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Reshaping an emerging-market giant

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The CEO of one of India's largest makers of generic pharmaceuticals, Dr. Reddy's Laboratories, explains how the company is organizing for the future.

When the late Anji Reddy founded Dr. Reddy's Laboratories (DRL) in 1984, his dream was to build a company that would survive for 500 years. Today, DRL is India's second-largest maker of generic pharmaceuticals, and DRL chief executive officer and cochairman G. V. Prasad is seeking to reshape the organization to realize that dream.

In this interview with McKinsey's Vikas Bhadoria, Avinash Goyal, Gautam Kumra, and Jaidev Rajpal, Prasad discusses efforts to reshape DRL's business and culture, and his views about building capabilities and staying agile in an era when the company's biggest threat may come from technology, not its pharma rivals. In addition, DRL's president and global head of human resources, Dr. Chandrasekhar Sripada, provides perspectives on the company's efforts to build talent and develop leaders. Sripada's comments accompany the following edited transcript of Prasad's interview.

McKinsey: *What is DRL doing well, and where does work still need to be done?*

G. V. Prasad: There are some things that we have done well. Building technical capabilities and our people practices are certainly among those. The third is governance, and this is not only board-level corporate governance, but we have been devolving power to our leaders and creating transparency. At the core, we are trying to create a culture of doing the right thing always, everywhere. Where we have not done very well is bringing discipline to performance and bringing accountability for results. If we can build this, I think the company can be in a much better place.

McKinsey: *Where are you on the path of building your organization for the future?*

G. V. Prasad: We are largely on track, but there are some areas where I would like to see change. I want DRL to be much more agile. I think that has suffered a little in all this capability creation. We need that agility through speed and simplification of processes. The second is individual accountability: I want us to be much stronger on our outcomes. We are not known to be very performance driven. Third, while we are an organization which is fairly good in terms of talent, we have not really mastered the global organization. We are still a very Indian organization and are more comfortable managing individuals. The ability to manage globally diverse leaders is needed.

How DRL builds talent

“To my mind, there are a few vital things required to build an organization of the future,” says Chandrasekhar Sripada, DRL’s president and global head of HR. “You have to believe that you are here for the future. You also have to anticipate change around you in a very granular manner—not just at a vision level but at action level. You must prevent doing anything that might harm your future, even if it allows you to accomplish temporary goals. You need a critical mass of people in the firm who have these capabilities.

“A good hiring process is the starting point. We make a conscious effort to hire from what we call ‘value-based companies.’ These are not limited to the pharma business, because the companies we value are cross-sector. They inculcate habits, behaviors, and processes that define resilience.

“Checking people’s ability to be resilient and to avoid shortcuts is part

of our process. Since last year, our campus-level calibration has moved to intrinsics: we look for the ability to be emotionally intelligent and to stay the course. If you are not emotionally intelligent and cannot tolerate diverse opinions, it fosters a short-termism which could look like achievement orientation but actually topples things.

“In our appointment letter to every new hire, there is a line that says, ‘We understand and believe that you are not just joining us for money or the job title. We offer you a team that cares for you and professional freedom that will allow you to make an impact.’ We put this in to remind people that there is a higher purpose for all of us. We tell a 25-year-old that the company you are joining will work beyond merely selling pills; we are promising good health. We are touching our people at an emotional level, and this builds a psychological contract with them.”

McKinsey: *Does size breed inertia? How do you build agility once you reach scale?*

G. V. Prasad: Through culture. In our new brand identity, launched in July this year, our motto is “Good Health Can’t Wait.” It denotes urgency, and we are trying to call attention to it. Bureaucratic processes get in the way, so we are driving simplification. Our policies in HR or finance should not be designed for the 1 percent of exceptions who break the rules, but the 98 percent or 99 percent. We often try to make everything foolproof and create unnecessary stuff for everyone else. So simplify and design processes which are more agile.

We also need to simultaneously build ownership deeper in the organization without the functional silos. We would like to build a culture where our people can question if a rule is really required. But before you question the rules, you need to have a strong culture of doing the right thing. Anarchy can happen if people are not aligned; you need to bring that alignment. Unleash people but not in all directions. Say, “Go there and get there as fast as you can,” instead of just saying, “Go.”

McKinsey: *How do you build for the future, not knowing where the next big challenge could come from?*

G. V. Prasad: We have started thinking about that. We do not believe that our existing business can do this; you cannot expect people to focus on increasing market share, growth, and driving the business while also disrupting the world. So for the disrupt part, we are re-architecting our organization. This has to be outside the mainstream. We have a couple of initiatives going on—a new-ventures group, as well as someone in the US who looks at emerging technologies. We will invest in start-ups. All innovation that cannot be done internally, we have to do it externally or partner with someone or invest.

Today, innovation is either R&D or collaborative R&D outside our existing core businesses or by acquiring technology platforms. We are going to have another leg where we will focus on small companies, universities, and ideas and back people from outside and inside to build businesses.

Innovation does not mean just letting people loose. It is defining where you will be innovative and putting resources and great people there. There is no substitute to having good talent, especially in areas of original research, where you need people to apply their discretionary mind. They are not following any script—they are creating the script—so you need people who are motivated by their work.

The call is to the talent, the sandbox that you have defined, the capital and time you give them. These become the constraints under which the team innovates. Good leaders like constraints, and they expect you to set these constraints and then let them loose.

But while we are usually not limited by talent, we are limited by people available within India to meet DRL’s global needs. While hiring a regulatory head in New Jersey is easy, finding people for the same position in India is tougher. Getting in people from multinationals may not be the best solution for us.

Developing leaders

“We have adopted a leadership-development model that is aligned with our culture, our DNA,” says Chandrasekhar Sripada, DRL’s president and global head of HR. “The choices that managers make have to resonate with the organization’s culture. Our leadership-development program, for instance, is built on four pillars: leading self, leading others, leading business, and leading change.

“We could not have chosen any other program, because in our culture, changing yourself is a license you have to have before you try to change others. We do not want leaders that cannot be role models. We do not want leaders who say something and do something else. If you say humility is a value, then you have to look around the DRL senior leadership to believe that it truly is. It comes alive.

“We are teaching our managers that the ability to influence others is linked to achieving visible, verifiable business goals. If you do not have self-awareness, you are not mindful or emotionally intelligent, you will not

be able to lead others. This is the foundation of our leadership program. DRL is building a culture of empathetic, self-aware managers who will care for others as they care for themselves. Over the past year and a half, we have created a critical mass of about 100 leaders in the company who share this thought.

“They do not learn this in a vacuum but in the heat and fire of a business situation. Every participant in our DRL Leadership Academy chooses a breakthrough project which has verifiable financial objectives with a time line. Within this ten-month-long program, about six to eight months is spent implementing this project.

“We are building not just a critical mass of people in terms of numbers, but also in spirit. These are people with a collective sharing of vision and values and leadership philosophy. We would like to do this for another 300 people. If you have 400 to 500 people at the top sharing a common leadership philosophy, imagine the deep impact on the future.”

McKinsey: *And innovations can fail and do not always yield impact in the short term.*

G. V. Prasad: The pharma industry is quite forgiving about this, and the investor community understands the risks. Failure is a part of the journey in this industry. At DRL, our innovation in the early days was very science focused. That led to people living in their own world. Scientists often went on without understanding the realities of competition or who they were innovating for. It has to be patient focused. The patient does not care how your pill is developed. Does it work? What does it do? We have now turned the model around.

That is one lesson in innovation. In my view, scientists do not necessarily make great business leaders. We need a certain kind of phenotype for business leaders.

On the fruits of failure in general, being entrepreneurs, we tend to take excessive risks on businesses. I think some restraint is required for highly entrepreneurial people like me. I have learned that we need to be careful about not seeing just the opportunity but also the downsides.

McKinsey: *Where do you see DRL in ten years?*

G. V. Prasad: DRL will be a much more global company. The business model will have changed: a large part of it comes from generic drugs today, and in ten years much of it will come from innovative products. We are living in the time of great changes in digital health, genomics, and personalized medicine. Companies like ours will probably be more resilient than a traditional pharmaceutical company.

McKinsey: *What would be your message to entrepreneurs who are just starting on their journey?*

G. V. Prasad: For many start-ups today, the end game is exit. I would like to see more companies and entrepreneurs who want to be Google, Facebook, or Apple; that's the energy I want. If somebody can think like that, it becomes a different game.

To me, capital is not the end game. The end game is making a difference in the world. For this, people need extraordinary patience. Look at how Amazon has built a business over decades: all these guys have persevered for 20 to 30 years before they had this world-beating institution.¹ Industrialists in India should focus more on creating innovative enterprises which will dominate the world.

You need to have those world-beating ideas and merge them with the ambition to make a difference. You cannot build a world-class institution on the back of mediocre ideas. □

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¹ Jeff Bezos in 1994 incorporated the company that went online as Amazon.com the following year.