

A FAMILY BUSINESS IN THE SECOND GENERATION

INTERVIEW WITH VISHAL AND RAJIV MEHTA, CO-CEOS OF DIMEXON



ABOUT DIMEXON

Dimexon operates in diamond cutting and polishing as well as in jewelry manufacturing. It has operations across the world, including Belgium, the United Arab Emirates, India and China. Over 40 years, it has evolved as one of the leading companies in the industry with clients placed worldwide including major jewelry and fashion brands.

The company is co-managed by two brothers, Rajiv Mehta and Vishal Mehta.

Dimexon is a family business – could you describe the journey thus far?

Rajiv Mehta: Dimexon was set up by our father, Pankaj Mehta, in 1966. It was his vision and hard work that built up the company and set up the foundations for its success and sustainability. Initially the company operated in India, but the business soon expanded to Belgium and from there to a number of other countries. Today, we operate on global basis. We buy rough diamonds from mines in Africa, Canada, Australia, and Russia, and we cater to the largest global players including the leading watch makers, the major jewelry brands, retailers and the fashion brands.

Vishal Mehta: In the last decade, there has been a fundamental change in the diamonds industry. At the time, when Dimexon was set up, i.e., in the 1960s and 70s, there was really only one supplier and producer that a diamond manufacturer would like to have, and that was De Beers. De Beers used to control approximately 85% of the world's diamond market. It is still the largest diamond producer, but ever since the 1980s and 1990s, its share has been declining and today the market in the upstream side of the business is very fragmented. But with new entrants coming into the market, the midstream side is also becoming

more fragmented, and this is where our company operates in. In addition to the changes in the structure of market, the industry has witnessed significant economic volatility.

These developments in the market have forced us to look at ourselves internally. We have had to focus on ensuring that our business remains competitive and sustainable in the long-term for financial and economic reasons, as well as the moral obligations towards the 6,000 people worldwide employed by our business. Not only do we need to focus on the efficiency of our business, but also on other areas such as organizational alignment and governance. We have had to make significant changes in our internal processes and structures to ensure the sustainability of the business.

You mentioned moral obligations, so let us turn to values, particularly to the values of the family, which often are the basis on which a company's governance framework is built upon. How have the family values been translated into the culture of the organization?

Rajiv Mehta: Our value system stems from our father. He always believed that diamonds are precious products, and when you hand them over to someone, you do so on the basis of trust, because you trust that person. So the value system has trust at the bedrock.

And trust is incredibly important in the diamonds market, where the integrity of the product is of utmost importance. In fact, it is so crucial that diamonds have become the second most regulated product in the world – the first one being uranium. So we are dealing in a stringent, multijurisdictional, regulatory framework, but trust and honesty are the underlying values. Related to this is transparency, and we place much emphasis on transparency. For example, we have decided to report on global basis according to the IFRS, although there is no requirement to do so for a private company like Dimexon. We did so already in 2005/2006. Now, this is something that was virtually unheard of among the companies in the midstream of the diamond industry.

But we feel that these are elements that go a long way with our stakeholders, particularly the banks

and other financial institutions, but increasingly also our operational stakeholders such as clients and vendors. It brings about an extra layer of confidence in our business.

I would say that we have been ahead of the curve in our industry. One of our prime partners, De Beers, which is the largest diamond mining company in the world, has 70 customers. In 2013, it started assessing and evaluating its own customer base, not only on their financial strength but also on their reporting standards. We were the only company among the 70 that reported on IFRS. DeBeers is now pushing the remaining 69 to do the same. So we feel that there are obvious business benefits to having strong corporate governance frameworks and practices, which are built upon our values and ethical standards.

Let us discuss the topic of succession planning, which is typically a great challenge for many family businesses. You - the second generation –have taken over the day-to-day running of the business, while your father still serves as the Chairman. How did you manage the transition?

Vishal Mehta: This is a very interesting topic. The community we come from, the Western part of India, is a highly entrepreneurial community, where we have many successful business men, but many businesses from our community are not always known for their sustainability. And what I think really distinguishes our business from many others is the vision of the founder, our father, in this respect.

Perhaps the best way to describe our transition is through a few anecdotes. When I had been in the company some three years and Rajiv some six-seven years, we started asking our father some difficult questions about the future of the business. Founders are not usually accustomed to receiving such questions, and may make some founders very uncomfortable. But our father responded by turning the question back to us. He challenged us to come up with a plan for the future, present the plan to him, and he told us that if we all agreed with the plan, then we would have the support to implement it.

So, Rajiv and I then went to the drawing board. At this stage, we also commissioned external consultants to carry out a review of our business. The consultants having looked at our business told us that “You are calling in a doctor when nothing needs fixing”. But our aim was not on fixing anything – our aim was to get ready for the future. So we went through the entire vision and strategy exercise, and we got our father’s buy-in.

This was really the starting point for the succession process in our company. The failure of succession in family businesses is often attributed to the founder not letting go, and while there is undeniable truth to this, it is a very one sided view. The onus is equally on the second generation to demonstrate to the founder that they have the passion, drive and ability to take on the challenge of running a business.

But both generations need to recognize that time is precious, that time is the rarest commodity that we have. So we need to start taking the necessary steps while things are going well, and also recognize that the steps themselves need time.

So in 2003 we started the transformation process of the business. Corporate governance at the time was a term you did not hear much in the diamond industry, but we started the process piece by piece. We started with the vision of our father, who was

very clear that his aim was always to create a company that had long lasting value and longevity. For example, he did not name the company after his name or the family name, which was very common thing to do, particularly in those days in the industry, but he wanted to create a sustainable and perpetual company that is associated with what it stands for.

With this in mind, we embarked upon the transformation process – first on the corporate structure and holding company side but also the process side, establishing information systems, for example. It was really about ensuring that we have the right structure, processes, people, talent, and etc. are in place to support the future growth of the company. And along this process, our own understanding of corporate governance evolved and we recognize very clearly that corporate governance is not a one off exercise. This is why we have continued to improve our governance practices over the years.

Rajiv Mehta: This is not always easy. It means that we have to stay focused and disciplined, and that we have to keep on taking specific steps to improve our corporate governance practices. But very early on, we recognized that corporate governance is much more than just audit principles and other control functions, and for us, corporate governance is really about its business benefits it can bring if implemented properly.



You are brothers but also the co-CEOs of the company – how do you manage that relationship?

Rajiv Mehta: Having co-CEOs is not usually the best structure, and early on, we recognized that this would create more complexity for the business. And then Vishal and I married two sisters... In other words, we know we have not always followed the convention.

But let me clarify. On the strategic level, we co-head the business, but when it comes to the operational level, we are each responsible for our own areas and we go at it separately with our own teams. However, even with this separation, we know that we need much more alignment, much more communication than we would need in a single CEO situation.

But I would say that we have total trust between us. And both of us are extremely ambitious, and we drive each other. And I think this is crucial in a family business, where you need to set the benchmark yourself. Vishal gives me that benchmark, it helps me to push myself, and sometimes I push him too.

Vishal Mehta: And we respect each other's roles and responsibilities as well as the protocols. The key really is communication. Although we live in the age of electronic communication, and we use emails and other forms of communication extensively, but we place special emphasis on the one-to-one personal meetings. Rajiv lives in Mumbai, I live in Dubai, so we are only a couple of hours away from each other, and we take the time to meet on regular basis. We feel that it is these personal meetings that allow us to communicate the best.

Rajiv Mehta: The problem for many family businesses is that the procedures are very informal between family members, but this often extends to the non-family employees as well who start seeing themselves as family members, meaning that they become more casual and informal as well. So what Vishal and I try to do is to think of ourselves as employees, and we ensure that protocols and formal processes between us are maintained at all times during work hours.

Vishal Mehta: In other words, this is as much about improving the communication between Rajiv and I as it is about setting the tone at the top, about setting an example for the rest of the organization that clear lines of communication, formality and protocols matter.

How easy is it to report to your father and to your brother? Is it always clear which hat you are wearing?

Vishal Mehta: You keep juggling with the different hats, sometimes you wear the hat of a CEO, sometimes you wear the hat of a brother, son and etc. It can be tricky to report to a board where both your father and brother sit. I think there is a delicate balance, and one has to be mindful of the situation. You obviously need clear roles and responsibilities as well as clear protocols which I mentioned earlier.

But this is an area where non-family board directors can play a very significant role. They do not only bring in their skill sets but also ensure that there is formality and that proper governance mechanisms are in place. Currently we have a Board of five, which includes three family members and two independent non-executives. And I think this balance works well for us. This is a Board that provides advice and guidance while also fulfilling the oversight and monitoring role. In my view, having external directors on the Boards, helps Rajiv and I to put on the management hat and think of ourselves as the management reporting to the board.

We know that in a family business difficult issues arise at some point. What has been the most difficult issue for you?

Rajiv Mehta: Looking back, the most difficult situation for us was 2009, and it had nothing to do with the financial crisis, and all to do with the family business. This was the year when we had a separation within the family business.

When our father started the company in 1966, a few years later he hired his two younger brothers into the business. And as the business evolved, their sons became involved in the business as well. And gradually, the different branches of the

family started adopting different philosophies and finally in 2009, we decided to go for an amicable separation.

This was a very difficult time for us, not from a financial perspective, but it took us out of our comfort zone and put us in a different environment. But at the same time it opened the world for us, it forced us to re-define our values and overall philosophy and incorporate those into our business. Looking back, this was a difficult time, but it really brought out the best in us.

Vishal Mehta: This unfortunate event worked well for our family. It brought us closer, and it presented us new opportunities and new avenues. It allowed for more efficient decision making for example, but it also allowed us to link our values closer to the business and take the business along the path we wanted it to grow.

This is a crucial aspect of family governance. How do you ensure that family members are aligned on the vision?

Vishal Mehta: Family members do not always share the same background. There are differences in education, experience and upbringing, which sometimes are generational. But I think this is the starting point – to recognize that there are differences, and within our family we have embraced education in this regard. The whole family has attended workshops in renowned institutions such as the IMD to discuss matters related to family governance, to see how other families have chosen to deal with matters, to see where things have worked out and where there have been shortcomings. I think you learn more from discussing examples from other families rather than your own family, which is a much more emotionally charged topic. The idea behind attending these workshops for us has been to ensure that all family members have the same level of understanding of the vision of the family and that we have buy in from all members of the family.

Rajiv Mehta: We are in an interesting situation. We both have witnessed a separation in the family. We also have seen the strength of the family staying together. And today we are a smaller family, and we need to look at things differently.

We have started to focus on the elements that have an impact in 10-20 years from now. Vishal has children, I have children. We would like to encourage them to become part of the business, but we also want to encourage them to make their own decisions. We want to ensure that certain principles are in place when their time comes, whether it is as employees in the business or as responsible owners of the business. We want to ensure that mechanisms are in place for most, if not all, eventualities. For example, we want there to be clarity on the employment process for family members in the business – both in terms of the criteria as well as the process itself.

To this end, we have started the process of drafting a family constitution, which is a fascinating journey. We have adopted an inclusive approach and we have included the whole family in this process, and this means our parents, me and Vishal and our wives. We also have a trusted, external party who works closely with us and facilitates the process. This enables each family member to debate issues, ask questions, voice his or her concerns as well as wishes and hopes. We take this process of drafting the constitution very seriously as the process on its own is extremely important and fruitful, and it may actually be more important than the final document itself.

And as with corporate governance on the company level, we do not see family governance as a one-off exercise. We plan to review the constitution and key policies on a regular basis and bring our children into this process when they grow up. And we hope they will do the same with their children to fulfill the vision and protect the legacy of the founder.