

CASE

Reliance Industries (Part A)

12

More inches of newsprint have been dedicated to telling the story of the Ambani family and Reliance Industries than perhaps any other story in Indian business history. Dhirubhai Ambani, a poor schoolteacher's son from the Indian state of Gujarat, built India's largest industrial empire. Along the way, he rewrote the practices of Indian enterprise. At the time of his death, the conglomerate he founded (the Reliance Group) was so large that it alone accounted for more than 3 percent of India's total gross domestic product (GDP) and 10 percent of the country's indirect tax revenue.

The Ambani family's shares in these companies were owned by a web of investment firms. These, in turn, were controlled by more than 1,000 entities, including offshore trusts in tax-haven countries. This complex structure enabled the family to avoid onerous taxes and still retain family control.

Dhirubhai Ambani died suddenly at age 69 without a will or a succession plan, leaving two sons in executive positions within the business. But under Hindu tradition and succession laws, the eldest son becomes the successor. Soon after Dhirubhai's death, his sons, Mukesh and Anil, began arguing about management and ownership issues and later accused each other of business improprieties. Politicians and financiers, concerned by the instability that this family squabble was having on the financial markets, tried unsuccessfully to broker an agreement between the sons. In the end, the sons would listen only to their mother.

On June 18, 2005, a settlement between Anil and Mukesh was announced. What were the reasons for the conflict? How did Mukesh and Anil resolve it? What would the founder, Dhirubhai, have had to say about the settlement?



ACHIEVEMENT IS HISTORY: LOOK AHEAD¹

Dhirajlal Ambani was born on December 29, 1932, into the Modh Bania, a Hindu commercial caste based in the arid Saurashtra peninsula of India's western Gujarat state. Dhirubhai, as he was known, left home at 16 to work as a gas-station attendant for Shell Petroleum in Yemen. Within a few years he rose to the position of sales manager.

¹Dhirubhai was well known for mantras about management. This adage reflects his belief that success comes from building on achievement and that achievement becomes history the moment it is achieved.

A successful employee, Dhirubhai had an entrepreneur's ability to identify and take advantage of opportunities not observed by others. While in Yemen, Dhirubhai realized that the local currency (the riyal) was worth more for its silver content than for its purchasing power. With this insight, he began to melt the coins into silver ingots at a small profit.

Dhirubhai returned to India in 1958 with his pregnant wife and infant son to start his own business. He founded Reliance Commercial Corporation with US\$100 in his pocket and approximately US\$275 in borrowed capital. The company began as a trading company, exporting spices, nuts, and other commodities to the duty-free Yemeni port of Aden. In Aden, Dhirubhai used his many contacts to help develop this market.

By 1965, Dhirubhai shifted Reliance's focus from trading to textiles to take advantage of another opportunity—government programs designed to promote the export of rayon, which was plentiful in India. Reliance exported rayon at a loss because doing so enabled the company to import nylon, which it sold at a premium. By 1966 the Indian economy was growing, and the demand for better clothing was taking hold. Reliance Corporation opened its first textile mill to take advantage of this new market.

In 1978, Reliance began focusing on India's domestic Indian market, after its successful initial public offering (IPO) and the end of the government-sponsored rayon promotion. The Indian wholesale textile market was crowded and extremely competitive. To gain market share and to bypass the competitive wholesale market, Dhirubhai adopted a competitor's idea and opened company stores. He then expanded the idea by traveling throughout India franchising the store concept and promising advertising support to any outlet that would sell Reliance textiles. In this way he built a national customer base that included previously untapped nonmetropolitan markets. By 1980, Reliance fabrics could be found across India in 2,100 retail stores and franchised outlets. During this period, Reliance established the Vimal textile brand (named for Dhirubhai's eldest nephew). Dhirubhai worked to create a strong brand image and was so successful that it took many years for Reliance to have better name recognition than Vimal.

One of Dhirubhai's mantras stated: "Growth has no limit—keep revising your vision." Dhirubhai did just that after earning his first million in textiles. He began to "backwardly integrate" from fabric weaving to establishing plants to make polyester filament yarn in 1981. His philosophy of entrepreneurial growth was evident when he built a factory at Patalganga (a small village outside of Mumbai, formerly Bombay) that could produce 4,000 more tons of polyester yarn than the Indian market required. Soon after the factory was completed, the government issued legislation that limited the use of polyester filament yarn to small textile businesses. To increase demand for Reliance's yarn, Dhirubhai arranged to sell yarn to these small looms and then to buy the fabric that they produced, finishing it and selling it under the Vimal name. Two years later, in 1983, he again moved backward in the supply chain and gained the license to manufacture purified terephthalic acid, one of the chemicals that can produce polyester filament fiber.

From the production of yarn and fiber, Reliance integrated horizontally, and began producing products including high- and low-density polyethylenes used by plastics processors. Reliance slowly began the manufacture of petrochemical

intermediaries, including monoethylene glycol and n-paraffin. Reliance achieved domination in these industries soon after its entry, becoming the world's second-largest producer of polyester fiber and filament yarn, the third-largest producer of paraxylene, and the fourth-largest producer of purified terephthalic acid.

From chemicals, Reliance entered the oil and gas exploration business and built refineries through Reliance Petroleum Limited, fulfilling a dream Dhirubhai had cherished since he had worked for Shell Petroleum in Yemen. Reliance Petroleum went public in 1993 in what was, at the time, India's largest public offering.

Reliance Industries fully entered the world industrial stage by building Asia's biggest chemical complex in 1991. The Hazira facility, the world's largest single-feed ethylene cracker,² was built in Dhirubhai's home state of Gujarat. Building the facility exhausted the local Gujarati resources and required Dhirubhai to create his own infrastructure to support the plant. Reliance Petroleum went public in 1993 in India's largest-to-date public stock offering. Other financial firsts included being the first Indian corporation to raise funds through overseas capital markets and being the first private company in India to be rated by international credit agencies. The ability to finance growth enabled Reliance to enter high-growth sectors outside the petroleum and petrochemicals business. The Reliance corporate family also includes financial services and insurance, power, telecommunication, and digital communication initiatives. (See Tables F and G for additional information about Reliance companies and products.)

TABLE F Reliance Industries Product Listing by Brand Name and Type

Polymers, Chemicals, Fibers, and Fiber Intermediates

Location: Hazira, Gujarat state

Repol

- Polypropylene
- Purified terephthalic acid
- Ethylene oxide
- Monoethylene glycol
- Diethylene glycol
- Triethylene glycol
- Ethylene
- Propylene
- Benzene

Reon

- Polyvinyl chloride

Recalir

- Linear low-density polyethylene

Relene

- High-density polyethylene

Recron

- Recron stable fiber
- Recron filament yarn
- Recron fiber fill

²“Cracking” is the name of the process that ethane (a naturally occurring gas) goes through to become ethylene. Ethane is heated to approximately 800 degrees Celsius in a reactor called a “cracker.”

- Toluene
- Xylene
- Carbon black feed stock
- Vinyl chloride monomer
- Relpet
 - Polyethylene terephthalate

Refinery Products, Polymers, and Fiber Intermediates

Location: Jamnagar, Gujarat state

Refinery

- Liquefied petroleum gas
- Propylene
- Naphtha
- Reormate
- Motor spirit
- Middle distillate pool
- Sulfur
- Coke

R Petrochemicals

- Paraxylene
- Polypropylene

Port and terminals

- Power

Textiles

Location: Naroda, Gujarat state

Vimal

- Suitings and shirtings
- Dress materials and sarees

Recron

- Texturized yarn
- Twisted/dyed yarns

Harmony

- Furnishing fabrics
- Day curtains
- Automotive upholstery

Ruerel

Suitings

Reance

- Shirts
- Trousers
- Jackets

Slumberel

- Fiber-filled pillows

Oil and gas

Power generation facilities

Location: Panna & Mukta, off Bombay High

Tapti—Northwest of Mumbai

- Dahanu Thermal Power Station

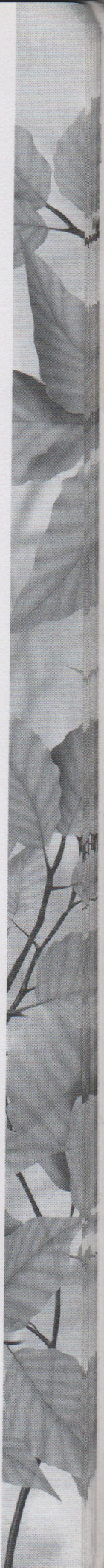
- Crude oil
- Natural gas
- Exploration and production
- Jogimatti Wind Farm Project
- BSES Kerla Combined Cycle Station
- Goa Power Station

Other Initiatives

- Telecommunications—Reliance Telecom
- Financial services—Reliance Capital
- Engineering, procurement, construction
- Infrastructure—Reliance Industrial Infrastructure

TABLE G The Reliance Family of Companies

Reliance Industries Ltd.	In 2002, Reliance Industries and Reliance Petroleum merged into Reliance Industries, India's largest petrochemical firm, second-largest company, and largest exporter. Polyesters and polymers account for most of the Reliance Group's sales. The company's leading products are used widely in agriculture, clothing, consumer goods, and electronics. Petrochemical products, including benzene, polypropylene, and polyvinyl chloride, are used in packaging, kitchenware, and furniture.
Reliance Capital Ltd.	Reliance Capital is one of India's leading nongovernment-sponsored financial services companies. It focuses on infrastructure projects that offer opportunities for enormous growth and significant tax benefits.
Reliance Energy (formerly BSES Energy)	Reliance Energy generates, transmits, and distributes electricity to more than 5 million customers in portions of India. Its service area covers more than a million square kilometers and includes the cities of Mumbai and Delhi.
Reliance General Insurance	Reliance General Insurance is one of the few companies in the nongovernmental sector to provide a complete insurance solution. It is also one of the first non-life insurance products companies to be licensed to operate.
Reliance Industrial Infrastructure	The company was incorporated in 1988 to serve the Patalganga Plant. It transports petroleum products through product pipelines and raw water through water pipelines. The company boasts that there have been no failures or leakage of the petroleum during the past 11 years of operation.
Reliance Infocomm Ltd.	Reliance Infocomm is India's largest mobile service provider, with more than 7 million customers. Launched in 2003, it has established a pan-India high-capacity integrated and divergent digital network and offers services for enterprises and individuals, applications, and consulting.
Reliance Mutual Fund	Reliance Mutual Fund was established as a trust in 1995 with Reliance Capital Asset Management Ltd. It is among the fastest-growing mutual fund companies in India. The company's vision is to be India's largest and most trusted wealth creator.



Reliance Telecom	Reliance Telecom provides cellular services in 10 Indian states. It recently introduced international roaming services throughout India.
Reliance Life Science	Established in 2001, Reliance Life Services is a new initiative of the Reliance Group. The company is developing business opportunities in medical, plant, and industrial biotechnology. It also conducts contract research and clinical trials.

SOURCE: *The Economic Times*, November 23, 2004, and <http://www.hoovers.com>.

A second world-class facility, and the world's largest refinery, was then built in Gujarat at the cost of US\$6 billion. This facility, known as the Jamnagar plant, extends over 31 square kilometers (the size of Manhattan south of Central Park) and represents the single largest investment ever made at a single location in India. Jamnagar is one of only a few refineries in the world that can take thick high-sulfur highly acidic grades of crude oil and turn them into pure low-polluting gasoline and diesel fuel. Like the Hazira plant, building Jamnagar required the creation of infrastructure, including a 350-megawatt power plant, two chemical plants, 105 miles of road, housing for 3,000 families, a seawater desalination plant, and an information technology (IT) network that connects 50 servers and 2,500 terminals with 200 kilometers of fiber-optic cables.

The decision to build Jamnagar illustrates Reliance's innovative business approach. In 1996, when the project was launched, refineries had a historic return on capital of 6 to 8 percent, while the cost of capital was 12 percent. To get adequate returns, Reliance focused on developing efficiencies both in constructing and running the facility. According to a family story, Dhirubhai traveled to Jamnagar during construction to check on the progress. He went for a walk at night and found that work had ended for the day. He asked his eldest son Mukesh, who was managing the project, why work had stopped and observed that there was no reason why they could not run three shifts. Mukesh called in the contractors the following day and made arrangements for them to receive bonuses for meeting or exceeding project deadlines and, in turn, to give bonuses to their employees for meeting or exceeding the deadlines. The Jamnagar complex was completed within 36 months and the refinery's total cost was reduced to the point that it operates at a 30 to 50 percent lower cost than similar refineries in Asia. This was the first significant business achievement by Mukesh after leaving the business school at Stanford and joining the family enterprise at Dhirubhai's request.



FINANCING GROWTH

Finding sufficient capital is a challenge faced by most enterprises. In India in the 1970s, the challenge was magnified by a government-controlled financial system. The leading sources of capital were slow-moving state-owned financial institutions that were not always willing lenders and frequently charged high rates of interest. In 1977 Reliance solved its funding challenge in a unique way. It launched the first IPO of company

shares in Indian business history. This advance is recorded on the Reliance website as, “Dhirubhai Ambani introduced equity cult in India, a new model of business leadership from a base of the broadest public shareholding.”

By selling shares to the public in small lots, Dhirubhai introduced ordinary people who had never owned shares to the financial markets while financing Reliance’s growth. In a short time, so many individuals owned shares that Reliance was forced to rent football (soccer) stadiums each year to provide a venue large enough for the annual meeting.

Some entities, such as Reliance Infrastructure and Reliance Capital, were formed primarily to support Reliance Industries. Other units, such as Reliance Telecomm and Reliance Life Science, were created to propel Reliance into new technologies and to take advantage of the opportunities presented by the growing Indian economy. (See Table H for additional details.)

TABLE H Ambani Family and Reliance Industries Milestones

- Dhirubhai Ambani starts Reliance Commercial Corporation in Mumbai. (1958)
- Reliance enters the textile industry and sets up a mill, Naroda, Ahmedabad. (1966)
- World Bank team visits mill and declares that it is as modern and well-managed as those in developed countries. (1975)
- Reliance goes public with India’s first IPO. (1977)
- Dhirubhai calls Mukesh home from Stanford University’s School of Business after one year of study toward his MBA. Mukesh begins working at Reliance and later completes his MBA degree. (1981)
- Anil earns his MBA from the University of Pennsylvania’s Wharton School and begins working at Reliance. (1983)
- Mukesh Ambani marries Nita. (1985)
- Reliance total assets: \$227 million. (1985)
- Reliance Capital, a merchant bank, is created. (1986)
- Dhirubhai suffers his first stroke. He returns as chair. Mukesh and Anil take on additional responsibilities as co-managing directors of Reliance. (1986)
- Reliance Industrial Infrastructure, a petroleum pipeline provider, comes on line. (1988)
- Reliance sales exceed \$404 million. (1988)
- Hazira petrochemical plant commissioned. (1991)
- Anil Ambani marries Tina Munim. (1991)
- Reliance is the first Indian corporation to raise capital from international markets through Global Depository Receipts offering, and sets a record with a Reliance issue that received more than 1 million investor applications. (1992)
- Reliance Petroleum goes public in India’s largest public offering to date. Sales exceed \$909 million, making Reliance Petroleum India’s largest publicly traded company. Also Reliance offers the first Euro Convertible bond issue. (1993)

- Awarded Companion Membership of the Textile Institute (UK). Award is limited to 50 members who have substantially advanced the fiber industry. (1994)
- Offers the second Euro issue of Global Depository Receipts. (1994)
- Reliance net profit exceeds \$242 million. (1995)
- Reliance Mutual Funds, an asset management and mutual fund provider, is launched. (1995)
- Reliance is first corporation in Asia to issue 50- and 100-year bonds in the United States. (1997)
- World's largest multifeed cracker commissioned in Hazira. (1997)
- Reliance revenue tops \$3 billion and total assets approach \$8 billion. (1998)
- World's largest petroleum refinery complex commissioned at Jamnagar. (1999)
- Reliance Infocomm, a mobile service provider, is launched. (1999)
- Reliance revenues exceed \$4 billion, and total assets are \$11.8 billion. (2000)
- Reliance Industries Ltd. and Reliance Petroleum Ltd. merge into Reliance Industries (2002). The new firm is named to the *Forbes Global 500* in 2003, entering at position 306.
- Dhirubhai Ambani dies on July 6. (2002)

Conversion rate: 1 Indian Rupee = 0.022727 U.S. dollar.

SOURCES: <http://www.ril.com> and <http://www.indiapublicsector.com>.



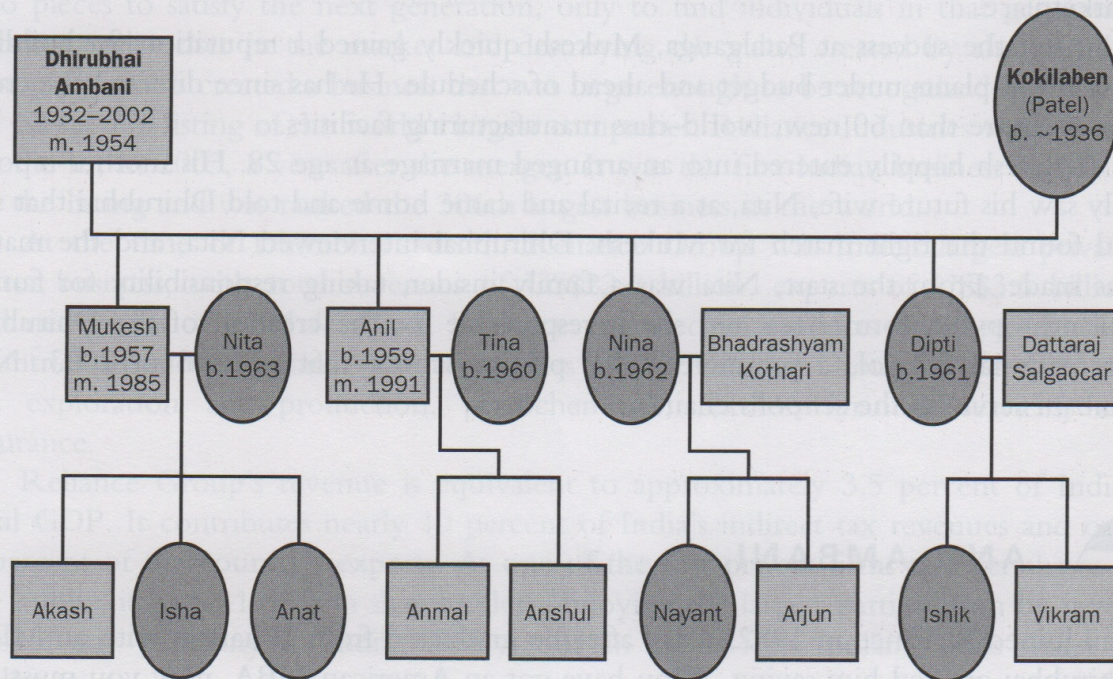
THE NEXT GENERATION

Dhirubhai and Kokilaben Ambani had four children: Mukesh, Anil, Nina, and Dipti (Figure J). In the early years, Dhirubhai, Kokilaben, Mukesh, Anil, and Dhirubhai's mother, uncle, and brother lived together in a one-bedroom house in a lower-middle-class neighborhood in Mumbai. As Reliance flourished, the family moved to more spacious accommodations and most recently to Sea Wind, the family estate. Nina and Dipti moved from Mumbai when each married.

Mukesh, Anil, and their families also resided at Sea Wind. While each family had its own living quarters, the extended family usually had dinner together. Dhirubhai was known for quizzing his grandchildren about current events, a practice he began when his own children were young.

Siblings raised together can be as different in their personalities as people from different families. Mukesh and Anil Ambani are no exception. Each had an especially close relationship with one parent. Mukesh was reportedly his father's favorite. It was Mukesh whom Dhirubhai consulted first about business matters, before asking Anil his opinion. As a child, Anil was closest to his mother, and their special relationship has continued over time. To the public eye, Mukesh and Anil were groomed for careers with Reliance and got along well. Disputes were settled in the privacy of the family compound. When mediation failed, Dhirubhai would reprimand Mukesh and Anil and impose a solution. Dhirubhai's goal was to see Reliance succeed and to prove to the world that India was the place to invest. Family disputes were not going to get in

FIGURE J Ambani Family Tree



the way of these goals; Mukesh and Anil were expected to work together successfully for the benefit of Reliance and all of India.

In 1997, when Mukesh and Anil were jointly honored as “Businessmen of the Year,” they commented that they felt like they had built the company with their father, rather than simply benefiting from his efforts.

MUKESH AMBANI

Mukesh, the eldest, was born in Yemen in 1957. He is described as analytical and detail-oriented; he is known for taking detailed notes during meetings and conversations. Mukesh is a private person who rarely speaks publicly.

Mukesh earned a Bachelor of Chemical Engineering at the University of Mumbai and continued his graduate studies at Stanford University. After his first year in the MBA program, Dhirubhai called Mukesh home. He was 24 years old. Mukesh recalls that “my father told me you will take this over and I will give you one other person from Reliance. Everyone else has to be new.”

The task he was given was to oversee the construction of the petrochemical plant at Patalganga. The technology they selected for the plant came from DuPont. To get DuPont to sell their technology, Dhirubhai sold everything but equity. He later explained, “Technology is available for the asking in the international bazaar. Why should I make a foreign company my partner and give them 51 percent?” The plant

was completed in 14 months, ahead of a competitor who had started building before Reliance. Being first to market gave Reliance a significant advantage in the marketplace.

After the success at Patalganga, Mukesh quickly gained a reputation for building new mega-plants under budget and ahead of schedule. He has since directed the creation of more than 60 new, world-class manufacturing facilities.

Mukesh happily entered into an arranged marriage at age 28. His mother reportedly saw his future wife, Nita, at a recital and came home and told Dhirubhai that she had found the right match for Mukesh. Dhirubhai interviewed Nita, and the match was made. From the start, Nita was a family insider, taking responsibility for family philanthropy. A former teacher, she is responsible for the creation of the Dhirubhai International School, a premiere K-12 private school that opened in 2003. Nita Ambani serves as the school's chair.



ANIL AMBANI

Anil joined Reliance in 1982, a day after he graduated from Wharton with an MBA. Dhirubhai greeted him saying, "You have got an American MBA, now you must get an Indian MBA," meaning that the American degree provided good theory but could not be applied to Indian realities. Anil's first experience with Reliance was in the textile business, where he stayed for four years.

After Dhirubhai's first stroke in 1986, Anil assumed new responsibilities. He handled corporate finances and became Reliance's spokesperson. Anil is considered aggressive and has strong financial and networking skills. Anil likes the limelight. Newspaper accounts about Anil and his family are common—he is frequently featured attending social events or advocating physical fitness. Anil was voted Youth Icon in 2003 in an MTV-sponsored survey, and he has his own website.

Anil married the former "Miss India" and film star, Tina Munim. Tina and Anil are said to have met at a party, where Anil was immediately smitten. When the two decided to marry, Dhirubhai opposed the marriage and tried his best to break the alliance. He went so far as to encourage government foreign currency investigations into Tina's accounts. After the marriage, Tina was reportedly given the cold shoulder in the Ambani household.



THE END OF AN ERA

India bade an emotional farewell to Ambani, who passed away on July 6, 2002, two weeks after he suffered a massive stroke. Thousands of mourners, both famous and common, lined the streets the day of his funeral. One day after carrying Dhirubhai Ambani's body to the pyre, his sons were back at work.


One of Dhirubhai's last major decisions was to merge Reliance Industries and Reliance Petrochemicals into Reliance Industries Limited. The merger proclaimed

Dhirubhai's desire to keep the company, his legacy, together. He did not want Reliance Industries Limited (RIL) to suffer the fate of other Indian firms that were broken into pieces to satisfy the next generation, only to find individuals in that generation fighting each other in the market and destroying the value created by the founder. The merger also created a business that was large enough to be recognized in the *Forbes Global 500* listing of the world's largest companies. Reliance Industries was selected for the list in 2003, a year after the merger. It was the first Indian business to qualify for the listing and was ranked the 306th largest business in the world.

At the time of Dhirubhai's death, Reliance Group was India's largest private-sector business, with total revenues of US\$22.6 billion, exports of US\$3.6 billion, and net profits of US\$1.4 billion. Reliance exported its products to more than 100 countries around the world. The companies of the Reliance Group included oil and gas exploration and production, petrochemicals, textiles, financial services, and insurance.

Reliance Group's revenue is equivalent to approximately 3.5 percent of India's total GDP. It contributes nearly 10 percent of India's indirect tax revenues and over 6 percent of the country's exports. As one of the first private firms to offer shares to the public, it had 3.1 million shareholders, enjoying the largest participation by investors of any company in India. Today, one in every four Indians holds shares in Reliance.

At the time of Dhirubhai's death, the Ambani family directly or indirectly owned 46 percent of Reliance Industries, including 5 percent held by the family in the names of individual family members. Three months after Dhirubhai's death, the four Ambani children relinquished their share of their father's assets and signed those assets over to their mother. This was likely done to take advantage of the Hindu Undivided Family Unit, a tax status that permits families, especially those with family businesses, to pay tax as a single entity.



THE STRUGGLE FOR CONTROL

Mukesh became chair of RIL after his father's death, gaining management control and moving into a position to review and approve or veto major investments and changes in Reliance's businesses. In the beginning, questions arose about the cohesiveness of Reliance's top leadership. The brothers denied any difficulties, saying that differences of opinion are "constructive tension" of the type that their father encouraged as a way to look at an issue from all angles.

But a series of events in 2003 precipitated a struggle for control. Mukesh had taken an interest-free loan from Reliance Industries Ltd. to finance the nascent Reliance Telecomm. Anil questioned this financing arrangement, though the practice of making interest-free loans was common. Mukesh, in turn, was annoyed because Anil, as head of Reliance Energy, had made a US\$10 billion capital investment without consulting Mukesh or the RIL board.

The brothers' mutual dissatisfaction continued until a July board meeting. At the meeting, the Reliance board passed a resolution giving Mukesh the authority to "vary

or revoke" managing director Anil's duties. Anil maintained that the resolution had been introduced in a sneaky way and sent an email expressing his dissatisfaction to Mukesh. This email was published by a local paper. Anil's dissatisfaction with Mukesh's actions was ironic, given that it was Anil who originally performed the ceremonial role of proposing that Mukesh be elevated to the role of chair. Mukesh in turn had supported Anil for vice chair and managing director.

In November 2004, Mukesh Ambani sent an email to Reliance's 80,000 employees stating, "There is no ambiguity in his [Dhirubhai Ambani's] legacy that the Chairman and Managing Director is the final authority on all matters concerning Reliance." He then announced to the press that his father had settled all ownership issues pertaining to Reliance within his lifetime. Anil and other family members responded to the news by asking Mukesh to provide "appropriate details" of the steps taken to settle ownership. In a conciliatory move, Anil also said that he would agree to any settlement that his mother proposed.

For the next seven months, the brothers' disagreements were played out in the media. Confidential email messages and internal boardroom documents were regularly leaked to journalists. The press suggested that there was a lack of camaraderie between Mukesh's wife, Nita, and Anil's wife, Tina, which contributed to the disagreement. Anil ran a sustained campaign against Mukesh and his associates, accusing them of misleading the public. As the discord continued, it became clear that a formal split between the two brothers would call for a very complex settlement. The interrelationships between the companies that made up RIL were significant. Reliance Industries, for example, owned portions of gas fields that powered Reliance Energy's electricity production.

Mukesh asserted that his father had intended for him to become the managing chair. He stated that he was also concerned by Anil's lifestyle. Anil's friendships with film stars and his intention to run as a Member of Parliament made the family uncomfortable. Mukesh believed that Anil's political involvement had the potential to harm Reliance. Aligning with one political party was against the practices of Dhirubhai, who had worked to befriend all politicians and bureaucrats at all levels of government.

From Anil's perspective, he and Mukesh had worked as equals for many years and, during that time, he had run his own businesses independently. Anil did not believe that his father had intended for that arrangement to change. He did not find primogeniture compelling and felt that he was more capable of leading Reliance than Mukesh was. He also commented at the time that his political activities were not his brother's business.



KOKILABEN AMBANI INTERVENES

For most of her adult life, Kokilaben Ambani stayed out of the limelight, quietly supporting her husband and raising her family. Kokilaben is described in the press as being quiet, poised, and deeply religious. The Ambani children hold their mother in great esteem, and the family is frequently together, especially during religious holidays.

When the disagreement between Mukesh and Anil first became public, Kokilaben stated that she did not want to mediate because she did not know enough about the business. She did observe that both brothers were made managing director in Dhirubhai's lifetime, a decision that did not seem to suggest to her that Anil should be denied a say in running the business.

As the months passed without resolution, Kokilaben ultimately did intervene, but did so with the help of a family friend and respected banker, K.V. Kamath. In March, Kamath performed a valuation of the company and drafted a suggested settlement. In the months that followed, and at Kokilaben's request, Kamath continued to broker the settlement while she held almost daily individual meetings with each of her sons. Together, they were able to fashion a settlement that was ultimately agreeable to both Mukesh and Anil. Throughout the process, Kokilaben appeared to the outside world as graceful, even-handed, and mindful of her late husband's legacy.



THE SETTLEMENT

Peace was declared on June 18, 2005, almost exactly seven months after Anil Ambani's public questioning of Mukesh Ambani's authority. Peace came with a brief email announcement from Kokilaben Ambani invoking her late husband and the name of the Hindu god Krishna and announcing that she had negotiated a settlement between her sons. Her announcement read:

With the blessings of Srinathji,³ I have today amicably resolved the issues between my two sons, Mukesh and Anil, keeping in mind the proud legacy of my husband Dhirubhai Ambani.

I am confident that both Mukesh and Anil will resolutely uphold the values of their father and work towards protecting and enhancing value for over 3 million shareholders of the Reliance Group, which has been the foundational principle on which my husband built India's largest private sector enterprise.

Mukesh will have responsibility for Reliance Industries and Indian Petrochemicals, while Anil will have responsibility for Reliance Infocomm, Reliance Energy and Reliance Capital.

My husband's foresight and vision and the values he stood for combined with my blessings will guide them to scale new heights.

The following day, June 19, 2005, Anil Ambani announced his own plans for the businesses he would be leading—Reliance Energy, Reliance Capital, and Reliance Infocomm—to a gathering of journalists and analysts.

The industrial group's complexity was attacked by financial experts, who restructured the Reliance Group and consolidated units into two separate companies operating in very different industries. A simple formula was then used to split the family's 34 percent ownership in Reliance Group's companies. Kokilaben retained 30 percent, her daughters Nina Kothari and Dipti Salgocar each received 5 percent, and Mukesh and Anil each got 30 percent. The brothers resigned from each other's boards and signed a 10-year noncompete agreement. Both could use the Reliance logo and brand, but Anil's companies would carry the tag line "A Dhirubhai Ambani Enterprise." This vested Anil's companies with his father's reputation, an important corporate asset in Indian business.

		Sales*	Profits*
Mukesh Ambani			
Reliance Industries	Petrochemicals, textiles	\$16.7 billion	\$1.7 billion
Indian Petrochemicals	Petrochemicals	\$2.1 billion	\$180 million
Anil Ambani			
Reliance Energy	Power	\$1 billion	\$119 million
Reliance Capital	Finance	\$67 million*	\$24 million
Reliance Infocomm	Cellular	\$1.2 billion	\$11.7 million

*For the year ending March 2005; in U.S. dollars.

Under the terms of the agreement, Mukesh kept the flagship petrochemical business, Reliance Industries Ltd., and the smaller Indian Petrochemicals. Anil assumed full control of a power company, a telecom and broadband provider, and a finance company. The brothers agreed to swap shares in each other's companies so that neither owned shares in the other's business, and Anil received an additional payment (estimated at between US\$2 billion and US\$3 billion) to equalize the value of the divided assets. Although Anil's companies are much smaller, they are in industries with much greater growth prospects.



"THINK BIG, THINK FAST, AND THINK AHEAD"

"Think big, think fast, and think ahead" was a favorite expression of Dhirubhai Ambani, who brought those words to life during his entrepreneurial career. Mukesh and Anil Ambani moved quickly after the settlement to focus on developing their businesses and go on with their lives. The price of Reliance Industry's stock has

regained the value it lost during the Ambani brothers' dispute and moved even higher. Mukesh terminated Reliance Infocomm's service of Reliance Industries and awarded Reliance Industries' telecommunications contract to one of Infocomm's competitors.

Anil, while keeping the Reliance name, is actively rebranding each of the companies he received in the settlement. And even though his sons are still very young, Anil has already written a succession plan for his business.

The companies that Mukesh and Anil lead today have both thrived since the settlement between the siblings. Share values in both companies have increased significantly over the past six years.

Research Associate Tracey Eira Messer prepared this case under the supervision of Professor Ernesto J. Poza. The case was compiled from published sources and is intended to be used as the basis for class discussion rather than to illustrate the effective or ineffective handling of an administrative situation.

HISTORY OF THE ROBERTS REAL ESTATE COMPANY AND THE ROBERTS FAMILY

As is the case with many entrepreneurial businesses, Roberts Real Estate started in a different form. Brian's father, Jim, was an attorney who launched a retail shoe business