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# *Family Business Advisory Services*



# Family business enterprises are critical to the success of the Indian economy

Many of India's largest and most celebrated companies today are nurtured by a group of promoters and family members who have drive, determination and a never-say-die entrepreneurial spirit. The significance of family-run businesses has grown and today, many family businesses have stepped beyond their footprint to acquire companies in new industries and new geographies. At PwC, we recognise the valuable contribution that family businesses have made, and will continue to make, towards the growth of the Indian economy, be it through increased employment, investment outlays, community initiatives, giving back to society or contributions to the exchequer.

With the new normal being defined by Indian and global political, economic and market conditions, family businesses need to plan strategically for both aspects—the family and the business. While family businesses can boast of advantages over non-family businesses, they have their own unique set of challenges.



## Family business diagnostic\*

Strengths	Challenges
Commitment, passion and dedication to the business as family business owners have greater personal stakes involved; higher entrepreneurial spirit and risk-taking appetite	Need to continuously innovate to stay ahead; using digital and technology as enablers and bringing about changes in the organisation to keep pace with disruptions
More likely to retain talent in tough economic times	Attracting and retaining the right talent given the perception around growth of professionals in a family business organisation
Long-term approach to decision making and greater flexibility, leading to faster decision making	Misalignment of incentives among family members, family disagreements and family politics; managing diverse opinions of family members and professionals in the business and in decision making
Deep industry insight and knowledge through focus across generations on select industries	Regular and streamlined access to capital to help grow and evolve the business
Strong culture and value system; long-term perspective of the business, and loyalty and commitment to its growth and development	Sustaining the same commitment across generations and levels in the organisation
Stable leadership patterns	Need to professionalise the business and informal management structures
Willingness to pass on knowledge and experience to the next generation; ensuring reinvention with every generation	Mentoring and developing the next generation of successors (succession planning) and dealing with differing opinions and interests across generations. The next generation may also face challenges in proving itself to the current generation.

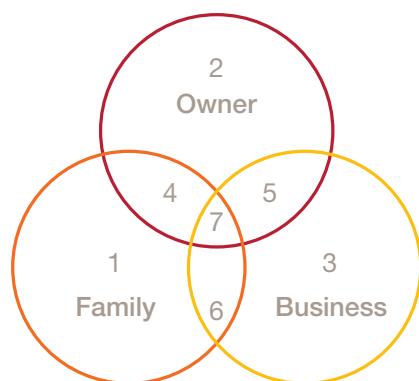
\*Source: PwC India Family Business Surveys - 2014 and 2016



## Managing family dynamics

A family business involves the interplay of three components—family members who own and control the family business, owners who may comprise the family as well as outsiders, and the business itself. Managing family business dynamics requires delicacy and sensitivity. The three-circle model is a powerful tool to understand diverse interests and expectations in a family business.

Three-circle model<sup>1</sup>



### Roles in the family business:

1. Family members
2. Third-party investors
3. External managers/staff who are not owners
4. Family owners not working in the business
5. External managers who are owners
6. Family employees who are not owners
7. Family owners working in the business



## How can PwC assist you?

Our independent voice helps guide family enterprises in making decisions which benefit the family as well as the business.

### The succession planning imperative

While a family business structure can be an extremely successful business model, one of the biggest challenges that such a business faces is around succession:

- Succession of ownership
- Succession in management

Forty per cent of businesses worldwide will undergo succession in the next five years.<sup>2</sup> Having a clear and actionable succession plan will help family enterprises avoid unnecessary disputes and attention while solving sensitive matters and ensure business continuity.

Through our interactions with family business owners, we have realised that a large number of families do not formalise succession plans,

leaving the next generation unprepared for the challenges ahead. PwC India Family Business Survey 2016 indicates that only 15% of family businesses in India have a robust, documented and communicated succession plan in place. Thus, challenges may crop up should the next generation not embrace the family business in ways that are deemed appropriate. Issues also arise when the next generation does not support the family member chosen to lead the business.

Succession planning is not an event. Rather, it is a series of processes and systems put in place for all key roles, key functions and key locations to ensure the business is not impacted as it transitions from one generation to the next or, with an increased focus on professionalisation of operations, even to someone outside the family.

At PwC, we have developed mechanisms to assist families with succession planning and ensure that succeeding generations remain supportive of their family business management leaders.

<sup>1</sup> <http://johndavis.com/three-circle-model-family-business-system/>

<sup>2</sup> <http://www.pwc.com/gx/en/services/family-business/family-business-survey/next-gen-club.html>

## Conflict management

Just as conflicts exist in families, so they exist in family businesses. Managing conflict is the key not to only the survival of the business but also to the survival of the family. Most families wrongly assume that because they are a family, they will be in accord on all decisions.

In our experience, in any family business, members of the next generation need to establish strong business relationships with each other and not simply rely on the strength of family ties. They need to have clarity about the key issues their generation will face in the future, issues which may perhaps not be too relevant to the founding generation—which could make decisions without the need for consultation. Family businesses must look holistically at both the family and the business—from issues surrounding governance to having the right business and financial strategies in place in order to ensure continued growth.

## Continuity planning

We understand that each family has a vision for the future and is fully committed to the success of its business. However, family members across generations often have different objectives

and thought processes. As part of the family's ongoing commitment to the business, it is important for all family members to agree on an overall vision as well as their own convictions. At PwC, we are familiar with different ownership models and structures which suit different philosophies. We recognise how vital it is for the chosen model to reflect the culture of the individual family. Some key questions for family businesses include:

- What is the family's ownership philosophy and how important is the continuity of the business?
- Does the family's ethos lean towards collective ownership? Does the use of trusts or holding companies for the family business's shares represent a more effective ownership vehicle?
- Where does the family see its different members within the three-circle model?
- What are the needs of the next generation and how can these needs be satisfied while preserving the vision of business continuity?
- Is it realistic to assume that all members of the next generation will want to continue as owners or will this create fragmentation which must be addressed?



## Our thought leadership



PwC India Family Business Survey 2016 provides insights into how family businesses in India are meeting the demands of today's marketplace. The outlook of business families in India is extremely optimistic and the survey reveals a trend with respect to the direction, mode and means of growth, and the way family business in India are protecting the family and the business while dealing with conflict.



Since 2008, PwC Family Business Surveys have been providing insights into family businesses around the globe. PwC's Global Family Business Survey 2016 captures the views of over 2,800 family business leaders in 50 countries. The survey talks about the 'missing middle'—a strategic plan necessary to bridge the gap from where the business is now to where it could be in the long term.



PwC's Global Next Gen Survey 2016 talks about issues and trends currently affecting the next generation working in family businesses.



Private companies are a vital part of global economies, and many have histories going back generations, not just years. So, how do their CEOs see the world of 2017? And how confident are they about the future?





## PwC's integrated Family Business Advisory

### Grow revenue

- Strategy/business model
- Feasibility studies
- Going global
- Distribution strategy/channels
- Product/service innovation
- Pricing strategies
- Digitalisation
- Talent and change management

### Inorganic growth

- Mergers, acquisitions and disposals
- Due diligence
- Valuation
- Turnkey transaction assistance
- Accounting and purchase price allocation
- Post-deal integration and delivering deal value

### Manage ownership

- Owner's strategy
- Next gen development
- Family governance
- Culture and values
- Succession planning
- Tax and legal advice
- Exit strategy
- CSR and philanthropy

### Finance growth

- Exploring financing options
- Financial restructuring
- Debt advisory
- Bank reporting
- Treasury/liquidity planning/cash flow
- Working capital management
- Preparing for an IPO



### Manage the risks of growth

- Compliance
- Control environment
- Fraud risk
- Insurance coverage
- IT/cyber security
- Regulations
- Sustainability

### Steer the business

- KPIs and leadership development
- Cost accounting/transfer pricing
- Internal and external reporting
- IT strategy
- Business intelligence
- Data analytics

### Manage profitability

- Corporate structure simplification
- Reduce cost
- Remove complexity
- Supply chain optimisation
- Improve efficiency
- Asset and business restructuring
- Operational restructuring





## ***Our Private and Entrepreneurial Practice***

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### **Our services**

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

### **Our solutions**

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



## About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 2,23,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com)

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