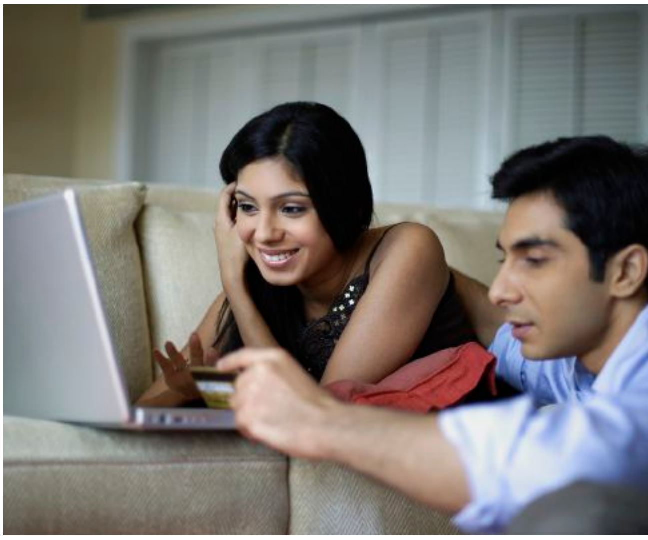
PwC's Family Business Survey 2012-13

What the future holds: Indian family businesses in 2017 p4/Confident in the short term p6/Case example: DB Corp (Bhaskar Group) p8/Steady globalisation despite challenges p10/The numbers game: Do family businesses score over non-family businesses? p12/Case example: LNJ Bhilwara Group p14/Management, succession and conflicts: All in the family? p16/Case example: McLeod Russel p18/Defining the role: The government and society p20/Case example: V-Guard p21

Family firm
The India perspective



78%

Indian family enterprises support various community initiatives

78%

Indian family enterprises go out of their way to help and retain their staff in bad conditions

80%

Indian family enterprises support employment in areas of their operation

90%

Indian family enterprises are confident of achieving their predicted growth

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Prologue

Many of India's largest and most celebrated companies were nurtured by a small group of promoters and family members. At PwC, we recognise the contribution that such family businesses have made, and will continue to make, towards the growth of the Indian economy. Our first-ever India-focussed findings of our global report, Private and Entrepreneurial (P&E) Client's Family Business Survey 2012 will provide more insights into the challenges, opportunities and the future outlook for these family-driven enterprises in India.

By definition, a family business is one in which the majority of the stake is held by the person who has established or acquired the company (or by his or her parents, spouse, child or child's direct heir) and at least one representative of the family is involved in the management or administration of the business. Family businesses are the 'unsung heroes' of the Indian economy and our survey shows that they have aggressive growth plans; they battle to retain staff in bad times, focus on supporting the community issues and are agile in their decision-making.

Our survey was conducted over a period of six weeks between July and August 2012. We interviewed 50 senior executives from the top ET-500 family businesses in India. Our interviews were conducted via telephone and through face-to-face interactions. The surveyed family business enterprises represent diverse sectors including manufacturing, retail, automotive, construction, etc. Interestingly, despite differences in their sizes, locations and industry sectors, there was a marked similarity in their performance, approach to internationalisation and views on the qualities that set family businesses apart from other enterprises.

Our report helps confirm that India is home to many resilient and ambitious entrepreneurs, focussed on the operations in their rapidly expanding companies.

Indraneel R Chaudhury
Country Leader, Private and Entrepreneurial Client Services, PwC

Snapshots of our survey

- Family businesses in India have performed well in the previous year and are bullish about their growth over the next five years. 74% have grown in the last 12 months and 36% are aiming at a quick and aggressive growth over the next five years.
- Among the key challenges to this growth are; the need to innovate, attract the right skills and talent, retain key staff, the need for new technologies and compliance with the regulations.
- Family businesses believe that they have certain key advantages over non-family businesses. These include motivation, strong values, agility and speed in decision-making as well as insight into their particular industry.
- Indian family business enterprises also recognise disadvantages like attracting non-family staff, challenges around succession, family politics and access to capital in running their businesses.
- Although they generally believe that the government recognises the importance of family businesses, they have also pointed out that more assistance in terms of accessing finance and providing incentives for start-ups is needed.
- Only 4% plan to sell or float the business although one-third will pass ownership of the business to the next generation employing non-family management. 50% of our respondents will pass the management to their next generation.
- Seventy-eight per cent of family businesses in India have the required procedures in place to deal with family member issues and conflict.

Family businesses: Intrinsic for India Inc

In India, family businesses range from the small mom-and-pop store (or kirana) to large conglomerates with equally varied business interests. As their growth has skyrocketed, many have stepped outside their zones to acquire companies in new industries and geographies. Their contribution to India's growth is also being increasingly recognised.

Though family businesses have always been in India, managing them has its own unique challenges:

- Managing the diverse opinions of family members in the business, solving internal issues and disputes, etc
- Creating clear succession plans between siblings or cousins
- Difficulties the younger generation may face in proving themselves to the former generation
- Differing views between the older generation and the newer generation
- Hiring external staff which may perceive that career advancement, freedom and decision-making are solely the purview of family members
- Regular and streamlined access to the capital to help grow and develop the business

The results of PwC's Family Business Survey 2012 reveal that family firms are robust, vibrant and successful. Being highly ambitious and entrepreneurial, they are delivering solid profits even in an uncertain economic environment. These businesses are making a substantial contribution to the growth of the Indian economy, and hence expect the government to offer a more targeted support (eg: access to capital, expediting approvals, clarity in some tax issues, greater predictability, etc). However, family firms can do more to help themselves, first by adopting professional processes and practices of their publicly listed corporate competitors, and second, by being more proactive in finding and securing the assistance they need.

What the future holds: Indian family businesses in 2017

Growth has been relatively strong in India and the family businesses are bullish about their growth aims with one in three aiming for a quick and aggressive growth over the next five years.

Indian family businesses continue to be bullish about their growth plans despite the recent economic slowdown. One in three of our respondents aim to grow quickly and aggressively over the next five years. Among our Indian respondents, 74% of the companies have had a robust growth in the last 12 months. 94% of the companies interviewed have indicated that they are likely to grow aggressively (36%) or steadily (58%) over the next five years. Virtually, all these companies are confident about meeting their goals. However, it does not mean that these family businesses did not face the brunt of a slowing economy. Many of them missed or revised their annual growth targets, put expansion plans on hold, reduced their headcount, etc. The fact that despite a slowdown, the International Monetary Fund (IMF) still projects India to be one of the fastest growing economies compared to its developed and emerging market counterparts has also provided a relative advantage.

The limited exposure that the family businesses in India have to the external markets may be one of the strongest contributors to their optimism. The global economy, which remains mired in uncertainty, accounts for only 27% of the total sales of Indian family businesses.

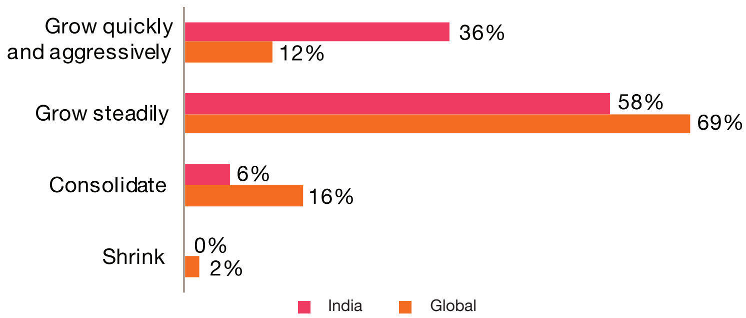
The optimism regarding family businesses is not as strong in other countries. For instance, though our global results show that most of the companies are growing and are optimistic about growth in the mid to long term, growth targets are less aggressive in Western Europe and North America. Only 12% of our global respondents stated that they will grow quickly and aggressively in the next five years. Of these, 22 and 20% came from the Asia-Pacific region and Latin America respectively. Further, 19 and 18% of respondents came from Eastern Europe, the Middle East and Africa. These results are not surprising because most of these economies are either struggling to grow or have become stagnant.

Last year

Next five years

India	Global
74% sales growth	65% sales growth
18% no change	15% no change
8% reduction	19% reduction

Over 90% of the Indian family businesses are confident of achieving their predicted growth



Certain challenges remain

In today's competitive environment, innovation is an essential requirement to survive and thrive. Family businesses in India view continuous innovation as the most challenging aspect over the next five years. Talent issues, technology needs and complying with the regulations are additional challenges that family businesses will have to face over the next five years.

Innovation for a competitive advantage

Our survey reveals that 56% of the family businesses in India view the need to continually innovate as a key challenge over the next five years. Innovation is critical maintain their relevance in the changing business environments. In order to innovate successfully, they need to combine their new strategies to broader business goals. In addition to this, these companies need to invest in innovation, promote a culture where mistakes are permitted and also instill in the ranks that innovation is crucial to survival.

Retaining talent

This is important for any organisation. Family businesses believe that attracting the right talent (40%) and then retaining it (36%) is a challenge that will have to be faced in the medium term.

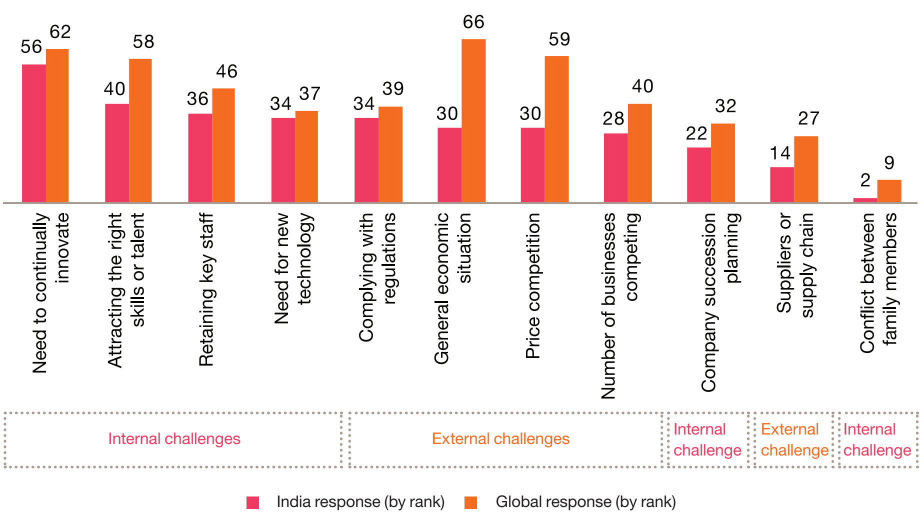
Efficient succession planning

Mentoring and developing the next generation of successors and leaders is crucial to the success of family businesses. 22% of our respondents felt that training and preparing the high-potential members of the staff to take up high-level decision-making positions and the ability to survive succession is one of the major challenges awaiting them in the near future.

Need for new technology

Technological advancements are redefining business models, strategies and the changing industry dynamics. Family businesses are acutely aware of the risks their businesses face if they are unable to either adapt to the new technological advancements or bring in new technologies to enhance the quality of products and services. One-third of the companies interviewed feel the need to constantly keep up with the fast-paced strides technology is taking in turning the older business models obsolete and therefore, the need to invest time and resources in research and development (R&D).

Anticipated challenges for the Indian and global family businesses till 2017

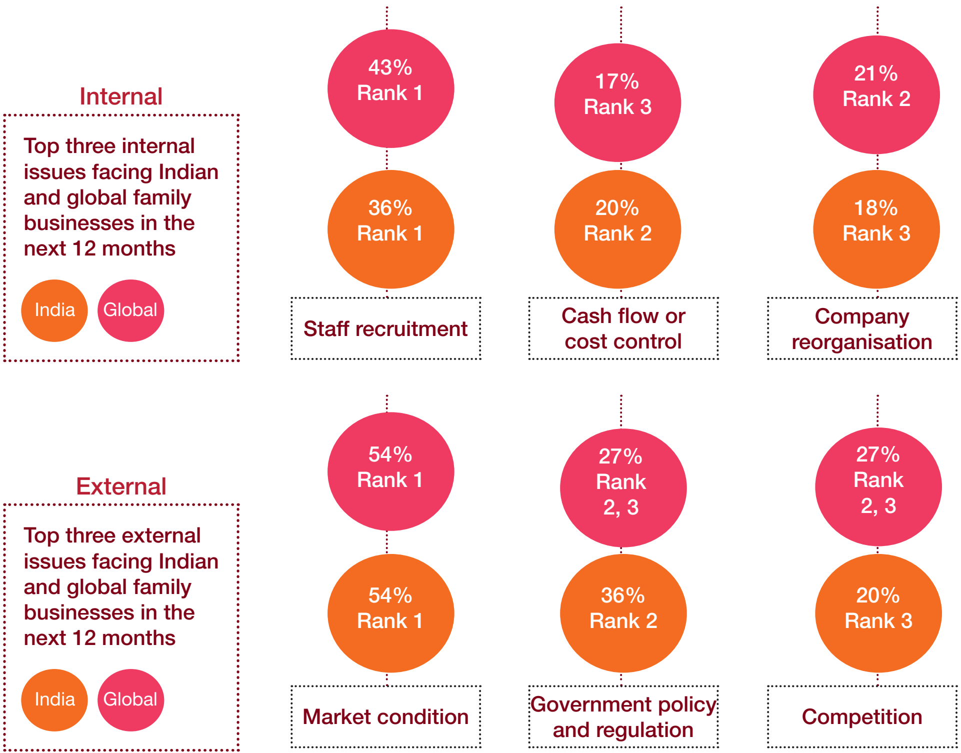


Confident in the short term

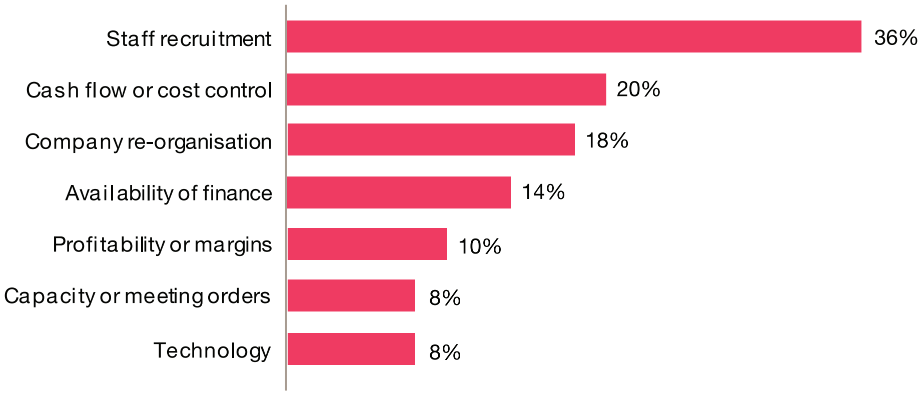
Family businesses in India are equally confident about their growth over the next 12 months. However, there are a lot of issues that need to be dealt with globally, even in the short term. These include hiring the right talent and working through the challenges associated with market conditions and regulations.

Even though most family firms are confident about their prospects, external market conditions as well as the government policies and regulations remain a cause for concern over the next 12 months. The global economic downturn coupled with the domestic macroeconomic situation (sustained periods of high inflation, high interest rates, fluctuating exchange rates, lack of clarity on policy and regulation which affects decision-making within the government, etc) pose significant uncertainties for entrepreneurs who run their own businesses. The entry of new players resulting in increased competition, the growing power of global megabrands, supply chain challenges, the changing consumer behaviours, the introduction of new technologies, etc relating to their supply chains are some other challenges. Consequently, 54 and 36% of the respondents have pointed out that the market conditions as well as the government policies and regulations will define how they will perform over the next 12 months.

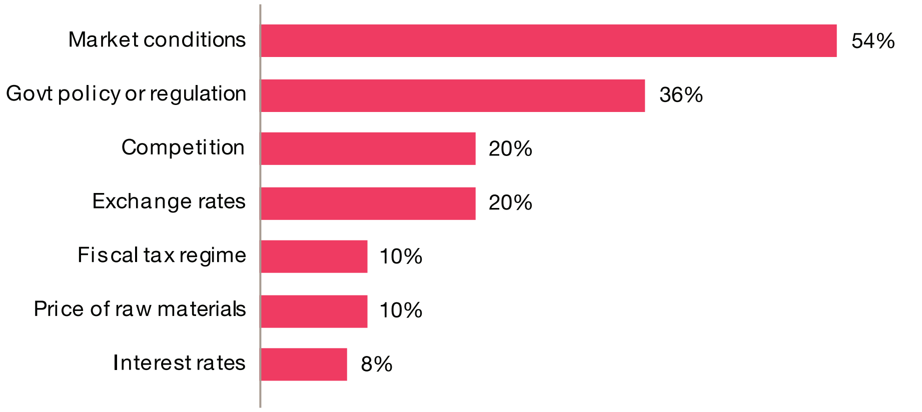
Internal issues also need to be addressed. Recruiting the right talent and retaining it ranks highest (36%), especially for those family business enterprises that want aggressive growth. The cash flow and cost control is a concern for 20% of our respondents. 14% also feel that the availability of finance is an area of concern. Some family firms struggle not only to fund but also to find the required staff for their overseas operations because the family members may be reluctant to either relocate or hire someone sufficiently qualified. A number of businesses also cited the importance of establishing or improving their internal and IT systems, especially in relation to regulatory compliance.



Key internal issues over the next 12 months



Key external issues over the next 12 months



Case example: DB Corp (Bhaskar Group)

Dainik Bhaskar GROUP

Girish Agarwal
Director, DB Corp

DB Corp, one of the Bhaskar Group entities, a 17 billion INR business conglomerate, is promoted by the Bhopal based Agarwal family. It owns one of the largest print media houses in the country which publishes eight newspapers having 65 editions in four different languages, across 13 states in India with a combined readership of 19.8 million. It's 'My FM' radio station has a presence in seven states and 17 cities. Diligent Power, the power generating arm of the group is setting up a 1200 MW thermal power generating facility in Chhattisgarh and is committed to generate 5000 MW by the end of 2017.

Girish Agarwal is the director of the group and the promoter family member. Here are some excerpts from the conversation we had with him:

Globally, many families keep company ownership with them and bring in professional management to run the day-to-day business. What are your views, especially on succession?

India will also see the same trend in the future--family-owned, but professionally managed, where the promoter is not involved in the day-to-day management of the company. Companies here are already doing that for two reasons. One, the family thinks that its members are not suitably qualified in education, experience or understanding the business. Hence, they choose professionals to run the company and themselves ensure the drive and momentum for growth and maximum benefit to the stakeholders. Second, when a family has three to four businesses, the promoter gives non-core businesses to employed staff to run while setting the parameters themselves.

In big businesses, the promoter has no other choice, but to bring in professionals. This kind of Professionalisation is essential for attracting talents.

Promoter-owned, professionally run businesses where the promoter also plays a role, have certain advantage as he or she is able to take decisions faster. Such businesses will see greater growth. When a professional reports to a professionally run board, decisions will not be that fast considering difference in risk taking appetite and difference in ownership feeling.

What are the challenges you envisage your company to face in the next five years?

We don't face any challenges in terms of professionalism. In our company, the person at the top is a family member and a professional. He is responsible for the top line and bottom line and is answerable to the market every quarter. He is responsible for the team's performance.

For any company, there are internal as well as external challenges. Our internal challenge is to motivate people, retain the talent and keep them focused. We don't face poaching as we provide better benefits and a better work culture. In the last five years, our attrition level has been negligible. But to keep employees motivated, we need to ensure a superior work culture and adequate and timely rewards and recognition for performers.

How do you manage and resolve conflicts among family members?

Normally, conflicts are managed through discussions and negotiations in all kinds of businesses. In India, in many families, the elder member of the family has certain advantages. But most families discuss matters internally as it is a mix of minimum two generations with people either with experience or with modern perspective. So, before taking a decision, all opinions are sought, considered and discussed.

Conflicts are not peculiar to family businesses only. In professionally run companies too, such things arise. When a senior executive takes a decision, a more experienced but junior official won't oppose it because of political correctness. But in a family business, a family member can speak independently since he or she need not be politically correct.

In our business, family members are professionals as well and we take decisions in a transparent manner as in any professionally-run company.

Corporate governance is a concern in Indian family businesses. And this is one of the biggest problems for many investors who want to invest in India. How do you see this?

We are fortunate that way. In 2006, we raised money from private equity firm Warburg Pincus. It was not about money; but getting exposure to a larger picture and to know if the investor could help us for that. We asked questions in order to understand how they could help. Even though we didn't want the kind of money offered, we agreed to their minimum threshold of investment. Corporate governance was inherent in our mind before going to market and it was never a challenge for us. In fact it made things easy for us.

But yes, among Indian promoters, corporate governance is an issue. To a large extent, the challenge is lack of awareness. Indian promoters continue to operate in ways they are used to, without seeing the larger picture. It is never explained to them why corporate governance is so important. Investment bankers and such professionals need to advise them that better standards of corporate governance enhance credibility and trust as well as valuations multi-fold. Saving a few million now may cost billions, going forward.

As a regional player, how do you involve the local community? What were your biggest decisions for growth and diversification?

We don't call ourselves a regional player in India. It is a different operating model. We don't operate in metros but we are in the rest of the country. We are present in 13 states and have 68 newspaper editions and almost 40% of the urban population lives in our market. But Indian states are diversified and there is no homogeneity in the market. It all depends on whether one understands one's customer and is ready to work according to the customer's needs.

As a child during my holidays in Europe, I never imagined McDonalds would work in India, because our taste is different. But today they are part of every Indian urban household, because they have understood the local market, customised the taste and delivered to meet customers need. We adopt the same approach, because customisation is the key. Before entering each new market where the language was different, we conducted a door-to-door survey covering over a million households, in order to understand the markets and the needs of the local communities. Though painful, this format helped us to win markets.

For example, when we launched our Jaipur edition, we did everything for a grand entry and became the market leader on the first day. This became our model for the remaining launches. Then we thought to debut in other languages such as Gujarati and Marathi, we had to bring in local talent. Language remains incidental and the concept remains the same.

Though we have been a diversified group, a big decision for us was to enter the power sector. The business was new for us, each business have its own challenges, technical detailing and nuances, so we took professional help. Now we are about to commission our first project of 1200 MW.

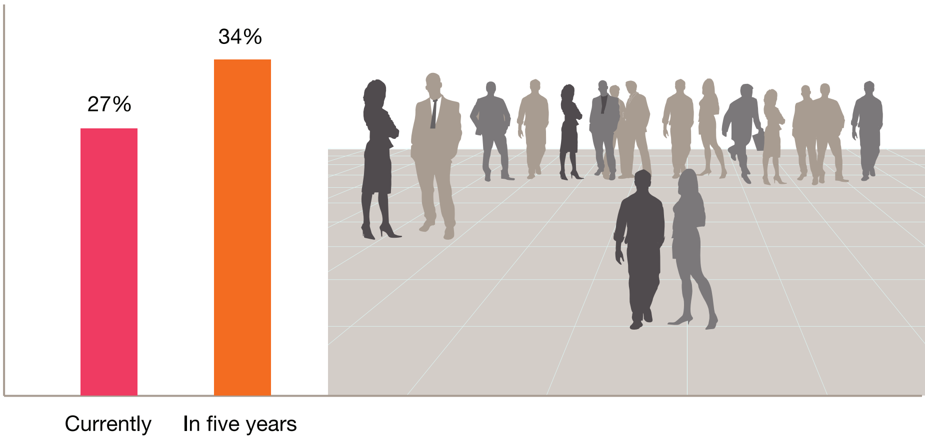
For us, it is the hunger for growth. I, along with my brothers, joined the company during our school days. Being in office was our favourite pastime rather than playing. Work became our passion. It was not just a dream to become a billion dollar group else it has been our hunger and we continue to aim higher.

Steady globalisation despite challenges

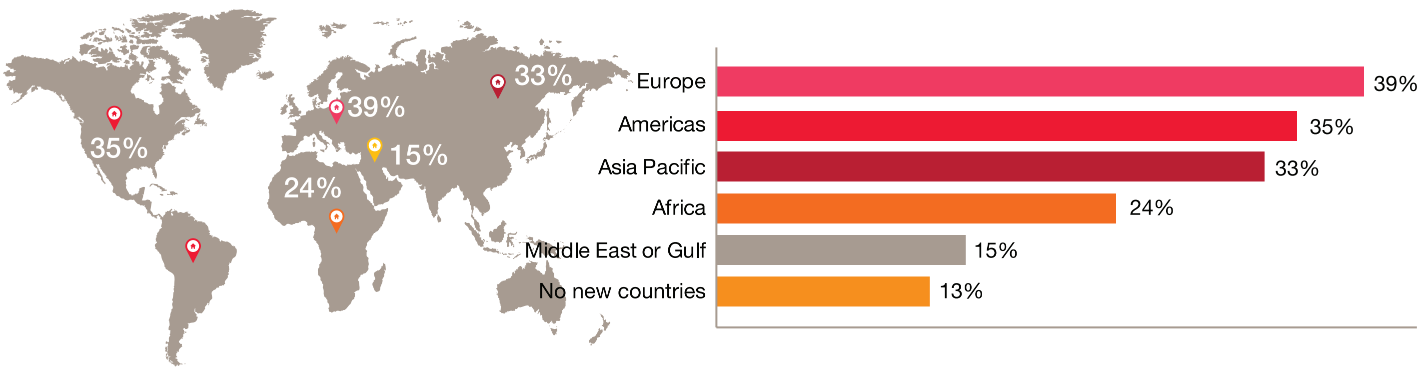
Twenty-seven percent of the sales today are global and are expected to rise to 34% in the next five years.

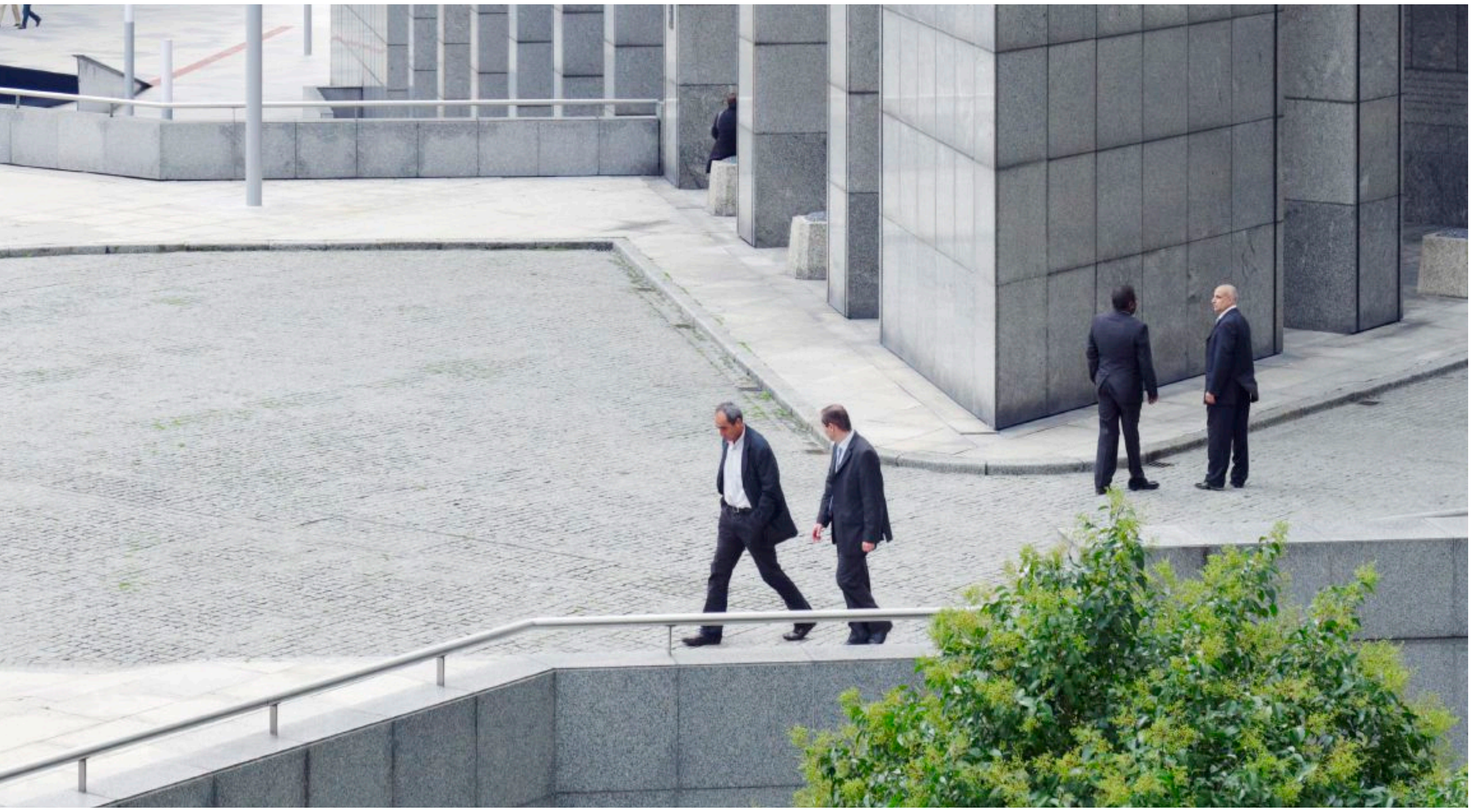
Gradually, the Indian family businesses are generating a greater portion of their revenues from exports, by acquiring companies overseas, etc. Today, the Indian family businesses do not just serve the domestic market but the new markets and territories also. These new dimensions present opportunities for generating fresh revenues, serving additional customers and increasing the profits. Based on the interviews conducted, Europe and America are the two destinations where family businesses plan to expand to over the next five years.

Average % of sales from international businesses



New countries or regions likely to expand into in the next five years





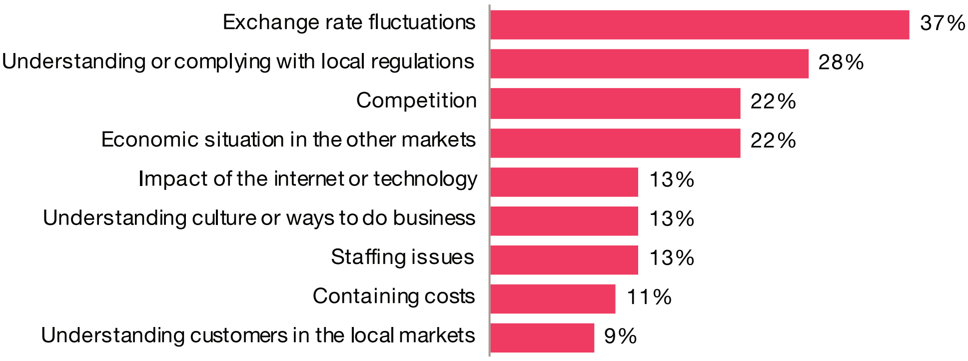
Challenges with internationalisation

While international markets are exciting and laden with opportunities, there are some issues that the family businesses need to address while increasing their global presence. Indian businesses are aware of these challenges and are treading with caution and measured action. Family businesses consider the following four as their major challenges while conducting international operations:

- Exchange rate fluctuations: 37% of respondents
- Understanding or complying with local regulations: 28% of respondents
- Competition: 22% of respondents
- Economic situations in other markets: 22% of respondents

Family businesses are concerned about the risks posed by the exchange rate fluctuations and the difficulties in managing a far more complex international supply chain. They are focussed on understanding local compliances and regulations, the local business culture, financial legislations and taxation frameworks. To this extent, efforts are being made to find the right skill set from the local markets, which has the required experience and understanding of the culture and lingo.

Major challenges to be faced in international operations over the next five years



The numbers game: Do family businesses score over non-family businesses?

"Family-owned businesses have additional stake so they take a personal interest. When the going gets tough, they pump in money. In India, a majority of small businesses are doing well because owners put in their own money and bank interest rates are too high."

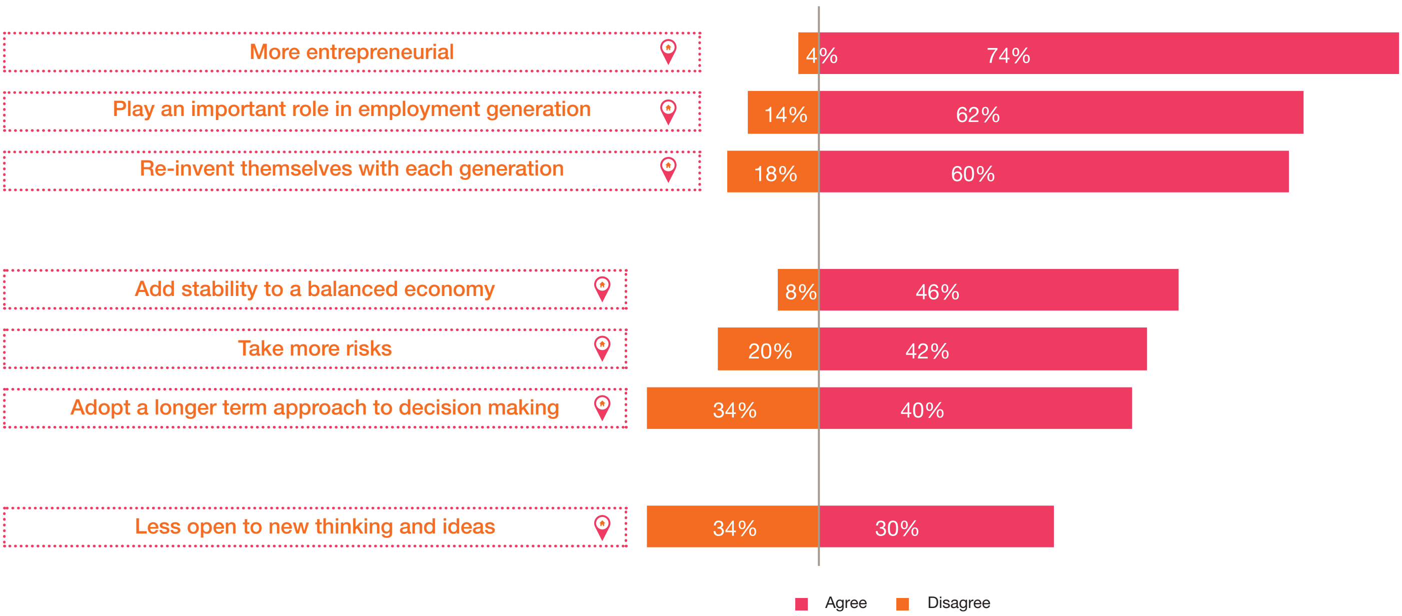
Gurpal Krishna Shanoy
Managing Director, Lamina Foundries Limited

Family businesses identify a number of positive differences over non-family businesses. These include commitment and passion towards the success of the business, being able to make quick market-focussed decisions, having a deep industry knowledge, etc.

Some of the advantages that family businesses share over non-family enterprises include the following:

- **Commitment, passion and dedication:** It is believed that owners tend to take better care of their businesses as they have greater personal stakes involved. Family businesses are more appreciative of their talent. Often, non-family members are also treated as members of the family. These strong, long-term relationships with both employees and the other stakeholders (e.g., suppliers, etc) result in fruitful daily operations.
- **Agile decision-making abilities:** Not having responsibilities towards any shareholders gives the Indian family businesses greater flexibility in terms of making decisions faster, improving the speed with which they launch new initiatives, change operations, evaluate new business opportunities, etc.
- **Deep industry insight:** Family businesses gain significant experience and expertise as they typically work in one industry for longer durations. This gives them the added advantage of understanding and appreciating the challenges faced in that industry much better than any non-family businesses. Often, those who lead family enterprises have a true pulse of the market and an understanding of their consumers' likes as well as dislikes.
- **Mutual trust:** Family businesses thrive on mutual trust and believe in maintaining long-term relationships by providing a conducive, supportive and trusting work environment.
- **Employment generating, reinventing entrepreneurs:** Family businesses believe they are more entrepreneurial, they create more jobs and are able to adjust or reinvent their business to suit each generation.
  - Our survey suggests that 74% of respondents agree about family businesses being more entrepreneurial in nature and 62% agree that family businesses play a vital role in employment generation.
  - Nearly 60% of the respondents felt that they reinvent themselves with each generation. This helps the business grow, develop and explore new categories.
  - Family businesses take pride in their contribution towards providing a greater balance and stability to the economy and are more likely to take greater risks than the non-family businesses.

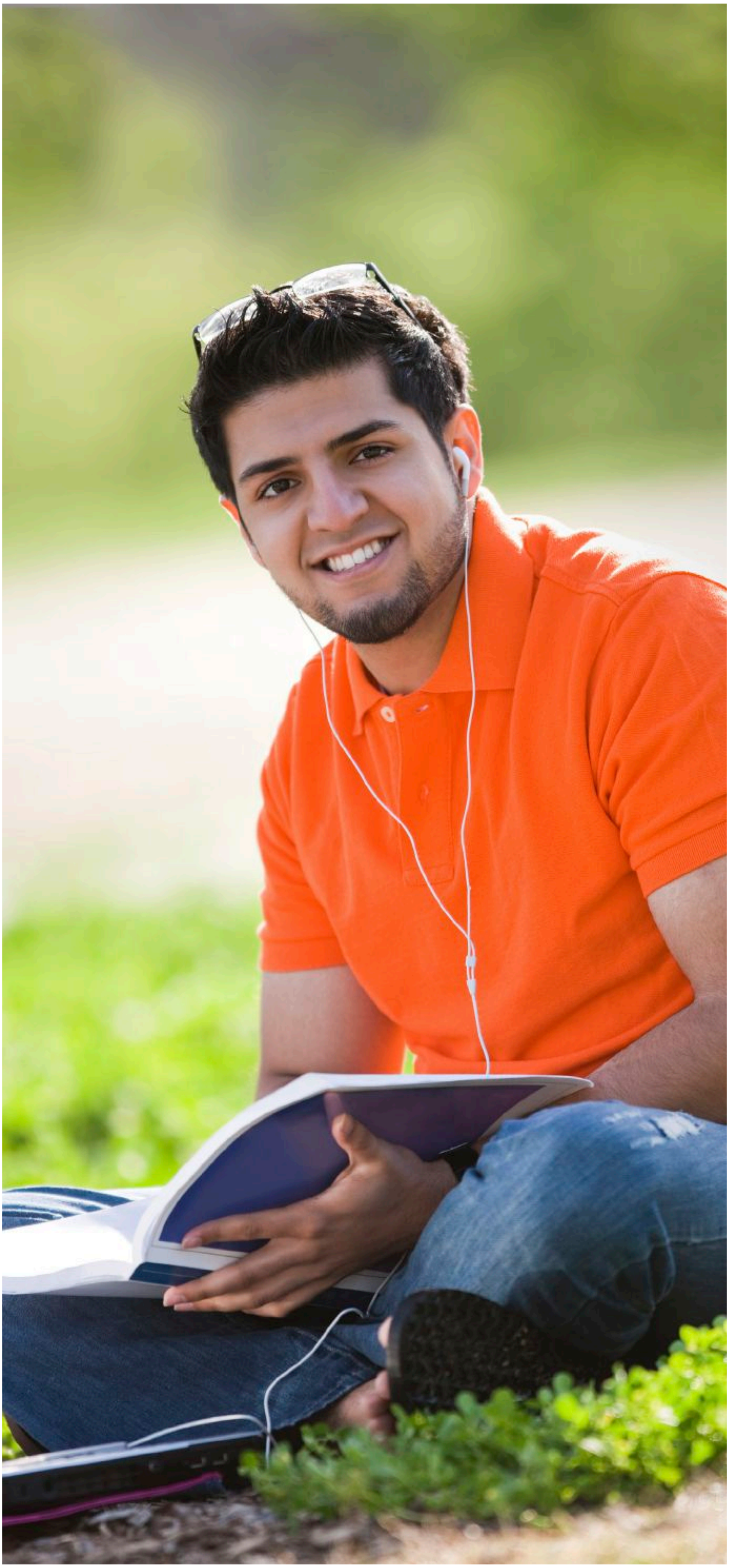
Agreement with the statements about family businesses



Family businesses also acknowledge the challenges while comparing themselves to non-family businesses. Attracting key employees in a business that has obvious limitations for advancement for a non-family member is a daunting issue.

Following are the key downsides faced by family businesses:

- **Staff recruitment:** External talent can be reluctant to join the family businesses as they would not enjoy the same freedom that the other businesses offer. Also, the top positions being held by family members prove as a deterrent. Succession and developing the next generation of leaders is an issue for family businesses. Our respondents indicate that when the new generation joins the business, there will be a generation gap but the businesses will have to adapt to it. The younger generation is smarter and more technology-friendly.
- **Raising funds for growth:** Access to capital is required to grow and evolve. However, some family businesses feel that this is a harder challenge for them than for the non-family businesses.
- **Family conflicts:** Our respondents acknowledged that managing the diverse opinions and views of other family members in the business can be an issue. Some believe that having clearly defined roles can help in decision-making, while others feel it is best to make decisions based on collective inputs.
- **Ownership vs management:** Separating the ownership from the management and reaching a consensus on the roles of family members in the business are two important issues for the family businesses to address.



Case example: LNJ Bhilwara Group

PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

L N Jhunjhunwala
Managing Director, Bhilwara Energy Limited
Joint Managing Director, Rajasthan Spinning and Weaving Mills Limited

The LNJ Bhilwara Group started in 1960 when L N Jhunjhunwala established a textile mill in Bhilwara, Rajasthan. The group is 50 years old and has set up several plants. It counts itself among India's top business groups.

Riju Jhunjhunwala serves as the managing director of Bhilwara Energy Limited and has been the joint managing director of Rajasthan Spinning and Weaving Mills Limited (RSWM) since 1 May 2013. An industrialist with a diversified business experience, he has also been the non-executive director of HEG Limited since 27 July 2010. Here are some excerpts from the conversation we had with him:

Do you feel that the family firm has an advantage over the multinationals in terms of decision-making and long-term views?

In the Indian context, family businesses perform much better than professionally managed companies. In our country, we all like to look up to someone, whether in business or politics. Most family businesses have redefined their business methods and are increasingly professional as a result. Also, qualified professionals are accepting the idea of family-run businesses and believe in embracing new challenges and opportunities. In the long term, we need to understand that a promoter or an entrepreneur always takes decisions from a futuristic perspective, as compared to other firms.

Promoters like us believe in having a solid foundation which can aid in reaping future benefits. For example, we invested in the power sector which has a long gestation period.

How has your business evolved over the generations and what is your motivation?

I have always been keenly involved in all our businesses, whether they be the power sector which I am currently handling or the textile operations which I handled earlier. Levels of passion of course vary and I may not have the same passion for textile as my grandfather did.

Our textile venture was stagnant for about 10 years. I initiated its growth with the help of facilities provided by the government. These included the textile upgradation fund which helped us make significant strategic investments. This helped us grow manifold from a 500 crore INR and 2,000 crore INR company in a short span of five to six years. At present, I am in charge of the power business, and nurse aspirations to diversify. We have also started a new line of business by investing in wind power.

How will you relate professionalism with respect to decision-making and the structure of your businesses?

The decision-making has to go through various levels of filtration, as almost everything has to be ratified and agreed by the board. Since I am Managing Director, I have to be at the helm of all affairs, while ensuring that a strong degree of professional management is formulated. We follow a prescribed code which is duly executed. While I usually call the shots, it does not mean that instant implementation takes place. While executing ideas, I like having all stakeholders on board.

The power company has three private equity investors. We own 83% of the company whereas 17% is held between three equity investors like IFC Washington and others represented on our board. Hence, for all practical purposes, we are a professionally managed company.

Do you have a family council for managing succession plans and disputes?

Of late, we have started a family business board (FBB), where three or four of us meet every other month. Since just three of us are involved in the business; myself, my brother and father, our roles being clearly defined, we do not see the need to develop a formal body.

My father handles the graphite company, taking related decisions while keeping us informed about it. Similarly for the textile and power business, we keep him in the loop. All major decisions are however taken by my brother and me since we are steering these companies.

What are your aspirations for the growth of your business?

Back in 2007-08, all of us were talking about a 10 to 15 year long strategy, but presently everyone is seen struggling to meet this year's cash flow. I think, neither that euphoria, nor today's pessimism are the right sentiment to comment on such a thing (forecasting about future business). I also think it is important to understand current business trends which are not very overwhelming. In spite of being a growth-driven company, these are the last things on our checklist.

We have witnessed an aggressive growth period in textiles between 2004 and 2008 when we grew from a 500-crore-INR company to a 2,000-crore-INR company in five to six years. We are now in a consolidation phase and are making small investments to maintain our market share.

We are doing well in graphite. In the last 10 years, we have grown from about 30,000 tonnes to 85,000 tonnes. We are the single largest graphite plant in the world in one location. The fortunes of the graphite industry are linked with that of steel and will maintain similar growth momentum. In the international markets, our cost-effective offerings have proven to be a growth catalyst for us.

Gradually, Indian family businesses are generating a greater portion of their revenues from exports, acquiring companies overseas, etc. What are your views on internationalisation? Do you plan to expand overseas? Which markets are you looking at?

Our business is mostly export driven with 80% of our graphite produce exported to the Middle East and Asia Pacific regions. These are the emerging markets where we have good consumption forecasts, while the rest is sold domestically. In our textile business, we export 40 to 50% of our produce.

What have been the challenges in the last 12 months? How do you think the government can provide incentives and make it easier for family businesses to access finance?

It's one of the ironies of India's business environment that Indians are among the most entrepreneurial people in the world and yet the country is among the most difficult to do business in.

We have now hit rock-bottom with respect to the availability of capital. Yet, I believe this problem is more perception than reality. There is immense and unnecessary media negativity. For our current project, equity funding is a concern. I believe the government can make it easier by making processes and systems shorter and less rigid.

Management, succession and conflicts: All in the family?

Given some of the unique challenges faced by family-run businesses, promoters are actively having their businesses run by professionals at the senior levels. Interestingly, 96% of the Indian family businesses have non-family members on their board as compared to the global average of 64%. Also, 64% have non-family staff owning shares, as compared to the global average of 31%. About 20% are likely to offer shares to the non-family executives in the near future as an additional means to attract and retain potential talent. Some promoters are also open to giving their senior executives a stake in the company and promoting them as board members; an attempt to have greater commitment and involvement and to ensure longevity of engagements. By 2017, the key predicted changes will be the increase of professionalism in family businesses and efforts to integrate the new generation into the business. While many of our Indian respondents did not feel there would be any new differences emerging over the next five years, some predicted that the following will occur:

- A rise in the role of professionalism (hiring of external employees, focus on organisational behaviours, etc)
- Succession challenges. For eg, the new generation and integration of different ideas
- Gaining control over things as the family grows or doesn't grow (given the rise of nuclear families in India)

Three quarters are non-working family member shareholders

96%

Family members working as senior executives within the company

72%

Family members who don't work for the company but have company shares

34%

Family members working within the company, but not as senior executives

14%

Family members who don't work for the company or have shares, but are recompensed in other ways

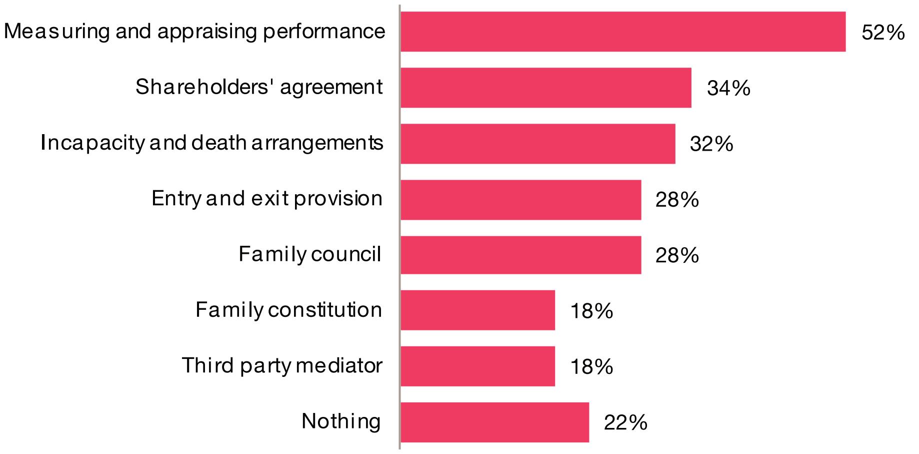
Who's next?

It is imperative to have clear succession plans for operations, growth and the long-term success of family businesses. Succession planning consists of identifying the employees potentially capable of filling high-level managerial positions. It also ensures that there is a pool of employees at the lower level adequately trained to propel the organisation in the right direction. It is not surprising that three quarters of the family businesses surveyed have non-working family members as shareholders in the company. Our survey results also indicate that among those who have family members working within the company, 96% hold senior executive positions.

Bracing for battle

Most Indian family businesses seem to be prepared to manage conflicts. Only one in five of the Indian family enterprises we interviewed are yet to have conflict management procedures in place. As per our survey, 52% of the respondents said that they have procedures and policies for measuring and appraising their performance ready. About 34% had a shareholders' agreement. The results point towards the fact that they recognise the importance of having procedures to manage issues like shareholder's agreement, family councils, etc.

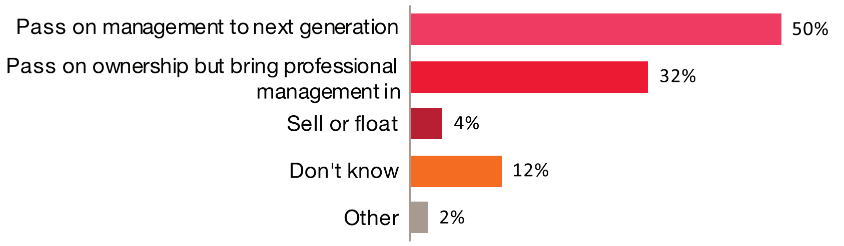
Procedures in place to deal with issues or conflicts among the family members



Pass it on or manage?

Interestingly, one-third of the Indian family businesses interviewed planned to pass on the ownership but not the management to the next generation. The principal reason for bringing in professional management stemmed from their uncertainty regarding the skill and aptitude of the next generation. On the other hand, 50% were confident to pass on management to the next generation which can imply that they are confident about their management skills. This is a justifiable inference, since the Indian educational landscape has evolved with the need for developing the management skills of family entrepreneurs. For instance, one of the Indian Institutes of Management and the Indian School of Business have educational programmes to fine-tune the way family enterprises are organised and managed.

Future plans



Note: Please refer to Appendix 2 for a summary of PwC's service offerings for family businesses that span continuity planning, succession planning and conflict management

Case example: McLeod Russel

Kamal K Baheti
Director, Williamson Magor and Company Limited

McLeod Russel ventured into the tea plantation business in India in 1869, and today, they are the largest tea-producing company in the world. The group manages 48 tea estates in the valleys of Assam, and five tea estates in the Dooars region of West Bengal. Globally, the group has five factories in Vietnam, six tea estates in Uganda and also has a subsidiary which owns 60% of the world-renowned Gisovu estate in Rwanda. Every year, the group's estates produce over 100 million kilograms of black tea, marketed worldwide under its registered trademark.

Kamal Kishore Baheti is a wholetime director at Williamson Magor and Company Limited. Here are some excerpts from the conversation we had with him:

How has your group's business evolved over generations?

To start with, I would like to explain the structure of McLeod Russel, which is now primarily divided into the three business groups:

Williamson Magor and Company Limited: Originally, a multi- divisional company, with interests in tea, jute, engineering, reprographics among others, we restructured ourselves in early 2000 and became a non-banking financial company (NBFC). Since then, the company has been carrying out the principal business of investments and lending of funds. Williamson Magor is currently the holding company for other group companies as well.

Eveready Industries India Limited: Eveready is one of India's leading FMCG companies. The company is currently the market leader in product categories such as dry cell batteries and flashlights. Other products include CFL and GSL lamps. It also has a leading presence in the packeted tea market in north India.

McNally Bharat Engineering Co Limited (MBE): MBE is an engineering company providing turnkey solutions in areas such as power, steel, aluminium, material handling, mineral beneficiation, coal washing, ash handling and industrial water supply, with technical collaborations with a number of leading overseas companies.

Overseas companies: Overseas subsidiaries of the group include Borelli Tea Holdings Limited, (UK), Phu Ben Tea Company Limited, (Vietnam), McLeod Russel Uganda Limited (Uganda), Gisovu Tea Co Limited, (Rwanda) and McLeod Russel Middle East DMCC (Dubai).

During the late 1990s, these companies had cross-holdings in each other, and were interlinked for operational work and decision-making. However, in early 2000, the group decided to restructure itself and diversify into separate entities, based on the core competencies of each entity.

The tea holding company, which was earlier a part of Eveready, hence became a part of McLeod Russel India Limited in 2004. The intent was to manage each entity within the group, independently as well as professionally, in order to enable each to manage its own costs.

Post this transformation, the tea company started looking at its core strengths. On the plantations side, our production capacity grew from 40 million kilograms in 2004 to a current production capacity of 102 million kilograms . We have set a target to achieve a production capacity of 150 million kilograms within the next three to four years.

This scale of growth has been possible mainly due to the acquisitions which were made in the past few years. Not much could have been achieved in our tea plantation business had we gone only through the route of greenfield investments.

Looking at our growth pattern over the last seven to eight years, we are confident that the group is moving on the right path. We expect a similar growth pattern in the next few years.

What possible challenges will the company have to face over the next five years?

As a group, we were facing numerous challenges in the past. Earlier we had integrated and cross-linked businesses, but over the last 10 years we have transformed ourselves and diversified into separate entities. The operations and management functions have become all the more professional, and our growth is now more structured and streamlined. Our focus area for the next five years will be to establish corporate governance rules and policies for the group companies.

What are your growth aspirations for your business?

In the global tea plantation business, India leads the way. We have differentiated our company from the rest of world and have created a distinct image for ourselves. In order to maintain our dominance in this market segment, we are continuously innovating our products and services.

Today's tea plantations sector presents various issues. As the market leaders in this sector, we appreciate an environment of healthy competition in the market.

How do you relate professionalism, with respect to decision-making, and the structure of your various businesses? What are the differences, when compared to other professionally managed companies?

I think the biggest difference is that, within a family-run business, there is a long-term commitment, especially in India. We believe in adopting a futuristic outlook as well as a perpetual existence. Our basic focus is to imbibe professionalism within our family business in order achieve the desired goals.

Similarly, even though our business is owned and managed by the family, wherein we have the Director and the Chairman of the company representing the family, they are however hiring key individuals and professionals from the industry, unlike any other family-owned business. There is a huge difference between family businesses and professionally-run firms, and we are trying to incorporate the positive elements from professionally managed firms. Our long-term outlook is to identify the key strengths of our business and move towards stability.

In our survey, our respondents pointed out that the government can make the business environment easier for family businesses by formulating conducive policies which provide incentives. What are your views?

The government has a great role to play in strengthening businesses and managing them by keeping the environment easy and simple. It is also important to understand that many family-run businesses can get support in their functioning if government policies are favourable. For example, if a company wishes to invest in a sector or acquire a particular company, an investment-friendly government regime will make it easier for the company to take these decisions forward. While we do not depend on government policies and procedures, we do make certain recommendations which elicit a positive response from the government.

Indian family businesses are gradually generating a greater portion of their revenues from exports and overseas acquisitions. What are your views on internationalisation and are you looking at foraying overseas?

From 2009 till date, we have acquired three companies, each located in Uganda, Vietnam and Rwanda.

As far as the geographies are concerned, we have limited options, as tea plantations are mainly restricted to areas such as Africa, Sri- Lanka and parts of south east Asia. The only option is to reach out to different countries by marketing our products.

For us, internationalisation is mainly about identifying the opportunities professionally, checking the risks and exploring the markets for growth and innovation. We as a group had to go international, primarily to mitigate the biggest risk of dependence on climatic conditions. Earlier, we had 100% production coming from the north-east part of India. However, we then realised that a similar kind of tea was being produced in the African regions as well. Therefore, we forayed into those markets. I am happy to share that all three investments have given us good return paybacks in a span of five years, and that too with in the current scenario of clocking an operating margin of 25 to 30%. We will want to foray into China, through the acquisition route, as they are big in green tea and are now looking at importing black tea as well.

Do you have set procedures to deal with conflicts among family members? How does your family manage such issues?

The family members of this group are the role models in the way they have managed the activities. It is all about managing companies. When key responsibilities of a family member have been delegated, within the business, there are no reasons for conflicts. Alternately, they always discuss their strategies and business plans in order to keep each other in the loop.

We believe that the two factors which get businesses going are a) the inherent values and culture of the company and b) preventing an overlap in business. Never ever in the past, have our operations been affected by fights or differences between family members. It operates within a professional framework.

One-third of the Indian family businesses interviewed in our survey planned to pass on the ownership but not the management of the company to the next generation. What are your views on ownership and succession?

The Khaitan family for instance, has transferred the operations of its family business from one generation to another, in a smooth manner. This did not happen overnight. The transformation was properly formulated, the successors were trained with skill sets, and were asked to work in their area of interest.

One generation laid the foundation of this company, while the subsequent generations have diversified and taken it to the next level. Also, due to the generation shift, the ways of working have undergone a lot of change.

Defining the role: The government and society

Thirty-eight per cent of our Indian respondents believe that the government has recognised the importance of the family business. Though small, a section of the respondents (14%) feels that the government is helping businesses strike the right balance. India ranks better than most countries in affirming the fact that the government recognises their importance. Indian family enterprises are more positive about the government's perception than China, Brazil, South Africa, the US and the UK among others.

More finance and incentives are welcome

Fifty eight percent respondents feel that the government can make it easier for the family businesses to access finance. Family businesses also want to see a more targeted support from the government for start-ups. Though some of the areas that they identify are applicable to general businesses as well, some are specific to the family businesses.

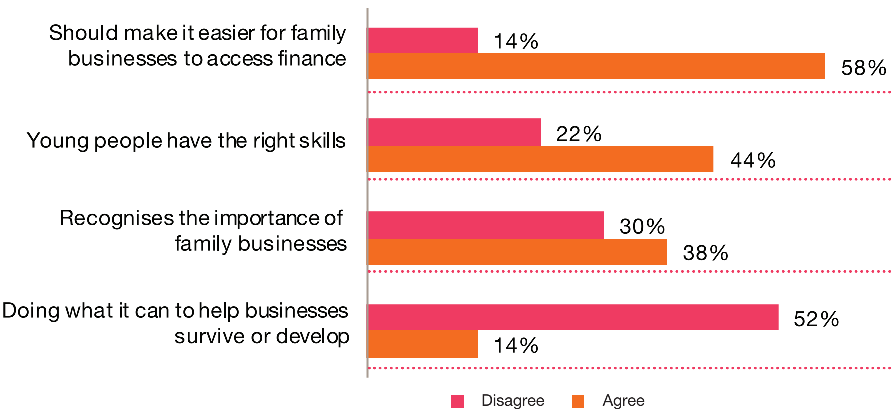
General business issues

- Tax relief or incentives
- Tax reform or simplification
- Stability of business regulations, taxes, etc.
- Changes to employment law
- Bureaucracy
- High processing times
- Easier access to finance for businesses
- Infrastructure

Specific to family businesses

- Make access to finance or funding easier for small businesses
- Provide incentives for the start-ups, growing companies, and small companies
- Recognition and respect for family businesses as an industry in their own right
- Facilitating training and support
- Enable family businesses to compete on a level playing field with other businesses

Agreement with the statements about the government



	Net India	Net Global
Should make it easier for family businesses to access finance	+44%	+47%
Young people have the right skills	+22%	-8%
Recognises the importance of family businesses	+8%	-10%
Doing what it can to help businesses survive or develop	-38%	-40%

Case example: V-Guard

Mithun K. Chittilappilly
Managing Director, V-Guard Industries Limited

V-Guard, India's largest manufacturer of voltage stabilisers was established in 1977, by Kochouseph Chittilappilly.

The 'V-Guard' brand name is a significant player in the consumer electrical and electronics panorama in India, with a wide range of products. Its diversified product portfolio include stabilisers for TVs, refrigerators and air-conditioners, digital stabilisers, UPS, monobloc, jet, compressor, submersible pumps, electric and gas water heaters, PVC house wiring cables, LT power and control cables, ceiling, table, pedestal, wall mounting fans, solar water heaters, inverters, switchgears and distribution boards and induction cooktops.

V-Guard boasts on a staff strength of 1700 and over 5000 workers engaged in the production process either directly or indirectly. A network of over 10,000 retail dealers and 200 distributors and service centres spread all over India support the brand with after-sales service.

Mithun K. Chittilappilly is managing director of V-Guard Industries Limited. Here are some excerpts from the conversation we had with him:

What is your vision for growth (revenue over the next five years, percentage gain in the market share, volume of exports, number of products sold, etc.)?

We are optimistic and expect our revenue to be around 5000 crore INR over the next five years. This signifies a CAGR of around 25% and is in line with our growth over the last three years. However, this is based on the assumption that the Indian economy will continue to grow at the same pace as it has in the past few years.

We do not have a presence in the overseas markets and hence, our growth is primarily driven by the domestic market. Over the next five years, we intend to be the market leaders in all our products.

What can be the possible challenges for your company over the next five years? How do you plan to deal with them?

We are confident about our potential and will be able to achieve the desired revenue. We do not foresee any major challenges in the near future.

However, in the long run, there may be three major challenges:

- Competition (existing players as well as new entrants)
- Attracting and retaining talent to take the business to the next level
- Market challenges in terms of innovation and technology

What are the positive traits that differentiate family businesses from non-family enterprises?

Generally, in family businesses, family members in the management have a sense of ownership and continuity. They tend to weigh the risks involved from a long-term perspective.

Indian family businesses are generating a majority of their revenues from exports and overseas acquisitions. What are your views on internationalisation? Do you plan to expand overseas? If yes, which markets are you looking at?

Our revenue graph is skewed towards the southern markets, which currently contribute 70 to 75% of our revenues. We aim at expanding over the next five years and intend to achieve 60% of our revenues from the north of India.

Our products cater more to the Indian markets and we plan to focus on them instead of an overseas expansion.

According to our survey, a third of the Indian family businesses interviewed planned to pass on the ownership but not the management to their next generation. The principal reason for bringing in professional management was the uncertainty regarding the skills and aptitude of the next generation. What are your views on ownership and succession?

Ownership and succession differ from family to family. Wherever the next generation is passionate about the business, they can take over and run the business. However, if the next generation has other interests, they may be owners and the management can be professionalised.

Do you have a set procedure for resolving internal conflict? How effective is it? In case you don't, how do you address the differences of opinion in the family, as and when they arise?

There is no formal mechanism for managing internal conflicts as of now. Ours is a small family and the chances of conflict are minimal as we are in different businesses. Also, as a family we believe that only one or two members need to be involved in the business.

Our survey led us to believe that the government can possibly make access to financing easier for family businesses and provide incentives for new start-ups. How do you think the government can help?

The government needs to focus on enhancing the infrastructure of the country like their initiative of constructing a park for SMEs.

While, the government has taken initiatives for SMEs and IT incubation centres, it is difficult for it to support all sectors. Hence, we need to seize the opportunities available in order to be successful instead of expecting the government to do our work for us.

People matter

Seventy-eight per cent of Indian family businesses in India feel that supporting community initiatives in their area is a responsibility. Interestingly, 78% also believe that their culture or values tend to be stronger than in other types of businesses.

Family businesses are also contributing to employment generation as 76% of them feel that supporting employment in the areas that they operate in is their responsibility. 74% are also strongly committed to retaining their staff even in times of crisis.

Agreement with statements about family businesses and society

To summarise

Family businesses in India will continue to play an integral part in the nation's growth story. However, with more and more family businesses looking to run their organisations professionally and with the corporates imbibing some of the ingredients which have helped family businesses succeed, the lines between the two categories are getting blurred. Family enterprises are now much more aware of their standing in the larger scheme of things. It is only a matter of time before family businesses start to collaborate rather than compete, and in the process positively influence government policies and actions in their favour. The government also has a crucial role to play in ensuring that fiscal policies as well as domestic systems support family firms. This includes providing a level playing field especially in terms of access to finance.

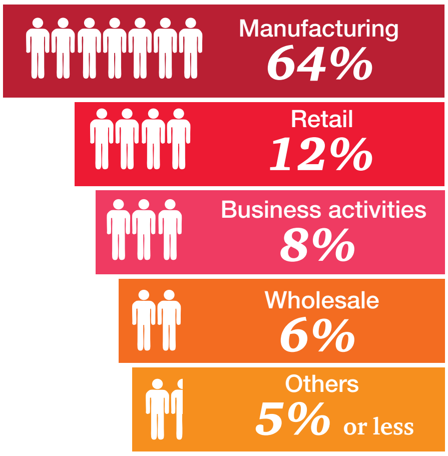
The ability to innovate and retain talent is likely to be a major challenge for family businesses along with adapting to the new technologies. As far as succession planning is concerned, these businesses are increasingly putting processes and procedures in place in order to ensure a smooth transition. Companies are looking beyond their families and hiring qualified and experienced professionals to manage their businesses. Family-run businesses can continue to be important drivers of India's overall growth if they are given the right support at the right time.

To make the most of new opportunities, we suggest that leaders of family businesses must be prepared to do the following:

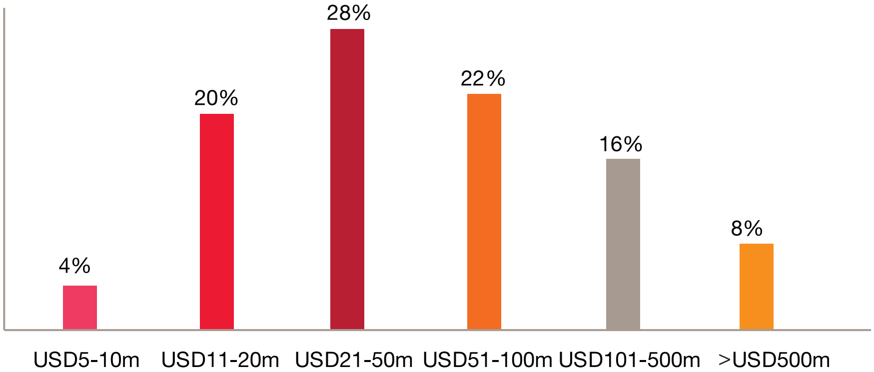
- Acquire the right mix of talent, technology, and innovation to stay ahead of their competitors
- Need to devote more time and resources on entrepreneurship and innovations in existing operations
- Redefine their strategies and goals from time to time, considering whether the strategies they are pursuing will be relevant five years from now
- Cross-verify and check whether they are competent enough to grow their market share, by penetrating into the new markets, and even creating new markets
- Examine their domestic performance thoroughly along with benchmarking with a peer group before taking steps to go global so that when it happens, they are fully prepared to have successful forays in international markets

However, in the current uncertain economic environment, family businesses tend to have a longer investment plan and their capital tends to be patient, perhaps because they have an incentive in handing over a stable business to the next generation. While many believe that the next generation of business families would prefer an investor's role over the managerial, no one can deny that in order to survive, family businesses will need to change the nature of their role.

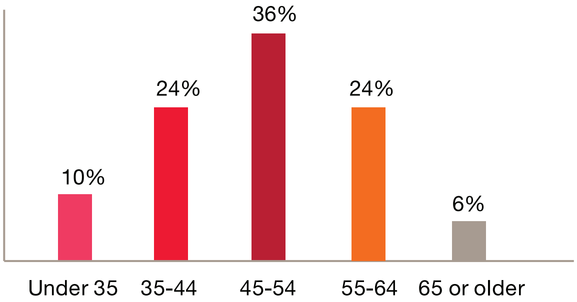
Appendix 1: Our respondents



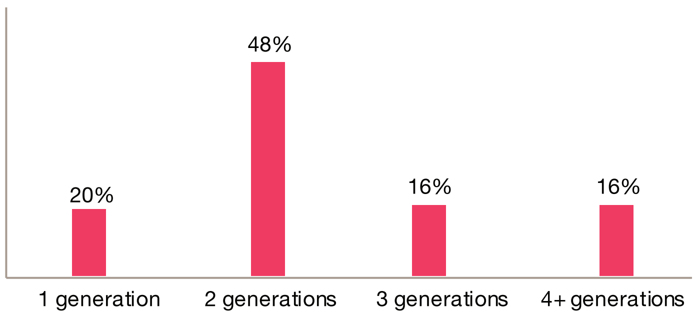
Turnover ranging from small to large



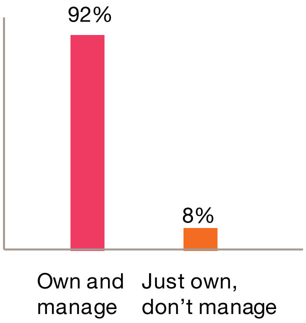
Individuals across age groups

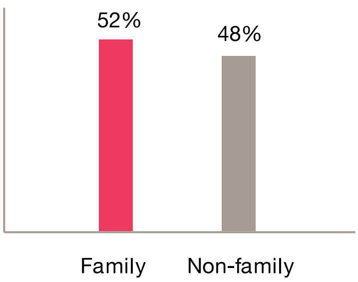


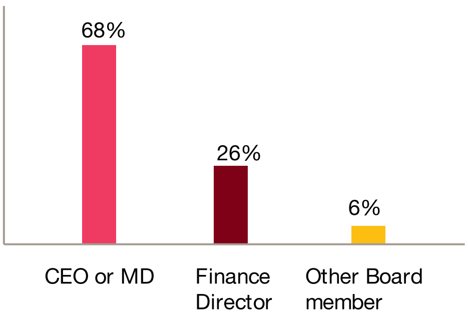
Across generations



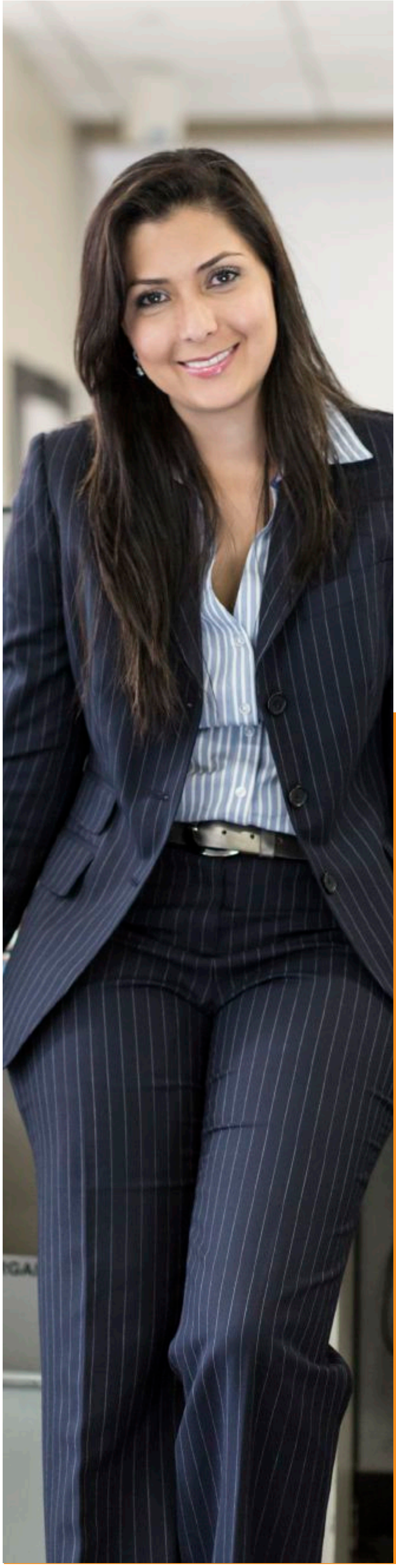
Respondents ranged across ownership patterns, family, non-family and functions







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. Family businesses 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 the family business encounters. In our experience, most families have no real plans for succession, which leaves the next generation confused and unprepared for the challenges ahead.

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.

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 and the business. Our proposed solutions for family businesses include the following:

Governance and organisational structure

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

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

Acknowledgement

The Editorial team for this whitepaper consisted of the following individuals:

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About PwC

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