PwC India Family Business Survey 2016

Aligning with India's growth story

__75%__ of Indian family businesses have grown in the last 12 months; __84%__ expect to grow either steadily or quickly and aggressively over the next 5 years.

__56%__ of Indian family businesses feel the need to innovate will be a key challenge in the next 5 years.

Only __15%__ of family businesses have a robust, documented and communicated succession plan.

__35%__ plan to pass on management to the next gen; __48%__ plan to pass on ownership but bring in professional management.

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'I would like to build a great institution which can survive without family members and make a difference to all the stakeholders, including investors, employees, customers, the ecosystem and the industry. For the family, I would like to create a decent amount of wealth so that they can live comfortably. For the community, I am looking to make retail far better than what it is today. It sounds a bit ambitious, but we will see how this pans out in times to come.'

Managing Director
First generation business

'I would like the next generation to carry on the wonderful business that the past generations have created. To innovate and grow the business and help the community as a whole.'

Managing Director
Third generation business

Contents

Foreword	*4*
Performance, prospects and challenges	*6*
The digital imperative	*15*
What makes family businesses different?	*16*
Alignment of business and family strategy	*21*
Protecting the family and the business while dealing with conflict	*22*
Making a success out of succession	*24*
Professionalising the business	*27*
Looking ahead	*29*

Foreword

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Outlook for India remains buoyant, but are family businesses adequately prepared?

In India, the role of family businesses in nation building, wealth creation, employment generation and contribution to the exchequer is both significant and commendable. While some Indian family businesses have followed the same lines of business started by their fathers or grandfathers and grown these significantly, others have diversified considerably by setting up new businesses, exploring new sectors and markets, expanding geographically, and increasing their global footprint. From small and medium enterprises to large conglomerates, family businesses have contributed to the growth of every sector in India and it is always interesting to find out how they have evolved over a period of time, how they perceive their business prospects, what they think they need to do in their business to take it forward in a rapidly changing environment, including dealing with the five megatrends shaping the business world,[1] how they deal with family conflict in the current circumstances, their take on the next gen and how they react to the digital world.

Every 2 years, PwC carries out a Global Family Business Survey. This year, we spoke to 2,802 family leaders across 50 countries. The findings of this survey are presented in PwC's 2016 Family Business Survey—The 'missing middle': Bridging the strategy gap in family firms.[2] In India, we spoke to 102 family business leaders and this report captures both the global and Indian findings. We also bring you some comments shared by business leaders—their stories, outlook and apprehensions.

Striding ahead: Three-quarters of Indian family businesses have grown in the last 12 months. This is higher than both the global average and the findings of the 2014 survey.[3] Family businesses are also extremely optimistic about their growth, with 84% expecting to grow either steadily or quickly and aggressively over the next 5 years. This positive sentiment can be attributed to two broad factors—firstly, we have seen in the past that family businesses tend to remain relatively resilient and stable in adverse conditions; and secondly, the India growth story has been reinforced. Recently, we surveyed CEOs across India and found that 64% of CEOs in India were positive about growth.[4]

This survey reveals a trend with respect to the direction, mode and means of growth. This time around, family business leaders said they would rely on a combination of their own funds and external finance as they seek growth in their core businesses. About half of those we spoke to said that they would explore new territories and markets and would also look at inorganic growth.

Prioritising effectively to deal with challenges? Family businesses are aware of the challenges they will face now and over the next 5 years. Market conditions, government policy and regulation, innovation, digital disruption, technological changes, attracting and retaining talent, competition and professionalisation featured in most of the conversations we had with family business leaders. However, we found that the personal and business priorities of family business leaders were possibly not geared to meet some of these challenges. Read more about this gap on pages 10 and 11.

The digital imperative: Family businesses understood the benefits of moving to digital, yet a minority acknowledged the vulnerability of their business to digital and more than half do not discuss digital on the board. Our report captures some interesting trends with regard to digital; you can read more on page 15.

[1] *http://www.pwc.co.uk/issues/megatrends/megatrends-overview.html*
[2] *http://www.pwc.com/gx/en/services/family-business/family-business-survey-2016.html*
[3] *PwC India Family Business Survey 2014 – Family businesses: The evolving Bharat story*
[4] *http://www.pwc.in/publications/global-ceo-survey-2016.html*

The family: When one speaks about family businesses, one cannot not talk about the family. Family businesses are entrepreneurial by nature and family dynamics play a significant role in defining the way the business is run. And yet, we have seen that families are often not geared to handle conflict. In India, there has been some progress in and recognition of this very important aspect of family business. About 85% of those surveyed (up from 77% in 2014) said they had a mechanism in place to deal with conflict. However, when we inquired about succession, we found that only 15% had a robust, documented and communicated plan in place. Given that about 40% of family businesses over the world will be passing on the business to the next generation in the next 5 years, this is an alarming finding and the problem needs to be addressed urgently.[5] Succession in a family business includes enforcing processes to ensure business continuity and creating succession plans around senior roles, key functions and important locations is a must.

Family owners are increasingly recognising the need to professionalise: About one-third plan to pass the business fully onto the next generation (lower than the figure in 2014), while nearly half plan to pass on ownership of shares while bringing in professional management. However, attracting talent remains an uphill task as a number of professionals fear they will not have a clearly defined career path to the top. Further, business targets and future plans of professional managers and family owners can be different. Most of these issues can, of course, be resolved and do get resolved.

More recently, we are seeing daughters and daughters-in-law being inducted into the management. Gender equality is also being given importance amongst employees, with 60% of family business leaders confirming that they have an active gender equality programme in place.

The next gen: A majority of Indian family businesses have involved the next gen in the business, mostly in senior roles. The next gen have their own ideas and expectations from the business—they are open to diversification, digital and technology, and would also, in times to come, like to leave their mark on the business. However, they do face some challenges and gaps: a generation gap, a communication gap and the credibility gap.[6] Conversations with the next gen and ensuring they are skilled and prepared enough will ensure smooth continuity of operations.

Indian family businesses have been around for a while and are built on strong foundations. Today, with a new normal getting defined by Indian and global political, economic and market conditions, they need to plan strategically for both aspects of a family business—the family and the business.

Methodology

102
interviews were conducted in India

2,802
interviews were conducted globally across 50 countries

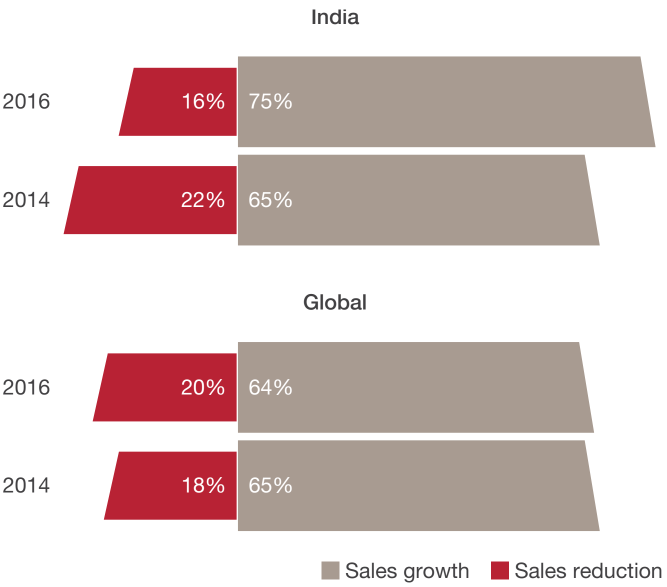
Interviews were conducted between 9 May and 19 August 2016. The findings presented in this report have been obtained from the global and Indian samples.

[5] *http://www.pwc.com/gx/en/services/family-business/family-business-survey/next-gen-club.html*
[6] *http://www.pwc.com/gx/en/services/family-business/next-gen-survey.html*

Performance, prospects and challenges

Growth in the Indian economy between 2014 (GDP growth of 7.3%) and 2016 (GDP growth of 7.6%) is reflected in the growth of family business enterprises. Seventy-five per cent of those interviewed said that their business had grown over the last 12 months. This is an improvement on our findings in 2014 (65%)[7] and also compares favourably against the global average of 64%.

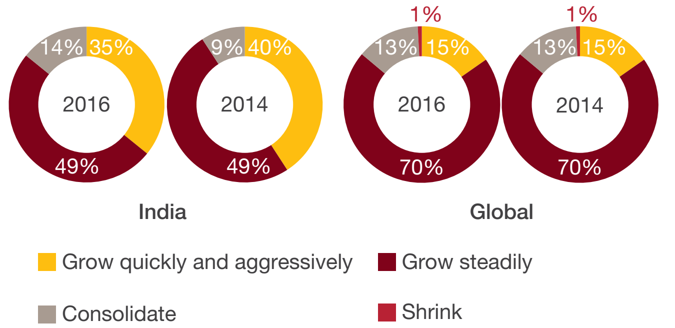
Growth in the last financial year



Q: Looking back over the last financial year, would you say you have faced…?
Base: All respondents (2016: India = 102, Global = 2,802; 2014: India = 65, Global = 2,378)

Macroeconomic focus continues to be 'India positive'. India is the fastest growing major economy in the world and a large number of economists and policymakers expect the country's economy to grow by around 7.5% in the financial year ending March 2017. As against this, global growth is expected to be around 3.1% and that of advanced nations, 1.8% in 2016.[8] It is no wonder, then, that over the next 5 years, Indian family businesses expect to grow steadily (49%) or quickly and aggressively (35%). Global numbers are more conservative: 70% expect to grow steadily and 15%, quickly and aggressively; moreover, 1% anticipate shrinkage in operations. The optimistic sentiment in India is reaffirmed across all businesses—family and non-family enterprises. According to PwC's 19th Annual Global CEO Survey: Redefining business purpose in a changing world (2016), 64% of India's CEOs are very confident about their company's growth in the next 12 months, as opposed to 35% globally.[9]

Growth aims over the next 5 years



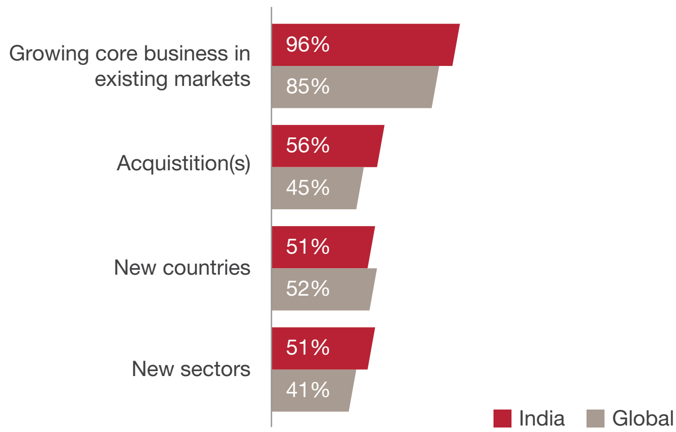
Q: Which of the following best describes your aims for growth over the next 5 years?
Base: All respondents (2016: India = 102, Global = 2,802; 2014: India = 65, Global = 2,378)

If we focus solely on quick and aggressive growth, we should note there has been a dip from the last survey in 2014 (40%) to the present year (35%)—the shift is marked by an uptick in consolidation. This can perhaps be attributed to business challenges expected to continue over the next 12 months as well as an extended slowdown witnessed in certain sectors like infrastructure, capital goods, power and metal and mining, which is leading to restructuring and realignment of strategy.

So, how will businesses achieve this growth?

Indian family business feel confident in the existing market and there is openness with respect to growth strategy in terms of market, sectors and acquisitions. Notably, 96% of those anticipating growth of over 10% annually over the next 5 years said that the growth of core business in existing markets would enable them to reach their targets—perhaps a cautious move given the five megatrends which are shaping, and will continue to shape, the business climate? Over half of the family businesses surveyed said they were looking to expand into new sectors or new countries and would consider inorganic growth.

Areas that will play a big role in growth

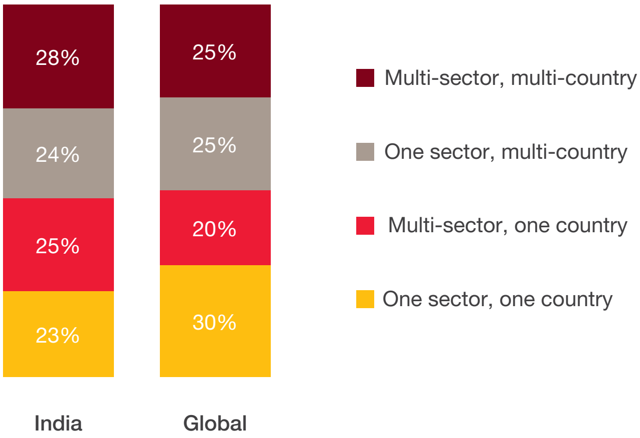


Q: Which of the following areas will play a role in driving this growth?
Base: All respondents aiming to grow by 10% or more (2016: India = 79, Global = 1,278)

7 *PwC India Family Business Survey 2014 – Family businesses: The evolving Bharat story*
8 *Source: IMF World Economic Outlook Update, July 2016*
9 *http://www.pwc.in/publications/global-ceo-survey-2016.html*

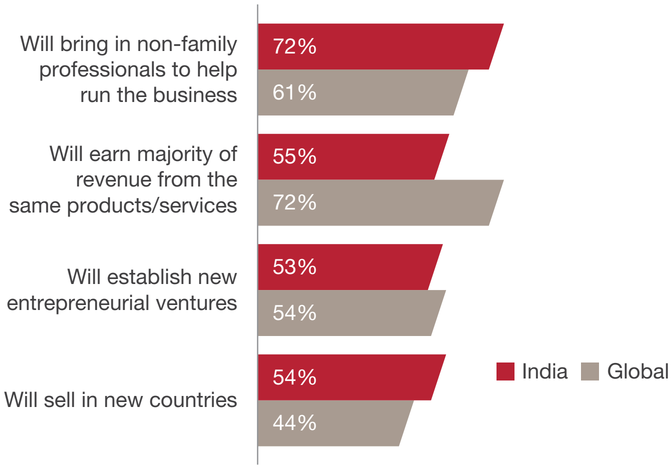
The charts below highlight how the business is structured currently and where the companies see themselves headed.

Current business diversification



Q: Which one of the following statements do you think best describes how diversified your business is?
Base: All respondents (2016: India = 102, Global = 2,802)

Future direction of the business (5 years' time)



Q: Thinking about the business in 5 years' time, realistically how likely is it that the following statements will be true of your business? Please use a scale from 1 to 5, where 5 is very likely and 1 is not at all likely.
Base: All respondents (2016: India = 102, Global = 2,802)

Indian family business houses are more diversified vis-à-vis their global counterparts, with only 23% limiting their businesses to one sector within India. 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. Further, regulatory changes are being introduced in India which are making this change inevitable. For instance, the Companies Act, 2013, has made it mandatory to induct independent directors into the board for quite a few business houses. 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.

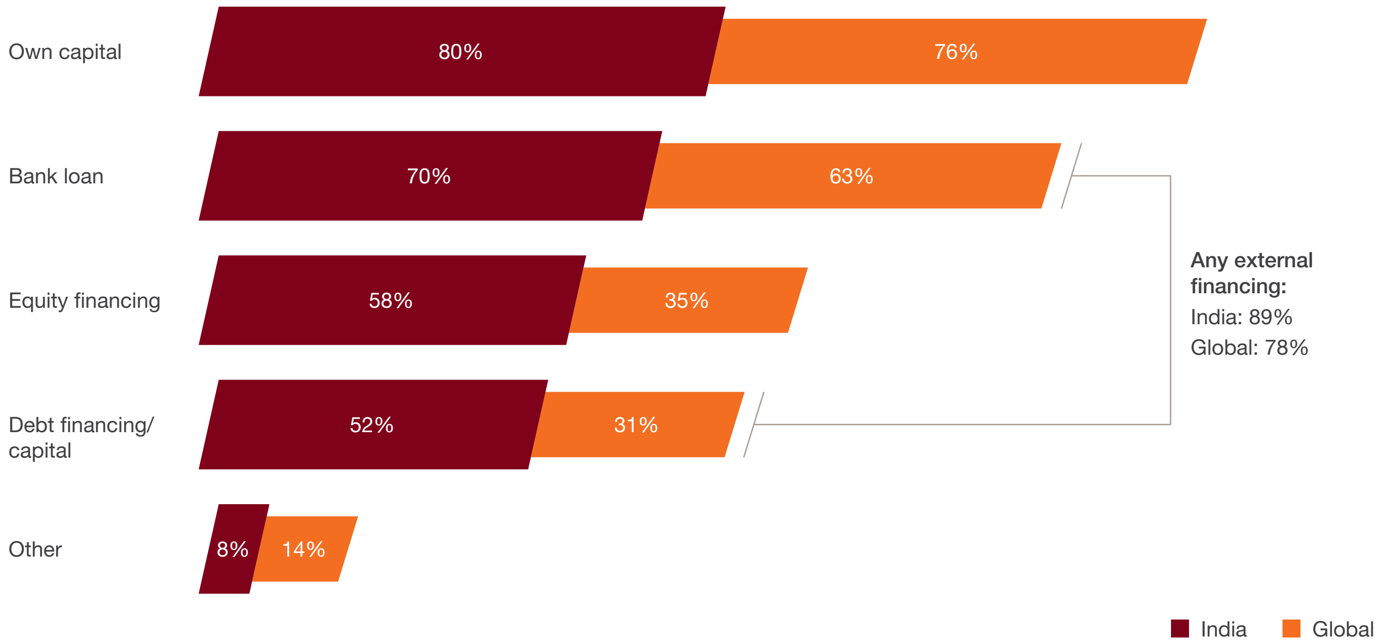
How will this growth be financed?

Firms in India are more likely to use external finance than their global counterparts. Those planning to grow at 10% or more annually will rely on banks as well as different equity and debt financing options. Eighty-nine per cent of Indian respondents said they would explore these options, which is a change from the earlier mindset where family businesses had concerns around accessing external finance options. However, reliance on own capital will continue—80% of those interviewed said that they would stick to this option.

comes in third. Interestingly, these concerns are also shared by global family businesses, albeit with a slight change in ranking order—market conditions comes first, followed by recruitment of skilled staff, and then government policy, regulation, legislation and public spending.

Another interesting finding is that only 10% of those interviewed in India felt that technology was an area of concern. One interpretation is that the surveyed sample did not consider technology to be a concern; rather, they saw it as an opportunity that will reshape the future. The other interpretation is this megatrend has probably not been given adequate importance. In our experience, digital and technology are redefining the way businesses are carried out and will lead to significant business model changes. Sunil Agarwal, Managing Director, S.E. Investments, who is implementing digital in his business, said, 'We are now moving towards a digital platform. We have already implemented and executed, in a completely paperless manner, loan agreements which are now signed by a biometric finger print scanner and stored over the e-mudhra server for their authentication and thereafter on our server. We are capturing the location and the time of the signature. Earlier, you couldn't even be sure of the location where the agreement was signed and establishing identity was a big process. One could easily say that they (borrowers) were not present to sign. The digital system has been a total game changer.' Read Sunil and S.E. Investments' story on page 26.

Mode of financing growth



Q: You mentioned earlier that you expect to grow by xx% per year over the next 5 years. How do you plan on financing this future growth?
Base: All respondents aiming to grow by 10% or more (2016: India = 79, Global = 1,278)

In its third phase of growth, Apollo Hospitals went the private equity (PE) route. Shobana Kamineni, Executive Vice Chairperson, said, 'We were one of the first Indian firms to get PE funding in the late '90s, when India first opened up to foreign direct investment. But we thought about it carefully before we did it: We sat down as a family to discuss it because we knew things were going to change radically, and we'd have to be even more accountable, and willing to adapt. We also knew that PE works to a very different timescale.' Read about Apollo's cycle of growth on page 28.

Challenges in the next 12 months

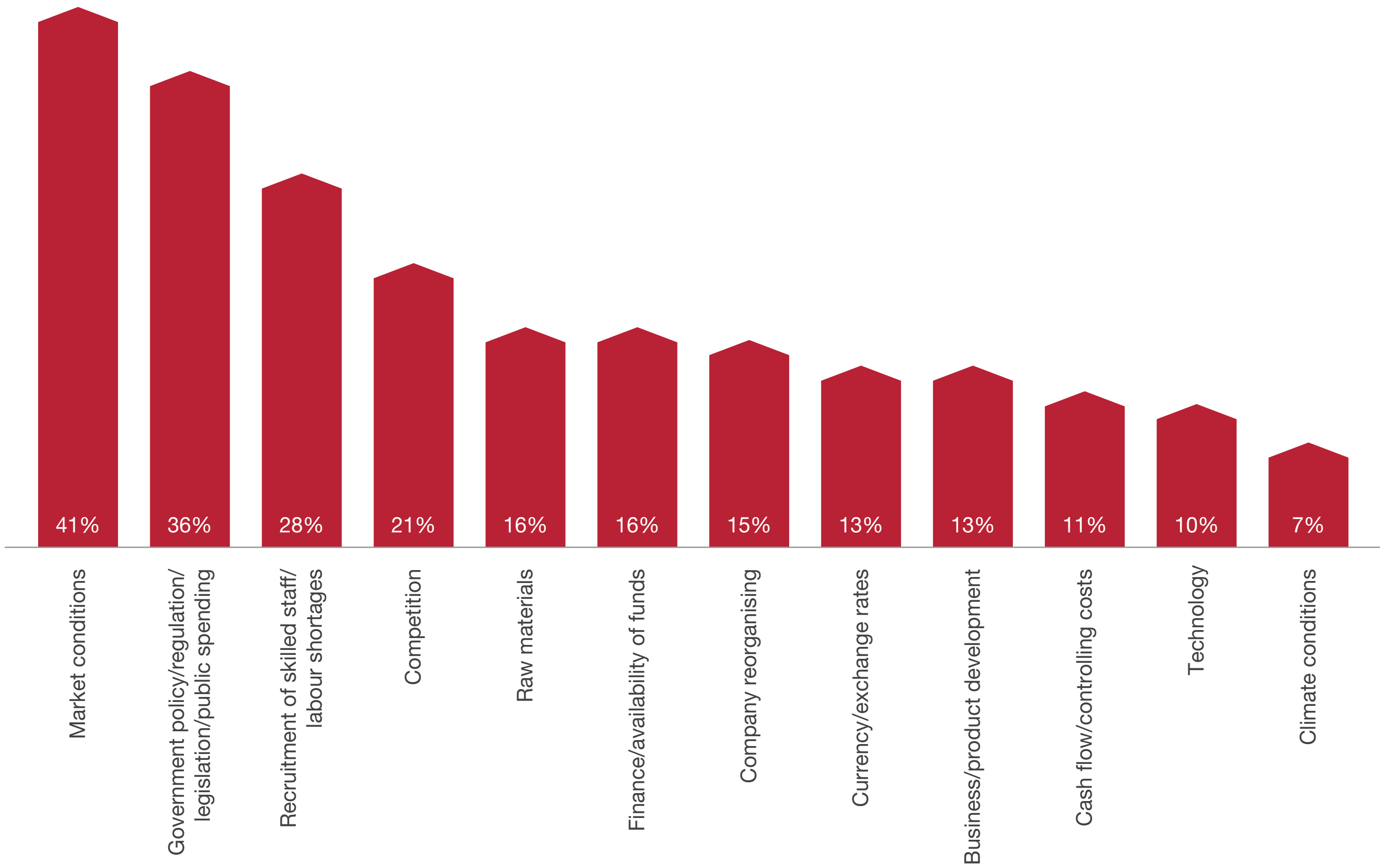
Family businesses expect market conditions to pose the biggest challenge in the next one year—customers and clients, price fluctuations, availability of cheaper substitutes and cheap imports, heavy discounting (including through online discounts), demand supply mismatch, etc. Not surprisingly, as companies gear up for Goods and Services Tax (GST) implementation and deal with infrastructure concerns, government policy, regulation, legislation and public spending constitute the next big concern. Attracting the right talent

The next phase of growth will bring a lot of new opportunities and challenges for all businesses, irrespective of the sector, and businesses will have to align with global megatrends that will reshape the future—technological changes being one of them. Even a traditional heavy manufacturing sector like cement could be disrupted by new technology. S. Sreekanth Reddy, Executive Director, Sagar Cements, for one, is confident: 'I think you have to adapt. It is more to do with adaptability than disruption. We are dealing with a product which hasn't really changed for 200 years. But on the other hand, we now have a robot running the plant today. So you could call that disruption, but I call it adaptability.' We have profiled Sreekanth Reddy and Sagar Cements' story on page 23.

In this context, it may be noted that inadequate basic infrastructure and availability of key skills were the top two threats, followed by exchange rate volatilities and the speed of technological change, according to our 19th Global Annual CEO Survey: Redefining business purpose in a changing world.

Going forward, Indian business houses may also need to deal with the impact of Brexit and the result of the US elections on global trade and business, given that these two are the larger global issues impacting companies worldwide.

Main issues anticipated in the next 12 months



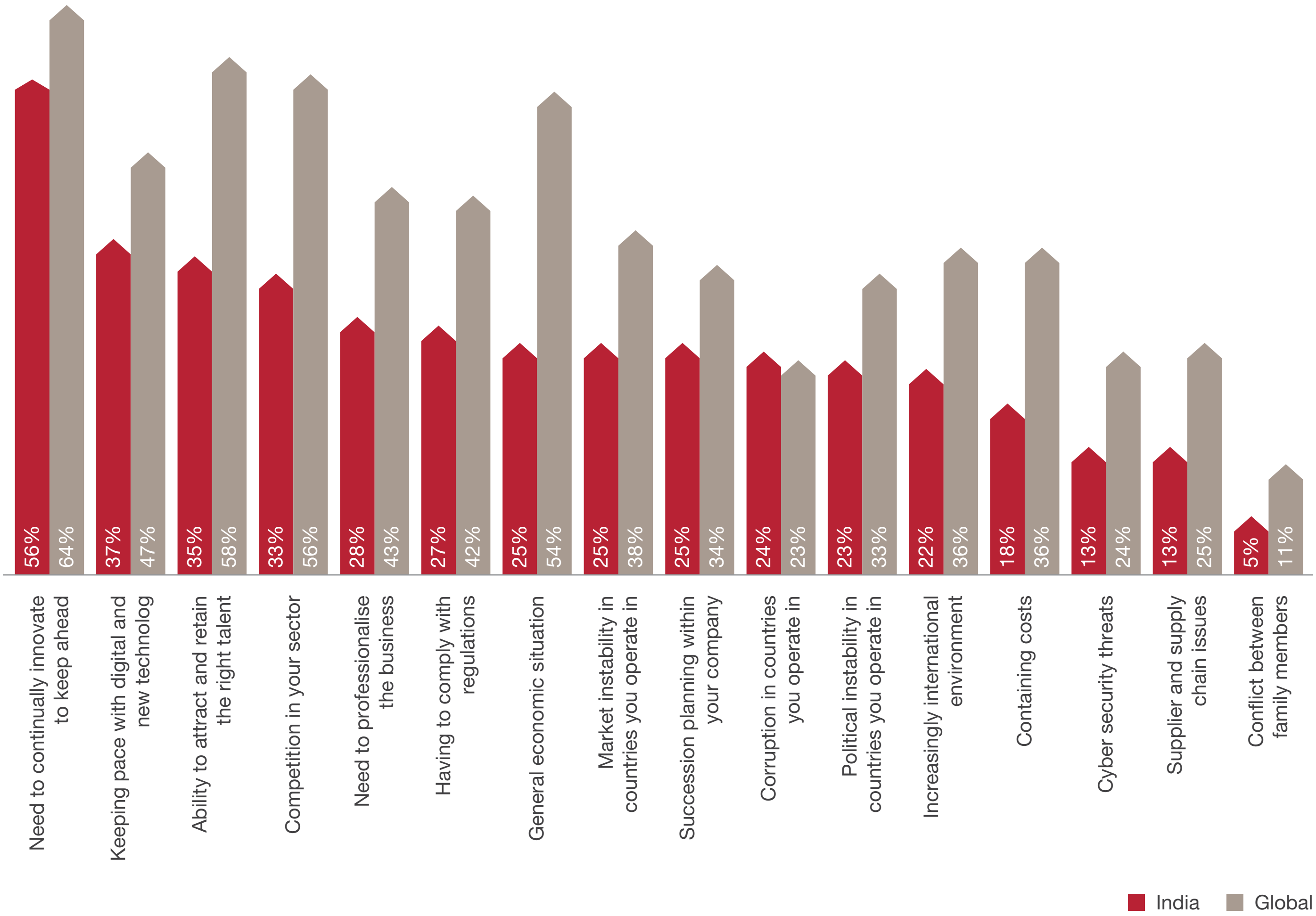
Note: Other factors <5%

Q: What do you think will be the top 3 internal and/or external issues or challenges that will affect your company in the next 12 months? (Open-ended question)
Base: All respondents (2016: India = 102)

Challenging times in the future as well: Are family businesses strategising and prioritising right?

We also asked family businesses to rank the challenges which they felt their business would face in the coming 5 years. Here is what we found.

Key challenges over the next 5 years



Q: How much of a challenge do you think each one of the following factors will be for your business in 5 years' time on a scale of 1–5, where 5 means it is going to be a major challenge for your business and 1 means it will be a minor challenge or not particularly important?
Base: All respondents (2016: India = 102, Global = 2,802)

The key challenges perceived among Indian family businesses over the next 5 years are more or less the same as those perceived by family businesses across the world: the need to innovate, keeping pace with digital and new technology, attracting or retaining talent and dealing with competition. The general economic situation, which is ranked lower by Indian family businesses, is the exception—and rightly so given the positive economic outlook for India.

We also see that on every measure, Indian scores are comparatively lower than the global ones, perhaps owing to the overall high level of confidence already seen in their optimistic growth plans.

Family businesses also recognise the need to professionalise their operations and processes.

With these challenges, one would assume that the priorities will also flow in the same order.

Not quite.

As the chart on the next page shows, the endeavour of most of the Indian family businesses is to build an enduring profitable enterprise. In terms of market and product choices, clearly, a large number of those surveyed are bullish on Indian markets and their core business. Innovation, which is considered the biggest challenge, comes fourth—maybe because the need to innovate is linked with revenue growth at the enterprise level. PwC studied the 'innovation potential' of more than 1,700 businesses across 25 countries and 30 sectors. The study was based on a range of parameters, including spend on innovation, new product launches and co-development work undertaken with partners. The analysis of the financial performance of these firms revealed a clear distinction between the top- and bottom-most performers, with the leading 20% firms growing 16% faster than the least innovative ones.[10] The innovation imperative makes it necessary that family businesses increase their spend on R&D products, markets, services, geographies, etc., in order to grow.

[10] http://www.pwc.in/assets/pdfs/publications/2015/innovation_driven_growth_in_india_final.pdf

We spoke to Tarang Jain, Founder and MD, Varroc, and as part of his story (page 14), he told us that Varroc partnered with several companies in Italy and Japan during the '90s for specific components. However, these tie-ups were not bringing in the desired technology, as Varroc did not own the product intellectual property. 'We did make better margins on such products,' said Jain, 'but we were not really in control of the technology, which was not good for our future. Around the year 2000, I realised we had to develop our own R&D. We set up a team and started benchmarking our products against Japanese and European companies. After a few years, we ended our technical collaboration agreements with companies we had initially collaborated with, as we were quite self-sufficient.'

Enjoying work, staying interested, making a contribution to society and the community, and leaving a legacy are also important to family business owners.

Another interesting finding is that while the ability to attract talent comes in third in the list of challenges and businesses aim to bring in more professionals to give future direction over a span of the next 5 years (see page 7), their ranking among business priorities is low.

On the family front, ensuring the business stays in the family and employment options are created for other family owners rank low in the order of priorities. The results indicate that keeping the business in the family is not important for 44% of those surveyed. Additionally, 72% of family businesses are looking to professionalise their operations. Read more about this in our section on family and non-family businesses and succession.

Importance of personal and business goals over the next 5 years

Q: We would like you to rate each potential personal and business goal on a scale of 1–10, where 1 means it's not important to you over the next 5 years and 10 means it's essential to you over the next 5 years.
Base: All respondents (2016: India = 102, Global= 2,802)

'Social values are more important than business values. I will be remembered more not for the money I made but what I did for society. The community has to remember what I did for them.'
– Third generation business owner

'Family and business go hand in hand in a family business. It should be known as a fair dealing organisation with quality products and ethical dealings. We are doing a lot for the community. On the education front, we are helping schools develop their infrastructure. We donate ambulances to hospitals, we help in rural employment. We have taken initiatives to provide employment to women.'
– Second generation business owner

Agri sector: Educating farmers, pioneering growth and dealing with challenges

Dr Rahul Mirchandani
Promoter and Executive Director, Aries Agro

Aries Agro, which manufactures an entire range of specialty plant nutrients for the agriculture sector, started small with a tiny office and a small factory in Andheri, Mumbai. 'Today, we have 65 brands sold in 26 Indian states and 12 countries. In India, we sell through 80,000 retail outlets. Nine million customers bought our products last year—our target market comprises farmers. However, we don't directly sell to them—we have a distributor-centric supply chain,' says Dr Mirchandani.

Owing to the different agro-climatic conditions in different regions, Aries has customised its crop nutrients, which are tailored to suit 107 variations of soil types, agro-climatic conditions and crop-specific needs. It has indigenous production processes that permit high levels of customisation, because of which the company is able to price its products at a relative premium in the market. Dr Mirchandani adds, 'Our DNA is to specialise, customise and pioneer. Thus, we create markets. Around 55–60% of our market share is in the specialised chelated crop nutrients sector. We are not only the pioneers of chelated micronutrients in India but also the largest manufacturers of the same in the entire South Asia region. We are currently supplying our products to 1,20,000 villages in India. The growth of chelated micronutrients as an agricultural input is a gradual process and a lot of our time, effort and money is spent on educating the farmers. Out of the 800 people we currently employ, 200 are only involved in creating awareness and demand through knowledge dissemination and field extension activities for our products.'

Recently, Aries energised its brand-building activity with an interesting revenue generation campaign by organising India's first All India Flash Sale for its specialty crop nutrients on BSE's original trading floor. This resulted in record bookings worth 200 crore INR in 30 minutes, which were generated from the top tier club of Aries customers. The company also proudly nominated three of its young and progressive farmers to represent it at a meeting with the US President and discuss the agronomic and economic benefits of Aries' innovative products.

Dr Mirchandani acknowledges local competition. Variants and commoditised substitutes are a challenge despite Aries being a dominant player committed to only offering specialised agricultural inputs. Aries, however, scores over rivals on cost effectiveness. 'Compared to other available crop nutrient substitutes, our dosage is significantly lower. Where a farmer would require 25 kg of an inorganic, traditional form of zinc nutrient, 500 g of our Zinc Chelate, sprayed twice, would do the task of providing zinc to the same land area. Since dose reduces and cost does not proportionately increase, the farmer actually saves money,' says Dr Mirchandani.

Cash flow is another major concern as customers pay distributors only once their crop has been harvested. Dr Mirchandani also feels that excessive regulations and compliances continue to pose difficulties. He is also readying his business for the impact of GST.

He adds, 'The last 12 months have been tough for Aries. I had to take some harsh decisions in terms of debtor management and cost control. I discontinued certain underperforming brands. I also decentralised budgeting—each group leader was made responsible for his share of the budget and his appraisals were also based on cost control achieved, in addition to revenue growth. I also had time to think about a company-wide succession plan to create and structure a strong second line across every part of the organisation.

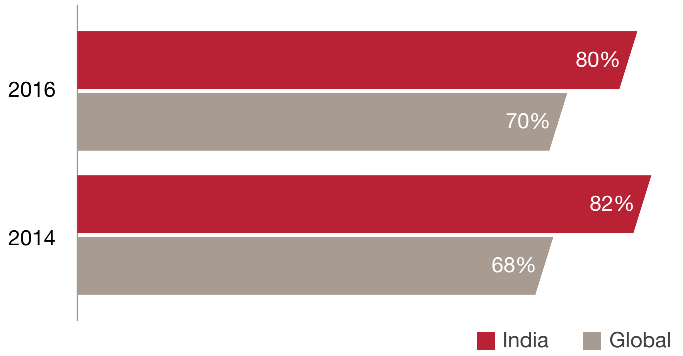
In the near future, digitisation is a priority area which needs to be addressed. I want to digitise several portions of my business processes so that efficiency increases further. We will work to build an online interactive interface for specialty agro-products. I have put together a team which will help me in digitising various aspects of my business. Debit card and Internet penetration in rural India is huge; we would be kidding ourselves by thinking otherwise.

Going global

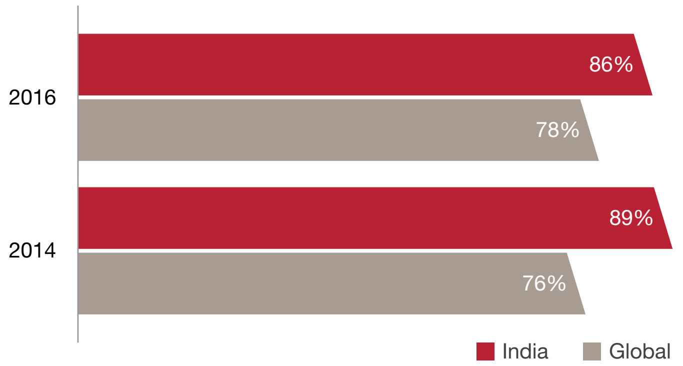
Geopolitical challenges, Brexit, the US elections, conflict-dominated states—despite all these issues—Indian companies continue to look favourably at expanding their global footprint, though there has been a slight dip in the number of companies exporting overseas vis-à-vis our survey in 2014.[11]

At present, four-fifths of family businesses export their products/services and this contributes, on an average, to 25% of the total turnover. In the next 5 years, the numbers are expected to jump to 86% of family businesses looking to export, contributing, on an average, 33% of total turnover.[12] Global numbers also indicate a similar upward trend, though in moderation. This is a heartening sign for the future of global trade and the economy, which are struggling, given that there is a huge amount of discussion around protectionism.

Any current international sales



Any future international sales (5 years' time)



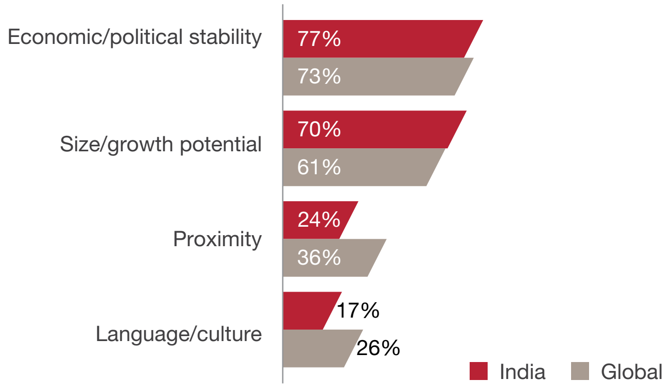
Q: Approximately what percentage of your sales comes from exporting or selling goods and/or services in foreign countries at the moment? And approximately what percentage of your sales do you think will come from exporting or selling goods and/or services to foreign countries in 5 years' time?

Base: All respondents (2016: India = 102, Global = 2,802; 2014: India = 65, Global = 2,378)

The economic and political stability of the country is of paramount importance in deciding to explore new markets, both for Indian businesses as well as global family businesses. This is followed by size and growth potential. Proximity to India and language barriers are apparently not too much of a concern for Indian family businesses as they look at new markets.

As family businesses look to expand geographically, they must give due weightage to the five megatrends shaping the world and the impact these will have on their businesses.

Important factors when deciding on export markets



Q: How important will the following factors be in deciding which existing countries and/or new countries you will sell your goods and services to in the next 5 years? Rate these on a scale of 1–5, where 5 means it is a very important factor and 1 means it is not particularly important.

Base: All respondents (2016: India = 102, Global = 2,802)

The Brexit factor: The UK government's decision to leave the European Union has far-reaching implications for business and governments around the world. PwC identified four global themes—economy and trade, tax, regulation and legislation, people and organisational strategy—which will play an important role going forward. Indian businesses will not remain insulated to these themes as they look to diversify to new territories.[13]

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[11] *PwC India Family Business Survey 2014 – Family businesses: The evolving Bharat story*

[12] *The total turnover average includes all businesses, even those not exporting at all.*

[13] *http://www.pwc.com/gx/en/issues/brexit.html.*

'Managers do things right; leaders do the right things': Cars, two-wheelers and 'SHIPS'

Tarang Jain
Founder and Managing Director, Varroc

Varroc is a first-generation business house which primarily manufactures a range of auto components for cars and two-wheelers globally. It has 13,500 employees across 35 plants and annual sales of 1.3 billion USD. Tarang Jain set up the business in 1990, before India had opened up its local markets to the outside world.

'For the first 7 to 8 years we were focused on establishing ourselves in the plastic components domain and the initial objective was to become the number one supplier to Bajaj Auto. There were other, more established, competitors at the time, all of who had a longer track record than we did; however, we were able to become the largest supplier to Bajaj Auto, by focusing on the basics—which were consistent quality, cost and delivery of parts, strong execution on projects and financial discipline.'

In the late '90s, the polymer parts business was more build-to-print and getting increasingly competitive; profit margins were under pressure. This led to the decision to move into the higher value add proprietary business of electricals and electronics and metallic parts. As these components were proprietary in nature, there was a need for product technology tie-ups with foreign companies and Varroc partnered with several companies in Italy and Japan. Jain, however, realised that these tie-ups were not bringing in the desired technology, as Varroc did not own the product IP. He explains, 'We did make better margins on such products but we were not really in control of the technology, which was not good for our future. Around the year 2000, I realised we had to develop our own R&D. We set up a team and started benchmarking our products against those of Japanese and European companies. After a few years, we ended our technical collaboration agreements with companies we had initially collaborated with, as we were quite self-sufficient. We carried out a corporate reorganisation exercise which led to increased professionalisation and accountability, and helped us set up robust processes and policies.'

Since then, Varroc has expanded internationally—organically and through acquisitions. Two-thirds of its sales are overseas and the group has put in place a 5-year strategic plan which includes expansion in South America, parts of Western Europe, South East Asia and Russia. Says Jain, 'We want to build our future success on technology leadership. Our strategy defines where we want to play and how we want to win. We have decided on the customers, parts and geographies we want to focus on and areas we need to improve on to stay ahead and grow more effectively. We know retention and acquisition of talent will be key to our future success.'

Jain agrees with Jack Welch that great leaders possess a lot of energy, have the ability to energise others working with them, have the edge to take decisions and are able to execute their plans. He says, 'All four "Es" are important. A strong leader has a clear vision, a strategy and the ability to execute the strategic plan. As the saying goes, managers do things right; leaders do the right things. Our idea of leadership in Varroc is closely linked with our values, which we call SHIPS: Sincerity, Humility, Integrity, Passion, and Self-discipline. Skills are important in leaders, but the right values are even more vital. When my son Arjun joined the firm, he started out as a business head where he would be accountable for his decisions. I see him working with his team, giving them authority as well as responsibility. I see the right values in him and he will learn more with experience in the coming years.'

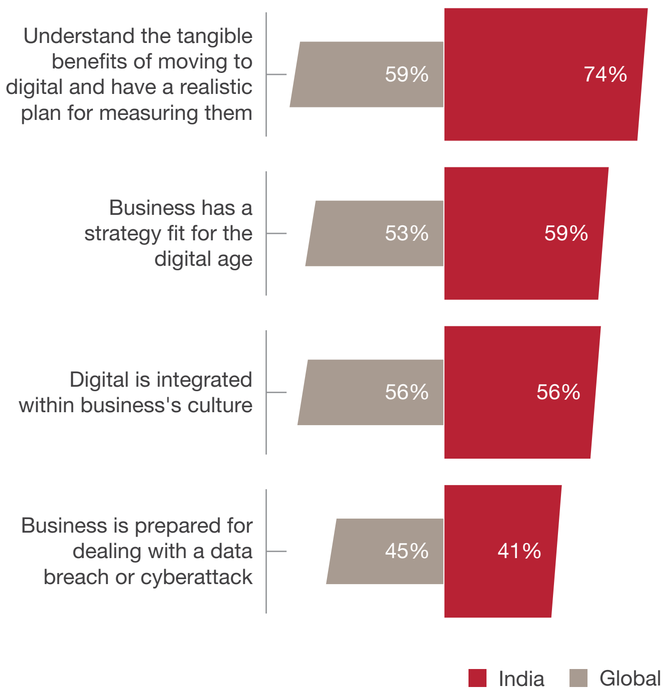
The digital imperative

The importance of digital cannot be overemphasised in India. In a number of recent surveys conducted by PwC, digital and technology change have emerged as the key areas of concern and focus. According to our 19th Annual Global CEO Survey: Redefining business purpose in a changing world, 80% of the CEOs held that over the next 5 years, technological advances would transform wider stakeholder expectations.[14] According to our report on Industry 4.0, in India, more than 27% of industrial companies surveyed rated their level of digitisation as high.[15] This number is expected to go up to 65% in the next 5 years. The survey points out some challenges along the way, such as lack of a clear digital operations vision from the leadership, lack of skills in data analytics, absence of a strong digital culture and training, and unclear economic benefits of digital investment. Operational disruption on account of a cyber security breach is another area of concern. The survey also indicates that revenues from digitising products and service portfolios will increase, as will improvement in efficiencies and costs.

So, where do family businesses fit in?

Of the family businesses surveyed, 74% said that they understood the tangible benefits of moving to digital and had a realistic plan for measuring this. This is significantly higher than the global average of 59%. However, India numbers drop and the gap with global reduces when one discusses strategy formulation to incorporate digital, integration of digital as part of the business's culture and the ability of the business to deal with a data breach or cyberattack.

Readiness for digital



Q: On a scale of 1–5, where 1 = Disagree strongly and 5 = Agree strongly, to what extent do you agree that…?
Base: All respondents (2016: India = 102, Global = 2,802)

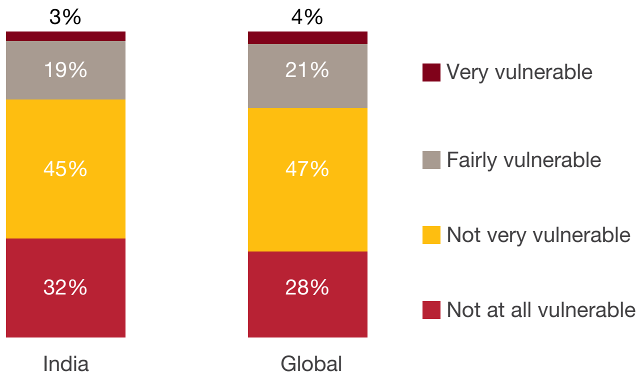
We asked family businesses how vulnerable they felt to the threat of digital disruption. Only 22% of the survey respondents in India (25% globally) said they were fairly vulnerable or extremely vulnerable, while 32% in India (28% globally) said they did not feel vulnerable at all.

Further, 48% of those surveyed in India (54% globally) said that they had discussed digital disruption at the board level. Thus, alarmingly, 52% have not done so.

Do these findings mean that these companies are outliers and that their businesses are centred around products/services which will not get impacted in any way by digital? Or could it be that the impact of digital on their portfolio needs to be understood better? In our opinion, it may very well be the latter.

Dr Rahul Mirchandani, Managing Director, Aries Agro, said, 'In the near future, digitisation is a priority area which needs to be addressed. I want to digitise several portions of my business processes so that efficiency increases further. We will work to build an online interactive interface for specialty agro-products. I have put together a team which will help me in digitising various aspects of my business. Debit card and Internet penetration in rural India is huge; we would be kidding ourselves by thinking otherwise.' Read Dr Rahul and Aries Agro's story on page 12.

Business vulnerability to digital disruption



Q: To what extent do you feel your business is vulnerable in the short to mid term to the threat of digital disruption?
Base: All respondents (2016: India = 102, Global = 2,802)

PwC India's 6th Annual Digital IQ Survey highlights the importance of digital in companies' growth. Our survey indicated that corporate strategies are being redefined—the new CIO is a strategic partner; mobile technology is used significantly in customer interaction; analytics plays an important role in giving meaning to enterprise data; companies have been investing in virtual meetings and collaborative technologies, private cloud as well as digital delivery of products and services. Moreover, there is a growing realisation of the importance of digital innovation.[16] Family businesses having similar business and growth models could also benefit from such strategies.

14 *http://www.pwc.in/publications/global-ceo-survey-2016.html*
15 *http://www.pwc.in/publications/2016/industry-4-0-building-the-digital-enterprise.html*
16 *http://www.pwc.in/assets/pdfs/publications/digital-iq-survey/pwc-india-6th-annual-digital-iq-survey-executive-summary.pdf*

What makes family businesses different?

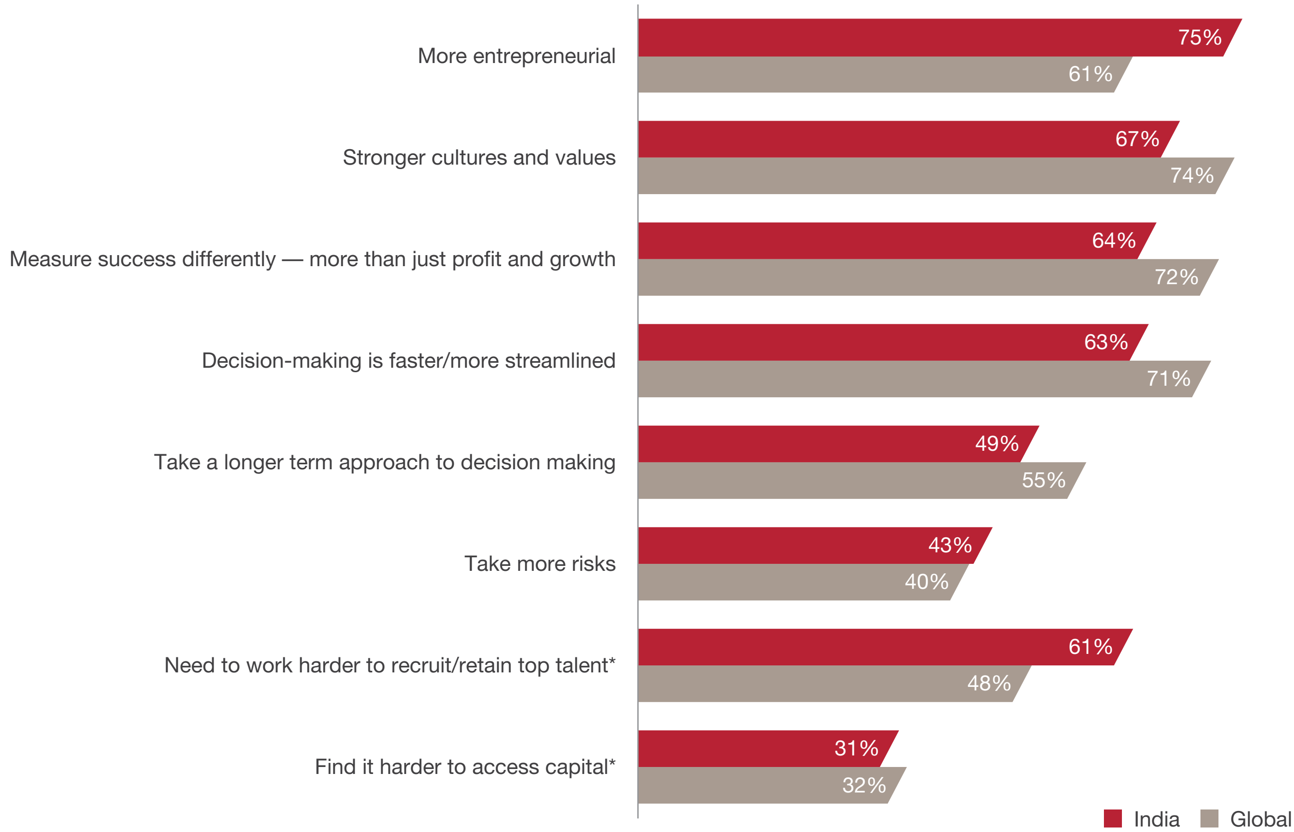
Family-run businesses, by virtue of their outlook, structure and organograms, have different business models, values and cultures when compared with non-family businesses. They, therefore, have their own strengths and weaknesses, which may or may not be different from those of non-family businesses.

We asked family businesses about the perceived differences from non-family businesses. Here is what they had to say.

Seventy-five per cent said that Indian family businesses were more entrepreneurial, as against sixty-one per cent globally. Further, 67% said that they had a stronger culture and values. The global number here is much higher at 74%. Indian family businesses also see themselves as defining success in a different way—as something more than just profit and growth—and they also agreed that decision-making was faster. On both these parameters, global scores are again higher.

Less than half of the family business felt that they have taken a long-term approach to decision-making and taken more risks. Family businesses do acknowledge the fact that it is harder for them to recruit and/or retain talent given the perceptions around growth of professionals in a family enterprise. As mentioned earlier, family businesses are now looking at financing themselves through external sources as well and access to capital, while still a concern, impacts about one-third of the businesses, a trend which is reflected globally as well.

How family businesses differ from non-family businesses: Percentage of respondents who agree



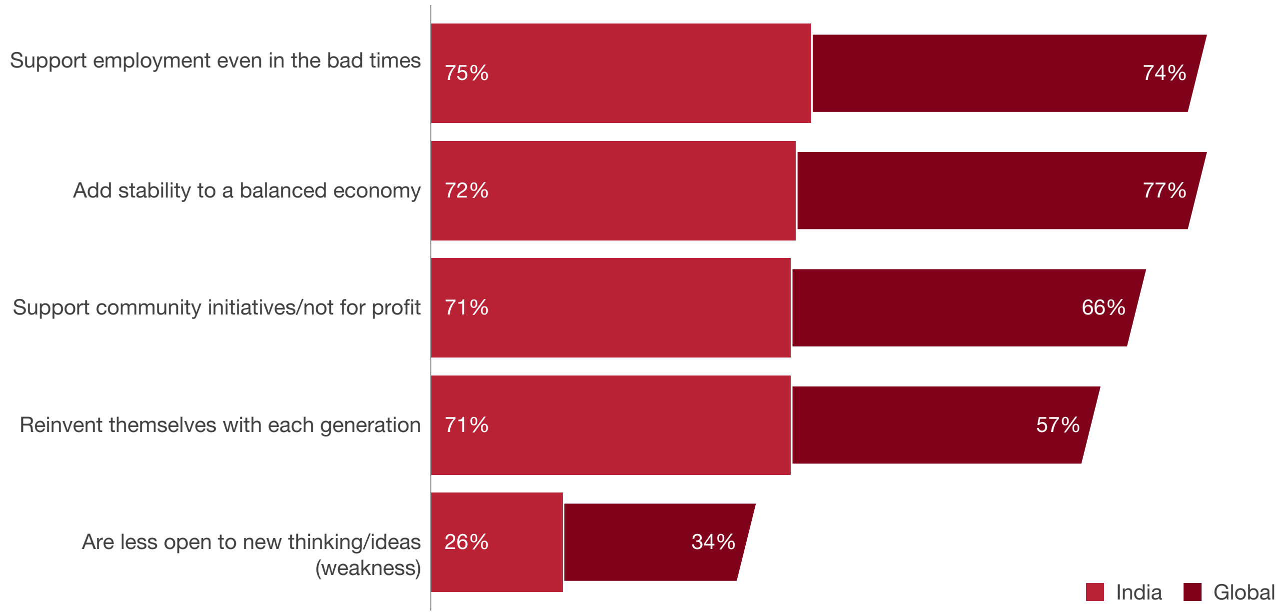
Q: On a scale of 1–5, where 1 = Disagree strongly and 5 = Agree strongly, to what extent do you agree that family businesses....?
Base: All respondents (2016: India = 102, Global = 2,802)
*Challenges

Indian family businesses have traditionally been supportive of their people and have refrained from retrenchment of staff. So, it comes as no surprise when 75% of them said that they supported employment even in adverse conditions. Further, 72% of those surveyed felt that they brought in stability to the economy, which is slightly lower than the global response of 77%. Family businesses also support community/not-for-profit initiatives.

Family enterprises are extremely upbeat about reinvention, with 71% mentioning that they reinvent themselves with each generation. The JBM Group is a case in point. The Arya family were originally active in textiles in the '50s, but moved to the manufacturing of liquid petroleum gas cylinders in the '80s. However, less than 3 years later, the government policy changed. As Nishant Arya, Executive Director, explained, 'My father had set up the manufacturing site from scratch, but he suddenly found himself with a brand-new facility and state-of-the-art technology, and nothing to do with it. This change of circumstances did not deter his spirit and he started to explore opportunities in the upcoming automotive industry.' Thus, JBM started its reinvention by manufacturing auto components for Maruti Suzuki (I) Ltd. Since then, JBM has grown and now has interests in automobile and bus manufacturing, renewable energy, engineering and design, and railways. Read Nishant and JBM's story on page 20.

Family businesses, however, do recognise the fact that they are not open to new thinking and new ideas, an area which should be addressed as they look to induct the next gen and/or non-family members to manage their business and join the board.

Strengths and weaknesses of family businesses: Percentage of respondents who agree



Q: On a scale of 1-5, where 1= Disagree strongly and 5 = Agree strongly, to what extent do you agree that family businesses…?
Base: All respondents (2016: India = 102, Global = 2,802)

What would I like my legacy to be?

In terms of community, I would like to help the people who have helped us and provided me with guidance through my life and made a positive contribution in shaping me. In terms of business, I would like to develop something for people who don't have a home and should have access to a home. I would like to set up something for such people. In terms of family, I would like to create an environment where each member understands that they should not work only for money but also towards a purpose. They should not forget the people they are associated with and should do things to help the less fortunate. That is where they will receive value for money.

Managing Director
First generation business

I would like my company to grow and people associated with the company to grow. I would like people to be benefited by the company. For the family, I would like to leave the company in a way that those capable can run the show. Hard-working, qualified and deserving family members should run the business for the business. I would like to leave a system in place with lots of growth potential. We already do a lot of philanthropic work in our domain. I would like to make that the core of the legacy.

Managing Director
Second generation business

Being a respected company, being forerunners and leading a transformation in the industry.

President,
Information technology and strategy initiatives
Second generation business

To have a company which is high on technology, very productive, has many employees and is fair to the community.

Group CEO
Third generation business

> *I would like to have a successful organisation and a successful succession plan to hand over the company to the next generation and create a responsible CSR programme to help people who are disadvantaged and struggle for food and shelter. This way, I will be able to leave something for the family and also for the community which does so much for me. I am sowing the seeds now so that the CSR legacy is in full bloom when I retire, and we can share the fruits with the underprivileged.*
>
> ***Managing Director***
> First generation business

> *I would like the business to be known as a company run ethically, which stays faithful to its employees and is capable of rubbing shoulders with the best companies in the world. As regards contribution to the community, we have allocated funds for green initiatives. Those initiatives will be there for the times to come. I feel that a united family is a great strength and would like to leave the family as a united entity.*
>
> ***Chairman and Managing Director***
> Second generation business

> *To be bigger every year and to cater to the general public in terms of employment and infrastructure, to be innovative and to be beneficial to the world.*
>
> ***Managing Director***
> Second generation business

> *I should be remembered in the business for transparent policies, promoting new talent, working passionately and with full dedication and discipline.*
>
> ***Managing Director***
> Third generation business

Technology, innovation, people: Growth and diversification in India

Nishant Arya
Executive Director, JBM Group

In this year's survey, 57% of the global respondents were found to believe that family businesses are able to reinvent themselves with each new generation. But few firms can demonstrate this quality as powerfully as the JBM Group in India, which has been recognised for the second year in a row as one of the fastest growing companies in Fortune India's Next 500.

The Arya family was originally active in textiles in the '50s, but moved to the manufacturing of liquid petroleum gas cylinders in the '80s, setting up a manufacturing facility in less than six months, largely in response to government incentives. However, less than 3 years later, the government policy changed. Nishant Arya, the founder's son, explains, 'My father had set up the manufacturing site from scratch, but he suddenly found himself with a brand-new facility and state-of-the-art technology, and nothing to do with it. This change of circumstances did not deter his spirit and he started to explore opportunities in the upcoming automotive industry.'

JBM started its 'reinvention' by manufacturing auto components for Maruti Suzuki (I) Ltd. Since then, JBM Group has grown into a 1.35-billion USD business, with interests in automobile and bus manufacturing, renewable energy, engineering and design, and railways. Much of its growth has come through astute alliances: 'As the global multinationals started to expand in India, we set up joint ventures with American, European and Japanese companies and established facilities all over India. We've also moved from just manufacturing to having expertise in engineering design and technology. In fact, technology is one of three pillars that the business is built on: Technology, Innovation, and People (TIP). My father has always encouraged technology—he has always been prepared to invest in it, and takes risks to be a front runner in the field of technological advancement. He had a dream to create JBM as the equivalent of "Intel Inside" for the automotive industry. He wanted "JBM Inside" to be as powerful a mark of quality as Intel is. I think we've realised that and are now aiming beyond.'

As for innovation, JBM has more than 300 people working in R&D, 'looking for new ways to exploit the best technology that hasn't been commercialised yet.' For example, after partnering with an international bus manufacturer, JBM is at the forefront of efforts to develop and deploy electric buses in India. Arya adds, 'For us, this isn't about building buses per se, it's about providing a holistic transport solution that addresses a whole range of challenges in the Indian public transportation domain, from the need for more sustainable transport to the problem of air pollution in India's cities, and to the need for longer-lasting batteries. It would normally take about 60 months to get something like this off the ground—we took 30. And I'm proud to say we are among the first companies in the world integrating all three—battery technology, the bus and the charging ecosystem. The next challenge is to make sure the electricity is produced from renewables, rather than coal. We're really excited about our latest foray into renewable energy and again, our perspective is towards making a contribution to wider society, and not just our own business. We've also invested in skill development centres, education projects, training schemes, and community development, and supported villages affected by floods—giving something back is really important to us as a family and to JBM.'

The last of the three principles is People: 'Though actually, that comes first. Our people are our biggest differentiators. We have around 20,000 people at 40 plants. We recruit from the best universities, and our group supervisory board includes professionals from leading organisations, so we can benchmark ourselves against the best. We also have a really prestigious leadership development programme which is called "Drive". Several hundred people go through that every year – it's a huge investment for us.'

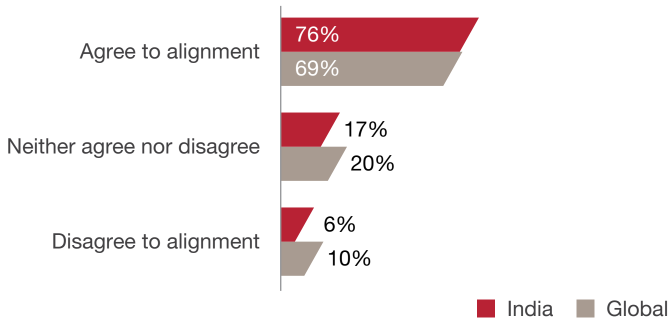
The entrepreneurial drive to reinvent is as dynamic in JBM now as it was 30 years ago, with Nishant Arya awarded Family Entrepreneur of the Year in 2015 by Entrepreneur India. As he says, 'In our family, we say nothing is permanent except change. And we like it that way.'

Alignment of business and family strategy

Aligning family dynamics with business strategy

Family dynamics play a crucial role in defining the direction of a family enterprise. We asked respondents whether the strategy of the business and that of the family were completely aligned. Our survey revealed that 76% of the Indian family businesses, as against 69% globally, claim that the family and business strategy are completely aligned. Only 6% in India and 10% globally admitted to misalignment.

Alignment of family and the business



Q: On a scale of 1-5, where 1= Disagree strongly and 5 = Agree strongly, to what extent do you believe that the strategy of the family and the strategy of the business are completely aligned?
Base: All respondents (2016: India = 102, Global = 2,802)

Thought processes and ideas change across generations. The business alignment is also impacted by innovation and reinvention, family disagreements and differing voices, role of in-laws and new members, succession, role of the next gen and future planning. For the business to succeed, it is imperative that family expectations and objectives are discussed and concerns handled. We have seen that family businesses are maturing and have set up protocols and systems to ensure alignment and, if needed, seek professional help.

Entrusting work to the family office

Fifty-five per cent of those surveyed mentioned that they had set up a family office—i.e. they have dedicated resources to manage the personal and financial affairs of the family. This is higher than the global average of 32%. In India, family offices are largely used for managing investments, accounting support, legal affairs, aiding in philanthropic activities and property matters. A low percentage of family offices are focusing on the strategic direction of the business. As families and their businesses grow, the need for the family office to upgrade and look at strategic affairs will evolve as well.

Elements managed by the 'family office' (among users)

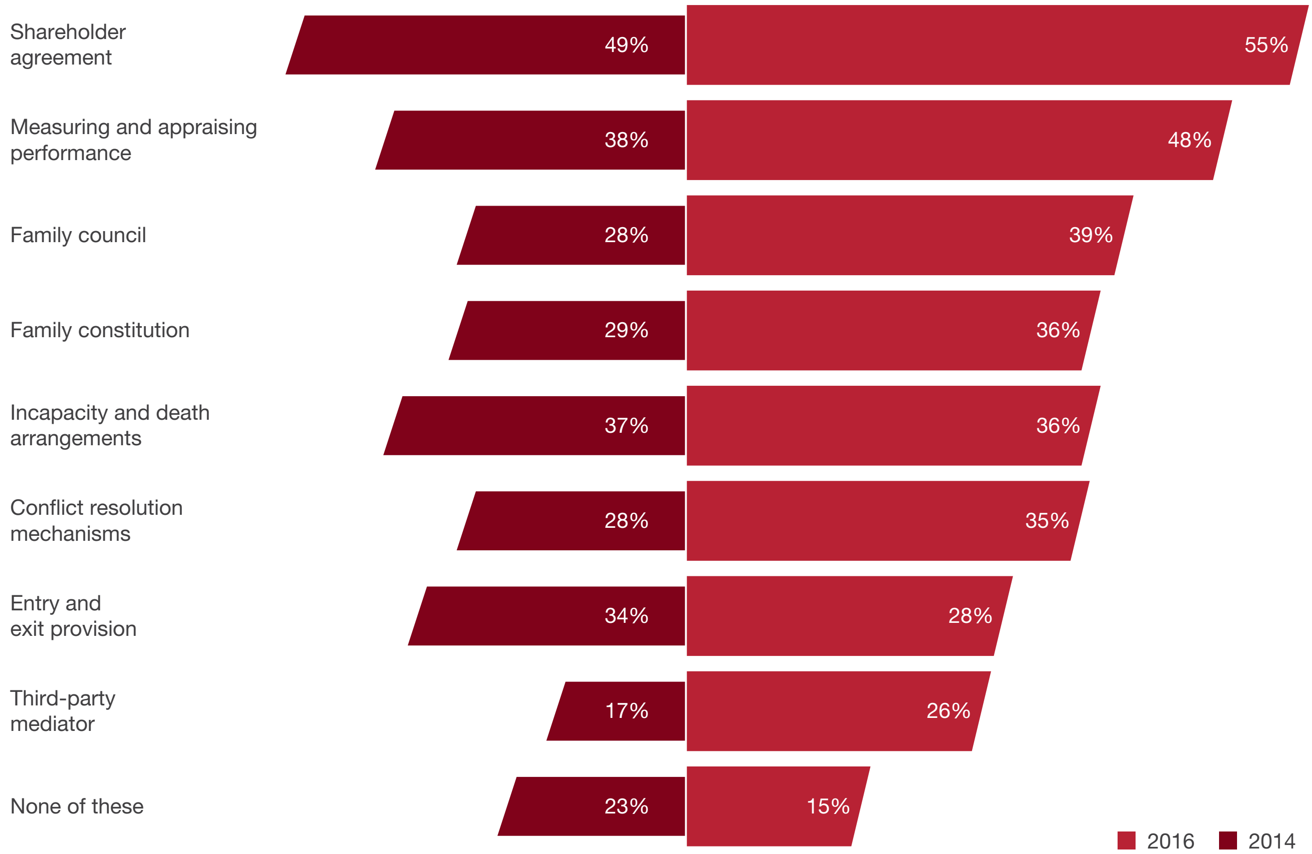
Q: What tasks or elements of the financial and personal affairs of the family are currently managed directly by your dedicated resources, i.e. by a 'family office'?
Base: Family office users (2016: India = 56, Global = 886)

Protecting the family and the business while dealing with conflict

One cannot discuss family businesses without assessing how families will protect themselves and their businesses from conflict—both within the family and within the business. It is absolutely imperative that families put in place fair, effective and robust mechanisms to deal with, manage and overcome conflict.

Our survey revealed that 85% of all Indian family businesses (in line with the global average of 82%) have at least one procedure or mechanism in place to deal with conflict, thus proving that family businesses appreciate the need to minimise their risks in this area. When we examine the mechanisms put in place, we find an improvement over 2014, when 23% of family businesses had no mechanism in place. Over half have put in place shareholder agreements to deal with conflict. Further, 48% said that conflicts would be addressed by measuring and appraising performance. Family councils have also been set up to help resolve conflicts, as have incapacity and death arrangements. Third-party mediation ranked the lowest, with only 26% favouring this mechanism.

Procedures/mechanisms in place to deal with family conflict



Q: Which of the following policies and procedures, if any, do you have in place to deal with any conflict that may arise between family members?
Base: All respondents (2016: India = 102, Global = 2,802; 2014: India = 65)

Professional, practical, adaptable: Success and succession in India

S. Sreekanth Reddy
Executive Director, Sagar Cements

S. Sreekanth Reddy is Executive Director of Sagar Cements, a second-generation Indian business initially founded by four friends 40 years ago. It split several times since then, most decisively in 1992, when Reddy's father and brother took control of the business as it is today. Reddy spent some time working for Sagar after college, then went off to pursue other interests, before returning in 2002, when his father was looking to retire. As he says, 'In any family business, the change from first to second generation is always the most painful, and many don't make it. I don't think the second generation are entrepreneurs; they're only followers. The danger is that they're usually in a hurry, so they go for a quick fix. But most of the time, a quick fix is not the best solution. And there's a challenge, too, in sustaining the same commitment, and carrying on growing without diluting any of that.'

Sagar Cements was lucky in that the succession process worked extremely smoothly. So, what's the secret of their success? 'The short answer is that we had professional management. We had that already, and some of them had shares too. In that sense, we were never a "family business" in the strict sense—we always had professionals running things, and my father was very astute and understood the distinction between ownership and management. In fact, for us, the issue of management succession is just as important as family succession. Many of the key professionals have worked in the firm from the start and are now retiring. We've had to do a lot of practical forward planning to ensure we have a pipeline of good people in the right positions, who are ready to take over.'

All this took place in parallel with the family succession process, as Sreekanth's father took a back seat, and his older brother became the key decision maker. Sreekanth then stepped up to fill his brother's former role as operations manager and take a seat on the board. Some members of the third generation are now coming into the business too, and that process is being carefully managed.

Growth is the goal now: 'We're doubling our capacity roughly every 10 years. And every 5 years, we take a long look at the business and decide what we need to achieve in the next phase, whether that's people, funding, skills, or a new organisational structure. Thus far, we've focused mainly on growing within India—we're not averse to becoming more international, but the domestic market has been good for us. And we always approach each expansion within defined parameters—for example, we keep a close watch on our debt equity ratio, though most of our growth has been funded from our own revenues, with the wider family shareholders foregoing dividends to reinvest in the business.'

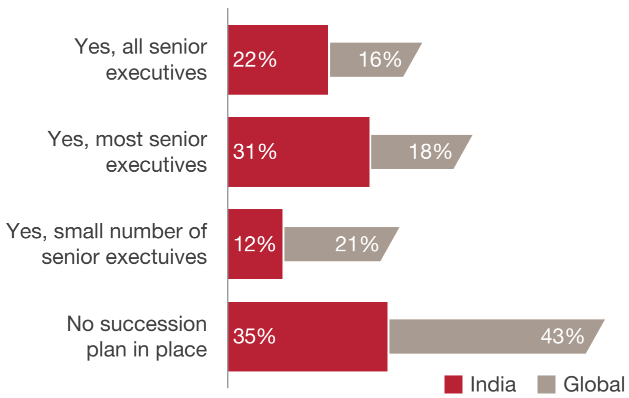
The next phase of growth will bring a lot of new challenges: Like all businesses, whatever their sector, Sagar Cements will need to confront the global megatrends, and even a traditional heavy manufacturing sector like cement could be disrupted by new technology. But Sreekanth is confident: 'I think you have to adapt. It is more to do with adaptability than disruption. We are dealing with a product which hasn't really changed for 200 years. But on the other hand, we now have a robot running the plant today. So, you could call that disruption, but I call it adaptability.'

Making a success out of succession

One of the biggest challenges that family businesses face is the one around succession. About 40% of family businesses across the globe will be passing on the business to the next generation in the next 5 years.[17] Succession of the business and putting a plan in place are instrumental to ensuring business continuity and keeping the family legacy alive.

Succession planning is not an event. It is a continuous process. It involves a focused, deliberate and determined effort, backed by a strong will, to put in place processes and systems to ensure the business continues uninterrupted when it transitions from one generation to the next or to someone outside the family. Succession planning for the business involves documenting a strategy for key personnel and key functions. When we spoke to family businesses in India, we realised this is an area that has not been given the due focus it deserves. Only 22% of the businesses have a succession plan for all their senior executives, 31% have a plan for most executives, while nearly half the people surveyed said there is either no succession plan or that it covers a small proportion of the key personnel.

Succession plan in place



Q: Does your company have a succession plan for key senior roles?
Base: All respondents (2016: India = 102, Global = 2,802)

Even more alarming is the fact that only 15% of those surveyed have said that their succession plan is robust, documented and has been communicated. The percentage has remained unchanged from our India survey in 2014 and is the same as the global average of 2016.

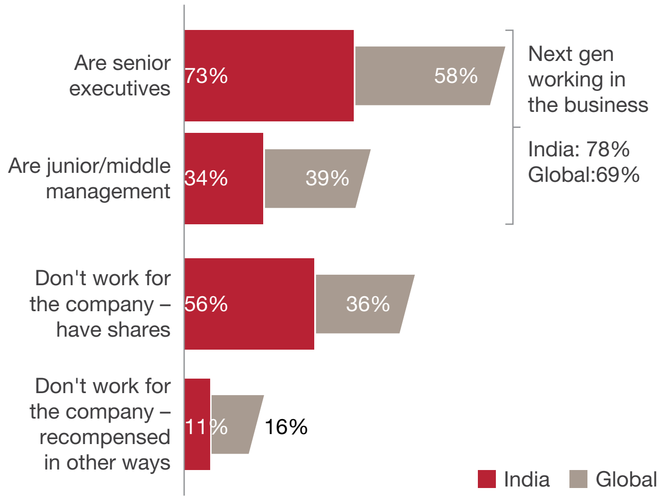
Great expectations: The next generation of family leaders

We found that 78% of family businesses in India have next-gen family members working in the business, which is higher than the global average of 69% and also marginally higher (66%) than our last survey.[18]

Further, 73% of the next gen working for the business are in senior executive roles, which again is higher than the global average (58%) and our last survey for India (58%). About 34% are in junior/middle management, which is slightly lower than the global average.

In addition, 56% of the next gen do not work for the company but own shares, up from 35% in 2014. Around 11% of family members are recompensed in other ways.

Next generation involvement in the family business



Q: Including yourself (if applicable) how many next generation family members currently (if any)…
Base: All respondents (2016: India = 102, Global = 2,802)

Given the significant involvement of the next gen in businesses, it is evident that companies are increasingly looking at transitioning authority and responsibilities to the next gen. The speed and extent vary from one company to another. Yet a family business strategy will not be complete unless the next gen are involved in business conversations and due consideration is given to their expectations.

17 *http://www.pwc.com/gx/en/services/family-business/family-business-survey/next-gen-club.html*
18 *PwC India, Family Business Survey 2014 – Family businesses: The evolving Bharat story*

So, what does the next generation of leaders think? What are their challenges?

In April 2016, PwC published its second survey of next gen leaders.[19] We conducted 268 interviews with the next gen of family businesses across 31 countries. Some of the interesting highlights from the survey include the following:

91% would value continued support from the current generation when they take over.

88% feel they want to leave their stamp and do something special with the business.

88% also feel that they need to work harder to prove themselves to the company.

83% feel technological advances will transform businesses in the next 5 years.

70% have worked outside before joining the family business; 43%, as part of a structured plan.

69% want to bring in experienced non-family managers to help modernise/professionalise the business.

60% are open to taking the business to new markets; 59% are open to diversification into new products/services.

60% expect to be managing the company one day, though for only 28% of them has this been agreed.

52% are worried that they will need to spend time managing family politics.

37% struggle in getting businesses to understand the importance of a digital strategy.

30% of the women next gen have a seat on the board. The factor that seems to be stopping them is their own lack of confidence and the expectation that brothers or male cousins will eventually take over the business.

The next gen are well tuned with the five megatrends shaping the world, be it demographic shifts, shift in global economic power, resource scarcity and climate change, technological advances or urbanisation. They are looking to gain experience by attending meetings long before they get a formal seat on the board. The next gen are also selective about the roles they will take up and are asking for a clearer career path at an early stage.

However, they find themselves facing three crucial gaps: the generation gap between their experience and that of their parents, the credibility gap they have to surmount if they are to establish themselves, and the communication gap that can arise both within the family and in business.

As part of the survey, PwC spoke with Abhimanyu Munjal, the next gen from the Hero Group. The Hero Group was founded in the 1950s by Abhimanyu Munjal's grandfather and there are five members of the current generation working in the group. The family has empowered each of them to come up with their own idea for a business, which will sit within the Hero Group umbrella. As a result of this, the group is extremely diversified. While there is an advantage in having the Hero name behind the business, there is also a responsibility.

As Munjal put it, 'It's scary sometimes how much one wrong decision can dilute the brand. People think it's easy for people in our family, but there's so much more riding on everything you do, and it would be a much bigger deal to fail as part of the Hero Group than to fail as a small independent start-up. The outside world looks at you very differently too, and they're watching your every move, so you're juggling a huge number of different expectations—your family's, your employees' and the external world's as well.'

He also acknowledged the advantages that come with a family business: 'The fast decision-making, the nimbleness, and the agility of the company are all major positive factors, as is the engagement your employees feel because they're part of "the family". But on the other hand, change management is a challenge—the family may be reluctant to do things differently because they've been doing it that way for 30 years. But life is dynamic. It's not the same as it used to be. Our generation wants to go digital, use more technology, take more risks. But family firms are good at taking risks. And in many ways it's easier for our generation because technology is a fantastic enabler, which makes it easier to do business at a lower cost.'

[19] *http://www.pwc.com/gx/en/services/family-business/next-gen-survey.html*

Financing the self-employed and digitising the process

Sunil Agarwal
Managing Director, S.E. Investments

S.E. Investments started as a small automobile finance unit in 1989 which disbursed loans aggregating 7 lakh INR in its first year. 'Financial services is what fascinated me and I started S.E. Investments straight after my graduation. I didn't join my father, who was a practicing charted accountant,' says Agarwal. In the last financial year, S.E. has closed its business at 1,383 crore INR, with a permanent employee base of 300 and a field force of around 700. Starting from one city, the company is now in 5–6 states. 'I have had great support and guidance from my father and from my brother who joined me in 1997.' Of its net worth of 500+ crore INR in March 2016, 177 crore INR is through listing, while the rest is primarily internal accruals.

Initially, financing was towards income-generating vehicles—autos, loading vehicles, buses and light passenger carrying vehicles—and then expanded to the passenger car segment. Around this time, private banks started aggressively marketing auto loans. As Agarwal explains, 'We realised we didn't have the cost advantage as they were operating on a pan-India basis and could get better deals from the car manufacturers and dealers. Their cost was lower and the loans they extended carried a lower rate. This led us to rework our strategy to focus on people who weren't really targeted by these banks.'

Around 96% of S.E.'s borrowers are from the self-employed category where it deploys about 25–26% of its money without any collateral. The risks and returns are both high. The borrower is able to access finance albeit at a higher rate. Agarwal says, 'I have been told time and again that I lend at high rates and that's true, I do—that's reflected in my profits and in my balance sheet. There are defaults at time. There have been so many cases in which the borrower had died and there was nobody we could recover our money from. He was the sole bread earner for the family—what can you do? You just walk out and write off the money.' S.E. is now aiming at growing this portfolio: 'the demand is high and bad debts aren't to the extent anticipated earlier.'

Agarwal feels the biggest challenge this business faces is around impersonation and at times not being able to ascertain the true identity of a person. However, with a slew of recent initiatives—Aadhaar, KYC forms and National Automated Clearing House—S.E. has been able to scale up its lending. 'Today, I have bank account details of 100% of my customers,' Agarwal declares.

So, where to from here?

'We are now moving towards a digital platform. We have already implemented and executed, in a completely paperless manner, loan agreements which are now signed by a biometric fingerprint scanner and stored over the e-mudhra server for their authentication and thereafter on our server. We are capturing the location and the time stamp of the signature. Earlier, you couldn't even be sure of the location where the agreement was signed. One could easily say that they were not present to sign. The digital system has been a total game changer.'

S.E. feels the need to increase manpower to enhance its portfolio. S.E. also wants to expand geographically and scale up organically. Agarwal says, 'We have always had more demand than supply. And this is a highly underserviced market.' The challenge that S.E. faces in the next 5 years is access to capital.

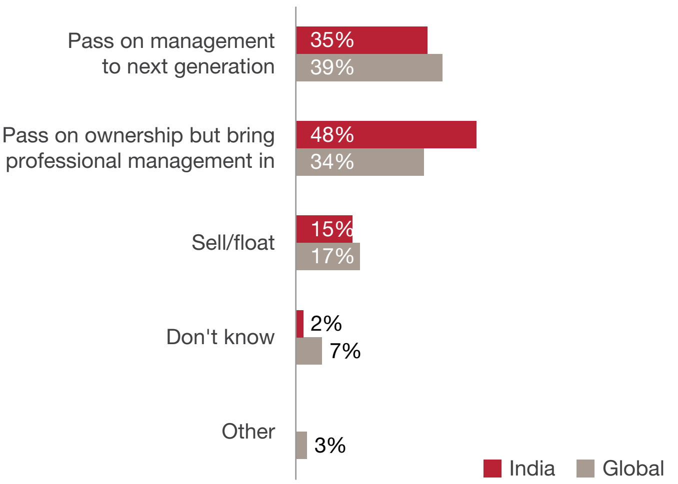
When asked about the next gen, he mentions succession will start in another 5 years, depending on whether the next generation wants to join the business: 'My father never really stopped me—if my children want to invest their time, money and energy in something else, they have my best wishes.'

Professionalising the business

There has been a shift in the thinking of family business owners when it comes to future plans for management of their companies. Only 35% of Indian family businesses plan to pass the business fully to the next generation, lower than 40% in 2014. Instead, nearly half of the respondents in the survey, up from 40% in 2014, plan to pass on ownership but bring in professional management. The story in India is a little different from the story globally, where 39% plan to pass on management to the next gen and only 34% plan to professionalise the business. Comments on the next gen expectations indicate that both generations are possibly speaking the same language when it comes to professionalising the businesses; however, there may be a gap on the business management front.

Further, 15% of the owners in India said they may look to sell or float their business. This is up from 12% in 2014. Of these, 7% favour IPO/float, 6% are open to selling it to another company and 4% are looking at private equity.[20]

Future ownership plans for the business

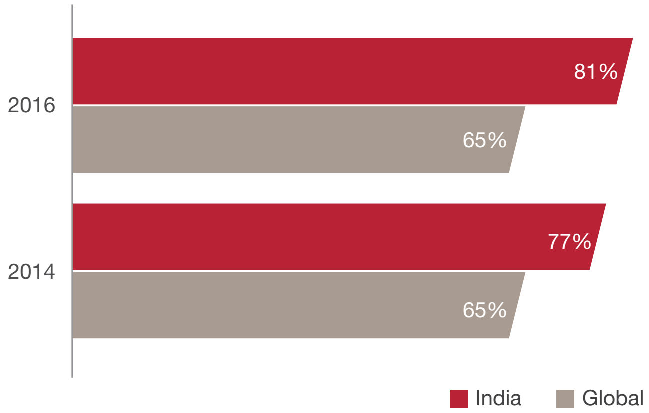


Q: What sort of changes do you anticipate in the next 5 years or so/long term? Will the company…?
Base: All respondents (2016: India = 102, Global = 2,802; 2014: India = 65)

Role of non-family members

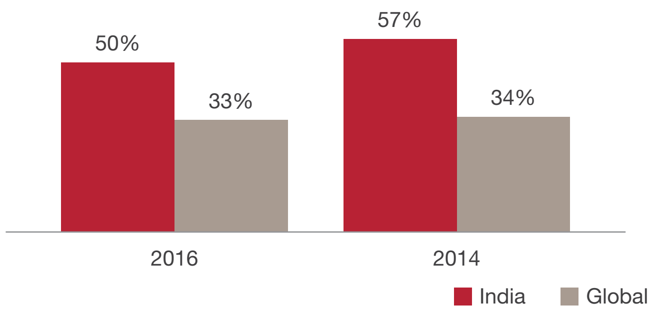
With Indian family businesses looking to professionalise, it is not surprising that 81% of the respondents have non-family members on their board, higher than 65% globally. Half of the companies surveyed also mentioned that non-family members owned shares in the company, which is significantly higher than global (33%) but lower than the 2014 survey (57%).[21]

Non-family on board



Q: Are any non-family members on the company's board?
Base: All respondents (2016: India = 102, Global = 2,802; 2014 India = 65, Global = 2,378)

Non-family share ownership



Q: Do any non-family members working for the company—or any other non-family individuals not working for the business (including private equity or other financial institutions)—have any shares in the company?
Base: All respondents (2016: India = 102, Global = 2,802; 2014: India = 65, Global = 2,378)

[20] *Family businesses could chose more than one option.*
[21] *This includes the impact of listings, or funding by private equity players or financial institutions.*

From private firm to private equity: The cycle of growth in India

Shobana Kamineni
Executive Vice Chairperson, Apollo Hospitals

Apollo Hospitals is one of the leading hospital chains in India, with an international reputation and an outstanding track record in harnessing the power of new technology. The business was founded by Dr Prathap C. Reddy in the 1980s, when he returned from working in the US and saw how far behind Indian healthcare was lagging. He galvanised a group of doctors from across India and beyond to invest in a hospital, and it opened in Chennai in 1983. His four daughters were involved from the start, and Shobana Kamineni was employee number three. She is now the Executive Vice Chairperson, and Apollo boasts of 64 hospitals, 150 clinics, over 9,000 beds, almost 2,500 pharmacies, and a health insurance business.

For Kamineni, the business evolved in three phases: 'In the beginning, we were a straightforward family business with all the advantages and challenges that brings. But while we had great expertise in our own field—healthcare—we needed to hire talented people to help us build a robust business. People with financial expertise, for example.' In the second phase, Apollo was listed on the stock exchange, which allowed the family to grow to three hospitals, but also brought increased demands in terms of reporting, accountability and governance. The board was also strengthened with more independent directors, who still play a key role.

The third phase was private equity: 'We were one of the first Indian firms to get PE funding in the late '90s, when India first opened up to foreign direct investment. But we thought about it carefully before we did it: we sat down as a family to discuss it because we knew things were going to change radically, and we'd have to be even more accountable, and willing to adapt. We also knew that PE works to a very different timescale for families: PE houses are looking for a quick return on their money, and I'm glad to say that every PE investor we've had has achieved a good exit price. That's why our share price is so high: we do what we promise.'

Having PE investors also focused the business more on short-term performance. According to Kamineni, 'This is one of the biggest differences between PE and family business. Family businesses have a uniquely infinite perspective—if you don't reach your target this quarter, you can always do it next quarter. What PE taught us was quarter-to-quarter performance. That really sharpened us up. I think we're actually unique in that we grew around 25% for 25 consecutive quarters. PE can be very active investors too: some of our PE investors have been in on a weekly basis, so they could really understand how we operate. You have to not just accept that, but welcome it, or the partnership isn't going to work.'

Looking ahead, Apollo has built a strong competitive advantage on new technology. As Kamineni elaborates, 'We have an innovation division where the employees work with innovation labs in Israel, the US and elsewhere in India. We incubate new ideas, and work hard to keep pace with new developments. We also encourage our doctors to take part in conferences and research forums across the world, and to collaborate actively with one another. We don't let people or ideas get stuck in silos. This is one reason why we now have three dynamic new companies within the Apollo Group: one doing analytics, one working on stem cell therapies and personalised medicine, and one working on digital and telemedicine. The last one has given us huge visibility, and allowed us to reach many more people. I doubt there are many businesses doing this sort of thing better than we are. That's something we're very proud of.'

Looking ahead

A strong sense of pride is clear in the comments of Indian family business leaders. Many see their businesses as making a strong positive contribution to society. Profit and growth are important but equally important are ethics and socially responsible business practices. While success and reputation are important, they must go hand in hand with serving the welfare of the community.

Today, Indian family businesses are very optimistic about their future, which is clearly demonstrated by the heightened entrepreneurial activity being witnessed in the country.

But where to from here?

To achieve all that they want to, family businesses must strategise and lay down a clear path to overcome challenges that face them—now, in the next 1 year and in the not-so-distant future. Some of the questions they should ask themselves are:

How will Brexit and the results of the US elections impact the business? Have I thought of geopolitical uncertainties in my business plan?

Will the five global megatrends change the shape of my business and my expansion plans?

Will technology and digital disrupt operations or will these enable the company to achieve higher growth?

How long do I see the business continuing on an as-is basis? Where do I put the money to meet my growth targets—innovation and R&D, core business, new sectors, new markets, or new territories?

Have I identified, mentored and prepared a second in line to ensure business continuity?

Is attracting and retaining high-calibre talent a challenge?

How do I handle conflict between professional managers and family owners? Is family politics slowing decision-making?

Am I, or my business, in a position to handle a family conflict in the near future?

What is the succession plan for the family, for the business and for all key functions? Can business operations continue in perpetuity?

Am I having the necessary, though at times uncomfortable, conversations with the next gen on their plans, expectations and challenges?

Have I adequately skilled and prepared the next gen?

Am I building the legacy I had set out to build when I started?

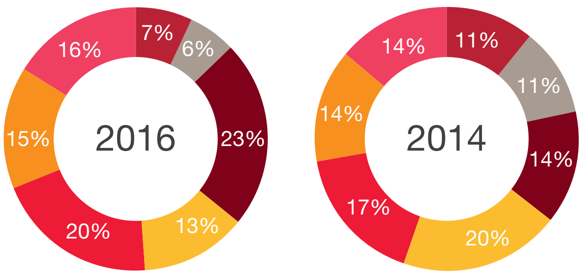
Our Global Family Business Survey 2016—The 'missing middle': Bridging the strategy gap in family firms—highlights certain factors which can be kept in mind for effective succession planning, including how the current generation can support the next one, effective strategic planning and building strong boards.

Strategic planning in both dimensions of a family business—the family and the business—will go a long way in enabling family business leaders to achieve their goals.

Survey profile

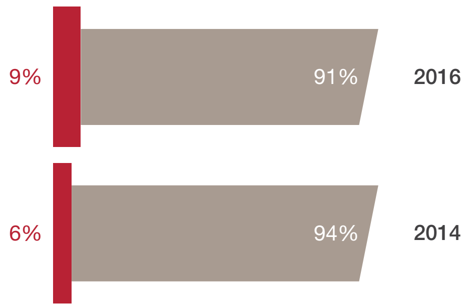
Company profile – which companies were included?

Turnover (sales in USD)



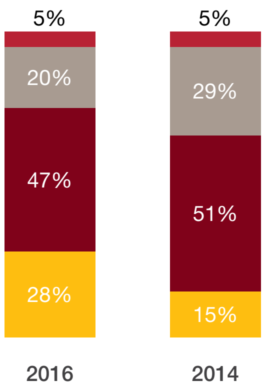
1 billion+
501 million -1 billion
101-500 million
51-100 million
21-50 million
11-20 million
< 10 million and under

Family's role in business



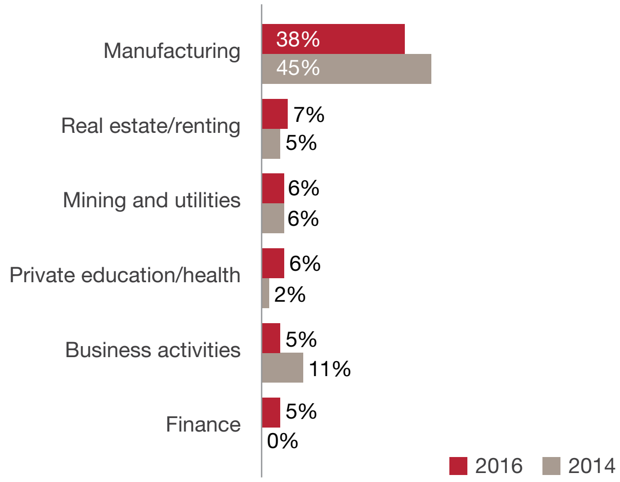
Just own – don't manage
Own and manage

Number of generations



4+ generations
3 generations
2 generations
1 generation

Sector

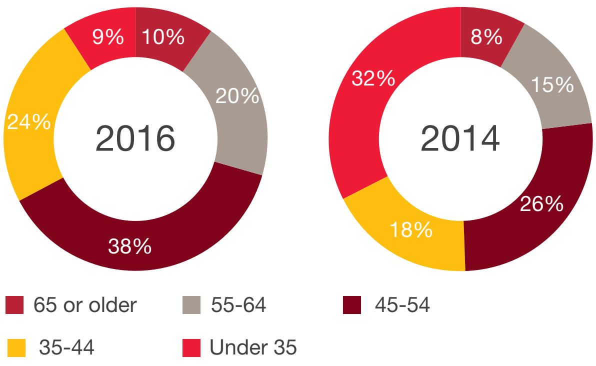


Base: All respondents (2016: India = 102; 2014: India = 65)

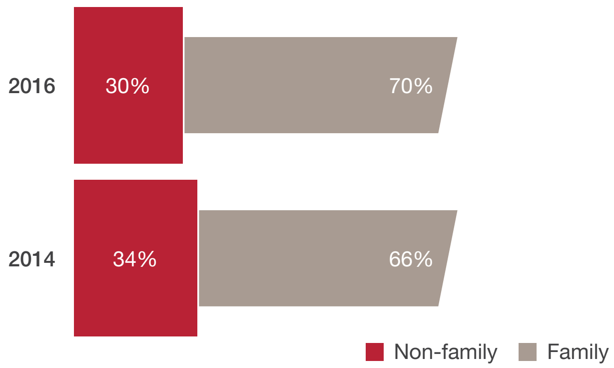
Note: Other sectors less than 5%

Whom did we talk to?

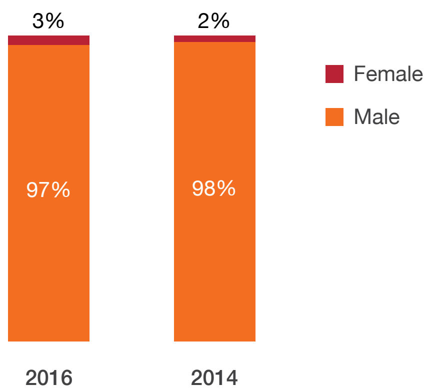
Age



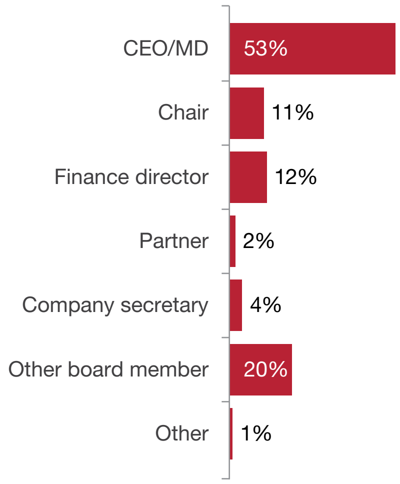
Family members



Gender



Current job role*



Base: All respondents (2016: India = 102; 2014: India = 65)

** Question changed from 2014, making comparisons not possible*

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- Distribution strategy/channels
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- Digitalisation
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- Due diligence
- Valuation
- Turnkey transaction assistance
- Accounting and purchase price allocation
- Post-deal integration and delivering deal value

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

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

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

- Steer the business/KPIs
- Leadership development
- Cost accounting/transfer pricing
- Internal and external reporting
- IT strategy
- Business intelligence
- Data analytics

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

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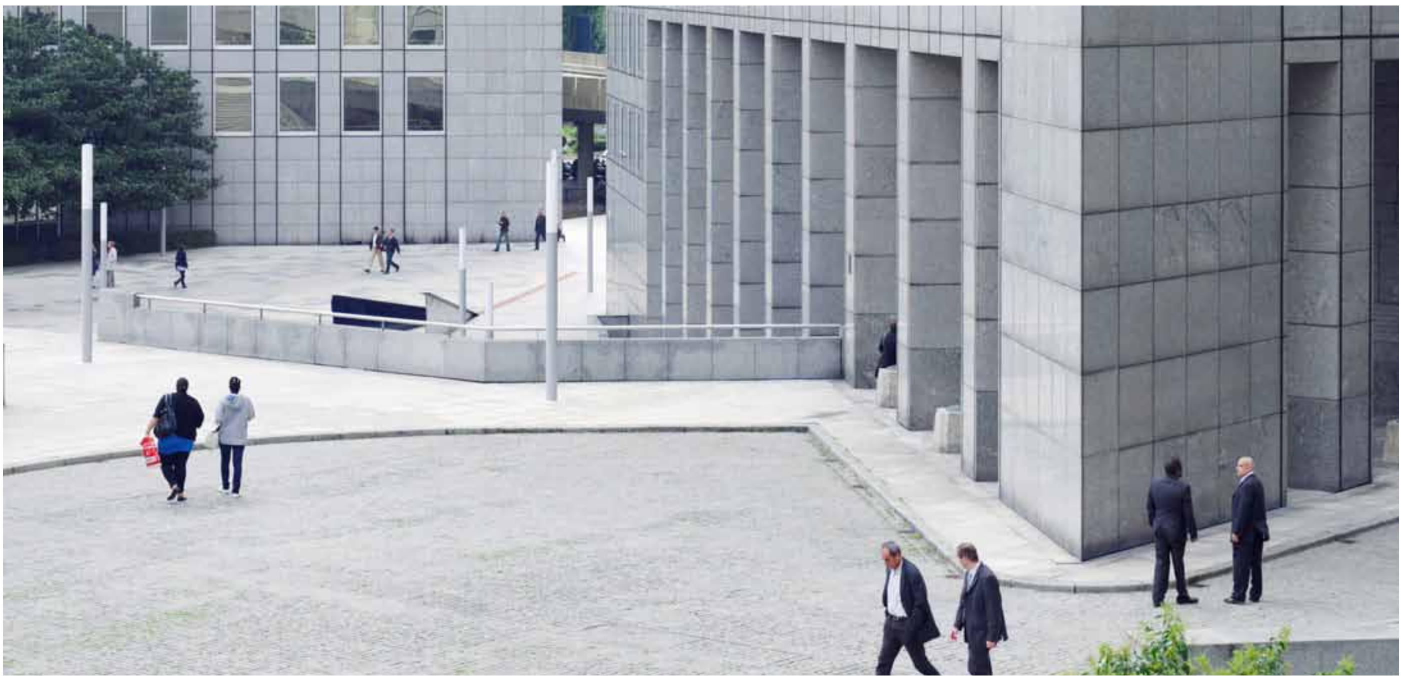

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