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Family businesses

The evolving Bharat story



Foreword

Ambition coupled with entrepreneurial zeal, courage and drive of family businesses in India is commendable.

This year, the India-cut findings of our global report, *Up close and professional: the family factor*, Global Family Business Survey 2014 reveal that family businesses in the country have reported strong performance with two-thirds having witnessed robust sales growth in FY 2013-14, despite a general slowdown in the overall economy. This mirrors the trend observed in the global average of family businesses (conducted through PwC's Global Family Business Survey, 2014). In terms of personal and business goals over the next five years, while Indian family business owners or managers have similar priorities when compared to their global counterparts (in avenues such as company success or long-term survival and, to enable this, a focus on skills, innovation and professionalism), their overriding priority, relative to the global picture is growth.

On one hand, succession is a key element in their overall vision, on the other hand, our findings also indicate that although two-thirds of Indian family businesses have a succession plan in place, only 15% have a plan that is robust and well documented.

For our global survey, 2,378 interviews were conducted across 40 countries. In India, 65 telephonic interviews were conducted between May and July 2014. Family business enterprises surveyed in India represent diverse sectors, including manufacturing, construction, mining and utilities, etc. Twenty-two per cent of our respondents are leading family businesses generating revenues in excess of 500 million USD and 20% are in the revenue range of 51 to 100 million USD. Thirty-five per cent of our interviewees are CEOs or MDs, and hence, leaders of their respective businesses who have a sharp eye on continued growth and expansion.

Indian family businesses do consider professional management important to growth. Compared to the global average, they are more likely to have non-family members on their boards or hire them at senior positions and also offer company shares. At the same time, they also tend to have family members for senior rather than junior positions in the company, including members of the next generation.

Overall, Indian family businesses are catalysts for growth having a resilience to withstand adversities and are open to diversification and new lines of businesses. No doubt, they will go a long way in improving the industrial structure of the country in the future.



Indraneel R Chaudhury

Country Leader

Private and Entrepreneurial Client Services

PwC India

Executive summary

It's been a good year.

Family businesses in India have been performing well. Two-thirds of them witnessed sales growth in FY2013-14, despite a general slowdown in the economy.

Interestingly, the global average of family businesses (conducted through PwC's Global Family Business Survey, 2014) reflected the same trend.

With the Indian economy's prospects looking up in the coming years, 40% of family-owned companies are targetting quick and aggressive growth in the medium term, i.e., the next five years. This is an improvement over the last survey of 2012-13¹, according to which, 36% of respondents aimed at a quick and aggressive growth in the medium term.

With optimism about growth setting the mood for the future, there are lesser challenges that family businesses need to seize and address. These are related to government regulations and the need to professionalise their businesses. Organisation success and survival being their goals, across the world, owners and managers acknowledge that they will have to upgrade skills, innovate and become more professional in running their operations.

Growth through diversification into new products and sectors is relatively low priority for Indian family businesses.

The survey reveals that family businesses in India are entrepreneurial, have an appetite for risk and are ready to re-invent themselves in line with the views of newer generations. This is a reflection of India's overall entrepreneurial DNA. Globally, the Indian diaspora is considered one of the most successful entrepreneurial communities. Further, success stories from the Indian IT and telecom sector are examples of such entrepreneurialism. The IT industry, pioneered by companies such as TCS, Infosys and Wipro developed an entrepreneurial mind-set that is driving the e-commerce boom.²

On the flip side, many recognise that disagreement among family members or family politics leads to slow decision-making in Indian family businesses, against their global counterparts.

Family businesses across the world and in India perceive themselves as being better cultured with a stronger set of values as compared to non-family companies. This may suggest that family businesses can survive several odds and adversities on a sustained basis.

Indian family businesses are more likely than the global average to have non-family members on their boards, at senior positions as also those having shares of the companies. Alongside, they also place family members in senior rather than junior positions in the company, including members of the next generation.

Passing over ownership and responsibility can be an issue. Although two-thirds of Indian family businesses have a succession plan in place, only 15% can claim them to be well documented and robust.

In sum, undoubtedly family businesses remain a dynamic and resilient sector in India with tremendous growth potential. They have already demonstrated, many times over, that they can survive many odds.

Our latest report, *Future of India: The Winning Leap*, focusses on the entrepreneurial sector and emphasises the need to nurture entrepreneurs on an unprecedented scale, not just industry-wise but also through a regional spread. It suggests that India's corporate sector has an important role to play in promoting entrepreneurialism. In this context, family businesses have a critical role to play. Towards this, innovation, product and market diversification, research and development as well as reinvention are some of the key routes that need to be adopted.

1. PwC.(2012-2013). *Family firm: The India perspective*

2. PwC.(2014). *Future of India: The Winning Leap*

Background

An integral part of the Indian economy

Indian family businesses have a long history, several of them following the regulations associated with the British Raj, witnessing the 'nationalisation' process, facing the challenges of a controlled economy during the 1950s to the 1970s and then transitioning to the liberalised era of the 1990s. They outlived the era of quotas and the 'Inspector raj', co-existed with the multinationals and are now reaping the benefits of foreign direct investment (FDI), private equity and venture capital. In the process, their resilience to the changing dynamics of the Indian economy has strengthened. On their part, they have contributed significantly to the economy through a wide production base and import substitution, besides giving consumers a wide choice.

However, managing family businesses have their own challenges:

- Differing views of the younger and the older generations
- The absence of well-defined succession plans
- Ability to attract external staff and chart out their growth plan vis-à-vis members of the family
- Managing diverse opinions of family members, and also external staff, in key decisions
- Access to capital to help grow and evolve the business

The results of PwC's Family Business Survey 2014 suggest that family businesses in India are successful, driven by entrepreneurship, have appetite for risk, and diversification plans and are targetting quick and aggressive growth in the medium term as the economy begins to turn around. They are important contributors to the manufacturing and other sectors and hence to the economy. Their expectations from the government, in turn, is an improved investment climate through an array of measures such as access to capital, clarity in tax issues, expediting approvals, an easy regulatory regime, etc.

Methodology

65

interviews were conducted in India

2,378

interviews were conducted across 40 countries

Interviews in India were conducted between 21 May and 22 July, 2014. The percentages outlined in text and charts are based on the global and Indian sample.



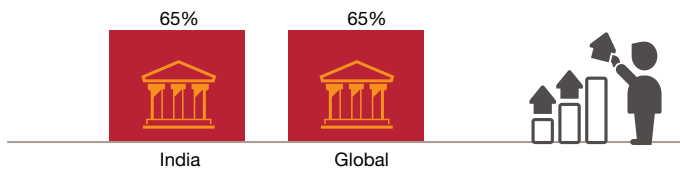
Performance and challenges

Growth: The last fiscal

The growth stories for Indian and global family businesses remained similar in the last financial year with two-thirds of them experiencing sales growth. The economic slowdown seems to be having less impact on their optimism and growth plans. This probably comes from the fact that India is still projected as one of the fastest growing economies besides China³.

PwC's last survey also revealed that three-fourth of the surveyed companies had experienced robust growth in the last 12 months. One reason for this could be the limited exposure family businesses in India have to global markets.

Growth in the last financial year



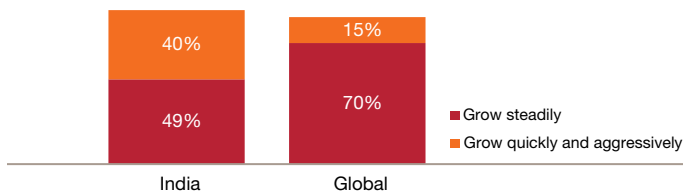
Growth aims: The next five years

The last financial year's growth story has generated optimism for further growth in the medium term, although more for India companies than for the global ones. Around 40% of Indian family businesses aspire to grow quickly and aggressively against 15% of the global average, in the next five years.

Constant upgrading of technology, re-invention of businesses pushed by a relatively higher demand by consumers and an upward-looking economy may help these Indian companies meet their goals. Besides, 49% of Indian family businesses aim to grow steadily. Only 9% of them are looking to consolidate their business and none foresee shrinking of their business. The global average is comparatively more conservative with 70% aiming to grow steadily, 13% looking at consolidation and 1% even expecting shrinkage in the next five years.

Further, 98% of Indian family businesses predicting growth are confident of achieving it.

Growth aims (next five years) among Indian and global findings



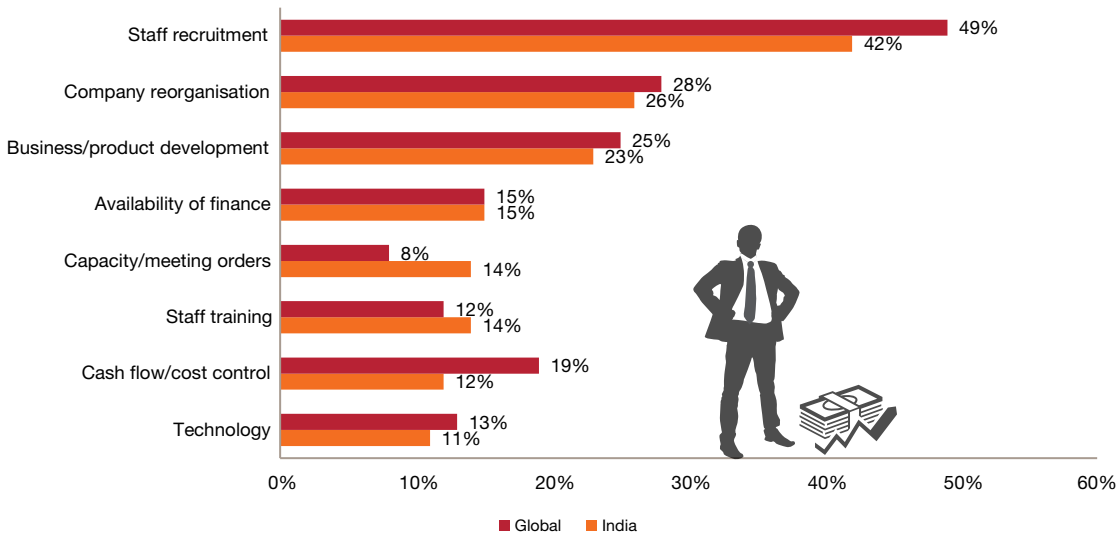
Facing challenges and devising ways to overcome them is critical

Internal issues in the next 12 months

The key internal issues likely to be faced by family businesses in India and across the world in the next 12 months are mostly consistent, and include staff recruitment, company reorganisation, business and product development, availability of finance, etc. However, Indian businesses tend to be slightly less focussed on staff recruitment, company reorganisation, business or product development and cost control than the global average. On the other hand, what worries Indian family enterprises more, as against their global counterparts, are capacity, meeting orders and staff training.

3. International Monetary Fund (IMF). (2013)

Key internal issues anticipated in next 12 months



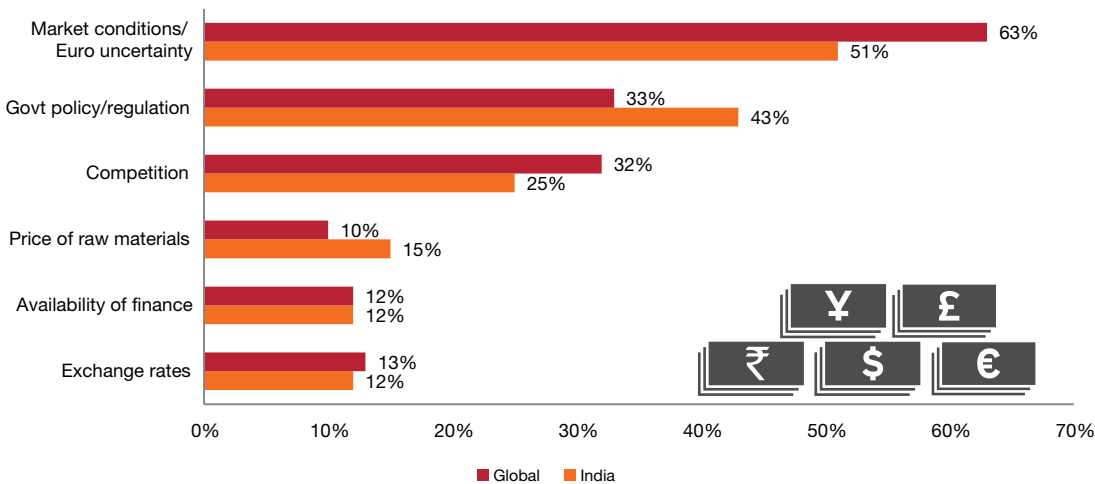
External issues in the next 12 months

While market conditions and Eurozone uncertainty, government policy and regulations and competition continue to remain key issues for global family businesses, Indian family businesses see less volatility in market conditions and Eurozone uncertainty. They also view competition as a less worrisome issue as compared to their global counterparts. While around two-thirds of global respondents feel that market conditions and Eurozone uncertainty are key challenges for the next 12 months, only around half of Indian family businesses think so. With regard to competition, while nearly a third of global family businesses feel

it is a key challenge, only one-fourth of Indian family businesses think so, suggesting that Indian businesses are more optimistic and bullish.

Instead, what bothers Indian family enterprises relatively more are government policies, regulatory issues and raw material prices, which they feel will be key challenges in the next year. In fact, supply constraints have always been an issue for Indian businesses. While 15% of Indian respondents feel that the prices of raw materials will be an important issue, only 10% of global respondents think so. With regard to the availability of finance and exchange rates, global and Indian responses are more in sync.

Key external issues anticipated in next 12 months



Key challenges in the medium term

Indian family businesses are significantly less likely than their global counterparts to see challenges ahead. This is perhaps in line with their strong optimism for future growth. Nonetheless, it appears they would like to assign priority to regulatory compliance and the need to professionalise in line with global best practices. Although the current government has promised to make regulatory compliances more business-friendly with systems such as 'single-window clearances' and faster clearances, the regulatory regime will continue to impact Indian family businesses with 40% (as against 34% in the last survey) of respondents considering it a key challenge in the medium term.

A key role of government and policymakers is to create an environment conducive to business. The Indian government can achieve this by working along with stakeholders in shaping policies and funding innovation, enabling a smooth flow of capital and reforming regulations and procedures in order to facilitate establishment of new businesses.⁴

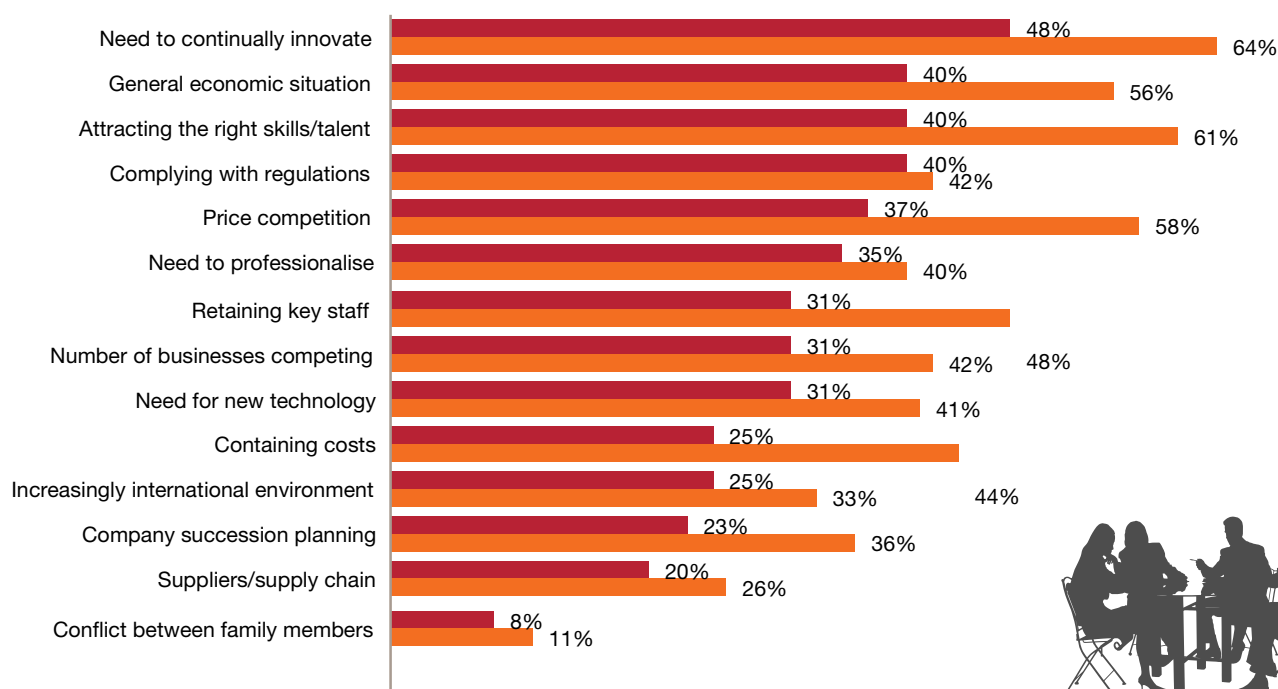
Our survey reveals that nearly half (48%) the respondents consider the need to continually innovate as a key challenge. This calls for higher investments in R&D, devising new business strategies and adapting to a changing environment. The innovation imperative, however, is not restricted to India. Over two-thirds of the global average considered it to be a critical challenge too. The entrepreneurial sector has the agility in operations and the depth in ideas in order to create radical new solutions required for a vibrant economy.⁵

Additionally, the corporate sector in India can play a vital role by helping entrepreneurs launch and scale up their businesses by engaging them as providers and bringing them into their supply chain. This way, they can also fuel economic growth and create more jobs in order to make the most of India's demographic dividend.⁶

Attracting the right talent (40% respondents) and retaining key staff (31% respondents) are other challenges that Indian family businesses consider important although not as much as their global counterparts.



Key challenges in five years' time



Company's growth and profitability most important in next five years

In the post-recession period, family businesses across the world are focussed on the long-term growth and profitability of their companies. These will help them overcome key internal and external challenges on a sustainable basis. Increasing regulatory pressures, growing competition, supply constraints, etc are making companies focus on their long-term growth and success. Strategies such as moving into regional markets in the home country and ensuring that business stays within the family are low on priority both for Indian and global businesses. Attracting high-quality skills and being more innovative are medium priority items.



Relative importance of personal and business goals over the next five years (out of 100)



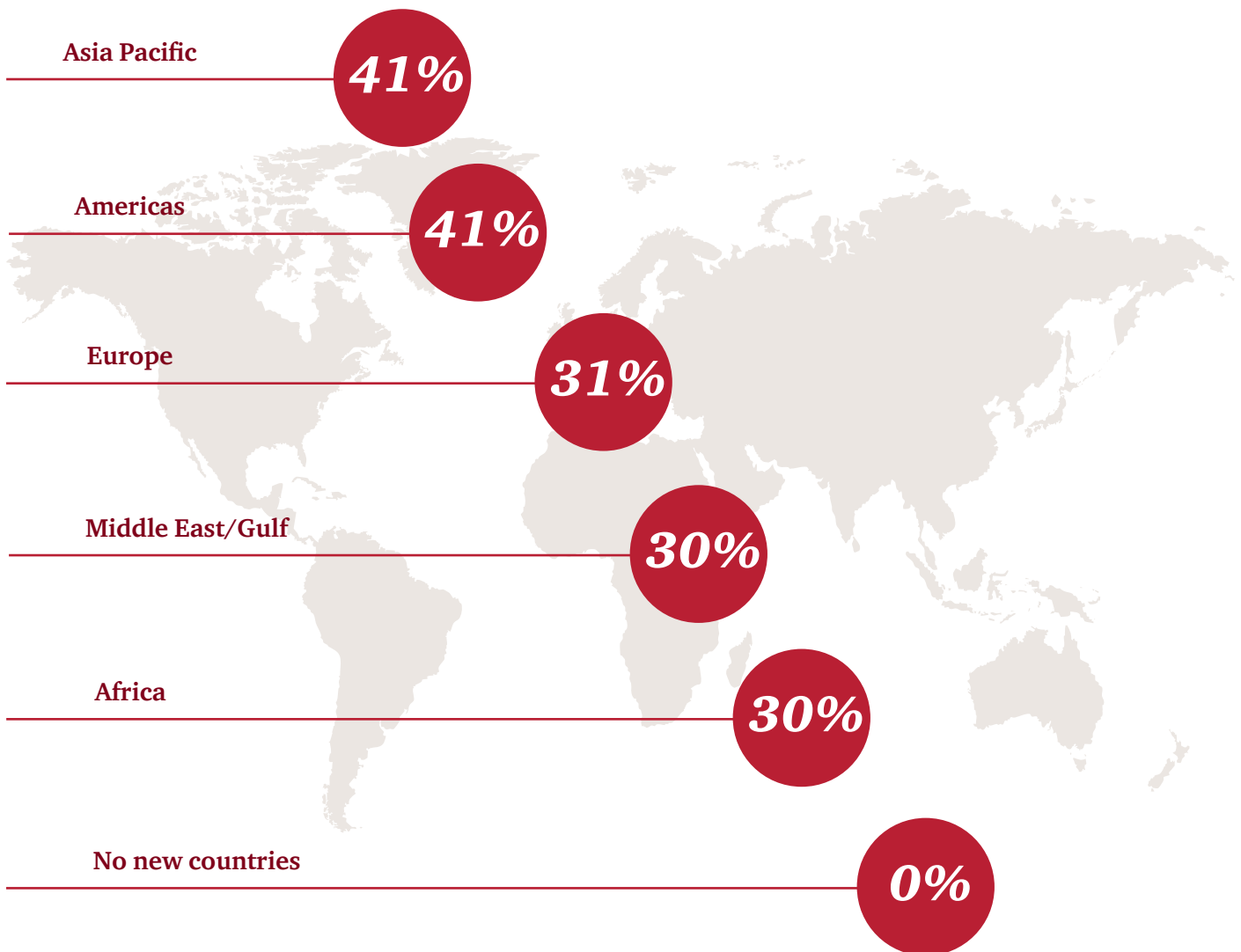
No second thoughts on internationalisation

For both Indian and global family businesses, internationalisation in the next five years will play an important role. Over one-third (36%) of sales (exporting and non-exporting) will be from international sources for Indian family businesses rising by 6% from the current 30%. For global family businesses, it will rise from the current 25 to 32%.

Indian family businesses are spreading their wings in comparatively newer markets, which gives them opportunities to generate more revenues and servicing additional customers.

For Indian family businesses, Asia Pacific (41% increase with China's share of 7%) and Americas (41% increase with the US's share of 26%) will be the lead countries for expansion in exports. These will be followed by Europe at 31% increase and the Middle East and Africa at 30% increase each. Interestingly, this is a marked shift from the last survey where Europe was the lead country for expansion with 39% respondents followed by the Americas and the Asia Pacific with 35 and 33% responses respectively.

Countries/regions seeing biggest increase in international sales from India, in five years



Expanding horizons: United Phosphorus Ltd



Name: Jai Shroff, Global CEO

Sector: Agro Chemicals

Market: Global

Founded: 1969

UPL Limited, formerly known as United Phosphorus Limited, is a global generic crop protection, chemicals and seeds company, headquartered in Mumbai. UPL, Advanta and UEL, the three companies in the group, are listed on the Indian stock exchange, with a combined market capitalisation of approximately 2.5 billion USD.

The story of UPL's growth in the last decade is an inspiring one; from a 200-million-USD company to a 2-billion-USD company within a span of 10 years. In this story, the growth was made possible by the strategic decisions taken by the family. These include a spree of acquisitions totalling around 40 during this period. Started as a small-scale unit to manufacture phosphorus, the company is today a leading global producer of crop protection products, intermediates, speciality and other industrial chemicals. The company has a customer base in 123 countries, operates in all continents and ranks among the top five post patent agrochemical industries in the world.

Jai Shroff, Global CEO and the eldest son of the founder, is the driving force behind this inspiring journey. His father, Rajnikant D Shroff, who was more of a chemist than a businessman, in Jai's own words, started the company and built the plant, processes and systems. Jai joined the company in the mid 80s when the company decided to enter the branded agrochemical business. Those were tough times with issues such as prolonged payment cycles of small-time dealers, too much spent on creating manufacturing platforms, anticipating demand pick-up which didn't happen, etc. But the turnaround was not too far away. The decision of taking the business global while keeping India as the manufacturing hub finally paid off. "In the mid 90s, we started acquiring companies for distribution access. While we set up our own organic business in the US, we also acquired a business in Europe." Today, UPL operates in almost all the agricultural markets in the countries around the world with manufacturing facilities across the globe.

So how does the company manage this phenomenal growth from a 200-million-USD company to a 2-billion-USD company within a decade? What have they done to retain and motivate talent? During the last decade of growth, the company has made 40 acquisitions. The growth was both organic as well as inorganic and it dealt with it by developing its man management capabilities. The company, the management and the key set of employees grew together.

"As part of the growth plan, we are developing a team of 40 mid-level managers who will be ready to run the business in the next five to seven years. We have sought help from renowned global institutes to train them in order to provide exposure. We are building talent capabilities to fuel the growth strategy," Jai points out.

Interestingly, UPL, which could be an easy target for poaching since it is fast-growing, has minimal attrition. According to Jai, hard work, transparency and honesty are the differentiators that have worked for him. "First, I have to work harder than everybody else. Second, employees need to feel ownership for the company they are working with. As a company, we do not differentiate among employees. If I go to the best hospital for treatment, so does everybody else. The company takes care. These factors make us different."

Along with talent, leadership is a critical factor for the success of any business. "Leadership needs to be inspiring. There are family businesses not doing well because the leadership is not dynamic enough. There are professional companies which are disasters due to poor leadership," he says.

Being a second-generation family business, UPL is now run by Jai and his brother, Vikram. Other family members are also involved in running the business, as per fitment. But according to Jai, it is not mandatory for every family member to join the business. As a company, he is open to professionals and building up a team of professionals.

As a family-run firm, a clear succession plan is necessary. According to Jai, in any family, the family members involved in the business and even those not involved, need to be affirmed about the benefits. "First, the leadership needs to be clearly defined and transparent. Family members need to understand that wealth creation is involved. They need to affirm an alignment in wealth creation and the benefits thereof," he says.

"Succession is important. It creates issues even in professionally run companies. Many families sell their businesses because they don't want to deal with those. In our case, we work together and haven't gone through any such situations so far. We have multiple businesses segregated. So everybody does what they're good at. In case of conflicts, we have discussions and arrive at a consensus."

When it comes to giving back to society, according to Jai, family businesses are much better than their professional counterparts. "In UPL, wherever in the world we have businesses, we engage in local projects. We feel the responsibility to participate. We don't restrict ourselves within the mandatory 2% spending on CSR. We consider it a part of our responsibility and obligation."

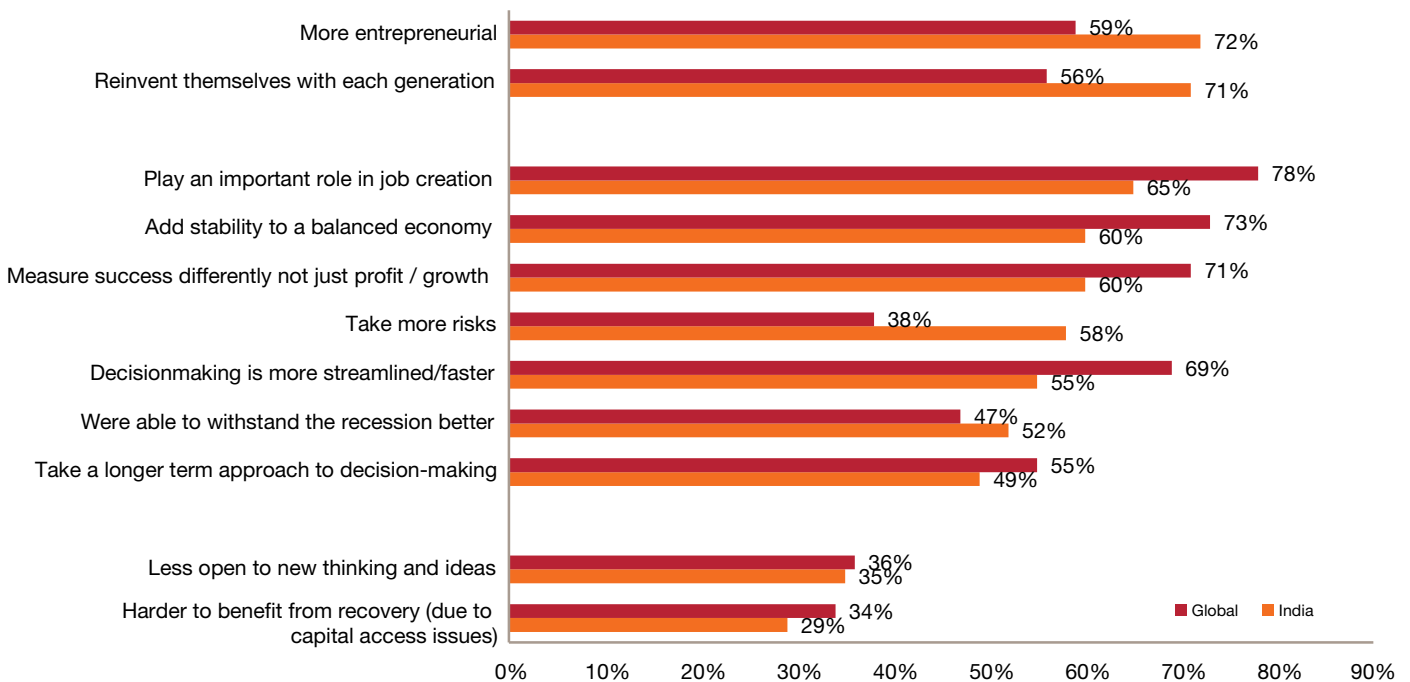


Are family businesses any different from non-family businesses?

As compared to non-family businesses, family enterprises exhibit some positive differences. For example, Indian family businesses tend to endorse themselves little more on aspects of entrepreneurship as compared to their global counterparts (72% Indian responses versus 59% global responses).

More importantly, it has been observed that Indian family businesses were also able to withstand the impact of recessions better as compared to their global counterparts. Over half the Indian family businesses (52%) surveyed agreed to this viewpoint as against 47% of global family businesses.

Percentage of respondents agreeing with statements on how family businesses behave



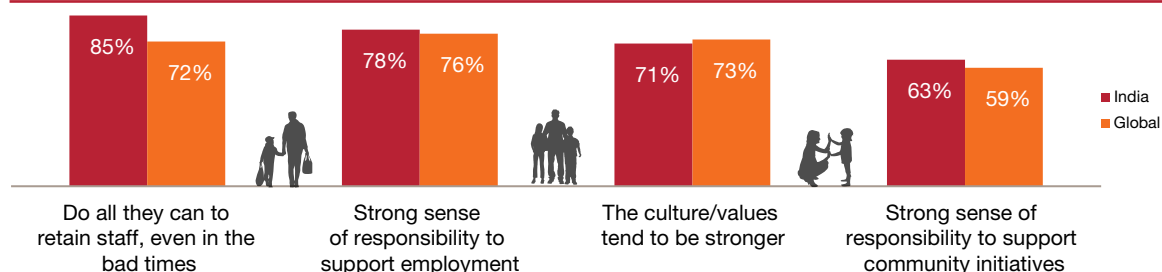
In general, India family businesses share the same values, culture as well as ethos with that of other family businesses across the world. While 71% of Indian respondents feel that the culture and value of family businesses are stronger than non-family businesses, 73% of the global average believe the same.

Both Indian as well as global family businesses have similar views on supporting employment during tough times. Eighty-five per

cent of Indian businesses and 72% of global family enterprises revealed that in times of an economic crisis, they will do what they can to retain their employees.

This gives a strong signal to employees working within family business set ups that they will be taken care of even during adverse situations. Further, over two-thirds of Indian respondents agree they have a strong sense of responsibility to support community services as against 59% of global respondents.

Percentage of respondents agreeing with statements on how family businesses differ from other businesses



Family involvement and succession planning

Having in place professionals at senior and also at the board level of family businesses is not just the current accepted norm but also an ongoing trend both in India and globally. Over three-fourth (77%) of family businesses surveyed in India have non-family members on their boards as against around two-thirds of the global average, although this is a declining trend within India⁷. Further, more than half (57%) the family businesses in India and an average of one-third of family businesses across the world, have non-family staff members who possess shares of family-run companies.

The trend of offering shares to non-family staff members is likely to continue over the next five years, although the percentage of shares owned by non-family staff members will see a decline. While over one-fourth (26%) of Indian family businesses are likely to offer shares to professional staff members, the global average is relatively more conservative with less than one-fifth or 18%.

Inducting professionals at senior and board levels within family businesses also reflects the promoters' open mindedness and throws open the companies' doors to innovative ideas. Besides, professionals can sometimes act as a buffer in situations of conflict resolution and ego clashes among family members. The key challenges in such scenarios, however, are issues such as succession planning and the professionals' aspiration of gaining (some) ownership of the company.

7. The Family Business Survey 2012-13 revealed that 96% of Indian family businesses had non-family members on board.

Lesser role for family members at junior levels

According to our survey, Indian family businesses have lesser roles for family members at junior levels against the global average (35% in India versus the global average of 49%). On the other hand, Indian family enterprises, however, do have on board family members who possess company shares but do not work for the company. This is much more than their global counterparts (78% in India versus a global average of 48%). More than 92% of global and Indian respondents revealed that they have family members mostly as senior executives rather than having them at junior levels.

It appears that globally, companies value some family members for the advisory roles they have been playing so far. This is because 18% of global respondents mentioned that they have family members who do not work for their companies, neither do they possess company shares, but are recompensed in other ways. On the other hand, in the Indian scenario, only half of the Indian respondents (9%) said they recompense such family members in some way or the other.

Next generation playing important roles

Pampering the next generation and the desire to employ them in the company once they complete their studies, that too at senior positions, is a common practice within Indian family businesses. No wonder then, two in three family businesses in India (66%) have next-generation family members working for the business as against a global average of 55%. Moreover, 58% in India have next-generation family members working as senior executives within the company as against a global average of 43%.

Further, in India one in three (35%) of next-generation family members do not work for the companies but own company shares. The global average, however, is more conservative with 23% family businesses having on board next-generation members who are not working for their business but however possess company shares.



Designing in the next larger context: Embassy Group



Name: Jitu Virwani
Sector: Real estate
Market: India
Founded: 1993

The Embassy Group is a premier real estate developer in the commercial, residential, retail and hospital space with a large presence in Bangalore and other cities including Chennai, Hyderabad, Coimbatore and Pune. Embassy has also forayed into the international market with a presence in Malaysia and Serbia.

The company started functions in 1985 under the name of Embassy Builders. Jitu joined the business at the young age of 20 as a liaison executive. In 1993, Jitu started Embassy Investments branching out of the family business in 1999 to run the company under the name of Embassy Property Developments Private Limited.

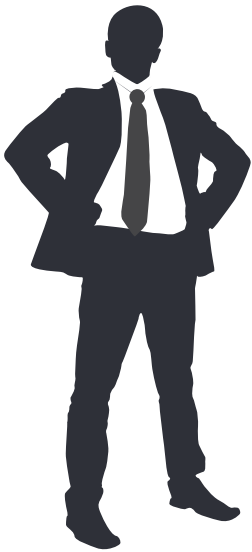
Over the last three decades, Jitu has assumed different roles in the company and is currently the Chairman and Managing Director. His eldest son, Karan, now works with him and his two younger sons will follow suit after completing their education.

The company has evolved from a family run to a professionally run business. Jitu is the only family member on the board and management of the company.

Under Jitu's leadership, the Group has grown exponentially owing to a number of initiatives such as outsourcing of consultants and leveraging relationships not only with clients and tenants but also with capital providers. This has translated to an exponential growth of revenue from 40 crore to 1600 crore INR in the past decade.

Excerpts from our interview with Jitu Virwani:

What is your motivation in the business?



The motivation has evolved through my journey in the company. In my early days, I was self-driven and always brimming with new ideas. A number of them were successful and this recognition has driven me to greater success. Over time, I wanted to grow the Group and share the success with my team.

Now, my motivation is to create a world-class group and organisation. Real estate is one of the largest employment generators in the country and it is immensely gratifying to know that I am making a material contribution towards this. The success of our Group as well as the recognition for doing good work is what drives us. When you are successful in the market, people are also motivated to work for you.

This has allowed me to sponsor and support education and sports, causes close to my heart.



What has impacted your company's performance in the last few years?

The sustained growth of our existing tenants in addition to the growth of e-commerce businesses such as Flipkart and multinational companies expanding their operations in India have all contributed to a demand in the real estate space.

Also, the increase in discerning buyers has provided a fillip to our growth and has revived our residential offerings to meet the demand for premium residential space.

How important do you think family businesses are to the economy and society? How would you describe your attitude towards the local community and your employees?

Indian culture is family centric and hence, has a positive impact



on society. I believe there is a direct correlation between family businesses and economic growth.

Being in the real estate sector, we have the opportunity to touch lakhs of lives by creating their homes and workspaces. But what gives us the most satisfaction is that we are a major generator of both direct and indirect employment. Most of our businesses are local in nature and most of our employees are from the local community. We have founded various education initiatives including sponsoring various government schools in and around Bangalore. We have also built places of worship for different religious communities.

How do family businesses differ in their outlook in comparison to a public company?

Public companies are answerable to their shareholders and have to continuously meet performance levels, which is something a family business is not pressurised with. The latter wants to be

invested for the long term and finds the right balance between long-term and short-term performance.

Also, there is a sense of loyalty in family businesses which is limited not only to employees, but also extends to clients and vendors.

Your plans and goals for the company over the next five years? And what are the biggest challenges you envisage?

My plans for the company are to build on its strengths and continue to expand in the office, business park and high end residential spaces. Over time, we also intend to leverage on our brand value and cater to the mid market segment, by delivering quality products. We also foresee opportunity in the hospitality sector, given its demand in IT park premises. Warehouse is another sector which has immense potential.

The biggest roadblocks we envisage are executional in nature as also, the ability to continuously train our professionals to deliver quality products. On the family front, I foresee the challenge of grooming the future generation to work along with professionals.

Do you think that as family businesses mature, it is more likely that they will be taken over or sold to large corporates? Does it get harder to maintain family ownership as time goes on?

I am of the opinion that family-run businesses can be run as corporate houses with equal involvement by both professionals as well as the family members on the board. Family-owned businesses may look at selling their businesses to corporates in the future, but that would depend entirely on how those businesses have been run.

What concerns, if any, do you have around succession?

Fortunately, my children are interested in in the family business. Hence, my role is to ensure they stick together. I intend to build separate business verticals for each of them, to enable them to take the Group to the next level. Having said that, my preference is to have professionals run the business and have family members play a strategic role and oversee.

What would you like your lasting legacy to be?

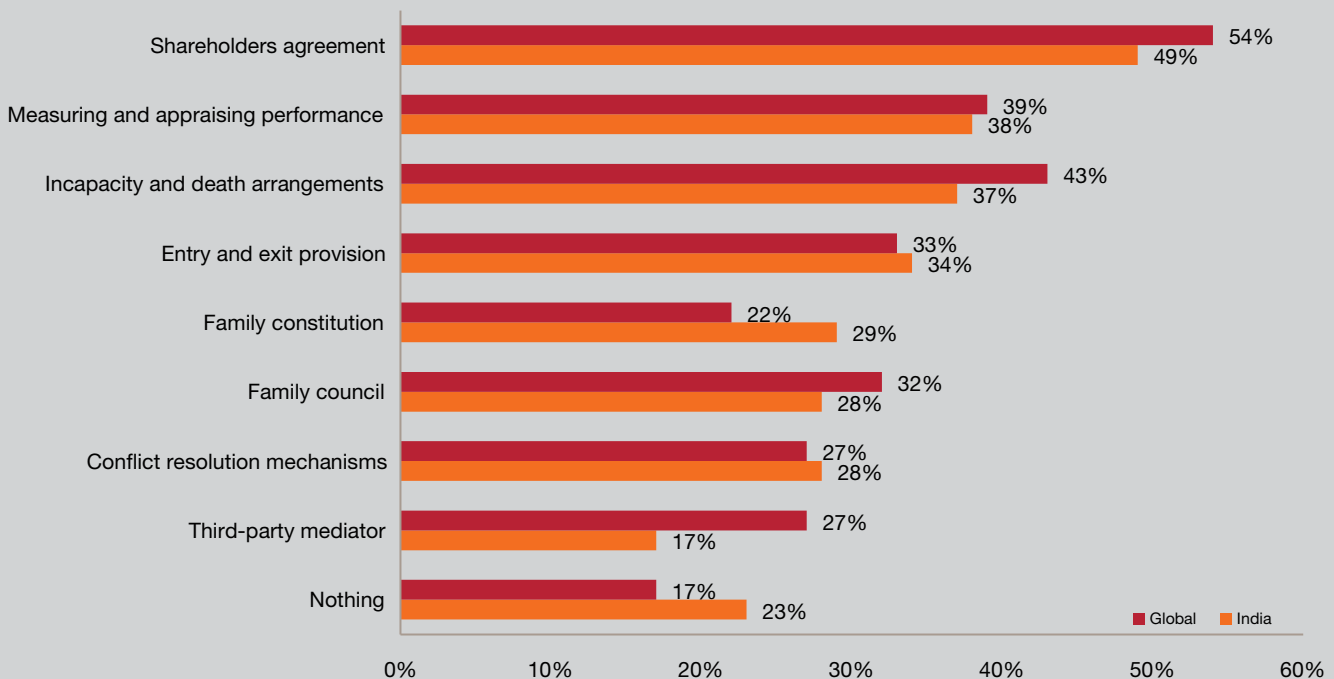
I would like Embassy to be the Reliance of the real estate industry with a strong international presence.



Procedure for conflict resolution

Over three-quarters (77%) of Indian family businesses surveyed have at least one procedure or mechanism in place to deal with conflict, lower than the global average of 83%. These include shareholders agreement, measuring and appraising performance, incapacity and death arrangements, entry and exit provisions and family constitution and family council mechanism.

Procedures adopted to deal with conflict





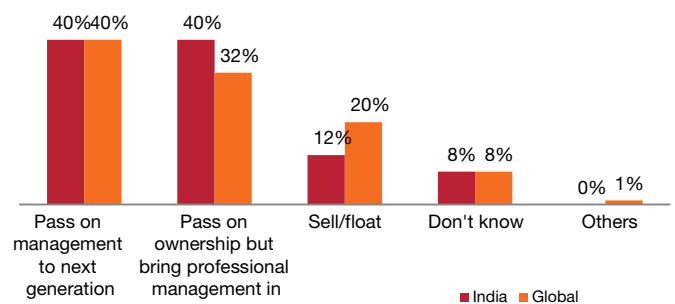
Equal votes for passing management to next-generation family members and professionals

Family businesses in India have a high regard for professionals or non-family members within their company. The fact that majority of Indian family businesses are evenly split in their views between planning to passing the management of the company to the next generation and professionals in the future, further supports this viewpoint. Around 40% of Indian family businesses want to pass on the management to the next generation, while another 40% want to pass on the ownership but also bring in professional management to their organisations. As against this, globally while 40% want to pass on the management to the next generation, only 32% of respondents want to pass on the ownership but bring in professional management.

Selling or floating the family business

Indian family businesses are conservative when it comes to selling or floating their businesses. Only 12% want to sell or float their businesses as against the global average of 20%. Of this 12%, only 6% of Indian family businesses want to sell their business to private equity (PE) investors, 5% want to float initial public offerings and only 3% want to sell their business to another company. According to a recent PwC report, PE in India 2025: A 40-bn-USD decade beckons?, lack of transparency and a clearly articulated strategy within family businesses are the reasons why there is less flow of PE funds into such businesses. The report further mentions that companies looking for PE investment are not investment-ready and the management team in many cases, sub-optimal. Further, promoters are uncomfortable with their decision-making independence being clipped by PE investors.

Future plans

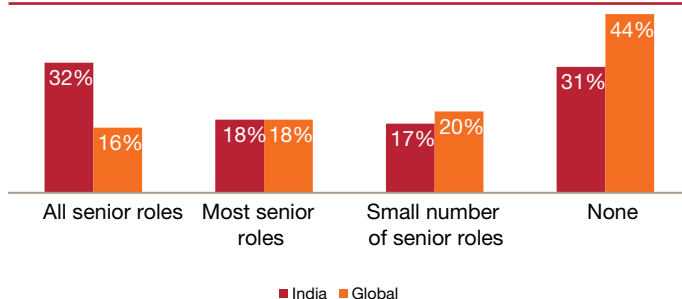


Lack of a robust succession plan

Although a little over two-thirds (68%) of Indian family businesses have some sort of succession plan drawn out, only 15% of such families have a succession plan that is robust and well-documented. The story is no different globally, with the global average revealing that a little over half (53%) the respondents have a succession plan in place, but only 16% of them said that their plans are robust and well-documented. Having a well-documented and thought-out succession plan in place can help mitigate any future conflict as the baton is passed from one generation to the other.

However, Indian family businesses seem to have a better succession plan in place for all senior roles with one-third of respondents stating they have a succession plan for all senior roles. Against this, only 16% of respondents globally said they have a succession plan for important senior roles.

Succession plan for key senior roles



Aspiration for better commercial and personal success

Indian family businesses harbour the aspiration of attaining greater commercial success and retaining brand values. While some seek personal recognition for success, many have ambitious future aspirations for the company or the brand.

As regards their enterprise value, they will prefer global success, gaining a leadership position in the future, attaining higher market share for their product and being known for integrity, fairness and transparency in business. In the avenue of philanthropy, they want to be recognised for giving back to the community and want people to have a positive attitude towards their company.

Healthy prospects: Psychotropics India Limited



Name: Navdeep Chawla, Chairman and Managing Director
Sector: Pharmaceuticals
Market: India
Founded: 1987

Psychotropics India Limited (PIL) is one of the fastest-growing pharmaceutical companies in India, with over 800 employees and a portfolio ranging from chronic disease segments such as diabetes, neuropsychiatry, dermatological, pain management, anti-infectives, nutritionals, petcare products and affordable generics. PIL has ambitious growth targets, is forward-looking and boasts of strong family ties.

PIL is a perfect example of how first and second generations can work together productively in order to take the business forward. The firm was founded by Navdeep Chawla, and now his son Siddharth and daughter Geetika are both part of the business. Geetika works in the animal healthcare division and Siddharth is the director of operations, responsible for enabling new technologies and establishing the strategic alliances that allow PIL to expand internationally. He has been instrumental in successfully expanding the company's footprint across various overseas markets and the company currently operates across 16 countries in Africa, south east Asia and Latin America.

Navdeep says, "Family businesses are particularly important in an emerging market such as India, where small and medium-sized businesses are driving the country's economic development. The combination of rapid growth and demographic change is making pharmaceuticals a particularly exciting and dynamic sector for our country. India is a growing market and with an increase in income levels, the healthcare business is expected to grow further over the next 10 to 15 years."

Over the last few years, the company has diversified by investing in all segments, registering good growth rates. The current size of the company is 160 crore INR and it is anticipated to reach 180 crore INR by the end of March 2015. The journey has been eventful and packed with many challenges. Lack of technical knowhow and R&D facilities for enabling newer products have been the biggest roadblocks. However, the company is tackling this challenge by building a strong distribution network in Tier-2, Tier-3 cities and rural markets where the reach of big pharma companies is minimal.

As PIL gears itself for growth, it is growing more professional in the way it runs its operations. "We have three factories in different locations managed by qualified professionals. The family has taken a conscious decision to not involve ourselves in day-to-day activities. We have chosen to delegate much of the decision-making. We have always been open and honest with our employees. Over the last few years, our focus has shifted from profit maximisation towards benefiting the community and our own staff, especially those who have been with us for long."

Navdeep goes on to say, "I think employee motivation is much higher in family businesses than in other types of companies. That can be a real advantage because they're the people who will make your business a success—they're the ones who will help you grow."

On succession planning, Navdeep says, "I would love to pass on the baton to the next generation, so they can take PIL to new heights. I am confident my son will be able to do so. We need to continue hiring new blood and providing the young workforce with opportunities."



What other family businesses think



I would like the business to prosper and to continue to generations. I want my company to be a global company and my legacy to be known globally.”

-Managing Director of a first-generation family business

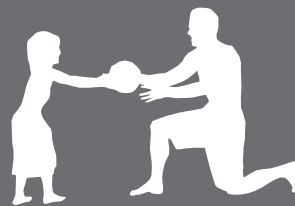
“To create a world- class global company run by professionals and family and doing good for the society”

-Promoter of a second-generation family business

“My lasting legacy is to have a brand that will be remembered and leave a positive impression on the society.”

-Promoter of a second-generation family business

What other family businesses think



“People should have a positive sentiment for our company, we want to be transparent to our customers and want to carry forward the culture, ethics and responsibility towards the society.”

-Executive Director of a third-generation family business

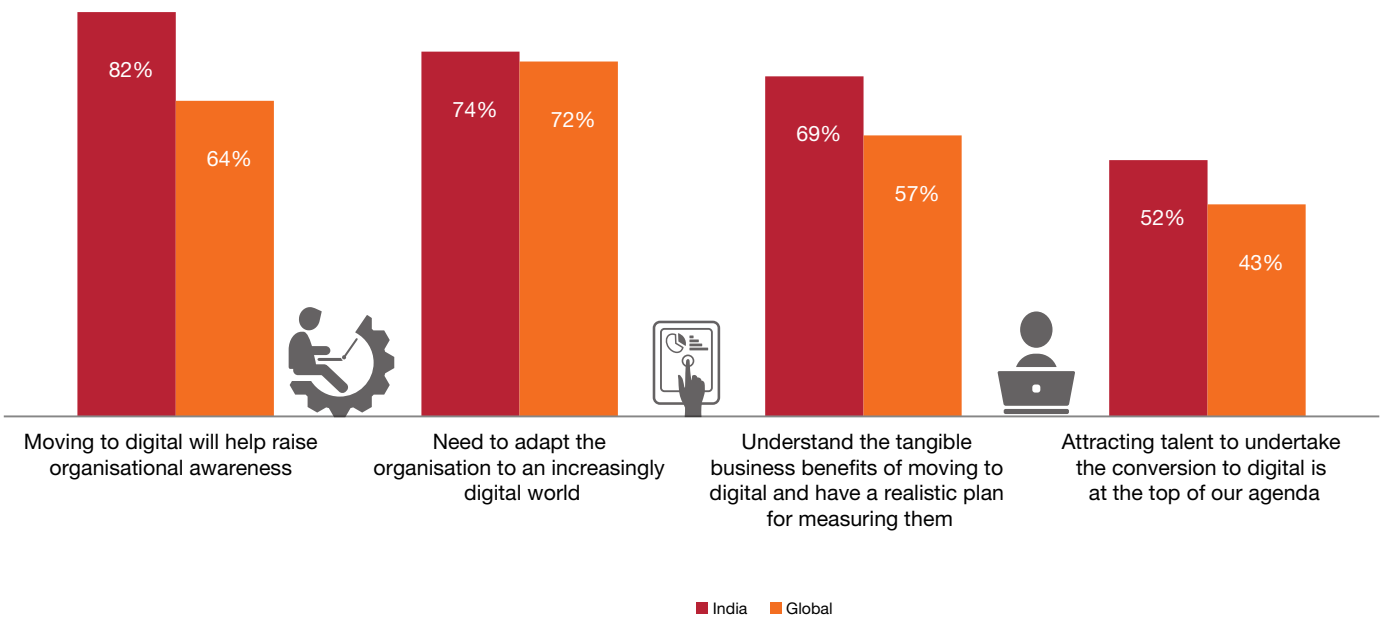
The quest for digital and emerging global trends

Indian family businesses are particularly likely to recognise the importance of going digital, more than their global counterparts. Companies around the world are increasingly exploring the benefits of going digital vis-a-vis interacting with consumers, managing operations, connecting to stakeholders, etc. Our survey shows that Indian family enterprises are particularly likely to recognise the importance of going digital, more than their global counterparts.

Etching a mark in the global landscape

While over two-thirds (69% in India as against the global average of 57%) of Indian family businesses surveyed understand the tangible business benefits of moving to digital and having a realistic plan for measuring them, around three-fourth (74% in India against 72% of global average) of respondents agreed that they need to adapt their organisation to an increasingly digital world. Further, a whopping 82% of Indian respondents against the global average of 64% said that moving to digital will help raise organisational awareness.

Percentage of respondents agreeing with statements on the digital world

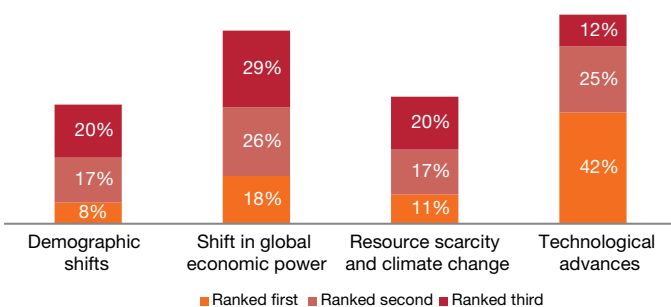


A shift in global economic power

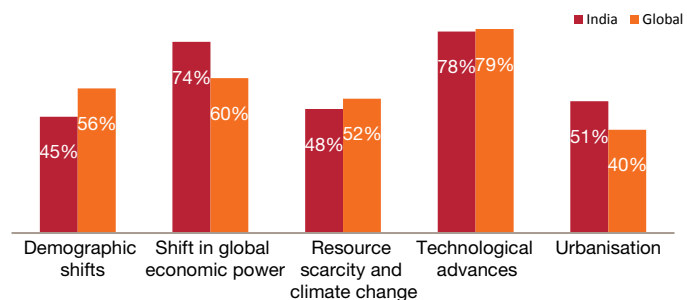
Family businesses in India have a generally similar outlook as that of their global counterparts on international trends such as technological advances and resources scarcity and climate change over the next five years. Shift in global economic power is an important trend they are likely to witness over the next five years with 74% (against 60% of global respondents) of Indian respondents voting it to be an important global trend that will transform businesses in the medium-term. Technological advances is another global trend considered equally important by Indian and global family business at 78% and 79% respectively.

The top international trends that are expected to transform business in the next five years include demographic shift, shift in global economic power, resource scarcity and climate change, technology advances and urbanisation.

Top trends that will transform business over the next five years (India)



Top trends that will transform business over the next five years (India vs global)





Education with an impact: Extramarks



Name: Atul Kulshrestha
Sector: Education
Market: India
Founded: 2007

Extramarks is a new-age digital education solutions provider, which provides 360-degree solutions in the education sector. The company was founded by Atul Kulshrestha in 2007 and launched its products in the market by 2009. The offerings include end-to-end solutions for schools starting from school ERP to smart learn classes, test centres and online /offline homework assistance. In its short stint, the company has gained momentum in schools and among students in India, South Africa and in the Middle East. It services more than 5000 schools and about a million students. Extramarks relies on the concept of promoting education, a cause close to Kulshrestha's heart, as he has seen children struggling for knowledge.

Promoter Kulshrestha currently works on strategic business planning initiatives for the implementation of new technologies. Prior to the launch of Extramarks, Kulshrestha was involved in the promotion of international BPOs as well as two internet portals.

The company started with only two persons and has now reached the size of 200 crore INR and employs more than 1250 people.

Excerpts from our interview with Atul Kulshrestha:

How important do you think family businesses are to the economy and to society? Do you think the motivation of people running family businesses differs from public companies?

Family businesses are important. MNCs have their own limitations and cannot enter every business. They face problems due to country-specific and cultural issues.

In comparison, family businesses have a long-term approach, as we are here to make money, create opportunities and move ahead in the market. Family businesses have the ability to be flexible and agile and take decisions fast as compared to the MNCs. Also, there is constant performance pressure to do more in order to make our business profitable and reach new heights.

Among listed companies, things remain constant with only share prices varying. Innovation takes a backseat. We on the other hand, are constantly making changes to suit the needs of our customers.

How would you describe the last 12 months of your businesses? What are the key highs and lows?

The last 12 months have been challenging since there has been a constant need to evolve with the ever-changing environment. In order to meet these changes, we have developed and deployed extensive R&D centres, skilled resources and extensive software for manpower support.

In the last two to three years, we have been able to carve a niche for ourselves among the top players and now have clarity as to who our target customers are. As a result, we have shown positive growth.

As a leader of a family business, how would you describe your attitude towards the local community and your employees?

I am inclined to promote the educational sector and community. As the market leader today, we do a lot of infra improvements in terms of technology in schools. Where schools are doing well, but cannot deploy superior technology, we assist them. We have also adopted a few schools and provide free hardware and software to them.

Education for the girl child in India is our primary focus and we regularly take up CSR activities in schools. For example, we have modernised a computer lab at Sophia Senior Secondary School, Bhilwara and have implemented Smart Learn Classrooms at St Paul's Higher Secondary School at Ajmer free of cost. In our constant endeavour to promote education, we also wish to offer our products at affordable prices.

What is the biggest motivation for your business and those working for you?

The success of our products as well as the recognition for doing good work is what drives us. When you achieve success in the



market, people are motivated to work for you. In addition to monetary benefits, their social status also improves. This is what helps us in attracting and retaining the best talent.

It is noteworthy that our employees are emotionally attached to the company mainly because there is a sense of belonging they associate with our brand. Also, I make it a point to spend time with employees at all levels, so that they feel like they are part of a great team and know exactly where the company is headed. They are happy to see the company achieving newer heights.

What are your plans and goals for the company over the next five years? And what are the biggest challenges you envisage?

Our plans are to go global as the market leader for educational products and to focus on online learning. Challenges pertain to technology and finances because in India, support for the digital educational sector is still nascent.

The biggest challenges are adoption of new technologies and individual financial limitations.

Will there be a change in ownership for your business in the next five years?

I do see new structures being formed and change in ownership as we go global. This is not possible without collaboration. The next

five years will see a lot of collaboration at Extramarks including structural changes in every field including tie-ups with hardware and software companies.

How do you think the government views family businesses?

We need to have more government support for family businesses. The initiatives and approach of the new government in India will be beneficial for digital businesses such as ours.

If you were advising a thinktank on how to support family businesses going forward, what would you suggest?

My only suggestion is to not involve too many family members on the board and always hire accomplished professionals in key roles. Always be ready to innovate and move ahead as that is the key to success for any business.

What would you like your lasting legacy to be?

We will be happy to make a difference to society by implementing new technologies and pedagogy in the learning process.





Conclusion

Indian companies seem to be focussed on growth and are keen on professionalising and digitising their businesses in order to achieve quick and significant progress.

Even while four out of five Indian businesses plan to pass the ownership of their enterprises on to the next generation, a relatively high proportion (40% as against the global average of 32%) will continue to hire professional managers. This clearly spells out their aim to professionalise their businesses.

This brings them closer to non-family businesses as far as running of the enterprises are concerned. They stand out as they feel they are stronger in culture and values vis-à-vis non-family businesses, a trait demonstrated by family businesses across the world.

Further, Indian family-owned companies are more inclined towards diversification as they are more likely to export than their global counterparts and they see increased opportunities in the Asia Pacific region led by China and the Americas led by the US.

Our survey clearly shows that family businesses are not only on par with professionally run non-family businesses but they are also no less than their global counterparts. On the contrary, they are equally, if not more, focussed on growth, have a vision for the future, are high on culture and ethos, are open to fresh ideas both from the new generation as well as professionals and can withstand business and economic adversities. Not just that, they have the tendency to safeguard their employees during bad times.

With the overall improvement in the political and economic scenario in India and the revival globally, family businesses in India are bound to succeed in the short run (next 12 months) as well as in the medium term.

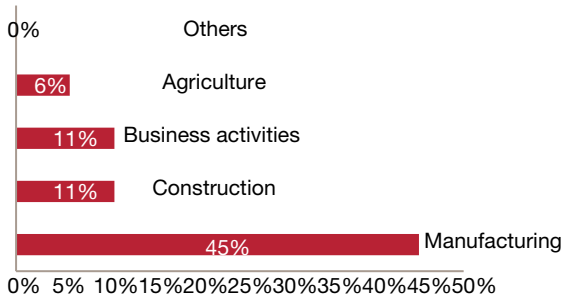


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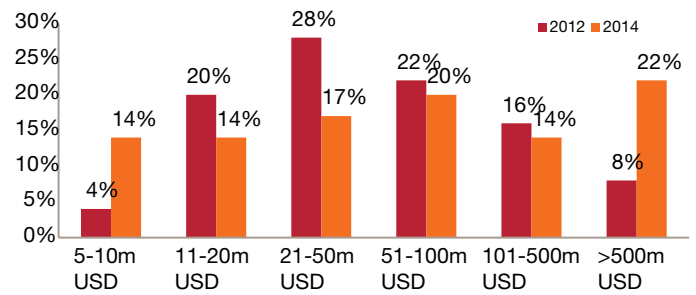
Appendix 1: Our respondents

India sample profile: Business

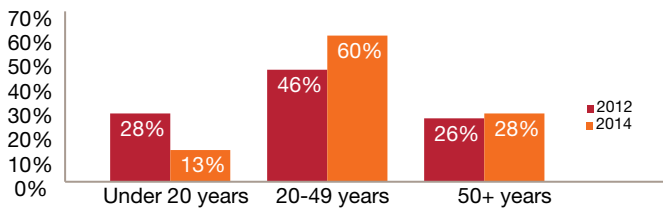
Sector



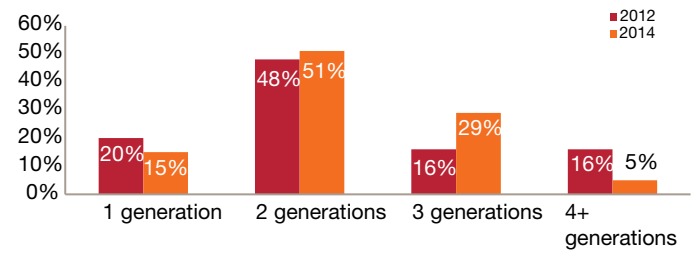
Turnover (ranging from small to large)



Company age (under 20 to 50+)

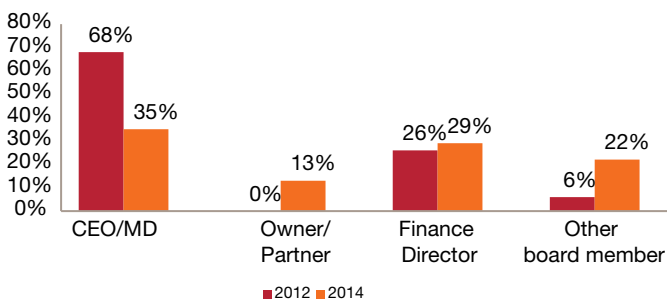


Number of generations

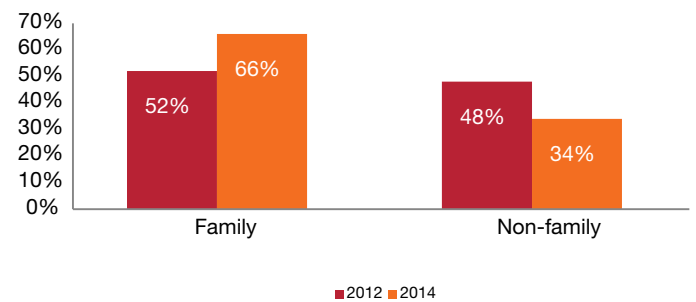


India sample profile: Respondents

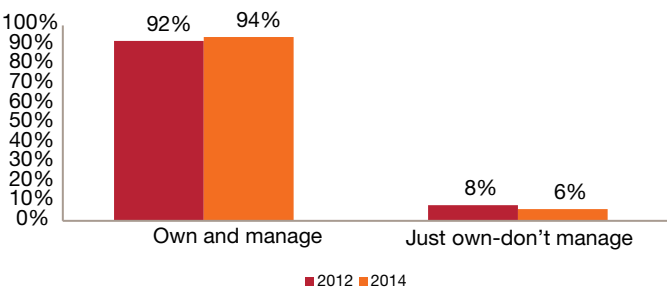
Role



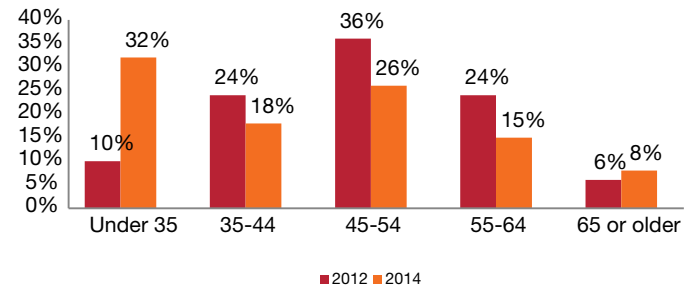
Family member



Family role in business



Age



Appendix 2: Our offerings

Family businesses are a key component of economies around the world. While it is well-known that a family business can be an extremely successful business model, it is also acknowledged that they suffer from a higher rate of failure. Though they deal with challenges that other businesses face, but, unlike non-family-run companies, they also deal with family issues.

The biggest issue facing family businesses is that of succession. Succession has two dimensions.

- Succession in ownership
- Succession in management

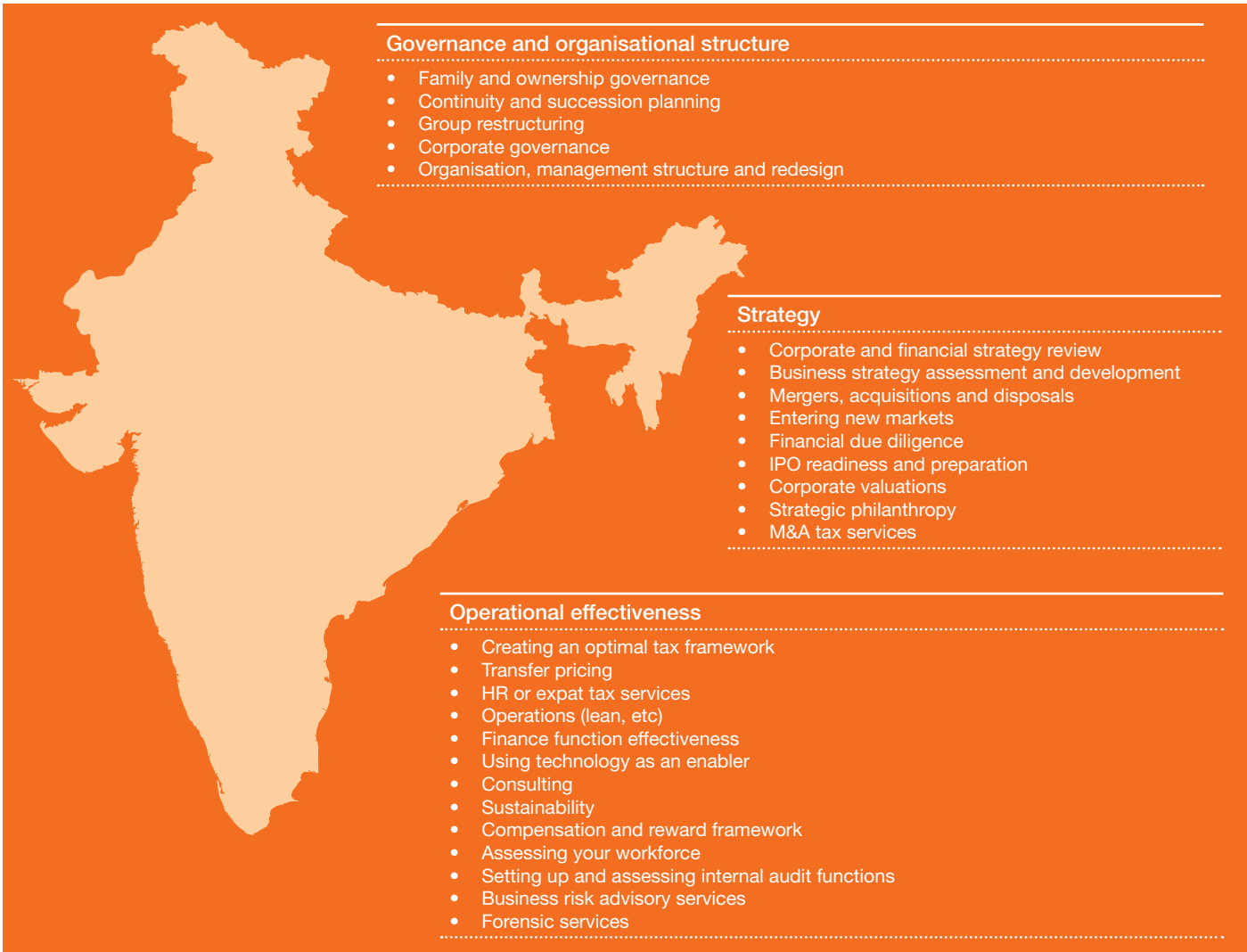
Both of these need careful planning over a period of time. The transfer of ownership and managing the succession process is the most difficult challenge that family businesses encounter. In our experience, most families have no real plans for succession, which leaves the next generation unprepared for the challenges ahead.

We have developed mechanisms to assist families with the following:

- Continuity planning
- Succession planning
- Conflict management

Family businesses must look holistically at both the family structure as well as the business model.

PwC's services for family enterprises



Governance and organisational structure

- Family and ownership governance
- Continuity and succession planning
- Group restructuring
- Corporate governance
- Organisation, management structure and redesign

Strategy

- Corporate and financial strategy review
- Business strategy assessment and development
- Mergers, acquisitions and disposals
- Entering new markets
- Financial due diligence
- IPO readiness and preparation
- Corporate valuations
- Strategic philanthropy
- M&A tax services

Operational effectiveness

- Creating an optimal tax framework
- Transfer pricing
- HR or expat tax services
- Operations (lean, etc)
- Finance function effectiveness
- Using technology as an enabler
- Consulting
- Sustainability
- Compensation and reward framework
- Assessing your workforce
- Setting up and assessing internal audit functions
- Business risk advisory services
- Forensic services



Our Private and Entrepreneurial practice

Our services

Our practice helps private business owners and individuals achieve their personal and business ambitions. We provide a series of tax and advisory services.

Our solutions

Our aim is to help your business and family wealth grow by bringing necessary talent and skills. We can provide all the practical and commercial assistance appropriate for your business. We have built our success on developing trusted advisor relationships and delivering solutions and ideas tailored to the needs of our clients.

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