenty-three years! They brought in new technology, new brands, money, and management. The Nestlé Company worldwide spends 10 billion Swiss Francs on R&D every year. Incidentally, Packages benefits by selling them packaging; they are important customers, although all dealings are at arm's length.

BAYER

We have sold off companies in which we were just shareholders, for example Levers. I was the founding director of Hoechst (the German chemical giant) in Pakistan. Hoechst split up: the pharmaceutical company went one way, the chemical company went a second way, and their crop science (pesticides) business went the third way. They sold off their crop science business to Bayer and I ended up being a shareholder and Chairman of Bayer CorpScience in Pakistan. We worked together with the Bayer people for three or four years until they came to me and said, 'We have Bayer Pharma and Bayer CropScience Pakistan (100% owned by Bayer Germany) and we want these two companies to amalgamate. We cannot do it because you are a shareholder of Bayer CropScience Pakistan.' They wanted to buy our shares, which I was willing to sell. They talked to our finance people and reached an evaluation of our shares, which was fair to both sides but more favourable to them than they had

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expected. The whole negotiation took half an hour. The gentleman from Bayer came to me and thanked me, saying, 'I want to make one further request to you. You have been a good partner and have always made good contributions at our Board meetings. Can I request you to stay on our Board as a Director?' I accepted and attended Board meetings in Karachi and Singapore. When the Bayer Singapore representative, Mr. Bernd Naaf came to Lahore, I took him to LUMS to show him what I was involved in. Later, when I went to Singapore he said, 'I was so impressed with the way you handled our share transaction that I want to give a million dollars to LUMS as a contribution.' This was probably the extra amount that he assumed I would demand for my Bayer shares.

There were two local partners of Bayer of whom I was the major one. The junior partner was Pir Ali Gohar who had also been a shareholder of Hoechst from the beginning. He came from a very respectable Sindhi family. Mr. Naaf said, 'I also want to compensate Pir Ali Gohar. Because I have given a million dollars to you, I must give him an equivalent amount for his share in the Company.' I said, 'Don't give it yet. I will talk to him and instead of the million dollars, please can you give a million Euros to LUMS, because that would be 30% more.' Pir Sahib's share was less than 30% of my share. I called up Pir Sahib and explained my suggestion. When we had originally negotiated the price with Bayer, Pir Sahib had given me the authority to negotiate on his behalf. He had an implicit faith in me and he had asked me to sell his own shares at whatever price I sold my own. I called up Pir Sahib and said, 'Bayer want to give you some extra money but I want you to give that extra money to LUMS.' He said, 'Fine, no problem.' So Bayer wrote a million Euros cheque to LUMS. Now Bayer also gives two scholarships to the LUMS National Outreach Programme.

