PwC India Family Business Survey 2019

Powerhouses of opportunity

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Foreword

Conducting business in India has never been more exciting and daunting at the same time. Paradigm shifts on the regulatory, operational and technological fronts are driving business heads to continuously innovate their products or services and become more perceptive and agile in order to stay relevant. Megatrends such as shifts in global economic power, demographic change, rapid urbanisation, rise of technology, and climate change/resource scarcity are keeping leaders of corporate houses on their toes. Amidst all the change taking place within and across borders, there is one segment to which markets remain attractive – family businesses.

Regulatory changes are getting family businesses to bring in order and professionalise the business, and disruptive technology is pushing them to transform. These new market dynamics are cultivating a renewed sense of ambition in family businesses, making them resilient in the face of change.

The contribution of family businesses to wealth creation, wealth preservation and wealth distribution in the nation is commendable, and their unique approach of looking at their businesses over generations and as an investment for the future ensures a long-term perspective with respect to decision making and provides stability to the economy.

Today, in addition to established businesses with an expanding portfolio, family businesses include first-generation companies with new ideas and large ambitions. They also encompass third-generation enterprises spread across multiple sectors in different geographies. And underlying each family business, irrespective of its size or where it is on its growth trajectory, is a commitment to its values, sense of purpose and vision.

For us at PwC, it is always an enriching experience to speak with family business leaders and understand their journey.

Our 9th Family Business Survey

Every two years, PwC carries out a Global Family Business Survey where we speak to/poll family business leaders about different aspects of a family business: family values and business purpose, business ambitions, growth aspirations, challenges, personal and business priorities, working with the next gen, handling conflicts, aligning the family vision with the business strategy, planning for business continuity and succession, diversifying into new arenas and so on. This is our 9th global survey and we spoke to 2,953 family leaders across 53 countries. The findings of this survey are presented in our report 'PwC Family Business Survey 2018: The values effect'.[1] In India, we spoke to/polled 106 family business leaders and this report captures both the global and Indian findings. Most family businesses inherently display characteristics of entrepreneurship, dynamism, resilience, sustainability, innovation, vision and more. We bring you stories shared by select leaders whose businesses represent these distinctive characteristics.

Committing to family values

It starts with the family and its sense of purpose...

Most family businesses we spoke to told us that they have a clear sense of agreed values and purpose as a company and that the family that owns the business has a clear set of family values. Yet only a little more than half said that family values and the company mission have been documented. When we spoke to family business leaders, we realised that the description of these family values was often generic – revolving around honesty, hard work, integrity, respect and so on. However, in the case of companies where family values had been written down and the mission statement was clearly articulated, there were additional aspects of family values

1 *https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html*

which came up – community, customers, people, commitment, ethics, sustainability, quality, innovation, trust, fairness and openness. Clearly, commitment to paper is a meaningful process and Indian family businesses are realising this gradually as we see more and more companies putting their value statements and purpose down on record.

Globally, we noted that companies who have written down their family values and mission are more likely than average to have grown in the last 2 years, expect to grow in the next 2 years, have a fully costed, formalised and communicated mid-term strategic plan in place, recognise cyber and artificial intelligence (AI) as challenges, and have set up formal succession plans.

Business performance

…which underlines business growth…

In line with the findings of PwC India's Family Business Survey 2016,[2] 76% of Indian family businesses have shown growth in the last 12 months, which is higher than the global average of 69%. Further, 58% have achieved double-digit growth, which is significantly higher than the global number of 34% and testimony to the strong economic metrics underlying growth in India.

India continues to remain the fastest growing major emerging economy in the world according to the World Bank's Global Economic Prospects report (January 2019),[3] with an expected growth rate of 7.5% in FY19–20. We have also noted that family businesses, by virtue of their outlook of measuring success over generations, are more resilient to the ups and downs of business cycles. Riding on this growth wave and underlying economic indicators, family businesses continue to remain extremely optimistic, with 89% expecting to grow quickly and aggressively (44%) or steadily (45%) in the next 2 years. Family business leaders have told us they will fund this growth through bank lending and credit lines along with internal sources, namely cash flows, family funds and so on. More than half also said they will explore private equity/venture capital funds as an option or will look at listing on a stock exchange.

Navigating business challenges

…and helps prioritise the handling of business issues…

Not surprisingly, family businesses rank the need to innovate as their biggest challenge today, given that technological advancements are rendering products and services obsolete faster than ever before. Attracting the right skills and capabilities continues to be a business challenge given that a number of professionals fear a lack of independence in decision making and the absence of a clear path to the top. The ability to get digital talent on board is also an area of concern. Some of the other business challenges cited include those around the economic environment, regulation, digitalisation, competition and cyber security concerns.

Dealing with digital: Compared to 2016, more businesses feel vulnerable to digital now. This is perhaps attributable to greater awareness amongst family business owners and leaders about the avenues which digital can open for companies, and about how by not being a part of the digital revolution, their businesses can get left behind. In our discussions with owners and the next gen, we now find that more and more companies are speaking the digital language as they introduce new models in selling, buying, inventorising and marketing.

Coping with cyber security challenges: 40% of family businesses globally feel their business is vulnerable to cyberthreats and cyberattacks. In India, unfortunately, only 29% of businesses regard cyber security as an area of concern. In our opinion, this stems more from lack of awareness and not so much from the existence of robust systems and processes which can tackle cyberthreats.

2 *https://www.pwc.in/publications/family-business-survey-2016.html*

3 *http://www.worldbank.org/en/publication/global-economic-prospects*

In 2016, we had observed that the personal and business priorities of family business leaders were possibly not geared to meet some of their business challenges. This gap has reduced and more and more families are recognising innovation and access to talent as one of their top three priorities.

At the heart of managing family dynamics and business objectives is the need for creation of mid-term plans. Most businesses are well versed with the short-term and long-term planning processes. As we discussed in the 2016 survey, it is mid-term strategic planning (from 3–5 years) which is crucial for organisational success and which enables businesses to bridge the gap between short-term results and long-term growth. In India, 49% of family businesses have a costed, formalised and documented plan, while another 43% have a plan in place but it is not costed, documented or formalised. As businesses ramp up their digital capabilities, bring in professionals to manage their companies, diversify into new territories and change their business models, it is imperative they build plans which align the family vision with business imperatives.

Family engagement

…to ensure meaningful and satisfactory engagement of the family members.

In India, 92% of family businesses allow family members to work in the business. When it comes to spouses/partners, three-fourths allow them to own shares and two-thirds allow them to work in the business. Women average only 15% on the board and 13% on management teams in Indian family businesses, compared to 21% on the board and 24% in management teams across the globe. When it comes to the next gen, 73% of family businesses in India (compared to 65% globally) have them working in the business and 60% (compared to 57% globally) plan to pass on management and/or ownership to the next gen.

Given the significant involvement of family members in the business and the underlying family dynamics, there is a need for defined policies and processes to maintain alignment between family interests and business objectives. In India, 88% of family businesses have some procedures/documents (such as shareholder agreements, conflict resolution mechanisms, emergency and contingency procedures, family councils, and entry and exit provisions) in place to enable them do so.

Two-thirds of family businesses mentioned that conflict is handled within the immediate family and only 12% said they use a third-party conflict resolution service. This is perhaps due to societal norms and the social structure within Indian family business houses, where efforts are made to resolve conflict internally or with close family advisors, without airing differences of opinion before third parties.

Lately, we have also seen greater willingness among Indian family businesses to set in place succession plans – for the business and for ownership. While some progress has been made, there is significant scope for greater efforts to be made to ensure business continuity and to carry forward the family legacy.

Today, with expanding business families, diverse personal and business interests, ambitious growth plans, rapid technological changes and significant increase in low-cost substitutes, all of which are challenging the status quo, it is imperative for family businesses to align the family vision and family dynamics with business objectives. This is crucial to complete the circle of a family business – family, business and ownership, and wealth.

We hope you find this report useful and can use the findings to strengthen your family and business strategies.

Methodology

106

Interviews were conducted in India

2,953

Interviews were conducted globally across 53 countries

Interviews were conducted between 20 April and 10 August 2018. The percentages outlined in text and charts in the report are based on the global and Indian samples. The interviews were conducted by Kudos Research and results were analysed by Jigsaw Research.

Additionally, discussions with select Indian family business leaders were completed by November 2018.

1 Committing to family values and business purpose

A majority of family businesses tell us that underlying family values define the business – the manner in which a business operates, how it deals with its stakeholders, how it guides behaviours and how it builds trust. However, as businesses grow and evolve, a gap often emerges and synergies between family values and business objectives can get lost. In this year's survey, we found that 89% of Indian family businesses feel that they have a clear sense of the agreed values and purpose as a company, compared to 79% globally. Further, 85% say that the family which owns the business has a clear set of values, as against 75% globally. The higher ranking of Indian business leaders on both aspects can be attributed to the Indian social and family structure and a belief that ingrained values are the foundation on which businesses have been built.

The values gap with global family businesses reduces when we speak about documenting the vision and purpose statement for the company (72% for Indian family businesses and 68% for global family businesses) or articulating the family values and company mission in written form (55% for Indian family businesses and 49% for global family businesses). The key learning here is that while families and their businesses define their values and purpose, in a large number of cases, these are not adequately documented and hence not utilised to the fullest extent.

The rigour of committing values to paper enables companies to articulate their vision and purpose more effectively. When we spoke to family businesses across the globe who had done so, in addition to generic terms such as honesty, integrity, employee, good values, respect and hard work, they also mentioned communities, customers and people, commitment and ethics, integral approaches, sustainability, innovation and quality, as well as trust, fairness and openness.

Agreement with statements (%)

Q: I'm now going to read out some more statements. For each one I read out, I'd like you to tell me how much you agree or disagree on a scale of 1–5, where 1=Disagree strongly and 5=Agree strongly.

Base: All respondents answering (2018: India=106, Global=2,948–2,951)

Another point to be noted is that 70% of Indian family business leaders feel that the values define clear expectations for family members. In our experience, this is a very crucial aspect and needs to be evaluated closely by each family considering the induction of the next gen, the role of in-laws and spouses/ partners, and varying ambitions and interests. As family businesses grow from, say, a single promoter to cousin consortiums (see page 35), it is necessary that family values are reinforced, documented and communicated as this will give family businesses the opportunity to get 'true value from their values' and facilitate greater business gains.

Companies who have written down their family values and mission are more likely than average to:

- Have grown in the last 2years
- Expect to grow in the next 2 years
- Have a fully costed, formalised and communicated mid-term strategic plan in place
- See cyber and AI as challenges
- Have a formal succession plan in place.

Family values should not be confused with business purpose, which is the raison d'être of a business. With owners, leaders and the next gen heavily focused on sustainability in operations, corporate responsibilities and community efforts, more family businesses are realising that their purpose is not just earning profits – instead, there are a number of non-financial metrics which underline the business.

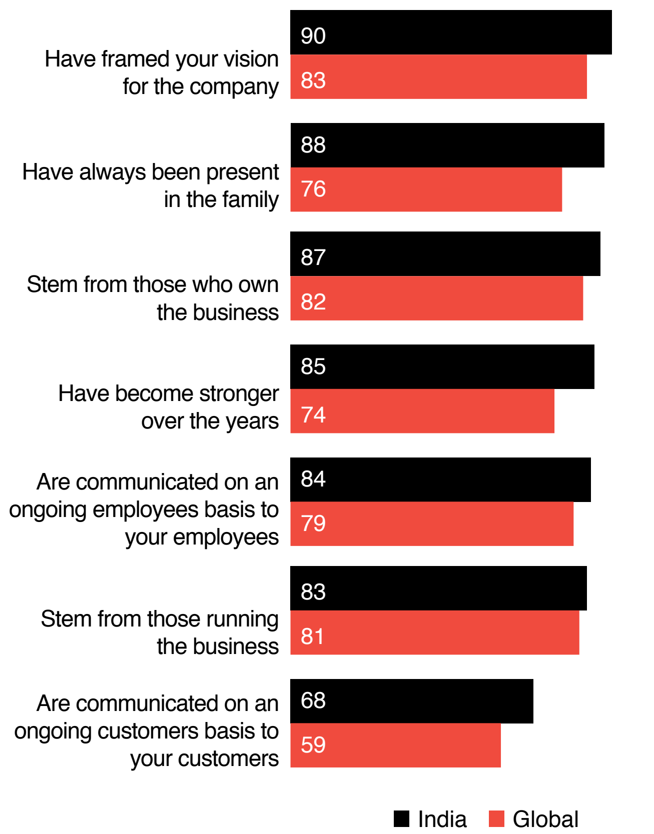
"In order to run a successful business, it is vital to establish accountabilities, communicate transparently and innovate continuously. I come from a simple Tamil Brahmin family and our principles and values are very simple. These have been passed on to me from my parents who in turn acquired them from my grandfather. Thus, fairness in business and organisational dealings, trust, transparency, accountability and pursuing a policy of appropriate disclosures and communication form the core value system of the TTK Group. These are the pillars upon which the business rests and they permeate all that we do and hold sacrosanct. We stand by our values at all times. We have formalised this in the business and expect all our employees to align with the values, imbibe them and realise them through the work that they do. For us, honesty and integrity are at the very core of our values. When I was tasked with turning around the business three decades ago, these were the foundations upon which all decisions were taken and driven. In the long run, only businesses built on a solid bedrock of honesty and integrity will stand the test of time and withstand the ups and downs of the market."

- TT Jagannathan, TTK Prestige

We further explored the role that values and purpose play among family business leaders who say they have a clear sense of agreed values. Unsurprisingly, 90% of them state that that values and purpose helped define the vision for the company. Nearly an equal number (88%) say that values have always been present in the family and stem from those who own the business (87%) or run the business (83%). These findings reinforce our experience of working with family businesses as more and more companies look to articulate and define the foundation of values on which their businesses are set up. It is extremely rare to come across a family business which is able to sustain itself and grow in the absence of an underlying values framework or an established business purpose.

What is interesting to note, however, is how these values are communicated internally (particularly amongst expanding family members, business leaders and employees) and externally (to key stakeholders). As per our survey, 84% of Indian companies say internal communication to employees is done on an ongoing basis. However, there is reason for some concern as customers are communicated with only in 68% of the cases in India and 59% globally. As businesses grow and diversify into new markets, it is necessary for companies to engage more actively with customers.

Would you say that values and purpose…? (%)



Q: You agreed that you have a clear sense of agreed values and purpose as a company. Would you say that these values…?

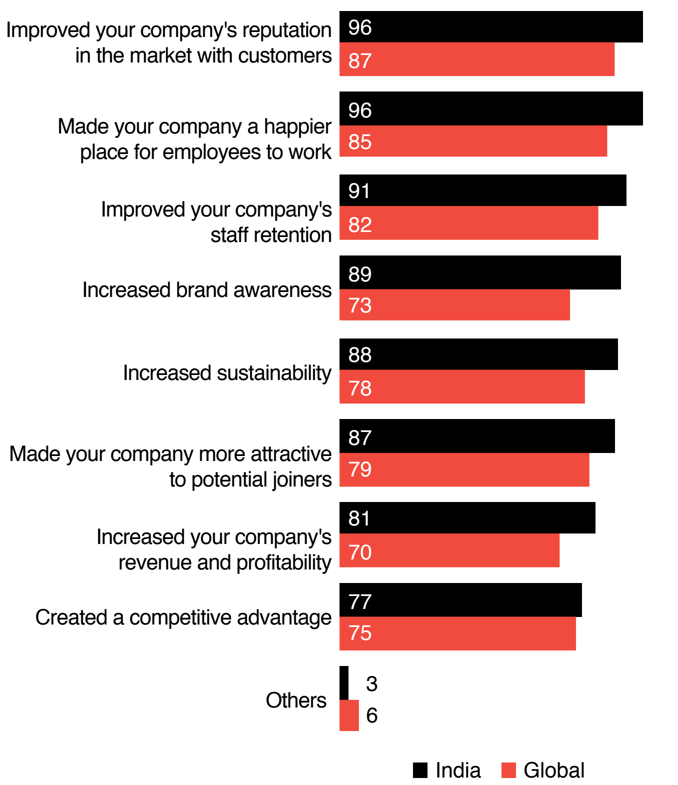
Base: All respondents saying their company has a clear sense of agreed values and purpose answering (2018: India=94, Global=2,318)

"The expectations of family members are to uphold the values of the family, which are ethics, knowledge and the engagement of shareholder value. And obviously also to be responsible for the sustainability of the business."

- Third generation family business owner

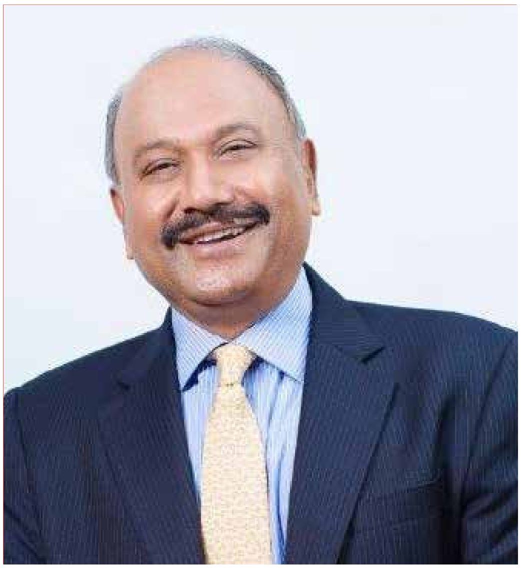
Family business leaders also speak about the benefits of committing to values and a purpose. Nearly all highlighted the improvement in reputation with customers. They also reinforce the positive impact on employees and the workplace, including employee retention and the ability to attract more people. In terms of the less soft aspects, family business leaders also perceive a correlation with increased revenue and profitability and a higher competitive advantage.

Would you say that values and purpose...? (%)



Q: Which of the following impacts, if any, would you say that these values and purpose have had on the business? Would say they have...?

Base: All respondents saying their company has a clear sense of agreed values and purpose answering (2018: India=94, Global=2,320)



GM Rao
Chairman, GMR Group

The virtue of humility as a value

In 1998, when the family that owns GMR Group took stock of where the business had come 20 years after it started in a rural part of India, it could look back with satisfaction on what had been achieved. The business had grown from a tiny jute-milling operation in Andhra Pradesh with only USD 5,000 in capital to a diversified operation involving growing and trading rice, sugar, timber and cotton; building power plants; and even banking and mutual funds.

GMR grew particularly fast after a wave of economic reforms unleashed by India's government in the early 1990s, giving the private sector a key role in building infrastructure in one of Asia's largest economies. Large family-owned companies like GMR started to play a role in building key infrastructure, where the government was unable to step in on its own. But something was missing, explains GMR Founder and Chairman GM Rao. "We realised that we could not do business with an opportunistic mind-set. Each business was different, and there were no synergies between them. It was very difficult to synchronise all the businesses we had entered into," he says. "We then thought that we should have a vision, have our own values and create a robust organisational structure."

In particular, Rao and his family members wondered if the group's success so far had been based on hard work – or just luck. "We wanted to understand our DNA and ultimately our values," says Rao. The family called in consulting professionals to conduct a review to get to the core of what the business was all about. It was a detailed, top-down exercise, which resulted in the identification of seven values, of which the most important was humility. A big part of humility involves proactively seeking feedback from stakeholders, listening, learning and implementing improvements with a focus on excellence.

"Any leader who says 'I don't know' and carries that attitude, will listen, learn and implement," explains Rao. It was this attitude of humility that, he says, helped GMR complete a major infrastructure project: the building of a new airport for Hyderabad. It was the first time that an Indian company had built a world-class airport from the ground up, on a greenfield site. "We executed it with humility in our hearts and an 'I don't know' attitude in our minds," says Rao.

GMR has completed many infrastructure projects since the Hyderabad airport. Many of them reflect a nation-building ethos that has driven GMR since it undertook a rationalisation of its businesses, around the same time that it identified its values. “We found that the need of the country was infrastructure. The power sector was opening up; we entered the power sector. Roads opened up, and we went into roads. Airports opened up, and we went into airports. In all these projects, we were either the first or second to enter – and we always had pretty much a first-mover advantage,” explains Rao. In 2006, GMR won a contract to rebuild the old Indira Gandhi International Airport in Delhi. The task was completed in four years – a relatively short time frame for the industry.

Today, GMR is the largest private airport developer and operator in India; it also operates in the sector in the Philippines. It is one of the largest operators of power plants with a growing renewables portfolio. GMR also operates highways and special economic zones. The group is listed on the National Stock Exchange of India and on the Bombay Stock Exchange.

Charitable activities are important, and are principally channelled through their foundation called the GMR Varalakshmi Foundation (GMRVF) Trust, which is supported with 2–3% of group earnings annually. The trust runs 13 vocational centres, which train 6,000 people every year.

As the group has grown, the family has ensured that it attracts the right people to manage a family business, Rao says. This has meant bringing in people with a global perspective on how family businesses and governance are handled in other parts of the world.

“We spent a lot of time in developing a family governance model. Just to identify the best people to help us with family constitution took us two to three years. Prior to writing a formal family constitution, we took almost two years to align the family,” Rao says.

GMR’s vision is to create what Rao calls an ‘institution in perpetuity’. “We want to build an entrepreneurial organisation which creates value for society. This vision is very difficult to achieve, especially at this juncture when there is a lot of disruption. We have also realised that unless we have a family governance model, corporate governance won’t happen, and unless corporate governance is in place, we cannot create an institution in perpetuity. Family governance is a prerequisite for all family businesses. I believe that with good family governance, one can create any type of business.”

GMR is helped by a ‘group performance advisor council’, an independent panel separate from the board that monitors GMR’s performance from the outside. “They discuss our performance with CEOs, CFOs, business leaders, customers, suppliers and important stakeholders every quarter and provide us with thorough feedback,” Rao says.

When it comes to hiring, Rao believes that values, not just competence and experience, should be a criterion. “What is more important is whether our value systems match or not,” he says. “A person could be an outstanding performer, but we examine if his or her value systems are good.”

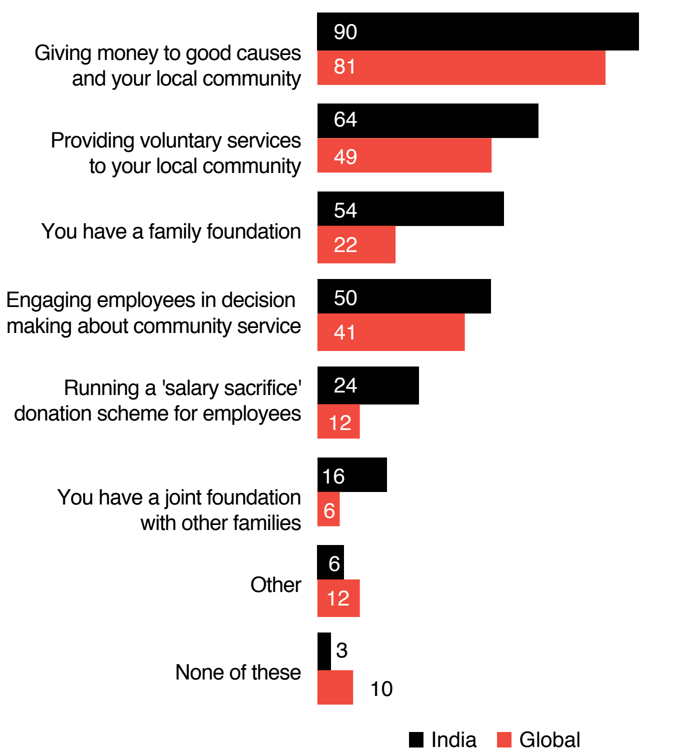
Rao believes there is a need, allied to values, for today’s generation – and leaders in particular – to embrace spirituality. Not the religious kind, but a spirituality encompassing physical, emotional and mental harmony. “Spirituality is critical in order to control one’s emotions and still be able to execute at a high level,” says Rao.

2 Philanthropy and the family business

Philanthropic activities in India often imply giving money to good causes and local communities and 90% of family businesses in India say they do so. What is interesting to observe, as the graph below shows, is that 89% of family businesses are also engaged in some form of philanthropic activity which is over and above giving money, significantly higher than the global average of 68%.

In our experience, most family businesses prefer to focus on upliftment of local villages, providing health and sanitation services to the local community, working towards the social upliftment of women, establishing schools and focusing on education for employees' children, particularly where infrastructure is not available and so on. The family foundation is often an important tool to enable them do so and 70% of family business leaders in India have set up a foundation individually or jointly with other families. Employees too have been contributing their thoughts towards decisions which impact community services.

Engaged in any philanthropic activities (%)



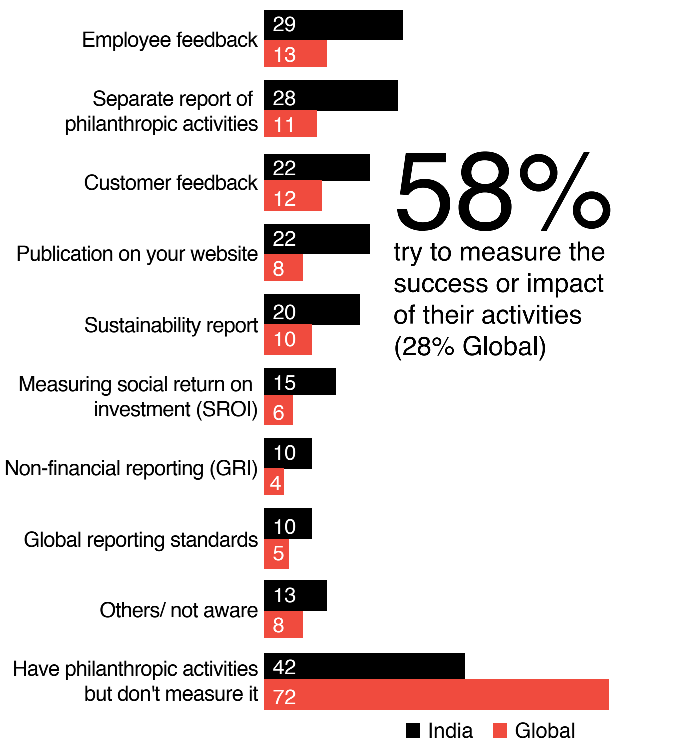
Q: Which, if any, of the following philanthropic activities does the family business and/or the family owning the business engage in...?

Base: All respondents answering (2018: India=106, Global=2,949)

Given the significant focus on philanthropy, family businesses are formalising ways and means to ensure these are carried out. Embedding goals in the business strategy (57%) and inclusion in family governance tools (55%) are two of the commonly used ways. In addition, a little less than half of the family businesses are also ensuring philanthropic activities form a part of corporate governance rules and the Articles of Association. In some cases, these objectives are integrated into the investment strategy of the company (35%), the supply chain strategy (20%) or shareholders' agreements (19%). We are also seeing the next gen get more engaged in community efforts and in about 41% of family businesses which are focused on philanthropy, this task is formally delegated to the next gen.

Investing in philanthropic ventures is, however, not enough and 58% of businesses try to measure the success or impact of their activities. Again, this is significantly higher than the global average of 28%. As the graph below shows, the role of employees and customers is very important, as are measures taken to gauge the impact through independent reports.

Measuring the success/impact of philanthropy (%)



Q: Do you measure (or try to measure) the success or impact of these philanthropic activities?

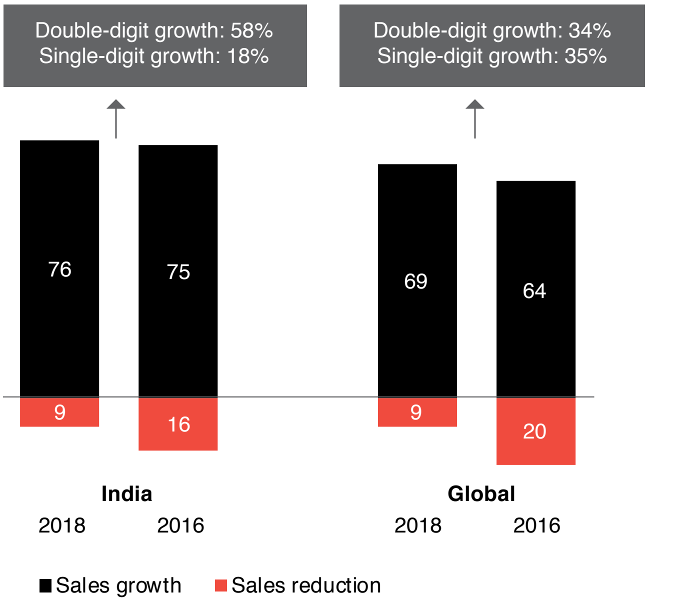
Base: All respondents engaged in philanthropy answering (2018: India =103, Global = 2,659)

3 Business performance

The growth story: Organisational performance and outlook

Family businesses in India continue to exhibit growth. In our 2016 survey,[4] 75% of those interviewed said that their business had grown over the last 12 months. The trend is largely unchanged, with 76% of family businesses surveyed this time mentioning that their businesses have grown. Significantly, while in 2016 16% of businesses experienced a reduction in sales, only 9% do so presently. Additionally, Indian growth statistics also compare favourably with the global average growth of 69%. It is also heartening to note that 58% of family businesses had achieved double-digit growth compared to 34% globally. Another 18% of Indian businesses grew between 3% and 9%, while 15% of Indian businesses experienced stability in business operations (growth of +/- 3%).

Growth in the last financial year (%)



Q: Looking back over the last financial year, would you say your sales have seen…?

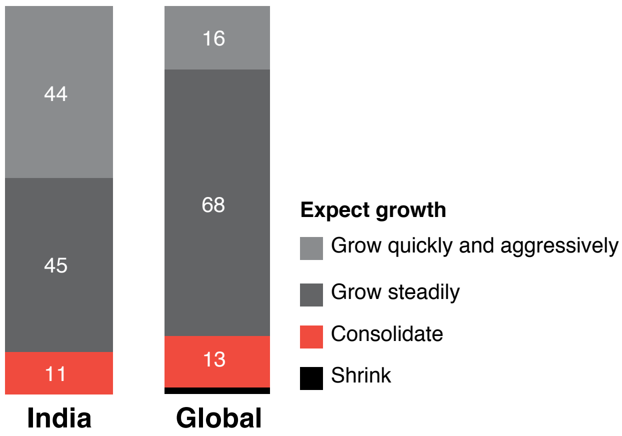
Base: All respondents (2018: India=106, Global=2,950; 2016: India=102, Global=2,802)

India continues to remain the fastest growing major emerging economy in the world according to the World Bank's Global Economic Prospects report (January 2019),[5] with expected growth of 7.5% in FY19–20. Further, according to the World Bank's latest Doing Business 2019 report,[6] India is one of the top 10 economies which improved the most in areas measured by Doing Business. Having jumped 23 places and presently ranked at 77 in the report, India, along with a few other countries, also implemented significant business regulatory reforms around taxation, starting a business, getting credit and so on. In PwC's 22nd CEO survey,[7] CEOs across the globe ranked India favourably as an investment market. Riding on this growth wave and underlying economic indicators, in the post-demonetisation and GST implementation era, Indian family businesses continue to remain extremely optimistic, with 89% expecting to grow quickly and aggressively (44%) or steadily (45%) in the coming 2 years. In our 2016 survey, 84% of businesses expected to grow over a period of 5 years, with 35% expecting to grow quickly and aggressively.

While businesses have ambitious growth aspirations, we need to ask ourselves if they are ready for growth. The growth journey of a company from INR 0–100 crore is very different from its journey from, say, INR 100–1000 crore and so on. At each stage, different factors will be important to enable the company to achieve the next level of growth. PwC's report 'Turbocharging growth: Going from 100 to 1,000 crores!'[8] discusses how in the beginning the vision of the promoter and the product or service strategy define the business. However, as companies evolve, they need to look at their business and operating models. For instance, the business model will require refinement in the product/service strategy, pricing strategy, market strategy, channel strategy and promotion strategy. The operating model, on the other hand, will need the company to establish policies and processes, set up systems and IT, establish structures for people and organisation, ensure the right infrastructure is in place, see that finance is used not just for bookkeeping but also for transforming the business, and ensure that corporate governance procedures are set in motion. Family businesses are advised to evolve their business and operating models as they seek aggressive growth and look at fulfilling ambitious aspirations.

4 https://www.pwc.in/publications/family-business-survey-2016.html
5 http://www.worldbank.org/en/publication/global-economic-prospects
6 http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf
7 https://www.pwc.com/xgx/en/ceo-survey/2019/report/pwc-22nd-annual-global-ceo-survey.pdf
8 https://www.pwc.in/publications/2017/turbocharging-growth-going-from-100-to-1000-crores.html

Growth aims over the next 2 years (%)



Q: Which of the following best describes your aims for growth over the next 2 years?

Base: All respondents answering (2018: India=106, Global=2,951)

Globally, expectations are different and according to the World Bank's report, global growth is expected to be moderate over the next 2 years[9] on account of deceleration in industrial and trade activity, which is impacting investor sentiment and equity prices. However, within family businesses, 84% expect growth in the coming 2 years, which underlines the belief of family businesses in their resilience to business cycles and the accompanying ups and downs.

Apart from the above varying projections, we noted a marked difference between expected growth patterns of Indian and global family businesses, with 16% of global businesses (compared to 44% in India) expecting quick and aggressive growth. On the other hand, a 68% majority (compared to 45% in India) expect to grow steadily. In fact, as highlighted in the Global Family Business Survey 2018,[10] India ranks the highest when it comes to quick or aggressive growth expectations. Our 22nd CEO Survey also mentions that CEOs globally anticipate subdued growth.[11]

The Global Business Survey[12] also highlighted the fact that first-generation family businesses outperformed those run by subsequent generations in their ability to achieve double-digit growth, thus emphasising the need to evolve business models in line with market disruptors to ensure continuity and growth.

9 *http://www.worldbank.org/en/publication/global-economic-prospects*

10 *https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html*

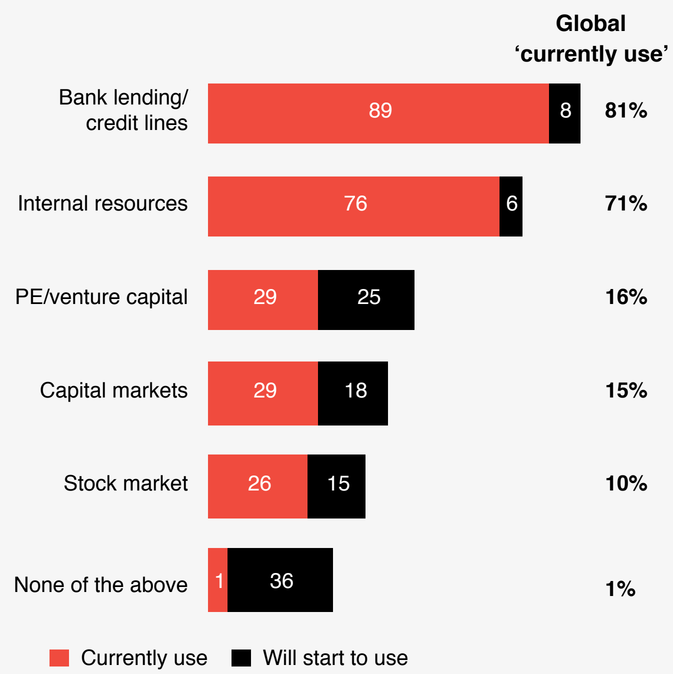
11 *https://www.pwc.com/gx/en/ceo-survey/2019/report/pwc-22nd-annual-global-ceo-survey.pdf*

12 *https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html*

The growth story: Funding

Historically, Indian family businesses were wary of seeking financing from external sources. Banks and lending institutions also had stringent norms for lending, particularly to non-listed/private companies. This trend has changed significantly in recent times and as per our current survey, 89% of family businesses in India use bank loans and credit lines to fund their business. Internal sources such as cash flows and family funds are also a lucrative option. Private equity (PE) and venture capital funds as well as the stock market are also being used.

Sources used/will use to help fund the business (%)



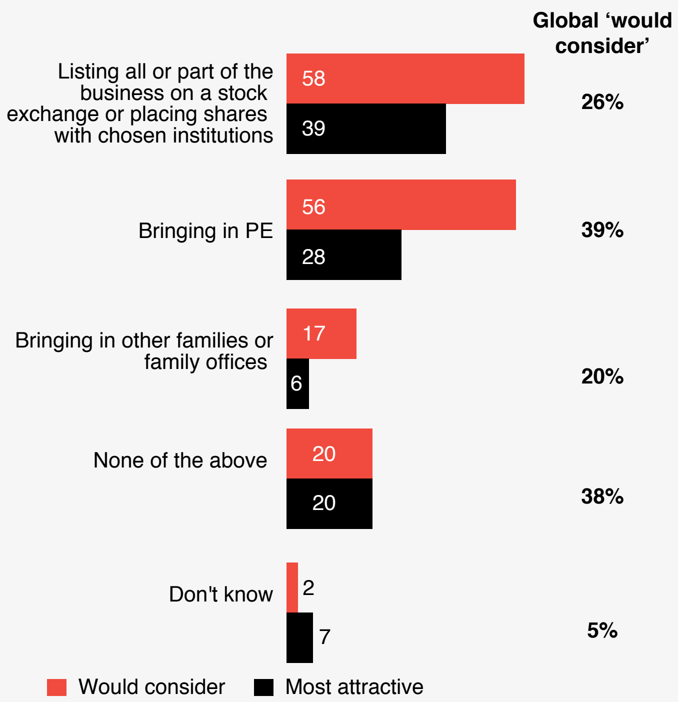
Note: 12% in India (8% Global) don't know what sources they will use to help fund the business

Q: Which of the following sources, if any, do you currently use to help fund the business? And which of the following sources, if any, do you think you will start to use to help fund the business over the next 1–2 years?

Base: All respondents answering (2018: India=103–106, Global=2,889–2,946)

We further asked family business leaders about the option they would consider for funding going forward. For 58%, listing all or part of the business on stock exchanges or placement of shares with institutions was the route of preference. Given the success PE funds have had in India, the role they have played in helping family businesses move from private to listed and the focus they have brought (not only on long-term results but also short-term returns), it is not surprising that 56% of family businesses mention that they will be looking at bringing in PE funding for the business. Moreover, 17% of family businesses mention they will consider procuring funds from other families or through family offices. Usually, this signifies cross-holdings between related families/friends; however, lately, a key emerging trend is procurement of funds through multi-family offices.

Actions they would consider to help fund the business (%)



Q: Which of the following, if any, would you consider to help fund the business? And which of those is the most attractive?

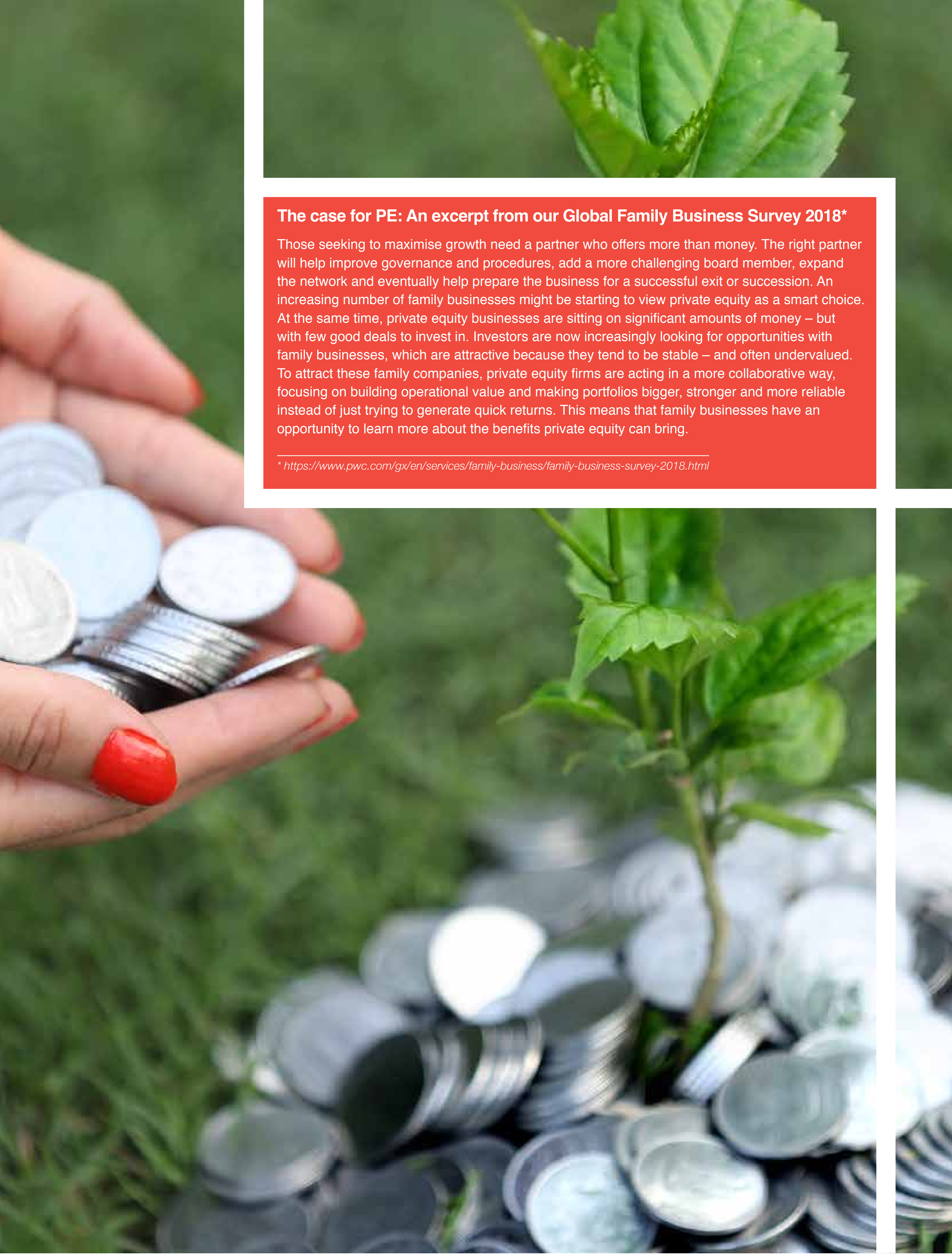
Base: All respondents answering (2018: India=106, Global=2,887–2,891)

> My father always said, 'Don't ever let debt get the better of you. Your growth may take a hit but don't take on too much debt to achieve high growth – take only what you can repay in a year or two. Grow as much as you can control and manage; the project margin is limited but the loss isn't.' So, we followed our father's principles and kept the debt levels in the company low. This benefited us as even when we didn't have a lot of work, we weren't under pressure.
>
> **- Vinod Kumar Agarwal, GR Infraprojects Limited**

The case for PE: An excerpt from our Global Family Business Survey 2018*

Those seeking to maximise growth need a partner who offers more than money. The right partner will help improve governance and procedures, add a more challenging board member, expand the network and eventually help prepare the business for a successful exit or succession. An increasing number of family businesses might be starting to view private equity as a smart choice. At the same time, private equity businesses are sitting on significant amounts of money – but with few good deals to invest in. Investors are now increasingly looking for opportunities with family businesses, which are attractive because they tend to be stable – and often undervalued. To attract these family companies, private equity firms are acting in a more collaborative way, focusing on building operational value and making portfolios bigger, stronger and more reliable instead of just trying to generate quick returns. This means that family businesses have an opportunity to learn more about the benefits private equity can bring.

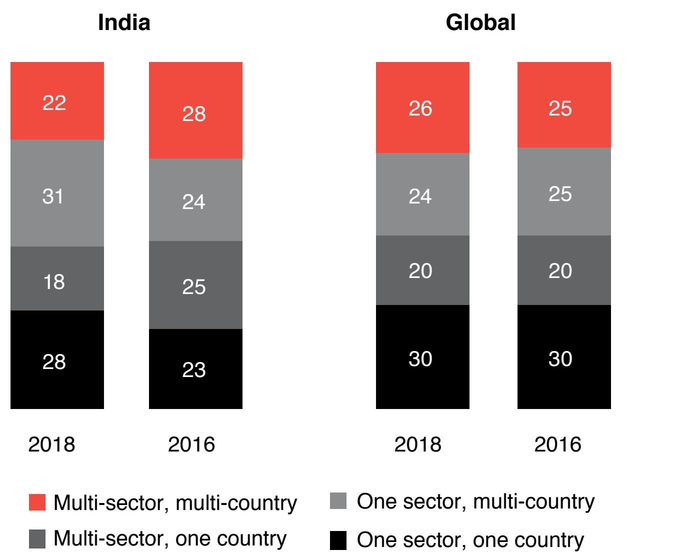
* *https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html*



The growth story: Diversifying and globalising

The chart below highlights how businesses are currently structured. There has been a shift in focus within Indian family businesses towards one sector, be it in one country (from 23% in 2016 to 28% now) or across countries (from 24% in 2016 to 31% now). We further analysed this information based on the size of the companies. An interesting point which emerged was that nearly 60% of companies with a turnover of more than USD 20 million were present in multiple countries in one sector (35%) or multiple sectors (24%), thus reinforcing the belief that as companies increase in size, a key facilitator of growth is expansion into new markets/territories.

Diversification of family businesses (%)



Note: 1% in India in 2018 prefered not to say.

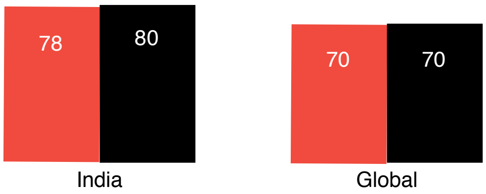
Q: Which one of the following statements do you think best describes how diversified your business is?

Base: All respondents answering (2018: India=106, Global=2,947; 2016: India=102, Global=2,802)

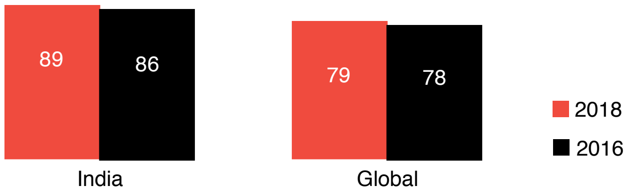
Which is perhaps why 78% of family businesses in India currently export their goods or services and 89% plan to do so over the next 5 years. On an average, foreign sales account for 25% of the turnover for companies in India (26% globally) and in 5 years, this is expected to rise to 34% (33% globally).[13]

13 *The average includes all businesses, even those not exporting at all.*

Current international sales (%)



Any future international sales – in 5 years? (%)



Q: Approximately what percentage of your sales come from exporting or selling goods and/or services in foreign countries at the moment? And approximately what percentage of your sales do you think will come from exporting or selling goods and/or services to foreign countries in 5 years' time?

Base: All respondents answering (2018: India=106, Global=2,932/2,924; 2016: India=102, Global=2,802)

> "Inorganic growth is what we are looking at. We recently closed an acquisition of a company in Indore. In order to continue to grow, we need to explore avenues such as international expansion, extension of product lines, and mergers and acquisitions."
>
> **- Shivkishan Agrawal, Haldiram Foods**

Arun Nathani

CEO and Managing Director, Cybage Software Pvt Limited

Translating ambition into growth

In 1995, Arun Nathani set up Cybage, a technology consulting organisation, with four employees. Shortly thereafter, he was joined by his brother and co-founder Deepak Nathani. Arun mentions that when the organisation was set up, there was no large strategic vision. The Internet was picking up in India, and he felt there was a lot of potential to work on something transcending geographic boundaries. As he puts it, his first product had a “user-friendly interface and was very well received. But after some time it became commercially non-viable with a leading software company giving it out for free!” Arun adds, “I was very ambitious. And one thing that all entrepreneurs have in common is that they are so overwhelmed by the sheer greatness of their ideas that they feel nothing can go wrong. I believe that every industry has a short burst of immense excitement followed by an excruciatingly long period of boredom. When I look back, I think it was a reckless act of gallantry when I decided to jump on the dotcom bandwagon.”

Cybage then moved into the services business and got companies interested in its offshore software development services way back in 1996. Over the next 9 years, in its ‘second phase’ as Arun terms it, Cybage grew through references from its customers. Instead of determining what it should charge its customers, Cybage focused more on what the development of a software cost it and marketed the same accordingly. In Arun’s words, “Marketing came 7 to 8 years after the business existed in the USA.”

The company was on an upward growth path, yet it didn’t have the scale to compete with larger players and scale was clearly becoming the differentiating factor in terms of hiring, expanding, procuring land and so on. The company then decided to focus on systems and processes. As Arun explains, “Then came our journey of system developed approaches. We started our digitisation process in 2004 and today we have a team of about 150 people whose only job is to run Cybage more efficiently. This allowed me to concentrate on making decisions at the board level.”

Till now, the company had been inward focused in its approach to customers. It had consciously chosen to grow organically, remain private and not dilute its stake. Today, Arun is aware that for Cybage’s next phase of growth, external brand building is important to help secure larger deals. The company is also exploring acquisitions to enable it to add the latest that technology brings into its folio.

When it comes to values, Arun acknowledges six stakeholders who are important to him – customers, employees, shareholders, vendors, society and social service organisations/concerns. “In the context of business, the values I believe in are: The power of data is bigger than that of the human ego. The best Einstein in the world is not as sharp as data and that realisation is easy for me. In the process of living in that environment and using that power, instead of just your own decision making, you will focus on building systems which are richer.” In terms of investing in society, CybageAsha and CybageKhushboo are the two CSR initiatives. Arun gives the credit for the work they are doing in this space to his wife. He says, “My wife goes at least once a week to a village, which it could take her about three hours to reach. She spends an entire day there, has lunch with the villagers and checks on the progress being made in terms of initiatives we have undertaken. This requires a different type of passion and dedication and such a thing cannot be measured in money. In the rural areas, we focus only on sustainability – we try to create a livelihood for them, we try to do anything that helps in reverse migration.” For Arun, family businesses go beyond money: “If money is the objective, then you can easily sell the company and live happily after that. That bridge, for Cybage, was crossed about 15–18 years back. Money and fame are important, but there is always something bigger that successful businessmen and entrepreneurs believe in.”

About the next gen, Arun mentions that his daughter recently joined the company, while his son is still studying. Cybage being a private company, Arun’s children are stakeholders from an inheritance perspective.

However, he adds that the “running of the company has got to be professional, the right person should be running it. It will be non-profitable for the stakeholder if s/he is not capable of running it.” He goes on to say that “technology companies are fairly complex and you need experience. At this stage, there is no specific plan that they are going to run or not run it someday. For all you know, tomorrow they may want to do their own thing…it’s too early to say.”

“The biggest low is always the first year when you are not getting any breaks. It’s like going around in a circle and reaching nowhere. Invest everything and lose everything, many go through it. You go for a meeting which is dismissed in 10 minutes and then your return flight is 10 hours away, where do you go and what do you do? You just end up sitting in the parking lot doing nothing. Having said that, for me, only the starting year was tough… There have been ups and down, particularly during the global slump in 2009 which actually made us stronger as an organisation, but no low point as such after that and we have been growing from strength to strength.”

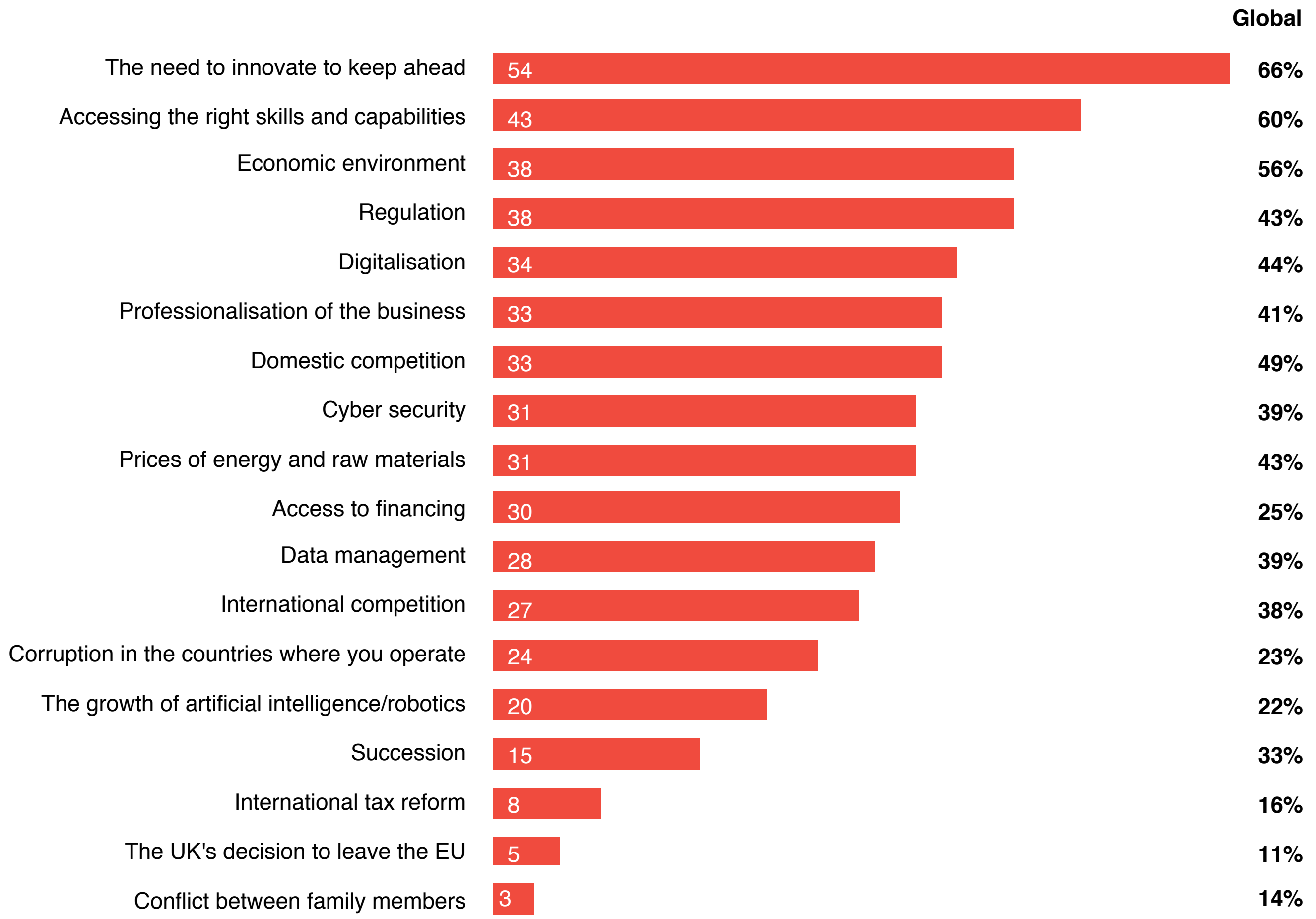
4 Challenges of running a family business

We asked family business leaders to rank their key challenges over the next 2 years. For each respondent, we ranked the answers based on their top 2 challenges.

Given the bullish economic environment in India and the positive growth sentiments accompanying the recognition of emerging economies globally, the response of Indian family business leaders towards challenges is significantly tempered as compared to that of their global counterparts. Is this because Indian family business leaders are underestimating the impact of some of these challenges, or is it that global megatrends are favouring emerging economies such as India? Or is it that the business challenges seem to fade in front of the growth momentum? Or that Indian family businesses, having lasted generations, feel they are immune to some of the global trends and that their companies are resilient in the face of business cycles. For each business respondent, the answer is different, but as a trend, Indian business leaders are definitely less wary of these issues.

On the whole, digital, technology and innovation are perceived as key challenges by 71% of Indian family business leaders, while the economy, competition and costs come in second at 62%. This is not surprising given the historical and projected growth estimated by Indian family business leaders. (Refer to pages 14 and 15.)

Key challenges over the next 2 years (top 2) (%)



Q: How much of a challenge do you think each one will be for your business over the next 2 years on a scale of 1–5, where 1 means it will be a minor challenge or not particularly important and 5 means it's going to be a major challenge for your business?

Base: All respondents answering (2018: India=106, Global=2,950–2,952)

Innovation is ranked as the biggest challenge today, both in India (54%) and globally (66%). Technological changes are rendering existing products obsolete almost as soon as they hit the shelf; the imperative to anticipate customer needs and keep ahead of the curve has taken on a whole new meaning. The innovation challenge is not only being able to think ahead with the help of an in house team but, given the entrepreneurial climate in India and the slew of young entrepreneurs and start-ups, being able to bridge the gap between established businesses and new ideas and solutions. So, how can one bring solutions and ideas developed by a start-up in Hyderabad to a family business in Mumbai? It is interesting to note that innovation is a key concern for not only the current generation of family business leaders but also for their next gen, with 83% of the next gen recognising the need to innovate as a key business issue.[14] In fact, only 14% of the next gen feel that their business performs very well on the innovation front.

As businesses embark on aggressive growth journeys, attracting the right talent continues to be a challenge for family enterprises. Professionalisation of the business is also perceived as a key challenge by one-third of those interviewed. These two challenges have multiple facets. On the one hand, there is a need to professionalise certain, or all, aspects of business operations and on the other hand, it is difficult for family businesses to recruit key talent primarily because external (non-family) professionals are wary of family interference and the ability to make decisions independently, conflicts between the family and business and, most importantly, the lack of a definitive career path to the top.

Going back to the graph, the economic environment and regulatory framework come in third, despite the optimistic outlook of family business leaders. So, while cautious of the environment, business owners continue to be confident of achieving growth.

Less than one-third of those interviewed perceive digital, cyber and data management to be a challenge. In our experience, this is often the case since the impact of these concerns on the businesses, on customers, on employees and on the brand and reputation is often not understood fully and is underestimated. (Please refer to the next section, where we further explore digital and cyber in greater depth.)

Lastly and most importantly, the biggest outlier in the challenges index is that only 15% of those surveyed feel that succession in the family and in the business is a key challenge. And only 3% perceive that family conflict will be a challenge in the future. Given that only 16% of family businesses make it to the fourth generation[15], the fact that only 21% of families in India have a robust and documented succession plan is an area of concern, particularly given the expanding number of members in a family business, diverse interests, conflicted ambitions and different thought processes. We fear that these two challenges have been severely underestimated by family business leaders in India. (Read more about the role of families, managing family conflict and succession in our section 'The Family'.)

14 https://www.pwc.in/services/entrepreneurial-and-private-business/pwc-india next-gen-study-2018.html

15 https://www.scholars.northwestern.edu/en/publications/keeping-the-family-business-healthy-how-to-plan-for-continuing-gr

Are digital disruption and cyber security being underestimated?

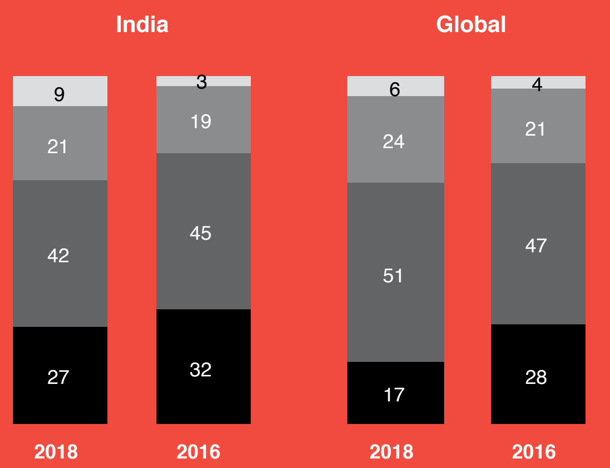
In India, more family businesses today feel vulnerable to digital disruption compared to 2016. Yet, as an absolute number, it is still less than one-third of those interviewed. This is also the case with cyber. Is this because family businesses have already equipped themselves with the latest tools for their digital growth journey or because digital is viewed not as a disruptor but as an enabler? Or is it that (and based on our experience we fear this is the more probable explanation) the impact of digital and cyber is not fully understood? Nevertheless, while 64% of family businesses state that over the next 2 years, they would have made significant steps in terms of digital capabilities (refer to page 29), it may be a bigger challenge for them to do so given the absence of digital as a key business goal over the next few years.

In some cases, we spoke to business owners who felt their business would not be impacted by digital technology as they did not engage with customers on portals, or who thought they were immune from any ‘technology impact’ because they only worked on one machine, or who had become complacent on account of a first-mover advantage. However, it is just a matter of time before these trends catch up, and as new business models emerge, customers evolve and change the way they buy, family businesses will need to adapt and embrace new platforms for growth. Some of our recent thought leadership around technological changes highlight this factor and also show how different technologies, individually as well as together, are now paving the way for greater avenues for growth and investment.[16]

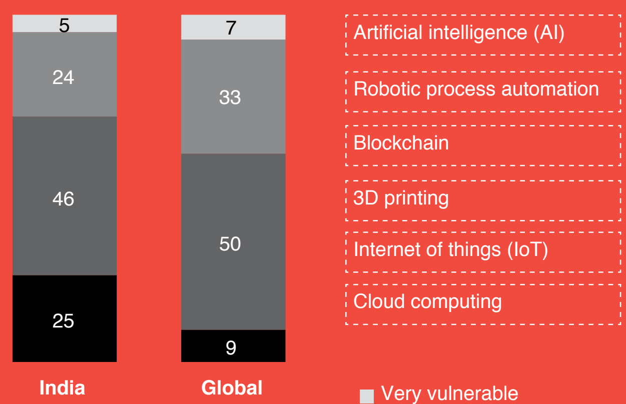
Through our discussions, we found that the threat of digital disruption, where acknowledged, was not linked to specific technologies. Instead, the vulnerabilities stemmed from competition, business model changes and security threats. Thus, the perception that family businesses are traditional in their outlook and wary of change remains true.

Globally, it was competition–be it in the form of large multinationals or new entrants riding on the entrepreneurial and start-up wave and having the ability to disrupt the market – that was perceived to be the major threat. Data ownership and changes in customer behaviour were also mentioned. There was fear that a price-led market place would devalue the strength of family businesses. In most cases conversations, particularly those around specific technologies, centred on threats as opposed to opportunities. A related factor was the lack of skills, specifically leadership skills, and investment in relevant technologies. The fear of being left behind but the lack of ability to get ahead also played on the mind of a number of family business leaders.

Business vulnerability to digital disruption (%)



Business vulnerability to cyberattacks (%)



Very vulnerable
Fairly vulnerable
Not very vulnerable
Not at all vulnerable

Q: To what extent do you feel your business is vulnerable to digital disruption? Would you say...
And to what extent do you feel your business is vulnerable to a cyberattack? Would you say...
Note: In some cases percentage are below 100 where we didn't get a response

Base: All respondents (2018: India=106, Global= 2,950–2,953; 2016: India=102, Global=2,802)

> There is incredible wealth or data that you are sitting on – use it for optimisation. We base a lot of our decisions on data and have been digitally transformed for a long time. In fact, Cybage developed a few products for in-house consumption which were later on launched commercially for clients.
>
> **Arun Nathani, Cybage**

16 *Read our perspectives here: ‘Autonomous intelligence in customer experience: the new competitive advantage’ (https://www.pwc.in/assets/pdfs/publications/2018/autonomous-intelligence-in-customer-experience.pdf); ‘IoT beyond the obvious: Driving value differentiations for cities of the future’*

Question: In what ways do you think you are vulnerable to digital disruption? Which technologies in particular?

IoT, AI and ML, cyber security and blockchain

As an IT company, we need to keep pace with the latest technology updates. Yes, we are very vulnerable. We need to keep competing and continually modifying our technology.

We are into manufacturing notebooks, so it's indirectly fairly vulnerable. After digitising, people may not be interested in the 'paper product'. Maybe 50 years from now it will affect the demand for our product.

I don't see any vulnerability to digital disruption.

Not certain.

Ours is mainly a TV business and we are now diversifying into digital. In this changing scenario, it is very uncertain where the competition will come from and pose a challenge. This challenge can come from anywhere in the world.

Online platforms and online bidding are a threat to the logistics industry.

3D printing will affect our business because goods like printed shirts can replace manufactured garments.

Businesses are technology driven in financial services, so [we are vulnerable to] all types of technology. Particularly any technology which enhances the customer's experience. We have to be ready for that [type of technology].

Travel technology and the travel industry are changing. The way transactions are done has changed drastically and it is affecting our business. Everything now is either through mobile apps or online distribution channels.

We are talking about the ecosystem of the Internet. Today we've been deploying and working with software which is kind of mounted as part of our products and with changing technologies we need to move faster. With new applications coming, we need to move swiftly on all kinds of partnerships with companies that have been approved in terms of AI.

Not sure.

Digital and the next gen

Our Next Gen Study 2018[17] discussed the role the next gen can play in digitising their businesses. As mentioned in the report the cause for digital, innovation and technology change is one which is very close to every next gen's heart and 81% of the next gen feel that it is necessary to have a strategy fit for the digital age. Yet only 53% felt that their company performed well on this front (of which only 11% say they performed very well). In family businesses, the next gen's ability to drive change in digital is easier in cases where the concept and idea are supported by the current generation. While digital and technological changes are readily recognised by the current generation as areas where the next gen have better knowledge, 28% of the next gen are frustrated that the potential for digital within the business is not understood, leading them to struggle to bring about a change, especially when the current generation is dismissive of technology. The next gen view digital as both an opportunity and a threat. With the next gen driving digital changes, business structures will get professionalised and business operations, optimised. It is not always necessary that digital warrants a complete overhaul of systems and processes. Instead, innovation in the technology space can start with individual business units, products or processes which will be easier to implement. Digital innovation, at times, also means setting up new ventures within the fold of the family business, with technology used as an enabler to increase revenue.

At PwC, we are convinced that success in the digital era will be governed not only by what's decided by company boards but also by how the tech-savvy next gen are engaged in digital rollout and expansion.

17 https://www.pwc.in/services/entrepreneurial-and-private-business/pwc-india-next-gen-study-2018.html

Shivkishan Agrawal

Chairman, Haldiram Foods International Pvt Ltd

The sweet edge of innovation

Shivkishan Agrawal 's Haldiram business is a USD 1 billion enterprise today.

The company's foundation was laid by Shivkishan's grandfather, a visionary and entrepreneur who started out by assisting his father at a snack stall in the back alleys of Bikaner, where they sold bhujia (an Indian savoury snack) and other namkeen.

Innovation came very early to the business. As Shivkishan explains, "In those days, most bhujia available in the market was on the thicker side. My grandfather mastered the art of making thinner bhujia which quickly gained popularity in the market. It wasn't easily available and hence sold at a premium in those days."

The journey started from there and there were many hurdles along the way. Strife in the joint family encouraged Shivkishan's grandfather to venture out on his own. He then built everything from scratch and approached people he knew for help. As Shivkishan puts it, "He was very passionate and driven. After a lot of struggle, he started his first shop near a Jain Mandir, which was let to him by the trustee of the mandir. This was the first of many shops he would open in the near future."

From there Haldiram's growth journey commenced. Three sons joined the business and the venture grew from one stall to a business that churned out "100–200 kg of bhujia a week by the 1940s and '50s". Entrepreneurial spirit and willingness to take risks are ingrained in every business owner and a chance visit to a Kolkata wedding prompted Shivkishan's grandfather to branch out in Kolkata: "The struggles my grandfather went through are a testament to his spirit of entrepreneurship, innovation and customer service, and justify his title of 'Bhujia Baron'. The brand name 'Haldiram's' was given to my grandfather by his maternal grandparents. His real name was Ganga Bhishen Shivkishan but because of his extremely fair skin colour, many of the family members started calling him haldi (turmeric). This name stuck and hence the brand name Haldiram's."

As regards his own journey, Shivkishan dropped out of school and joined the business which was then run by his father. He used to accompany his father to the shop regularly and was exposed to the business. The experience enabled him to understand the financial and operational aspects of running a business. He was also interested in and fascinated with 'Marwari teachings' and says that he still applies some of those in his business.

The group then expanded into Nagpur – not guided by a strategic vision this time but more on account of family reasons. Shivkishan also wanted to expand the product line to include sweets. Initially opposed to the idea, family members were eventually convinced and the shop in Nagpur soon sold snacks and sweets. Shivkishan explains the move as follows: "This was also when we introduced soan papdi to our customers, which turned out to be a game changer in the market. My experience of working in both Kolkata and Nagpur gave me an opportunity to innovate and offer unique products to customers."

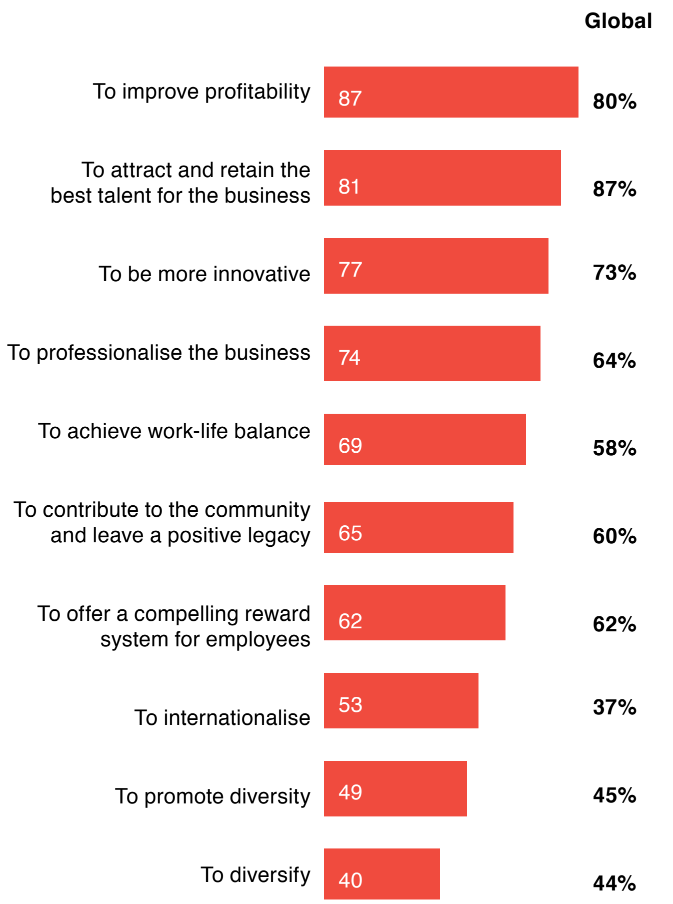
Looking ahead, Shivkishan wants to grow to a USD 2 billion company in the near future. Haldiram's is looking to explore avenues such as international expansion, extension of product lines, quick service restaurants (QSRs), and mergers and acquisitions. He is aware that competition is an ongoing challenge and to beat the best, Haldiram's needs to constantly innovate with products and offerings. He is very committed to innovation and said that innovative avenues have worked over decades for the business and will continue to.

Shivkishan has a very clear picture of the legacy he would like to leave behind: "I would like my sons and grandsons to continue taking care of the business, keep the business growing and carry forward my grandfather's legacy. When I started out in Kolkata, I wanted to grow the business in many areas but due to pressure from senior family members, I felt restricted. I moved to Nagpur and we grew exponentially and disrupted many new areas of business. Today my soan papdi is known the world over. I want to be remembered as a person who thought differently and constantly strived to be innovative."

5 Next step: Planning

Our survey in 2016 revealed that business goals were not aligned to business challenges. This time around, we found that goals have been streamlined to some extent. For instance, innovation and attracting and retaining talent appear in the top 3 goals of family businesses and rightfully so, given that these are the two biggest challenges facing family businesses today.

Important personal and business goals (top 2) (%)



Q: Please rate each goal on a scale of 1–5, where 1 means it's not important to you over the next 2 years and 5 means it's essential to you over the next 2 years.

Base: All respondents answering (2018: India=106, Global=2,949–2,950)

Needless to say, profitability ranks as the most important personal and business goal for family businesses in India. In our previous survey, the most important goal over a period of 5 years was ensuring a long-term future for the business. Recently, based on our experience and through our discussions with business leaders, we find that companies are now focused on analysing profits as opposed to revenue alone. Wealth creation underlines every family business which is why we see more and more companies undertake measures to streamline processes and departments, reduce costs, establish structures and procedures, improve efficiencies, seek newer markets and opportunities and so on. And that is perhaps why (refer to the graph on the page alongside) over the next 2 years companies will be exploring new products/services and are open to changes in business models and inorganic growth. While these measures will add to the top line, we are seeing companies increasingly structure themselves in a way which leads to greater efficiencies and, thus, higher profits.

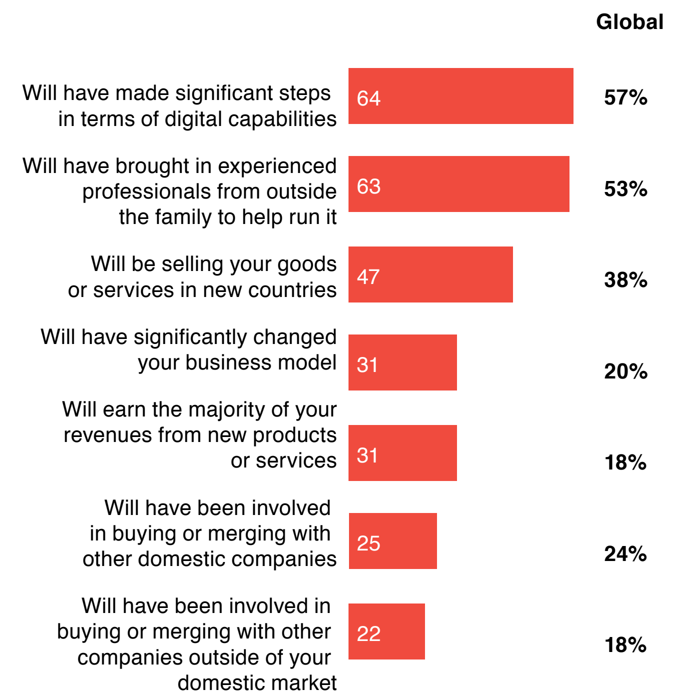
Globally, however, profitability comes in second and the need to attract and retain the best talent is ranked number one, with 87% of family businesses ranking it as their most important personal or business goal.

In India, the professionalisation journey has commenced; however, to a large extent, key roles in the business are still held by family members and owners. However, with the next gen looking at exploring avenues outside the immediate family business (perhaps in a new venture or in a venture linked to the core business), there is a business imperative to bring in the right talent to professionalise business roles and operations. Indeed, 74% of family business leaders in India and 64% globally have mentioned this as a key personal and business goal over the next 2 years.

In terms of expansion, a little more than half are open to internationalisation, while only 40% are looking at diversification. As businesses grow, leaders are recognising the benefits of bringing on board people with different upbringings and interests to capture alternative viewpoints. Diversity, including gender diversity, is now a key goal for nearly half of the family businesses surveyed.

On the personal front, it is important for leaders to achieve work-life balance in order to pursue alternative interests and leisure activities. Contribution to the community and leaving a legacy are also very important, as is ensuring that their employees are rewarded well.

Likely true of the business in 2 years (top 2) (%)



Q: Thinking about the business in 2 years' time, realistically, how likely is it that the following statements will be true of your business? Please use a scale of 1 to 5, where 1 is not at all likely and 5 is very likely.

Base: All respondents answering (2018: India=106, Global=2,948-2,951)

Looking ahead, 64% of the companies in India feel they would have made significant progress in terms of digital capabilities. For businesses to do this, it is necessary that the right talent be bought on board and supported. Most family business owners, particularly those who have been leading businesses for a while, are wary of the evolution of digital technology. Instead of treating digital technology as a disruptor, businesses will benefit if they consider it as a business enabler which allows them to redefine customer experiences, improve supply chain processes, manage their people, control finances, streamline processes and so on. It is therefore essential that strategic plans and goals for the company, and for its leaders, consider the impact of digital technology.

Further, 63% of the businesses would have brought in external professionals to help run the business. Here, we would like to reiterate what we mentioned in our Family Business Survey 2016:[18] "Family businesses have ambitious plans for growth and acknowledge that there is a business imperative to professionalise operations and bring in non-family members to run the business. But the question which needs to be asked is whether family businesses are bringing in 'friends of the family' in the name of professionalisation or whether are they inducting the right person with the right ability and thinking who can challenge conventional procedures. Given the optimistic plans of growth and strategic expansion of family businesses into new products, markets and through acquisitions, it is necessary that families have effective boards running their businesses and that people with the right expertise lead the organisation – family or non-family."

Also, 47% of businesses state that they will be exploring new countries for growth. This reinforces our view on page 18 that as companies evolve, they seek newer territories for expansion and growth. Globalisation and internationalisation are on the agenda of most family businesses today. Diversification into and concentration on new products and services are also an option for around one-third of the companies as they look to navigate business challenges and seek growth and increased profitability. In comparison, only 18% of global companies are looking at new products/services to enable higher growth.

About one-third of businesses feel they would have significantly changed their business model. Yet around 45% of these feel this will be a major challenge for them. As we mentioned earlier, as businesses target growth from one level to the next, they need to ensure their business and operating models have been ramped up to sustain and facilitate this growth. So, new strategies around products, customers, markets, distribution, pricing and so on need to be structured and formalised.

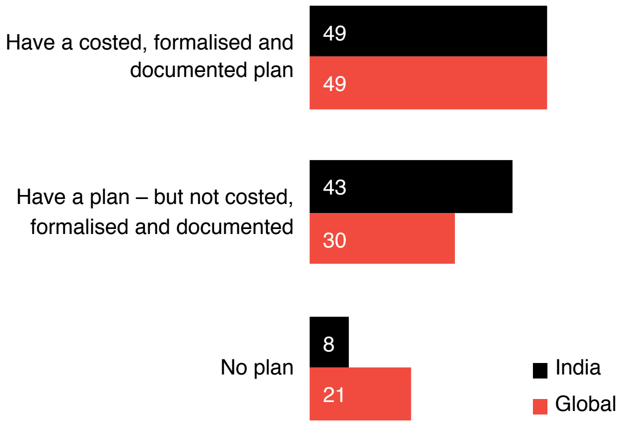
Lastly, nearly half of the family businesses in India are open to mergers and acquisitions – both within India and outside – thus reinforcing the belief that inorganic growth will facilitate synergies and achieve incremental revenue.

18 https://www.pwc.in/publications/family-business-survey-2016.html

The need for mid-term planning

Our 8th Global Family Business Survey[19] discussed the absence of strategic planning for the mid-term within family businesses. Our current survey[20] revealed that 21% of family business leaders globally do not have any strategic plan for the next 3–5 years. In India, however, this number is lower at 8%. Nearly half the family businesses have a costed, formalised and documented plan, while 43% have a plan but the same is not costed, formalised and documented.

Have a strategic plan for the next 3–5 years? (%)

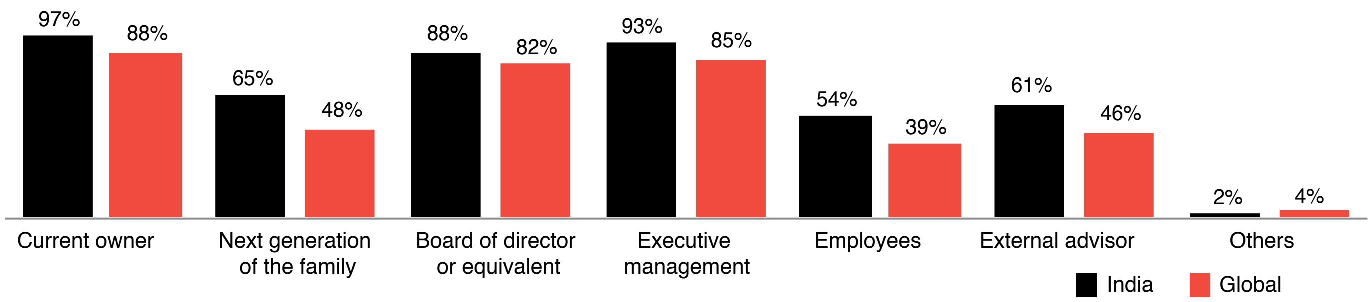


Q: Does your company have a strategic plan for the next 3–5 years? Has this strategic plan been fully costed, formalised and documented?

Base: All respondents answering (2018: India=106, Global=2,952)

Among those with any sort of a plan, it was heartening to note that in 65% of the cases, the next gen were involved in plan preparation. PwC India's Next Gen Study 2018[21] revealed that 97% of the next gen today felt that having a clear-cut mid-term strategy was one of the most important issues facing businesses. In more than half the cases, employees were also engaged in the planning process. In nearly two-thirds of the businesses, external advisors were also involved.

People involved in making the strategic plan (%)



Q: Which of the following were involved in developing and agreeing on your strategic plan?

Base: All respondents answering who had a plan (2018: India=97, Global=2,330)

19 https://www.pwc.com/gx/en/services/family-business/family-business-survey-2016.html

20 https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html

21 https://www.pwc.in/services/entrepreneurial-and-private-business/pwc-india-next-gen-study-2018.html

We also uncovered certain interesting insights when we spoke to those who had any sort of plan:

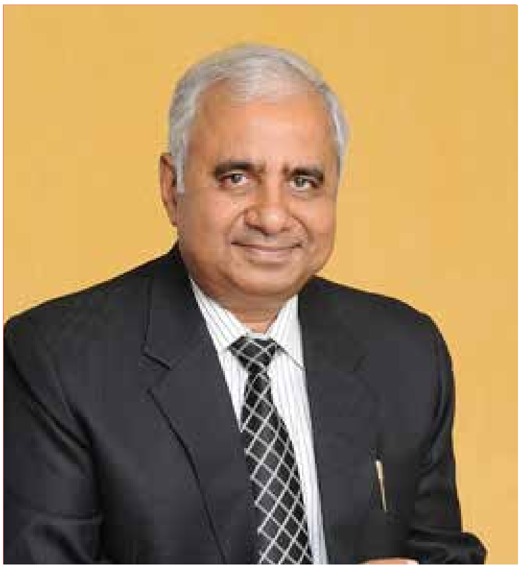
85%	Say the plan is embedded in their financial planning process (83% Global)
65%	Say the plan has defined financial and non-financial KPIs in place to measure progress and success (65% Global) 14% have just financial KPIs and 6% have just non-financial KPIs; 15% have no KPIs
84%	Have communicated the plan internally (82% Global)
42%	Have communicated the plan externally (53% Global)
11%	Have not communicated the plan internally or externally

Q: Do you have defined financial and/or non-financial key performance indicators (KPIs) in place to measure the progress and success of this strategic plan? Is the strategic plan embedded in your financial planning process? And to what extent has this strategic plan been communicated…?

Base: All respondents with a strategic plan answering (2018: India=97, Global=2,327–2,331)

While it is encouraging to note that in 85% of family businesses, the mid-term strategy is embedded in the financial planning process, 14% of the family businesses have just financial KPIs and 6% have just non-financial KPIs to measure progress. Another 65% measure financial and non-financial KPIs, while 15% have no KPIs.

Conclusion: Based on the above findings and driven by how many businesses set up a strategy, involve people, share and communicate the goals, only 34% of family businesses in India could be categorised as high strategic planners, with a significant number (58%) being ranked as medium strategic planners. It is essential for family businesses today to bridge short-term results with their long-term goals through an effective mid-term strategy, particularly against the background of a rapidly changing geopolitical, economic and technological paradigm.



Vinod Kumar Agarwal

Managing Director, GR Infraprojects Limited

Connecting the country through traditional values

GR Infra was started by Vinod Kumar Agarwal's father in 1965. The family came from a very small village, Sahawa in Churu District of Rajasthan, and his father was engaged in the trading of foodgrains. However, there was no road connectivity to transport his products and seeing the lack of infrastructure, Agarwal's father set up a sole proprietorship and started his first road-building assignment. Initially, it was a big struggle and at times work was just enough to make ends meet.

The next few assignments came in Jodhpur, Jaisalmer and Barmer. As Agarwal puts it, "At that time my father could not afford to spend on our higher education. My five brothers and I moved ahead with the limited education we received in the village and three of us were able to complete our graduation. In 1979, my elder brother and I quit studying and joined the family business to help our father. We were followed by the rest."

When Agarwal and his brothers joined the business, their father inculcated in them some fundamental values that the family swears by even today. One of them was around commitment. Agarwal explains this value as follows: "My father told us no matter what the project is, at whatever rate you have taken it, be it good or bad, easy or tough, with low margins or high – the focus should always be on completing the project. If the project is stalled by a dispute, nobody will sympathise with us." Quality is equally important. This focus on project delivery combined with adherence to quality has been key to GR Infra's success and has helped the company complete various projects over time, starting from building roads in villages to building highways, thereby cementing its reputation.

Another core value that Agarwal inherited from his father is around balancing risk with growth: “My father always said, ‘Don’t ever let debt get the better of you. Your growth may take a hit but don’t take on too much debt to achieve high growth – take only what you can repay in a year or two. Grow as much as you can control and manage; the project margin is limited but the loss isn’t.’ So, we followed our father’s principles and kept the debt levels in the company low. This benefited us as even when we didn’t have a lot of work, we weren’t under pressure.” Today, GR Infra has infused more equity into its business and measures debt as a percentage of its profits as opposed to a ratio to equity.

A new wave of growth came in post 1996 with new policies focusing on rural roads and the establishment of the National Highways Authority of India (NHAI). Initially, GR Infra focused on rural roads and gradually gained eligibility to bid for NHAI projects. Today, the business is looking to grow by strengthening its operations in this sector. Backward integration is allowing a number of activities to be developed in-house. Moreover, setting up an advanced lab with new technology has allowed the company to maintain its costs and generate higher value.

While the handling of a single business by six brothers brings in different perspectives, it can also open up scope for disagreements. But for the Agarwal brothers, their proximity and accord are a mechanism for them to reduce stress and make sound business decisions. Agarwal states that his mother played an integral part in keeping the brothers together: “Our mother always told us to stay together and helped us value love and mutual understanding. She would say that money should never be a reason for dispute and she promoted self-control.” The family continues to cherish this value and has created a common pool for earnings and savings that is accessible to all family members.

In a novel way, these traditional attributes are providing the business the edge it needs. The company understands the need for professionalisation and at the same time acknowledges that their industry is one which requires a high degree of personalisation in overseeing projects. In Agarwal’s words, “The professionals in the business are treated as our family. Which is why we haven’t seen any exit at the top level in the last 10 years.”

The company has grown significantly over the years. The current generation expects that a majority of the next gen will join the business; however, those who wish to pursue their own passion can continue to be shareholders in the family business. Agarwal says that mutual understanding between the six brothers has until now precluded the necessity of documenting the role and responsibilities of family members in the business or the need for establishing a family governance structure. However, with the business growing and the third generation getting engaged in the business, he now feels the need to do so.

Like most family businesses, Agarwal is aware of the positive impact GR Infra can have on its communities. The primary focus of GR Infra welfare projects is education and health. Wherever projects are being executed, a study is undertaken to find out basic necessities which are lacking – be they schools or hospitals – and efforts are made to put these in place. The company also wants to set up an institute for skill development.

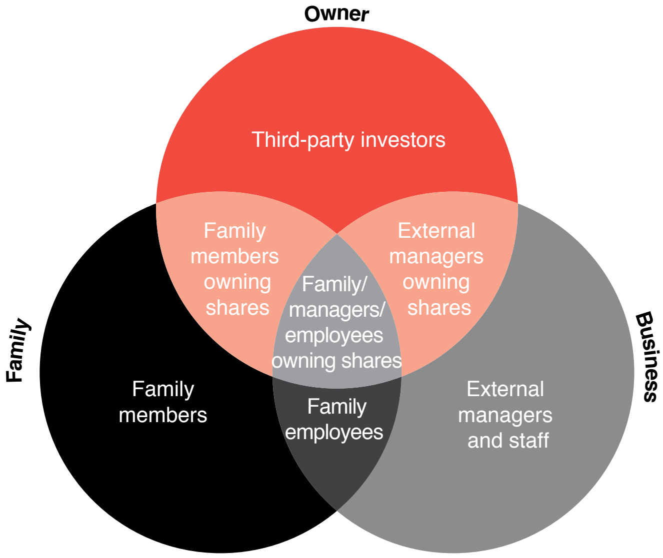
6 The family

Engaging the family in a family business

Our 2016 survey[22] revealed that family businesses perceived themselves as extremely entrepreneurial, believed they had a strong sense of culture and values, defined success as beyond just profit, were proud of their ability to make faster decisions, and gained satisfaction from their support to people and communities. Underlying every business, its vision and its success is the family.

The 3 circles model presented below illustrates the varying roles played by family and non-family members in a family business. The fabric of a family business and the interplay of relationships – personal and business – have a powerful impact on business strategies, outlook and success.

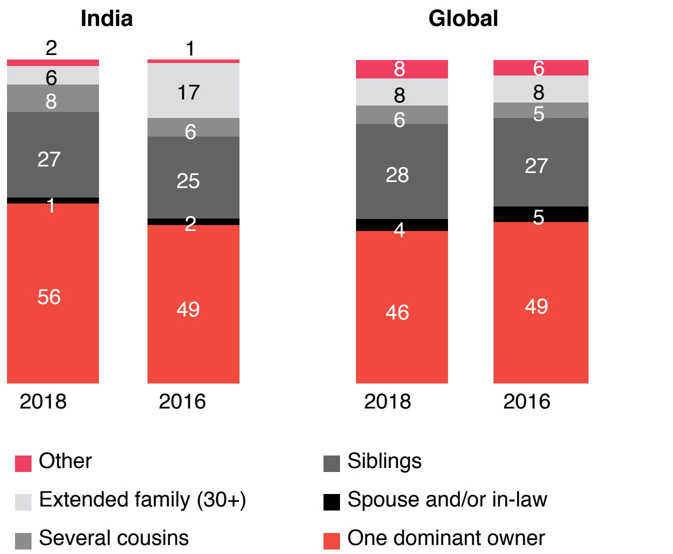
The 3 Circles Model



Source: Model by Renato Tagiuri and John Davis

Of the 106 family businesses surveyed, 56% have one dominant owner, while 27% have siblings as owners.

Family ownership structure (%)



Q: Which one of the following best describes the family ownership structure of your business?

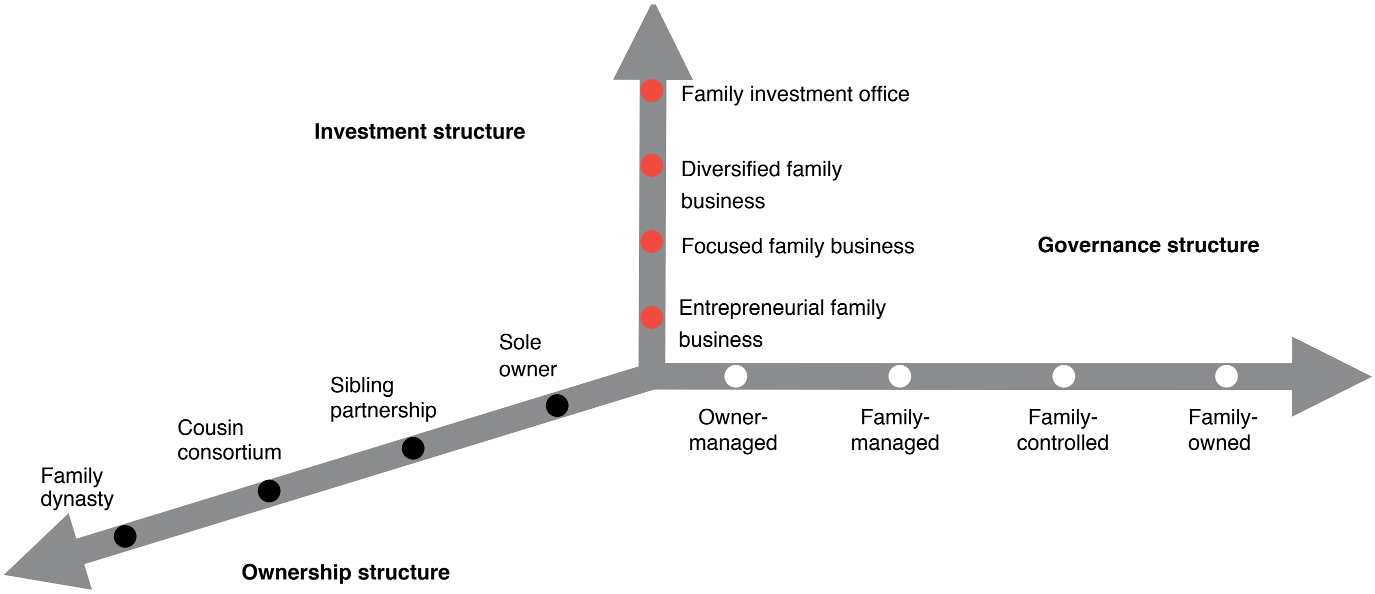
Base: All respondents answering (2018: India=106, Global=2,820; 2016: India=102, Global=2,802)

Based on our experience of working with family businesses, we understand how structural challenges and concerns vary across companies based on the ownership structure, investment structure and governance structure. (Refer to the 3 Dimensions Model on the next page.) The way a family business is organised, the number and roles of different members, the presence (or absence) of family offices,[23] management vs ownership structure and so on – all these factors have a bearing on the way a family business is run and managed. In this section, we will talk about the involvement of family members, the role of the next gen and women, the debate of management vs ownership, policies set up to handle diverse interests and the approach (or lack thereof) towards ensuring business continuity and succession.

22 https://www.pwc.in/publications/family-business-survey-2016.html

23 Read more about family offices in our report 'Family, legacy and you: perspectives on succession planning and business continuity' at https://www.pwc.in/assets pdfs/publications/2018/family-legacy-and-you.pdf

The 3 Dimensions Model*



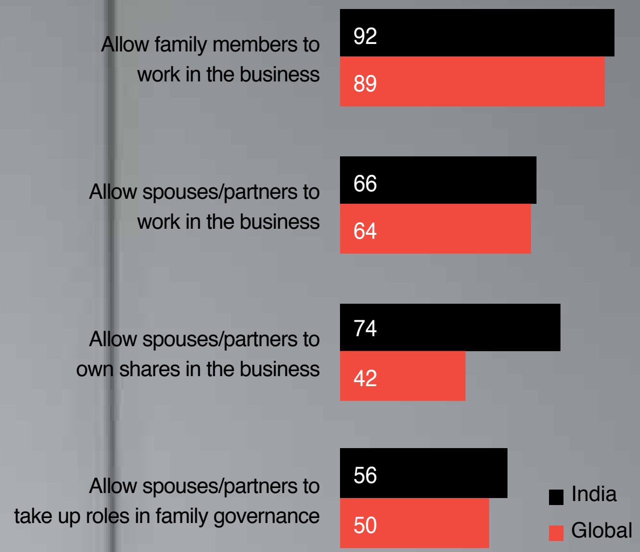
*Source: Model by Peter May

> As far as my children are concerned, they don't necessarily have to come on board this business. This business is going to be professionally managed from top to bottom. If they do decide to join, they need to rise through the ranks and be professionally qualified to do so. Or else they can sit in the family offices – like a lot of our friends – and create new businesses. We will see what the opportunities are in India or abroad. If we have that kind of capital in our family office, we will create those opportunities. But again it will be very professionally managed.
>
> **- Raaja Kanwar, Apollo International**

A majority of the family businesses allow family members to work in the business. However, when it comes to spouses/partners, only two-thirds of family businesses allow them to work, while in nearly three-fourths of the cases, spouses/partners can own shares. In 53% of family businesses in India (33% globally), spouses are allowed to own shares in and work in the business. In 11% of the cases (24% globally), they are not allowed to do either.

Historically, Indian families have been more open to spouses owning shares as opposed to working in the business, a trend which is changing now with more and more family members becoming engaged in different verticals/companies of the business group. Family governance is one area where spouses/partners are encouraged to participate and in our survey more than half the family businesses followed this.

Family and spousal involvement in the business (%)



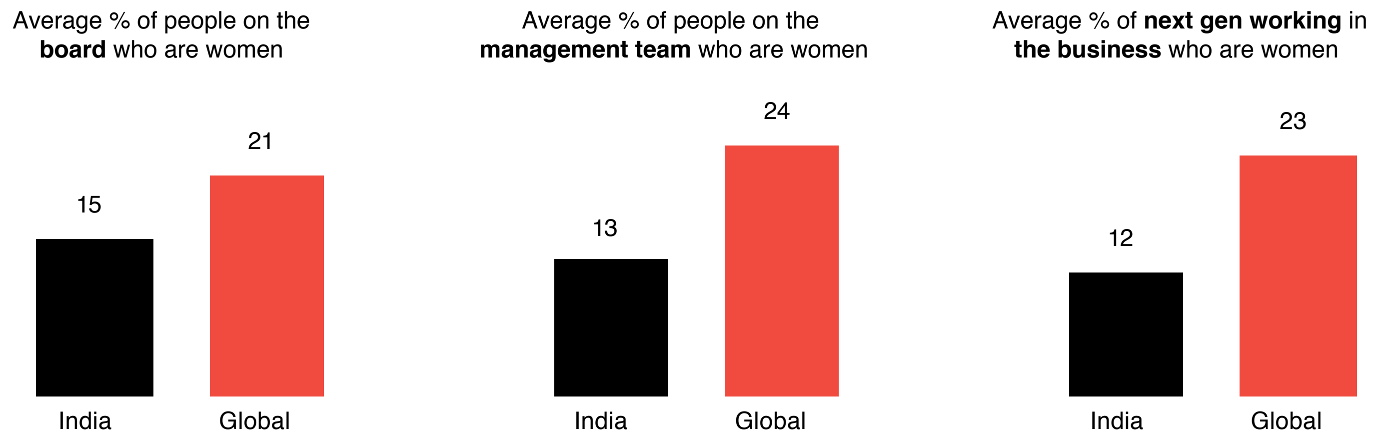
Q: Are other family members allowed to work in the business? In principle, are partners or spouses of the family? Are partners or spouses allowed to take up any roles in family governance?

Base: All respondents answering (2018: India=106, Global=2,948–2,951)

Women and family businesses

Women only average 15% of the board in Indian family businesses, lower than the global figure of 21%. For 25% of family businesses (36% globally) there is no female representation on the board. It is in only 4% of family businesses in India (16% globally) that more than half the board comprises women.

Presence of women in family businesses (%)



Q: i Approximately what proportion of people on the board are women?
ii. Approximately what proportion of people on the management team are women?
iii. Approximately what proportion of next gen family members working in the business are women?
Base: All respondents/all with next gen working in the business answering (2018: India=106/77, Global=2,940/1,896)

India also lags behind the rest of the world when it comes to the presence of women on the management team, with comparative average percentages being 13% and 24% respectively. In fact, in 27% of the family businesses in India (19% globally), there is no women representation on the management team.

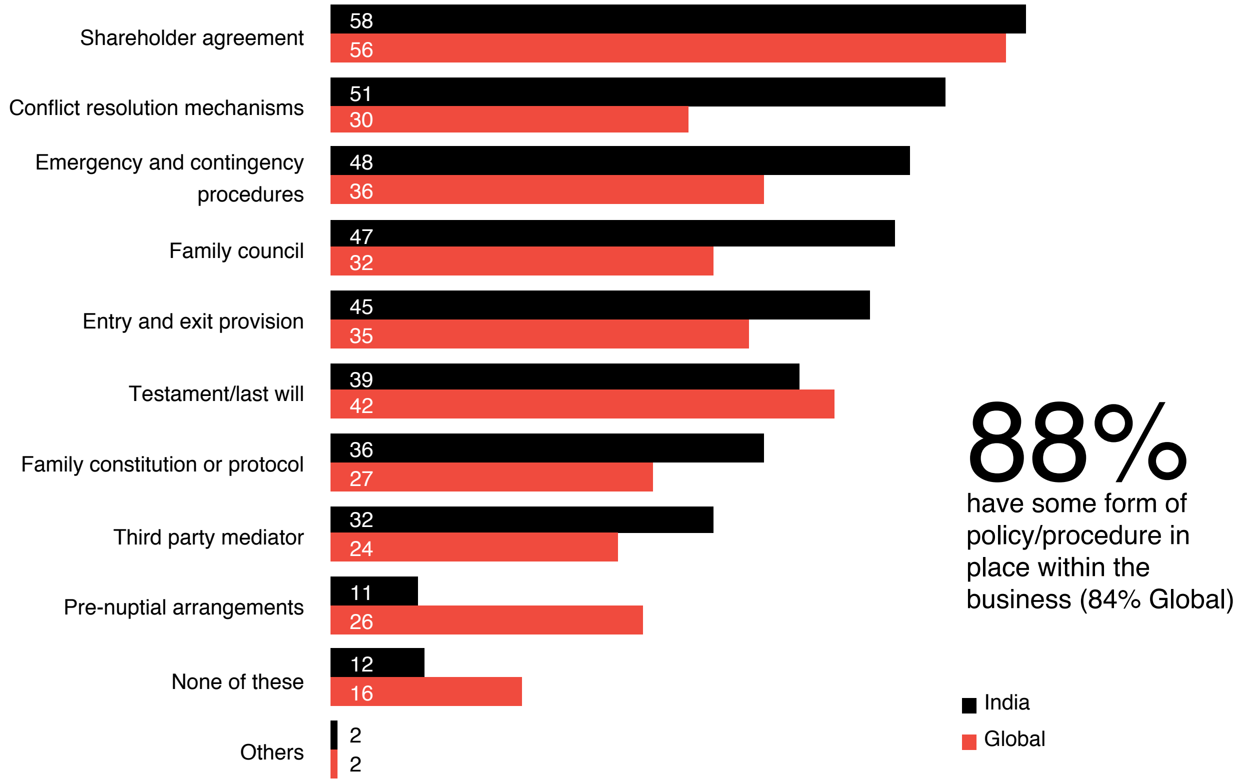
When it comes to the next gen and women, the picture is similar: in India, 12% of the next gen working in the business are women, as against 23% globally. In 58% of the family businesses in India which have the next gen working in the business, there are no women. It is in only 12% of Indian family businesses (25% globally) that more than half the next gen are women.

The role of women in Indian business houses has evolved over the years. Traditionally, women were more engaged in the company's philanthropic or community upliftment activities. Recently, however, the number of women engaged in the core businesses/offshoots has gone up. The presence of independent women directors on the board has also gone up. Businesses are appreciating how the diversity of skills, viewpoints and opinions adds to healthier growth of the company. Still, as is visible, there is significant room for catch-up.

Policies, procedures and handling family conflicts

Expanding families and diverse business interests and thought processes have made it obligatory for family businesses in India to ring-fence the interests of the family and the business and clarify roles and responsibilities. In India, 88% of family businesses (84% globally) have some form of policy/procedure in place to deal with this. As businesses expand and grow and new members are inducted, as owners and/or managers, it is crucial for the 12% who don't have any policy as of now to commence the process of putting mechanisms in place to streamline relationships and protect interests.

Policies and procedures in place (%)



Q: Which of the following policies and procedures, if any, do you have in place?
Base: All respondents answering (2018: India=106, Global=2,946)

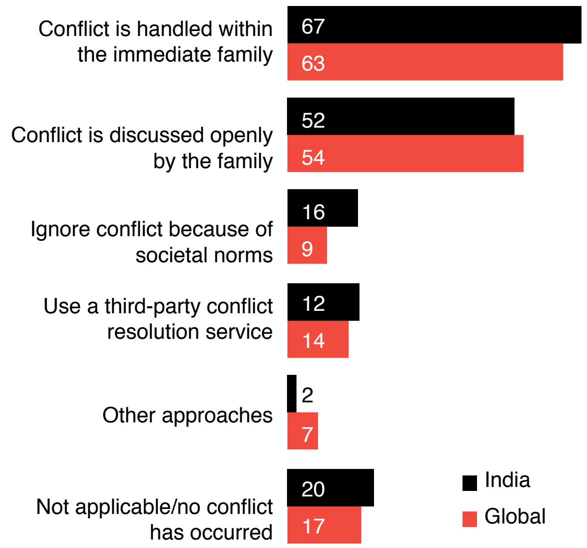
As the graph shows, shareholder agreement continues to be the main document of reference for family businesses, both in India and globally. Conflict mechanism resolutions are the next favoured policy/procedure in India, while globally, testaments and wills are more widely used. Family councils are also gaining importance and we see councils, with wider representation from the current and next generation and extended family members, working with families to establish protocols and handle strife.

As family businesses evolve and mature, we are seeing family constitutions being developed in India to define family values, vision and objective; establish business relationships; define protocols; clarify roles and responsibilities; and tackle governance aspects for both the family and the business. Usually created by the current and next gen together, they facilitate and streamline the process for ease in business and family alignment and the transition from one generation to the next. In our experience, they also enable greater clarity from an ownership and management perspective and help create boundaries between the family and the business.[24]

Less than one-third of the family businesses surveyed explore third-party mediation, up from 26% last year. While there is an uptick, third-party mediation still ranks low, given societal norms and unwillingness of family businesses to discuss issues openly. Finally, 67% of family businesses in India prefer to handle conflicts within the immediate family.

24 Read more about family constitutions in our report 'Family, legacy and you: perspectives on succession planning and business continuity' (https://www.pwc.in/assets/pdfs/publications/2018/family-legacy-and-you.pdf)

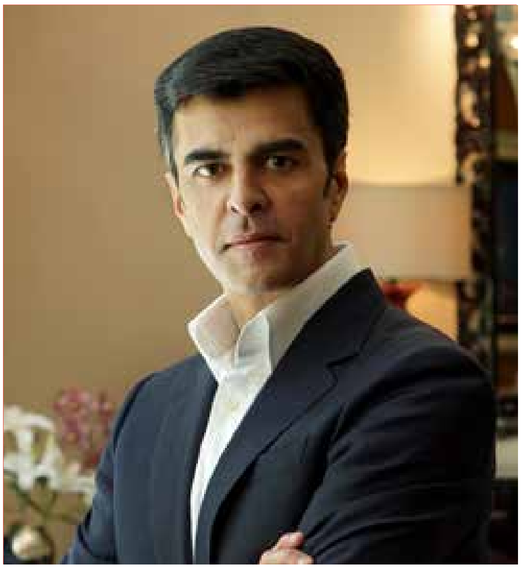
Approaches used to handle family conflict (%)



Question: Which of the following (if any) describes how family conflict is handled in the company?

Base: All respondents answering (2018: India=106, Global =2,945)

> "We want to build an entrepreneurial organisation which creates value for society. This vision is very difficult to achieve, especially at this juncture, when there is a lot of disruption. We have also realised that unless we have a family governance model, corporate governance won't happen, and unless corporate governance is in place, we cannot create an institution in perpetuity. Family governance is a prerequisite for all family businesses. I believe that with good family governance, one can create any type of business."
>
> **- GM Rao, GMR**



Raaja Kanwar

Vice Chairman and Managing Director, Apollo International Limited

Forging new paths

After studying and working abroad for many years, Raaja Kanwar came back to India post-liberalisation, in 1994. Being the elder son, the expectation was that he would work in the family business. However, instead of joining Apollo Tyres, his family business, he wanted to act on his entrepreneurial drive and create something of his own. He started Apollo International, a diversified arm of the mainstream Apollo Tyres business, to champion and lead new ideas. Kanwar acknowledges the huge support extended to him by his family, particularly his father, who helped him connect with people and guided him.

His first business was leather garments, which has now expanded to other arenas of fashion and supplies to prominent brands worldwide. Next came the logistics business, which has grown significantly and is the mainstay of his operations. His other initiatives included a tyre trading business which enjoys wide acceptability across the globe and several turnkey projects in Africa, Iraq, Iran, Afghanistan, Ukraine, Russia and America in the education, healthcare, agriculture, infrastructure development and industrial sectors. Kanwar also co-founded UFO Moviez which went on to become a game changer in the world of digital cinema. UFO Moviez went down the PE and public route and Kanwar is a shareholder in the company. While Kanwar encountered successes in these businesses, his journey has not been without challenges. A few ventures didn't work out and had to be shut down. "At that time, I would sometimes wish that I had stayed in the family business," he candidly admits.

What helped him get through was his focus and belief in himself. On the successful business models Kanwar created, he says that he preferred profit-sharing models with people who were skilled in that industry while he brought his business acumen and financial backing to the table. He says, "I am an entrepreneur and I go after entrepreneurs. I create a model which nurtures entrepreneurs though partnerships – I give them equity and we contemplate whether to make the business public in future or else we enter into a healthy profit-sharing arrangement. When people ask me what the difference between private equity funds and me is and I tell them I will not offload my stake and will not sell out. I keep it, grow it and run it."

The upward growth trajectory of the logistics business was not easy to achieve: "People knew Apollo was into tyres and hospitals, but they didn't know about our logistics business. The biggest challenge (at that time) for me was to go out and get business and establish the brand. Then it was about getting back to customers and differentiating ourselves in the price-sensitive market which is India." The company focused a lot on its IT systems to create that differentiation and show transparency. "For me to walk into this office and claim that I created this gives me a high. Like when my father walks into the office of Apollo Tyres, he stands like a tiger," Kanwar adds.

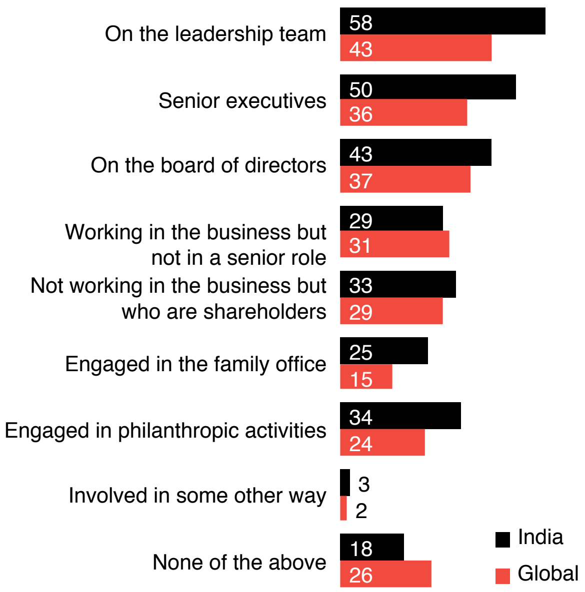
When we discussed the family, we found Raaja Kanwar to be extremely forward-looking in his approach to family and business governance, with clear thoughts around the difference between ownership and management. He has already initiated succession plans and has set up a family trust and family office to professionally manage the family investments.

He doesn't believe that his next generation needs to compulsorily join the family business. However, should they wish to do so, he wants them to rise through the ranks and prove themselves. Kanwar is very clear that he would like his businesses to be professionally managed and views himself as more of an entrepreneur, incubating new businesses, and distancing himself from the day-to-day operations of the business, thereby allowing professionals to take the lead on the same – a key attribute which many family businesses find difficult to achieve. Kanwar emphasises the need to be hands-on and personally involved, particularly when key leaders are joining the business. In his own words, "I spent 8 months with my CEO before I hired him. I flew him down, had meetings and met him over lunches just to be sure he is the right person. I don't have time to make the mistakes I could have made five to six years back. Age is not on my side. I will become old one day and my sons are also growing up. Most importantly, I am in a sunrise industry and I need to cash in on it now."

Kanwar wants his logistics company to be the leading player for end-to-end logistics. He believes technology will play a crucial role and the business is therefore focused extensively on technology. He also believes that values are an integral part of his business: "For me, values start with impeccable service because I am in the service industry. I have to be able to provide service that creates a differentiating factor and which then shows in my profits."

Next gen engagement in the family business

Involvement of the next gen in the business (%)



Q: Are there any next generation family members involved in the business who are…?

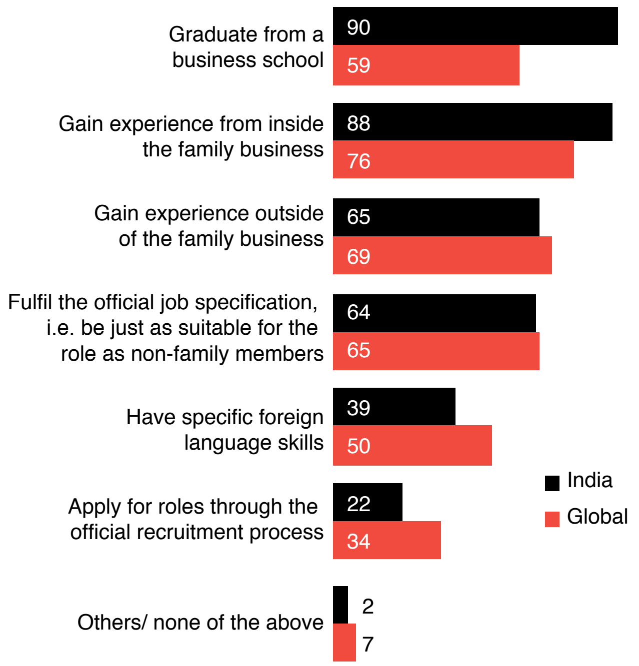
Base: All respondents (2018: India=106, Global=2,953)

In India, 73% of the next gen work in the family business, which is lower than the figure in 2016 (78%) but higher than the global figure (65%). Further, 58% of the next gen in India, compared to 43% globally, are a part of the leadership team. Half of the next gen are senior executives and 43% are on company boards. Our Next Gen Study 2018,[22] revealed that 50% of the next gen in India expected to be managing the business one day, 86% felt that they had a sufficient impact on decision making and 81% said they had clear ideas on how to take the business forward. Engagement of the next gen in management is therefore a step in the right direction. In India, a vast majority of the next gen are expected to graduate from business schools and gain experience from working within the family business. In two-thirds of the cases, experience outside the family business is preferred.

Based on our experience of working with the two generations – the generation which is leading the business presently and the next generation preparing to do so – we often find that there are some aspects which need to be discussed clearly and openly to ensure the success of the family and the business. Some of these are:

- What's the expectation of the current generation from the next gen? Does this match the ambitions and desires of the next gen? There could be different career paths which the next gen want to adopt – are these aligned to the family business and what is expected by the current family business leader?
- How are the next gen being groomed, counselled and inducted into the business?
- How are the three critical gaps faced by the next gen being handled – the credibility gap, the communication gap and the generation gap?
- If there are multiple next gen, who will play what role?
- Which of the next gen will be owners and which ones will manage the business? How will the next gen with different roles be rewarded?
- How are conflicts in thinking and decision handled? Particularly those in matters of changes needed in business models with, say, digitalisation?
- How are the next gen working with non-family professional leaders in the business?
- Have the next gen been given room to make decisions independently?
- How are new ideas taken on board?
- How do the next gen demonstrate commitment to the family legacy and the business?
- Are there documented protocols or a family constitution which underlines the key roles and responsibilities to facilitate easier communication and decision making and resolution of varying approaches?

Expectations of next gen family workers (%)



Q: Generally speaking, are next generation family members working in the business expected or encouraged to…?

Base: All respondents with the next gen working in the business answering (2018: India=77, Global=1,903)

22 *https://www.pwc.in/services/entrepreneurial-and-private-business/pwc-india-next-gen-study-2018.html*

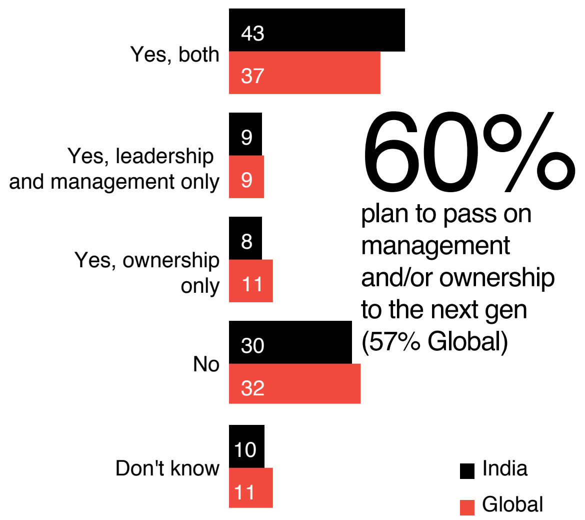
Our survey reveals that 60% of family businesses in India and 57% globally plan to pass on management and/or ownership to the next gen. However, in the case of family businesses which have the next gen already working in the business, this number rises to 69% in India and 68% globally.

Nearly 40% of family businesses in India are looking at transitioning ownership and/or management over the next 5 years. Another 27% aim to do so in the next 6–10 years. And yet 31% of family businesses, who are looking to transfer leadership and management/ ownership to the next gen, tell us that they have not involved the next gen in preparations for these changes.

Further, 63% of family businesses who are looking at transfer of ownership and management will do so at different times, while one-third will make the transfer simultaneously. Again, does this imply that management transfer will take place only when the current generation cedes control of ownership? Has this been communicated, discussed and agreed upon by the two generations? And if yes, what about execution? For instance, is the next gen being given the correct coaching and mentoring? Have they been engaged in key decisions for the business? Are they involved in key committees? Are they working independently with business leaders? Are they being heard? And most importantly, is the current generation 'letting go'? If yes, then how much?

In India, 43% of family businesses (vis-à-vis 37% globally) plan to pass on ownership and management to the next gen, while in 8% of the cases, only ownership will be transitioned. In another 30% of the cases, neither management nor ownership will be transitioned to the next gen. In other words, in around 38% of family businesses, the current generation expects and will look for professionals to manage the business. Given the challenge that family businesses face in attracting and retaining talent, this aspect of succession needs to be carefully planned and executed.

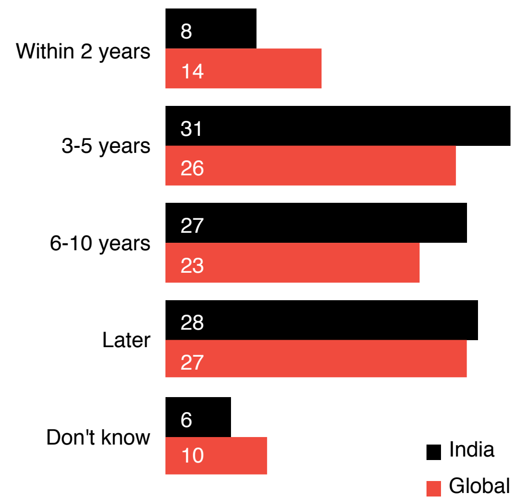
Passing on management/ownership to the next generation (%)



Q: Is there any plan to pass the leadership and management and/or the ownership of the company to a next gen family member?

Base: All respondents answering (2018: India=106, Global=2,940)

Timing for passing on management/ownership (%)



Q: In what time frame are you likely to pass the leadership, management and ownership/leadership and management of the company to a next gen family member?

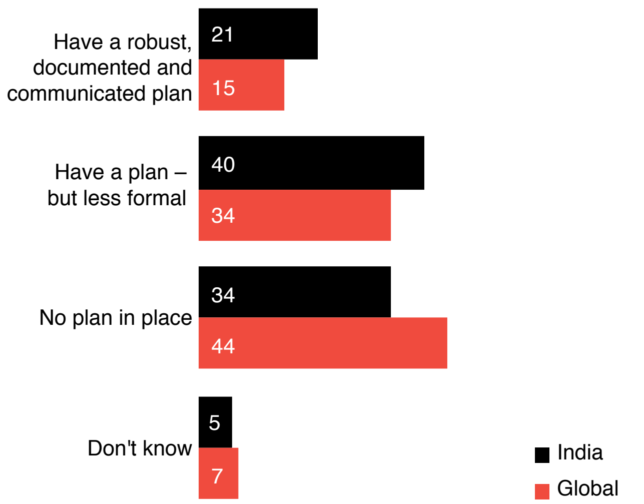
Base: All passing on management and/or ownership answering (2018: India=64, Global=1,665)

Despite our findings in the previous section, businesses don't seem to be giving sufficient importance to the most crucial aspect of their continuity – succession planning.Out of 100 businesses which are set up, 60 stay in business through the second generation, 32 in the third generation and only 16 last by the time the business reaches the fourth generation.[23]

Succession planning is relevant not only for the family but also for the business. Only 21% of family businesses in India have a robust, documented and communicated succession plan in place. Which means 79% do not.

In our recent thought leadership 'Family, legacy and you: Perspectives on succession planning and business continuity',[24] we discussed why succession planning is necessary for preserving the legacy and allowing the business to survive for generations. There is a need to manage family dynamics with delicacy and sensitivity, and continuity planning, succession planning, generational change and conflict management – all need to be handled with care. The report reinforces what we have mentioned earlier, namely that succession has two dimensions – succession in the family and succession in the business – for both the next gen/other family members and professionals. The report lists down steps for effective succession planning and business continuity into leadership and ownership and also highlights certain practices successful businesses follow to ensure harmony in the process.

Have a succession plan in place (%)



Q: Does your company have a succession plan in place? Is this succession plan robust, documented and communicated or is it less formal than that?

Base: All respondents/all with a succession plan (2018: India=106/64, Global= 2,951/1,437)

The four succession paths: Which path is your next gen about to take?[25]

Stewards

Stewards focus on protecting the profitability of the family firm and ensuring its long-term sustainability.

Transformers

Transformers take on the task of driving significant change in the family firm, with the scope and support to do so.

Intrapreneurs

Intrapreneurs set up their own venture within the family business, often with financial backing from the family.

Entrepreneurs

Entrepreneurs set up their own separate venture outside the family firm, with no profits going back to the family business.

Amongst those who have a succession plan:

80%

Say **key people** within the business are **aware of the succession plan**

(84% Global)

Only 70%

Say the plan has been **discussed with other family members**

(68% Global)

23 *https://www.scholars.northwestern.edu/en/publications/keeping-the-family-business-healthy-how-to-plan-for-continuing-gr*

24 *https://www.pwc.in/assets/pdfs/publications/2018/family-legacy-and-you.pdf*

25 *https://www.pwc.com/gx/en/family-business-services/assets/next-gen-study-2017*

7 Over the long term

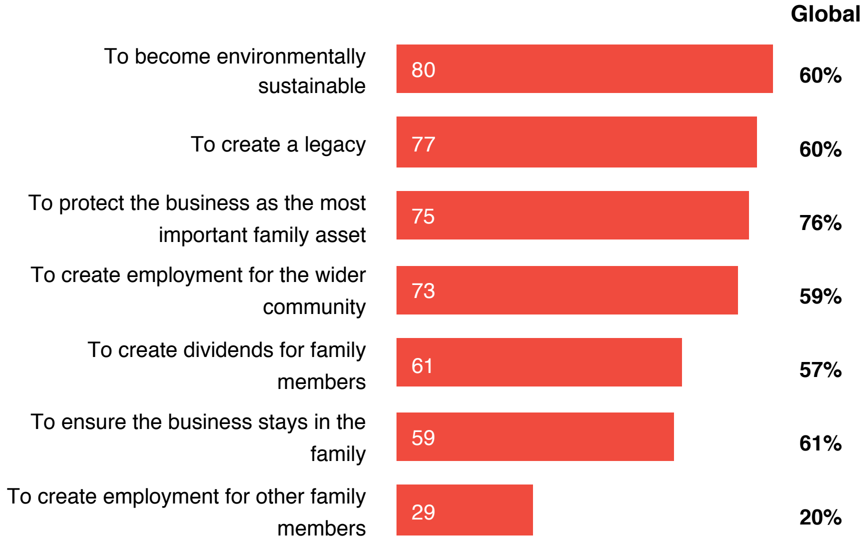
Four-fifths of family businesses in India wish to create an environmentally sustainable organisation over the long term. Nearly an equal amount would like to leave a legacy which, in our opinion, is one of the biggest drivers for family business leaders today – how do they create and contribute in a manner that creates a legacy for times to come?

Protecting the business as the most important family asset is very important. In fact, globally, this is ranked as the biggest goal for family businesses. As we mentioned earlier, establishing policies and procedures and planning appropriately for the business, for the family and for the next gen are a good start towards this.

Family businesses pride themselves on the role they play in people's lives; hence, creating employment for larger communities is important to nearly four-fifths of family businesses in India. PwC's Nagarik report[26] discusses the role that the private sector can play, with the government as an enabler, in solving the employment situation in India. Family businesses are one of the biggest employers in the country and their role in employment generation is crucial.

As important as working for the community, for people and for the environment is, family businesses are also focused on wealth creation for family members. Profitability, which results in suitable dividends for family members, is important to 61% of family businesses in India. For nearly an equal number of businesses, it is also important that the business stays within the family. Which actually implies that for nearly 40%, this is not the biggest factor, an interesting trend to note. This trend may be attributed to the varying ambitions of the next gen or the fact that a large number of businesses are able to propel growth through divestment to non-family members, private equity funds or through listing, particularly as businesses undergo transition and there is a significant wealth transfer where family business leaders need to explore options between sale, funding or continuing as is. This is also perhaps the reason why only 29% of Indian family businesses feel that creating employment for other family members is one of their larger long-term goals.

Long-term goals (top 2) (%)



Q: Regarding some potential long-term goals (i.e. over the next 5 years or longer), please rate each goal on a scale of 1–5, where 1 means it's not important to you over the long term and 5 means it's essential to you.

Base: All respondents answering (2018: India=106, Global=2,944–2,945)

26 https://www.pwc.in/publications/2018/nagarik.html

TT Jagannathan

Chairman, TTK Prestige Limited

Staying resilient in the face of adversity

"Everything in my life came by accident, which is perhaps why I have always cherished this line from Shakespeare: 'There is a tide in the affairs of men which taken at the flood, leads on to fortune,'" TT Jagannathan, Chairman of the 90-year-old TTK Group, tells us.

The TTK group was established by and named after TT Krishnamachari (or TTK as he was affectionately known), Jagannathan's grandfather, back in 1928. The company started as indenting agents for two leading players in the market and primarily dealt with soaps and oils.

TTK joined politics in the late 1930s and the mantle of the business passed on to the next generation, namely Jagannathan's father. Within a year of his assuming charge, the Second World War broke out, and one of the players decided to sever ties with all middlemen in India and began to go to market directly. Thus, the group's fortunes were based on their arrangement with one company only. The country went through a prolonged period of economic turmoil and TTK, the then Commerce Minister, banned imports of consumer products, which impacted the business significantly. The period of transition from distribution to manufacturing began and Prestige Pressure Cookers was one of the first few products to be manufactured in India.

On his journey, Jagannathan had this to say: "My mother has had a profound impact on my personal and professional life. In fact, she was the one who motivated me to work hard and told me that I should top the IIT batch. And sure enough, I won the Gold medal at IIT Madras and went on to pursue higher studies at Cornell University. I was certain that I would settle down in the United States." However, the TTK Group's losses were mounting, when he was called back to take over the family business by his father.

On coming back, he faced huge challenges. The business had a highly leveraged balance sheet, borrowing was at high interest rates, and the company was unable to pay in time and was borrowing more money to service the interest. In Jagannathan's words, “Living in debt had become the new normal.” He wanted to sell off the business, but no one wanted to buy a debt-laden company. Moreover, the staff was against the management.

As Jagannathan puts it, “This was perhaps one of the most challenging times in my career but I was determined to set things right and I did this by falling back on my engineering mind and by using common sense. I got full support from my mother who took charge of the business in Chennai. I decided to first take on the business which was making maximum losses (maps and atlases) and with all the controls we put in place, we managed to turn it around in 2 years. It remained profitable till 2015, only to be knocked out by Google Maps!”

Over the next three decades, all group companies were turned around one by one – a few loss-making companies were sold and a decision was taken to focus completely on the pressure cooker business. The company also acquired the Prestige brand from the UK and worked to rebuild it. A big breakthrough came when the company designed (and later patented) a pressure release solution to avoid accidents.

In 2002, the TTK Group became a debt-free company.

The group emphasises the need to innovate and be ahead digitally and recognises that this is an evolving area for them. Today, the group is professionally run with non-family members at decision-making levels. There has been a conscious decision not to involve family members in the day-to-do working to a large extent. Jagannathan explains, “It would be fantastic if the next gen of TTK is keen to join the business but as of now, my three sons are busy with different careers and I am happy to support and back them in whatever they want to do. Positive business growth requires a certain amount of time, skill sets and market opportunities, and it helps to have professionals from diverse backgrounds to run the business. The TTK Group is completely run by professionals today and I do not see this changing in the foreseeable future. People tend to think that family-run businesses do not give importance to hiring the right professional talent. Nothing could be further from the truth. Finding the right talent is important when the business is run professionally. All hiring of senior management is done by me personally. However, over the last 25 years, I have not had to hire anyone at senior levels as they have remained with us throughout.”

Advice to budding family business entrepreneurs

“As a group, we understand the importance of innovation and we are supportive of young businesses with promising talent. We also believe that there need to be investments in terms of time in understanding newer technologies and processes of the start-ups and not just funds. We have to constantly implement innovation and brace for disruption as being complacent can impact any large business. I have personally invested in about 10 start-ups, and there is no real science to investing in these companies. The first and only criterion I consider while backing an entrepreneur is how passionate he or she is about his or her business or idea. I believe that if one has the drive, one will succeed in whatever one aspires to do.”

Building a legacy

Globally, continuity of the business, engagement of the family in the business, growth and success of products/services and support to communities are some of the legacies which family businesses wish to leave behind. Family businesses measure success in terms of not only financial wealth but also less tangible elements such as personal growth and development, community and employee support, and upholding of core values.

> We should be remembered as a responsible corporate citizen which gives to society, takes care of employees and is responsible towards the environment.
>
> **- Second generation family business owner**

> For the family, to be recognised as a family that made a difference in the lives of people around it. For the business, to grow and positively contribute towards the society and community.
>
> **- Second generation family business owner**

> I would like to contribute to recognition of the brand. I would like our services to be known globally in the years to come. In an individual capacity, I would like my family to benefit from the business. I would like to be remembered as a person who contributed significantly to the community.
>
> **- First generation family business owner**

> My brand and industry should grow to the next level. Professional management should run the company in the future; the family should only own the business, not run it.
>
> **- First generation family business owner**

> I would try to make the world a better place. With an IIT degree and 10 years of work experience in the USA, along with a Master's in Engineering and an MBA, I am in a position to contribute and I should contribute. I am looking at energy usage…creation of jobs and…skilling. We want to retain majority control of the company – and to be masters of our own destiny and take the company where we feel it needs to go rather than where someone with lots of money thinks it should go.
>
> **- First generation business owner**

8 Looking ahead: Building businesses on values

At the heart of every family business we have worked with is its set of values. These family values then translate into business values, company vision and a statement of purpose. The underlying values provide stability today with a new normal being defined for family businesses as they aspire to achieve double-digit growth while navigating geopolitical and economic changes, facing technological disruptions in digital and cyber, handling the varying interests of family members and generations, and dealing with business challenges centred on innovation and talent.

As with any business, leaving a legacy is important to family leaders and owners. But it is critical to ask here if family business leaders have done enough to ensure there is a sustainable business to start with – one which will exist and continue for the legacy to grow.

Is the company fit for growth? Has the company defined a medium-term plan which will bridge its short-term results with its long-term goals? What steps has the company taken to build its digital capabilities and surpass competition? How is it looking to fund its expansion plans into new territories? How will cyber security be ensured? What changes are needed in existing business models? How does the business access the latest innovation? Have family interests been aligned with business objectives? Have the current and next gen sat together to draw out a transition plan? Has a succession plan been drawn up for the family and for the business? Has it been discussed with stakeholders and communicated appropriately? How will the business survive family disagreements and conflict? Have the roles of in-laws and new family members been defined? How will the business attract key professionals, especially if the next gen are unwilling/unable to take charge?

These are some hard questions that family business leaders need to ask as they prepare themselves to partake in India's growth journey and build their legacy. In our Global Family Business Survey,[27] PwC leaders from across the world have shared their perspectives on key principles for getting value from values, building a digital legacy and developing a forward-looking legacy. From India, Ganesh Raju K shared five principles for pursuing purpose:

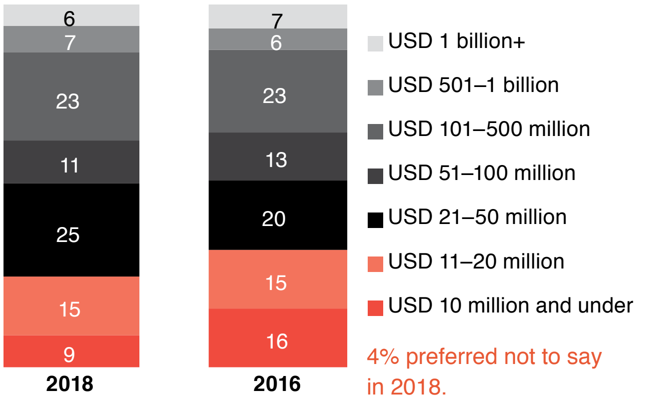
- Purpose defines your 'licence to operate' beyond making money. Be clear about which problems your business is committed to solving, and what kind of value you want to generate for your customers, employees, stakeholders and society.
- Define the link between your products and services and the company's purpose. For example, running a company in India producing machinery for farmers means not just being great in engineering terms. It is also about a broader purpose that has to do with feeding populations and helping farmers achieve this efficiently.
- Focus on real and sustainable value creation according to your defined purpose along the entire value chain. Consider the impact on your business model and leave room for necessary adjustments. Staying with the farming example, do you really need to be producing highly engineered machinery for farmers in a developing country, or is your purpose better served by producing less technically complex machinery that suits local conditions?
- Apply and monitor corporate social responsibility (CSR) principles and define key non-financial performance indicators that support you better in long-term decision making to achieve your goals and support your family business brand.
- Communicate your defined purpose internally and externally, as well as what you are doing to achieve it. This will help you align and unify various stakeholders, strengthen your employer branding and bring your competitive family business advantage to life.

27 https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html

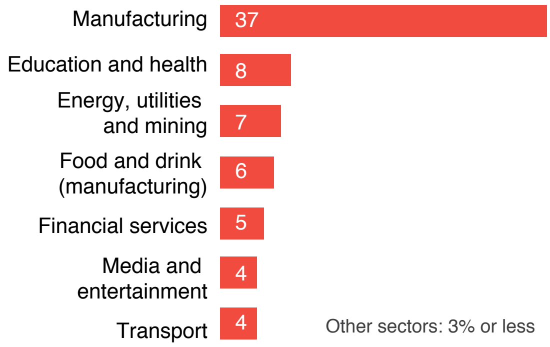
9 Appendix

Company profile – what companies were included?

Turnover (%)*

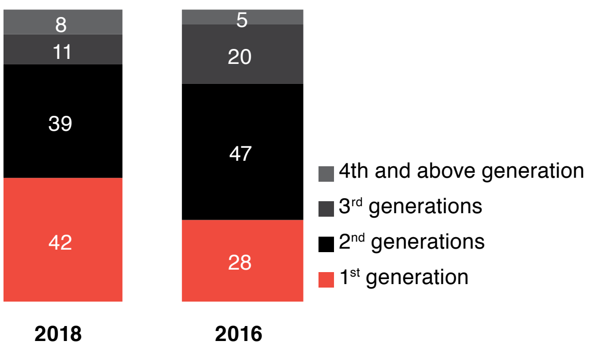


Sector* (%)

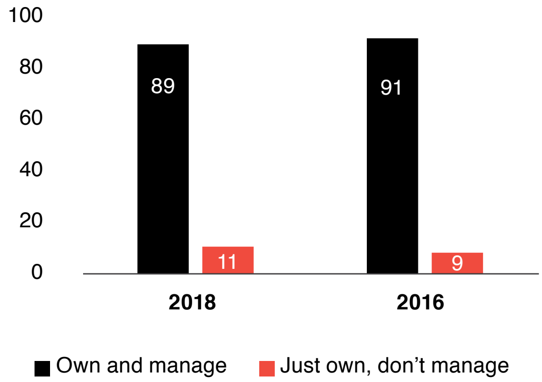


**Question changed from 2016, meaning comparisons not possible*

Number of generations (%)



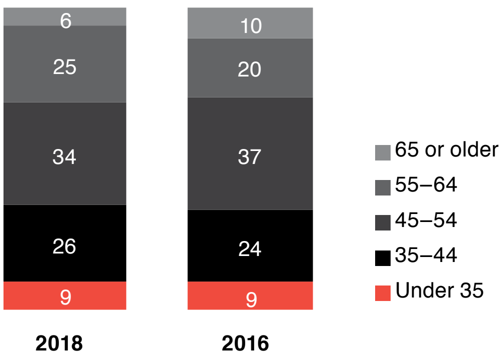
Family's role in the business (%)



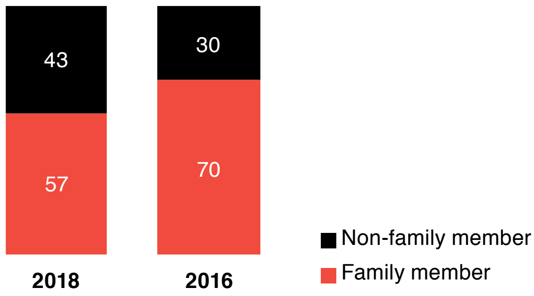
Base: All India respondents answering (2018=106, 2016=102)

India respondent profile – who did we talk to?

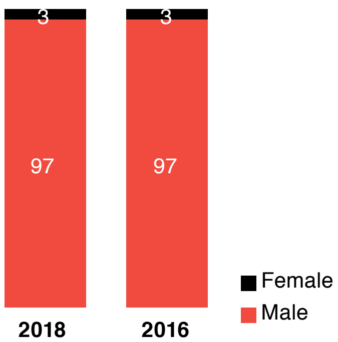
Age (%)*



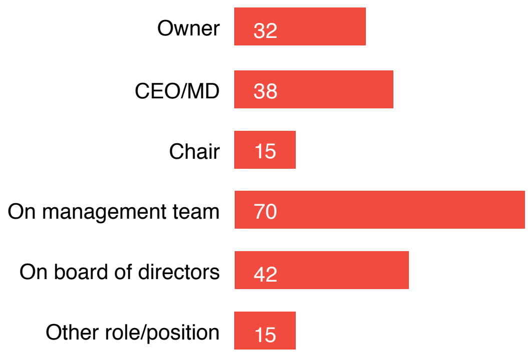
Family member (%)*



Gender (%)*



Current job role (%)*



** Question changed from 2016, meaning comparisons not possible*

Base: All India respondents (2018: n=106; 2016: n=102)

Our Entrepreneurial and Private Business practice

Our services

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

Our solutions

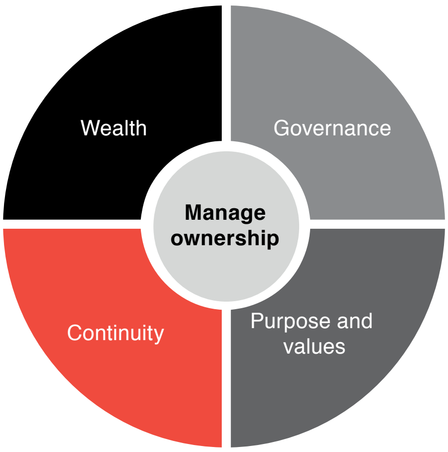
Our mission is to help business and family wealth grow by bringing our talent and skills to family businesses. We work on the owner's agenda and provide all the practical and commercial assistance appropriate for the two aspects of a family business, ownership and growth. We have built our success on developing trusted advisor relationships and delivering solutions and ideas tailored to the needs of our clients.

Wealth

- Investment and wealth strategy
- Family office
- Privacy and security
- Tax and legal structure
- Fragmentation of shareholding
- Exit planning

Continuity

- Succession planning: Ownership and leadership
- Testament and emergency plan
- Next gen development and responsible ownership
- Generational transition and knowledge transfer
- Transfer of shares



Governance

Corporate

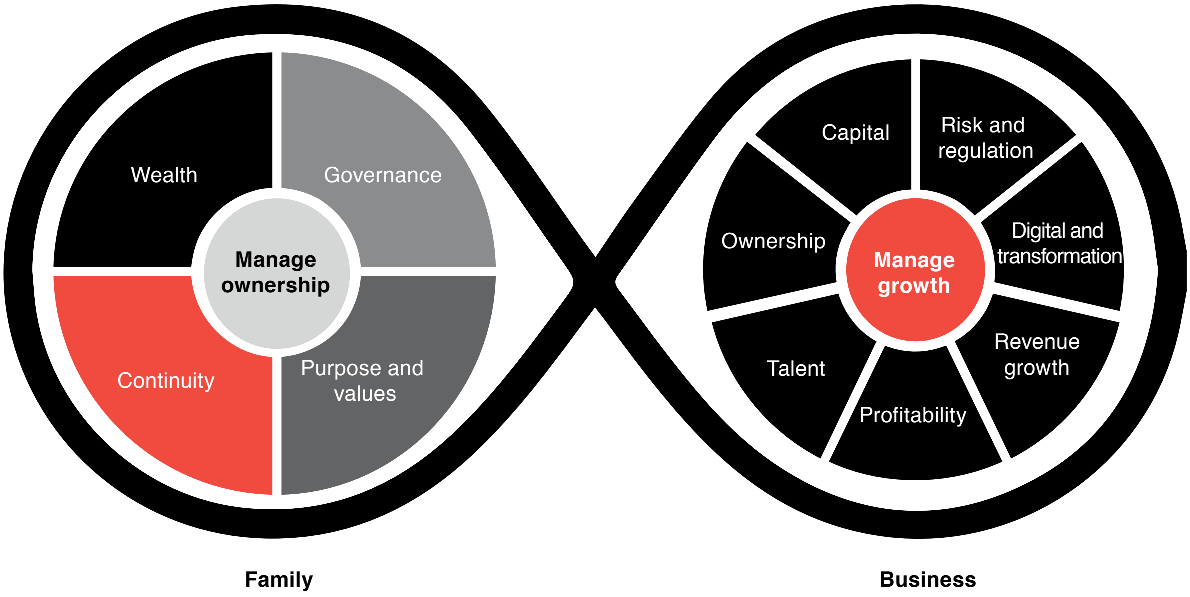
- Management and control structure
- Supervisory board
- Remuneration
- Dividend policy

Family

- Branch or family organisation
- Family/owner council
- Family education
- Family employment policy
- Family management
- Conflict management

Purpose and values

- Identity
- Shared mission and vision
- Business and investment ethics
- Philanthropy and impact investing
- Family activities



Manage capital

- Capital and financing structure
- Financing of innovation and growth
- IPO/investors
- Financial reporting
- Working capital

Manage risk and regulation

- Regulatory compliance
- Risk management systems
- Control environment
- Cyber security
- Sustainability
- Tax compliance and planning

Manage ownership

- Purpose and values
- Wealth
- Continuity
- Governance

Manage digital and transformation

- Digital strategy and transformation
- Customer experience
- Business model design
- Innovation
- Cultural change management
- Organisational design and talent strategy
- Technology strategy
- Process digitisation

Manage talent

- Leadership and board
- Performance management
- Compensation and rewards
- Workforce of the future
- Talent development
- Diversity and Inclusion
- Global mobility

Manage profitability and create insight

- Enterprise performance management
- Reliable internal and external reporting
- Business intelligence/big data
- Efficiency improvements
- Cost optimisation
- Operational restructuring

Manage revenue growth

- New revenue models
- Sales and marketing
- Pricing strategy
- Internationalisation
- Mergers and acquisitions
- Cooperation with startups

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