How To Lose A $2 Billion Family Inheritance: The Tale Of The Singh Brothers Of India

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In just a few years since inheriting a fortune from a company founded by their grandfather, brothers Malvinder and Shivinder Singh have managed to lose almost everything — including control over two public companies. Their story seems to affirm the axiom of "shirtsleeves to shirtsleeves in three generations," a curse that plagues too many inherited family businesses. Reflecting on their recent history (and recognizing the lack of public information available), there are lessons to deduce on how to avoid this sad, but common, occurrence.

The Singh brothers were heirs to Ranbaxy Laboratories, which was then India's foremost pharmaceutical company, founded by their grandfather Bhai Mohan Singh and stewarded by their father, Dr. Parvinder Singh, who died in 1999. The brothers, who each inherited one-third of the company, engineered its sale in 2008. After that, they heavily invested the proceeds into the fast expansion of Fortis Healthcare and Religare Enterprises, two other public companies they owned. They also loaned vast amounts of money to companies owned by a family headed by a spiritual leader whom they followed and who was a relative of theirs — Gurinder Singh Dhillon. Dhillon was a businessman as well, and he and members of his sect were central to investments made with loans from the brothers, including investments in a wide-ranging real-estate portfolio.

Malvinder Mohan Singh (L), Shivinder Mohan SinghWikimedia Commons

The web is tangled, and some of the Singh brothers' affairs are currently under criminal investigation by financial authorities. There are allegations of forged documents and the illegal movement of money from public companies to cover loans and investment losses elsewhere. The brothers also lost a lawsuit from the company that bought Ranbaxy for not disclosing problems in the company before the sale, and for this they owe many millions. It appears that the loans and the income from the sale were used to greatly expand their companies — before a downturn, including a real-estate downturn, led to losses in every area of investment.

The story of their decline and their web of investments is very complex and very opaque. What seems clear is that the brothers made loans and commitments to many different entities. What is also clear is that their spiritual and personal relationships led them to make business decisions that in hindsight appear to be extremely ill advised.

What happened? First of all, there seems to have been no established principles or procedures regarding how money was managed in the Singh family. Money was moved from one entity to another, and in some cases, there was a board and executives who were not consulted. The brothers appeared to believe that their financial empire was theirs to control. They were heirs to a long tradition of family secrecy and lack of oversight. This legacy left them unprepared to exercise business discipline or recognize their responsibility to other shareholders outside the family — a challenging problem in today's India, as the government of Prime Minister Modi is seeking to link the country with global networks of business and finance.

There are differing versions of what occurred, and legal proceedings are underway to determine who was responsible. The brothers blame Sunil Godhwani, a follower of Gurinder Singh Dhillon's, who held leadership positions at Religare and RHC, the holding company for their investments. They assert that Godhwani made loans without their knowledge. Meanwhile, the new owners of Ranbaxy have accused the family of hiding legal questions about their processes when they made the sale. And the younger brother, Shivinder, sued his older brother for making bad decisions, while claiming his own innocence and saying he only acted as the "supportive younger brother" to Malvinder. Fortunately, their mother convinced her sons to seek mediation, and the lawsuit has been dropped. Still, the tension and distrust remain.

While many aspects of this story are uniquely Indian — such as the deep connection to a family spiritual leader, moving funds among family ventures, and opaque business structures — similar situations can be seen in many cultures when family enterprises pass to the third generation. India is an example of a type of culture that has been called an "honor culture." Such cultures, common in South Asia, South America, Africa and southern Europe, are characterized by a strong family hierarchy with a single family leader, intense loyalty within the family and to a close network of long-term allies, and little trust of anyone outside the family and its network. These cultures are oriented around power, loyalty, secrecy and distrust of external powers.

They take root in societies where there is little long-term stability and limited or developing rule of law.

The breakdowns and accusations that the Singh brothers are experiencing are all too common for honoring family business cultures in generations after their founding. The cause is often a structure wherein a single person makes decisions, often poor or self-serving ones, with no collaboration or checks and balances. Very often, these decisions move money from businesses for personal use, in ways that are both opaque and appear to go against accepted and ethical business practices.

While it is tempting to assign blame or denounce the irresponsibility of business heirs, it is more valuable to use the Singh brothers' errors as an opportunity to examine what needs to be put in place in a family enterprise in order to avoid similar successor collapses. Three inherent problems appear to have led to the downfall of the Singh brothers' empire:

1. **Excessive Secrecy.** Honor cultures emphasize secrecy and reliance on a strong — and often unquestioned — leader. Today, this time-honored secrecy and lack of transparency is giving way to global agreements that emphasize transparency. Secret agreements with governments are being questioned, and businesses, even those owned and controlled by a single family, are becoming regulated. But it seems that the Singh family businesses were caught midstream in this evolution. The Singh brothers' trust of the Dhillon family that led to their no-interest loans with little accountability have little place in an arena of more open dealings with greater accountability. And while family members tend to be satisfied with secrecy when they receive predictable profits and wealth, when things go south, conflict erupts.
2. **A Sense of Entitlement.** The brothers were raised to expect their inheritance along with the business leadership that goes with it. However, it seems that they were neither trained nor mentored in the skills needed to manage huge public businesses. They experienced this as

a right and entitlement and ignored their responsibility to manage well for future generations and their other shareholders. They assumed they would be capable when they assumed leadership, and they may not have realized what skills and knowledge are needed for good leadership when they decided to expand their businesses. Their distrust of others led them to turn to Gurinder Singh Dhillon — their spiritual master and surrogate father — without considering what sort of competence, experience or accountability was needed before they made loans and become partners with the Dhillon family. Most importantly, they saw their business as a fiefdom, rather than a challenge and responsibility. In this, they are not alone. Too many next-generation family members view their inheritance as a prize and are unaware of how complex global business leadership has become.

3. **Lack of Governance.** As a family enterprise passes across generations and becomes truly immense, its governance and oversight cannot be limited to the skills of a single leader, especially one who only trusts old alliances and does not seek new talent. A third-generation family enterprise, particularly one with diversified public businesses in its portfolio, needs an active board to exercise oversight. The board will include the family owners, but it should also contain members with a range of experience and skills that enable them to evaluate major decisions and guide the enterprise forward. When such a board and advisors are lacking, there is no way to slow down, question or balance consequential decisions. A skilled board might have foreseen the real-estate downturn or cautioned the Singh brothers against their too extensive and rapid expansion. They might have offered leadership guidance or even helped to appoint experienced leaders.

The tragedy of the Singh brothers seems to be that they expected the future to be like the past and, therefore, their actions to be as successful as those of their father and grandfather. They did not realize that the winds of change were beating down on them and that the business reality they inherited had to be re-visioned. They would have been better prepared by learning prudence and seeking esteemed advice, rather than letting blind trust guide their decisions. Their downfall did not have to happen — and it was anything but inevitable.

For the last 40 years, I have been one of the early architects of the field of "family enterprise consulting." Family enterprise consulting means primarily assisting multi-generational families worldwide and developing governance practices that encourage the capability of ne...