Bharatiya Vidya Bhavan's SPJIMR

INDIA:

STATE OF THE FAMILY BUSINESS REPORT

4 January, 2023

CENTRE FOR FAMILY BUSINESS & ENTREPRENEURSHIP

Bharatiya Vidya Bhavan's SPJIMR

FOREWORD

The India growth story, in a world ridden by geo-political turbulence and economic uncertainties, will depend crucially on family businesses, which are the predominant organizational forms of business across the world, including India.

Family businesses are an amalgamation of the owning business family, and the family business. Family business research attests to the complex interlinkages between the business family and the family business, and the relationship between the two as determining both family firm and the family outcomes. Family businesses are well known to operate keeping in mind both business (economic) goals adding to the family's financial wealth and non-economic goals which add to the family's socio-emotional wealth. The trade-offs between economic and non-economic goals are likely to be even more stark in the case of small family businesses, which face greater vulnerability to the vicissitudes brought about by natural and other factors.

For instance, should the small family enterprise look at making the business more sustainable by investing on more eco-friendly raw materials, or should it try and reduce costs by using the most cost-effective (albeit non-eco-friendly) materials and resources? Should it try and reduce costs through retrenching labour? How should it cope as it loses business due to the current turbulence? How should it try to address questions of succession?

We seek to understand the state of the Indian family businesses, especially the small family businesses, through a half-yearly report. The report, to be based on Indian family businesses across the country, will seek to understand both the state of the family and the state of family business separately. It will cover the state of the business performance, expectations of these FBs regarding the future of business, the business priorities of the FB, business challenges, state of governance within the family business, developments on the family side of the FB, top family priorities, and challenges on the family side. Every half year, it will also cover one specific aspect relevant to family businesses. Thus, the Half -Yearly State of Family Business Report, December 2022, has covered the issue of succession within Indian family businesses. We surveyed 350 family businesses from across India, with Hansa Research conducting the surveys on our behalf.

Our survey reveals that while business considerations, especially in the aftermath of the Covid and the uncertain geopolitical conditions are critical, the state of the family business is more worrisome, especially with respect to succession and governance issues. The FBs surveyed seem to be optimistic about both the business performance in the last year and the future business environment. However, while the FBs are governed by clear values and a code of conduct, there seems to be lesser attention paid to critical aspects such as family governance and planning for succession.

This is manifested in succession timing being not clearly defined, despite there being an intent to hand over the business to the next-gen family member and a reluctance to let go, due to the perceived inability or lack of interest in the next-gen family members.

Family businesses thus seem to be facing greater headwinds from the family side than from the business side, despite a seemingly difficult and uncertain business environment.

Tulsi Jayakumar

Tulsi Jayakumar
Professor, Finance & Economics
Executive Director,
Centre for Family Business & Entrepreneurship
SPJIMR, Mumbai

KEY FINDINGS

GENERATIONS IN BUSINESS

- Most of the family businesses (FBs) surveyed continue to have the active involvement of the founders (first generation). Most of the businesses are those which have an active involvement of the second-gen, what we call "second-gen businesses", while the proportion of third-gen businesses is very small.
- Most businesses surveyed thus still seem to be under the influence of the founder.

ENTERPRISE SIZE AND TYPE AND GENERATIONS IN BUSINESS

- The smaller the size of the enterprise, the greater the proportion of involvement of the founder and the immediate next gen. Micro enterprises continue to be largely founder driven. The larger family businesses have a greater involvement of the generations beyond Gen 2.

PROPORTION OF SHARES HELD BY FAMILY

- A majority of the family businesses in India still continue to be closely held by the owning family.

AGE OF FAMILY BUSINESSES

- As corroborated by the data on generations in business, most FBs are still only in a single generation, given that typically a generation is supposed to span 25 years. A majority of them are between 11-25 years of age, while about 20% are between 25-50 years old.

EMPLOYMENT

- It appears that the proportion of organised labour force employed increases with the size of the enterprise.

BUSINESS PERFORMANCE

- During 2021-2022, most FBs reported either stability or an increase in various business parameters such as sales, market share, profitability, number of people employed, return on assets, return on equity and profit margin on sales. The overall dependence on external sources of funds also increased or remained stable.

- The service sector enterprises outperformed the manufacturing sector enterprises in the business parameters such as sales, market share, profitability, number of people employed, and profit margin on sales. More manufacturing enterprises experienced either stable or increasing ROA and ROE compared to service enterprises.
- More micro-enterprises and small enterprises reported stable or increasing sales, market shares, profitability, employed greater (or the same number of) people, ROA, ROE, and profit margins compared to medium enterprises. In fact, the performance of micro enterprises was clearly above that of its other MSME peers on all the metrics.
- The last three years witnessed an increase in profit margin on sales, ROE, ROA, profitability, number of people employed, and market share for the majority of enterprises, whereas sales declined and the company's dependence on debt remained stable in many firms compared to their competitors. Overall, a higher number of enterprises with first-generation members had a better business performance.
- Manufacturing enterprises reported a greater decline in sales, market shares, profitability, return on assets, and return on equity over their competitors in the last three years compared to service enterprises. Service enterprises reported better business performance over competitors in the last three years compared to manufacturing firms. Almost 80% of both manufacturing and sales enterprises reported stable or increasing profit margin on sales compared to competitors in the last three years.
- Small and medium enterprises reported a greater decline in sales, market share and profitability over their competitors in the last three years compared to medium and large enterprises. Micro enterprises seemed to have done better on all parameters compared to their small and medium sized counterparts in withstanding competition in the last 3 years.
- This points to a scenario of overall positive sentiments held by these family businesses regarding competitiveness.

EXPECTATIONS

- Expectations regarding growth and increased adoption of technology remained optimistic, with more FBs expecting growth and technology adoption to increase, even as they expected cost of raw materials and cost of labour to increase in the year ahead.

- A large proportion of the enterprises surveyed expect to induct professionals into top management in the year ahead.
- More manufacturing enterprises reported an expectation of increasing the technology adoption as compared to service firms, besides expectations of an increase in the cost of labour. While both types of enterprises expected growth to increase in the year ahead, more service firms expected increasing growth compared to manufacturing firms. Also interestingly, a lower proportion of manufacturing firms reported that they expected increases in the cost of raw materials compared to service firms.
- A greater proportion of large FBs expect to increase their technology adoption in the next year, while such expectation seems to be high (over 80%) in SME FBs as well. More medium enterprises report an expectation regarding an increase in the labour cost compared to their other-sized counterparts. More small enterprises report an expectation regarding an increase in growth compared to their other-sized counterparts, even while their expectation regarding cost of raw material increases surpasses that of others.

STATE OF THE FAMILY

- The family businesses surveyed gave high priority to values and a code of conduct. Most of the FBs surveyed (89%) reported the presence of clear values driving the family business, with 77% agreeing (strongly) that the FB had a clear written mission-vision statement. Active family members were involved in the mission-vision statement. However, most FBs reported no written values or code of conduct driving the business.
- It thus leads us to believe that the values driving a family business may be informal and oral and may still drive business. Such informal values need not be translated into a written code of conduct for carrying out business.
- Equally, non-family managers are expected to adhere to these family values in their work lives.
- The major family-side events that the surveyed FBs reported as having occurred in the last year, FY 21-22, included: a) a written constitution being put in place, b) professionals being terminated and replaced by family managers, c)

systematic family meetings being conducted to discuss family issues, d) a will having been prepared last year and e) a decision to constitute a Board of Directors, unrelated to the extended family.

- A minuscule proportion of FBs reported inducting women into the FB in the last year.

FAMILY BUSINESS PRIORITIES

- The top ranked business priorities in the next year included 'growing the product portfolio through brand extensions' (35%). The FBs seemed to want to adopt relatively less risky avenues of growth rather than looking at investing in R&D, or diversifying into new age businesses.
- Of the FBs surveyed to assess the overall top 5 business priorities in the next year, the largest proportion of FBs reported 'growing the product portfolio through brand extensions' as the top business priority. This was followed by (in descending order of preference): 'adopting digital/ new technologies', 'adopting sustainable business models, production and marketing techniques', 'changing the current business models' and 'creating more wealth for the shareholders'.
- The top ranked family priorities in the next year included 'to increase the involvement of the next generation in the management of the family business' (39.4%), followed by 'to create a family council or other forms of family governance' (25%). Succession planning, training women and other non-active family members in different aspects of the business did not feature high among short-term family priorities. Nor did getting a written will and sharing it with all family members.
- In terms of top five long-term priorities of the FB, the largest proportion of FBs reported 'creating dividends for all family members' as the top family priority, while other long-term priorities included 'to create a legacy', 'to protect the family reputation', 'to ensure that wealth is created for several generations' and 'to keep the family in the family business'. Creating and preserving wealth within the family and to ensure the legacy and reputation of the FB thus weighed heavily among most FBs surveyed.

CHALLENGES FACED BY FBs

- FBs reported business challenges including Growing competition, Government Regulations, Lack of adequate finances, Lack of managerial skills for running the business, Lack of marketing and branding skills, and Lack of bargaining power with suppliers.

- Growing competition and shrinking markets were the top challenges for both manufacturing and service FBs. For manufacturing enterprises, lack of access to technology was the next biggest challenge, while service enterprises reported product obsolescence as the third top challenge.
- All FBs surveyed, irrespective of size, cited growing competition and shrinking markets as the top challenge.
- High cost of raw materials, lack of finance and the problem of receivables did not feature in the top challenges at all.
- The family challenges faced by the FBs included: Branding the family business, Lack of clear communication among various members of the family involved in business/inability to see eye-to-eye on crucial matters, lack of competent and/or interested successors to the family business, lack of a conflict resolution mechanism within the family business, and lack of a family constitution.
- However, in terms of the top family challenges faced by FBs, the following were reported, both by type of business (manufacturing and services) and by size of enterprise:
    - Lack of a clear successor / succession plan for the family business
    - Lack of clearly defined and/or written roles and responsibilities for all family managers, including women
    - Lack of a conflict resolution mechanism within the family business
- A greater proportion of manufacturing than service enterprises reported such family challenges, while small enterprises seemed to experience these challenges greater as compared to their other-sized counterparts.

SUCCESSION

- Of the FBs surveyed, most respondents cited 'being good at marketing' as the most important trait that should be considered for succession. 'Ability to lead and manage people' came a distant second.
- A majority of the respondents stated that they would like to hand over the business to a next-gen family member.

- However, an overwhelming proportion of the respondents stated that they would continue to run the business as long as they could, while others stated that they would give up after 5 years. Just two respondents stated that they would like to give up the business in the next 12 months, while another eight stated that they would give up the business in the next 2 years.
- The chief reasons for not letting go, as cited by the respondents were, lack of interest of the next-gen and lack of capability of the next-gen.

1. PROFILE OF THE FAMILY BUSINESSES

Period of the Survey: May-October 2022

350 Businesses Surveyed

50 Cities Covered Pan-India

105 Micro Enterprises

140 Small Enterprises

70 Medium Enterprises

35 Large Enterprises

139 Manufacturing

211 Services

18.76 Years Average Age of the Enterprises

110 Years Oldest Company

8 Years Youngest Company

- The survey covered FBs from all parts of India, with almost 25% of enterprises drawn from North, South, East and West each. Almost 40% of the enterprises surveyed belonged to the manufacturing sector, while 60% were from the service sector. The distribution of Micro, Small, Medium and Large FBs in the survey was 30%, 40%, 20% and 10% respectively.
- 78% of the manufacturing enterprises were micro or small, while the proportion of micro and small service enterprises among those surveyed was lower at 64.9%.

GENERATIONS IN BUSINESS

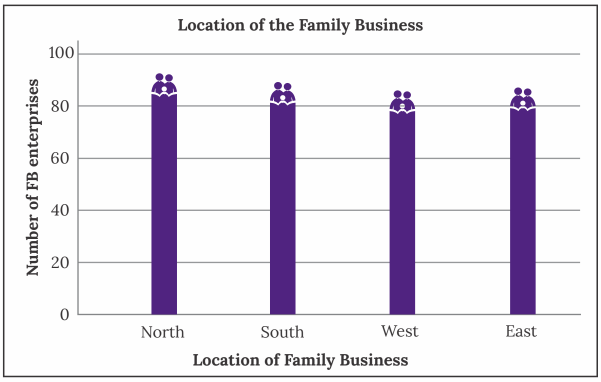
- A majority of the businesses (279/350 or ~80%) continue to have the first gen actively involved. About 74.5% of the businesses (261/350) are second gen businesses- with the involvement of at least a second gen. About 35% (123/350) businesses are third-gen businesses with the involvement of at least one third gen member. Only 3 of the 350 businesses surveyed have an active 4th generation participant, while 5 businesses continue to remain 1st Gen businesses.
- 17/350 (4.8%) had only the second generation involved. 46/350 (13%) had the active participation of the second and 3rd generations, while two businesses had the active participation of Gen 2 and Gen 4.

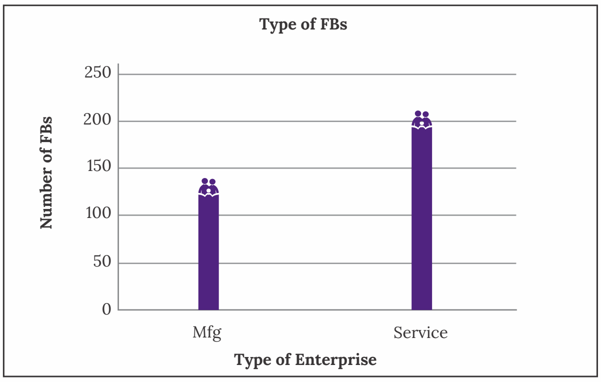
- 5/350 had 3rd gen members involved in the family business but no previous gen member, while one business from Kolkata had a 3rd and 4th gen member involved.
- Most businesses surveyed thus still seem to be under the influence of the founder.

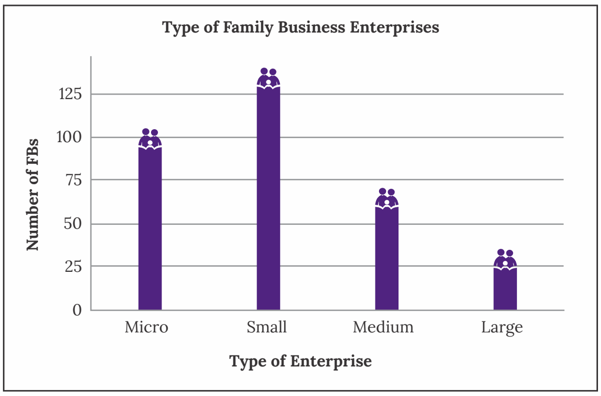
Nature of the enterprise and generations involved

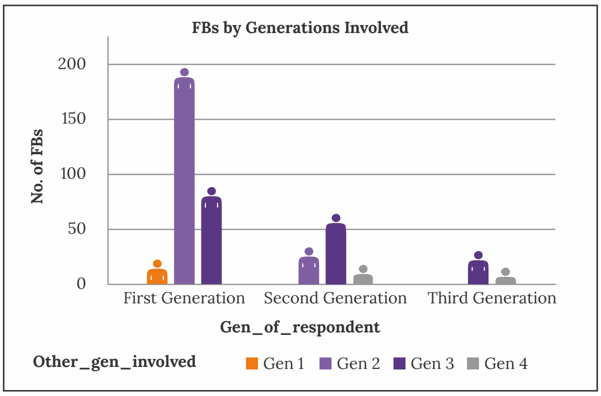
- 82.7% of the manufacturing enterprises surveyed (115/139) are 2nd gen businesses, compared to 69% (146/211) of service enterprises. The proportion of enterprises which have transitioned to the 3rd generation is almost the same – 37% - for both the manufacturing and service sectors.
- 95/105 (90.5%) of the micro enterprises have transitioned to the second gen. 111/140 or 79% of small enterprises are second gen businesses, 44/70 or 62.8% of medium enterprises are second gen, while 11/35 or 31.4% of large FBs are second-gen businesses.
- 12% (13/105) of the micro enterprises are third-gen businesses, 32.8% (46/140) of small enterprises, 64.2% (45/70) of medium enterprises, and 74.2% (26/35) of large businesses are third-gen businesses.
- 97 of the 105 micro enterprises have first gen respondents, with 2 still having only the first gen involvement; 87 of these micro enterprises have active involvement of the first and 2nd gen; 8 have the active involvement of the first and 3rd gens. 3 of the micro enterprises have only the second gen involved, while 5 have the involvement of Gen 2 and Gen 3. **Thus, 86% micro enterprises are under Gen 1 and Gen 2**
- 107 of the 140 small enterprises have first gen respondents, with two businesses where only the first gen is involved. 80 of these small enterprises have the active involvement of Gen 1 and Gen 2; 25 have the active involvement of Gen 1 and Gen 3. 12 of the 140 small enterprises have only Gen 2 involved, while 19 have the active involvement of Gen 2 and Gen 3. 2 of the small enterprises have only Gen 3 involvement. **58.5% small enterprises are under Gen 1 and Gen 2**
- 45 of the 67 medium enterprises have first gen respondents, with 23 enterprises having the active participation of Gen 1 and Gen 2, and 22 enterprises with active involvement of Gen 1 and Gen 3. Two enterprises had only Gen 2 involved, while 18 had Gen 2 and Gen 3 involved. One enterprise had Gen 3 involved, while one had Gen 3 and Gen 4 actively involved. **34% medium enterprises are under Gen 1 and Gen 2**

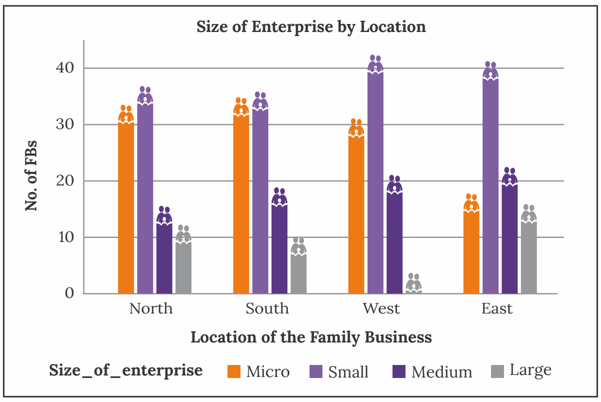
- 30 of the 38 large enterprises had first gen respondents, 1 had only Gen 1 involved, 6 had the active involvement of the first and 2nd Gen, while 23 had active involvement of Gen 1 and Gen 3. 4 had the active involvement of Gen 2 and gen 3, while 2 had Gen 2 and Gen 4 involved in the business. 2 of the large enterprises were completely under Gen 3. **18.4% large enterprises are under Gen 1 and Gen 2; 81% have involvement of Gen 3 and above**
- **The smaller the size of the enterprise, the greater the proportion of involvement of the founder and the immediate next gen. Micro enterprises continue to be largely founder driven. The larger family businesses are those which have a greater involvement of the generations beyond Gen 2.**

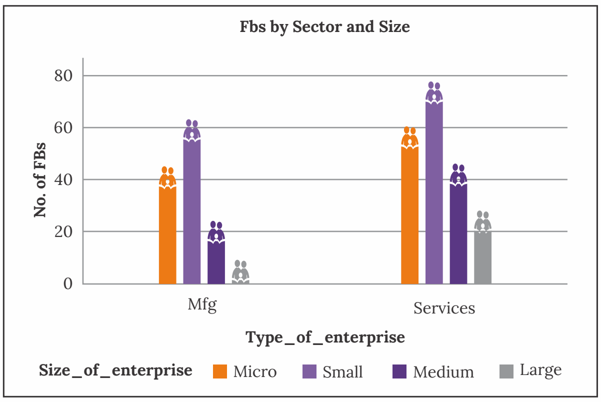


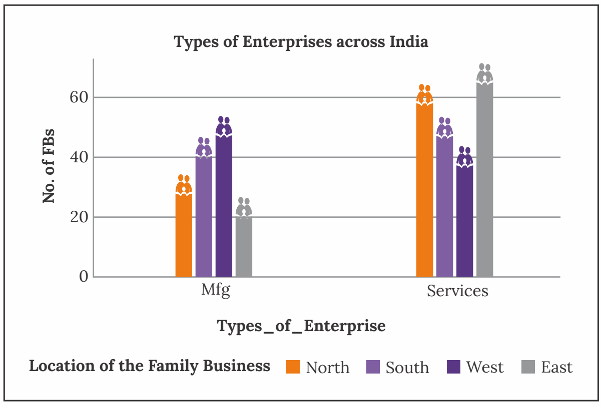


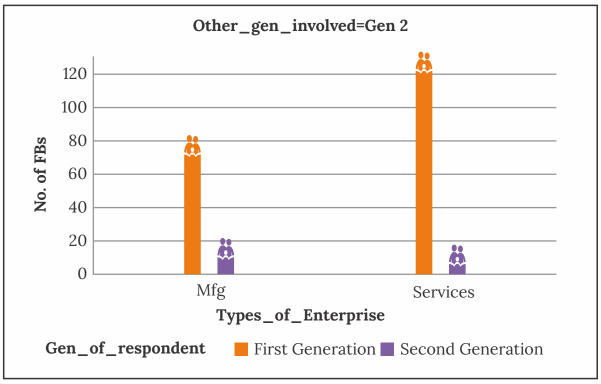


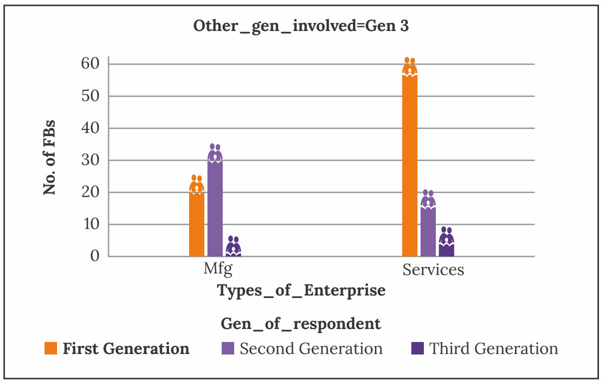


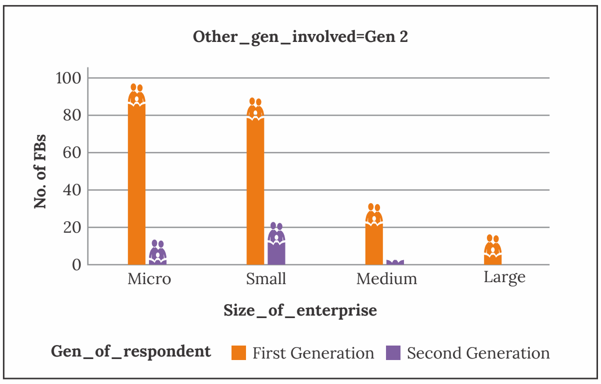


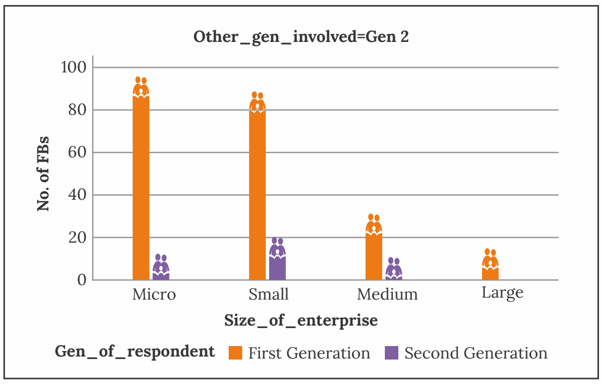


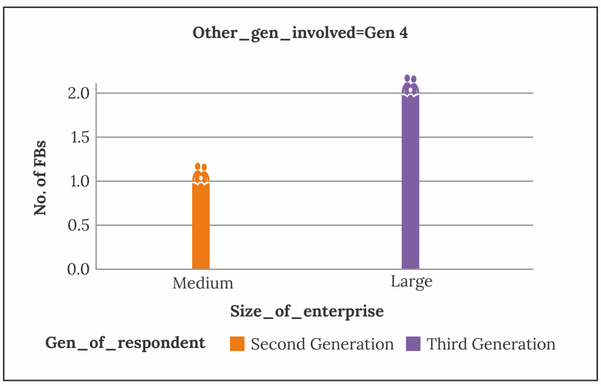

Types of Enterprises across India
No. of FBs
0
20
40
60
Mfg
Services
Types_of_Enterprise
Location of the Family Business
North
South
West
East


Other_gen_involved=Gen 2
No. of FBs
0
20
40
60
80
100
120
Mfg
Services
Types_of_Enterprise
Gen_of_respondent
First Generation
Second Generation


Other_gen_involved=Gen 3
No. of FBs
0
10
20
30
40
50
60
Mfg
Services
Types_of_Enterprise
Gen_of_respondent
First Generation
Second Generation
Third Generation


Other_gen_involved=Gen 2
No. of FBs
0
20
40
60
80
100
Micro
Small
Medium
Large
Size_of_enterprise
Gen_of_respondent
First Generation
Second Generation


Other_gen_involved=Gen 2
No. of FBs
0
20
40
60
80
100
Micro
Small
Medium
Large
Size_of_enterprise
Gen_of_respondent
First Generation
Second Generation


Other_gen_involved=Gen 4
No. of FBs
0.0
0.5
1.0
1.5
2.0
Medium
Large
Size_of_enterprise
Gen_of_respondent
Second Generation
Third Generation

PROPORTION OF SHARES HELD BY FAMILY

- 220 of the 350 enterprises (63%) reported a 100% shareholding by the owning family. 74 of these were micro, 93 were small, 24 were medium and 29 were large.
- 267 of the family businesses surveyed (76.2%) held more than or equal to 75% shares.
- 324 of the 350 (92.5%) enterprises reported owning more than 50% of the shares.
- A majority of the family businesses in India still continue to be closely held by the owning family.

AGE OF FAMILY BUSINESSES

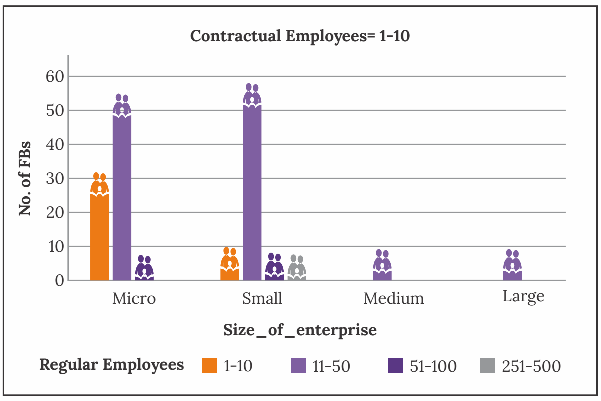
- Only 5 of the family businesses have survived between 51-110 years. 19.7% (69/350) of the family businesses have survived between 25-50 years. A majority of the firms 201/350 (57.4%) are between 11 up to 25 years of age, while 75 are up to 10 years old.

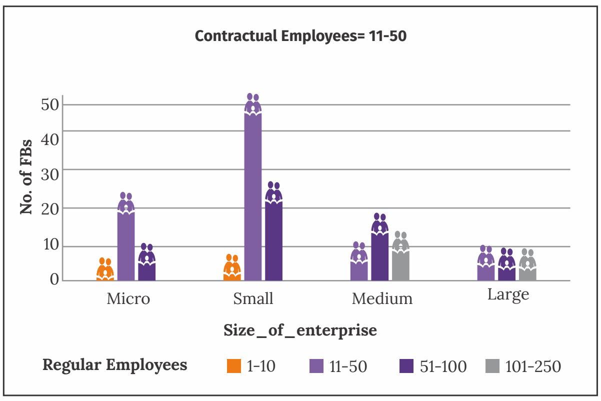
Thus, as corroborated by the data on generations in business, most FBs are still only in a single generation, given that typically a generation is supposed to span 25 years.

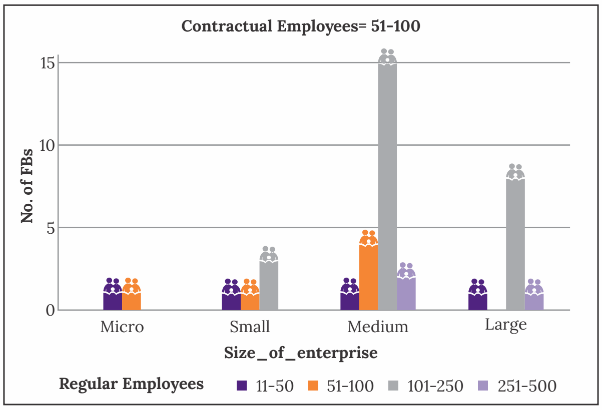
SIZE OF THE ENTERPRISE AND EMPLOYMENT

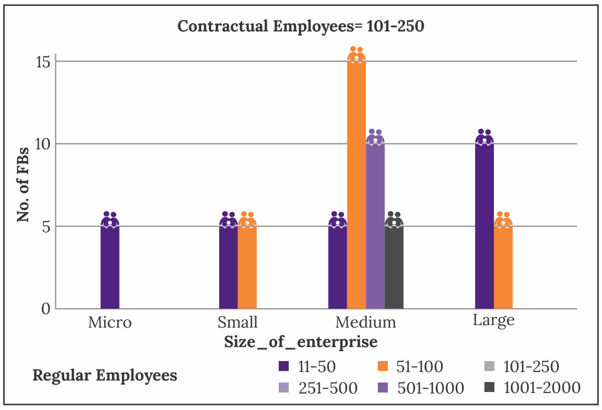
Most micro enterprises employed between 11-50 regular and 1-10 contractual employees, and this was statistically significant; small enterprises employed between 11-50 regular and 11-50 contractual employees, and this was statistically significant; both medium and large enterprises employed between 101-250 regular employees and 51-100 contractual employees.

The proportion of organised labour force employed increases with the size of the enterprise.



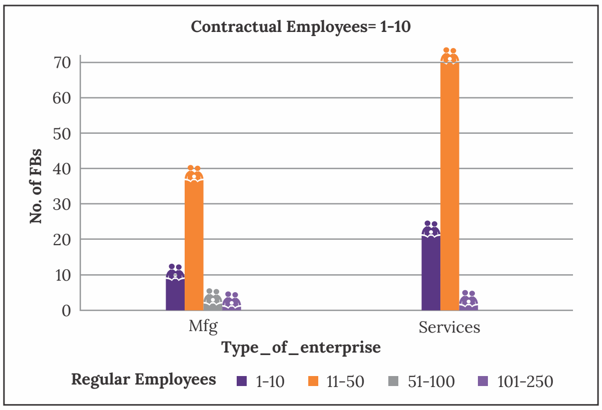


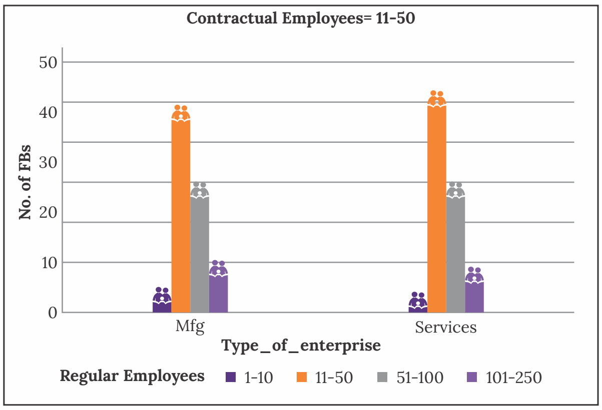




NATURE OF THE ENTERPRISE AND EMPLOYMENT

In manufacturing , most enterprises employed between 11-50 regular employees and a similar number of contractual employees. The same is true for the service enterprises as well.

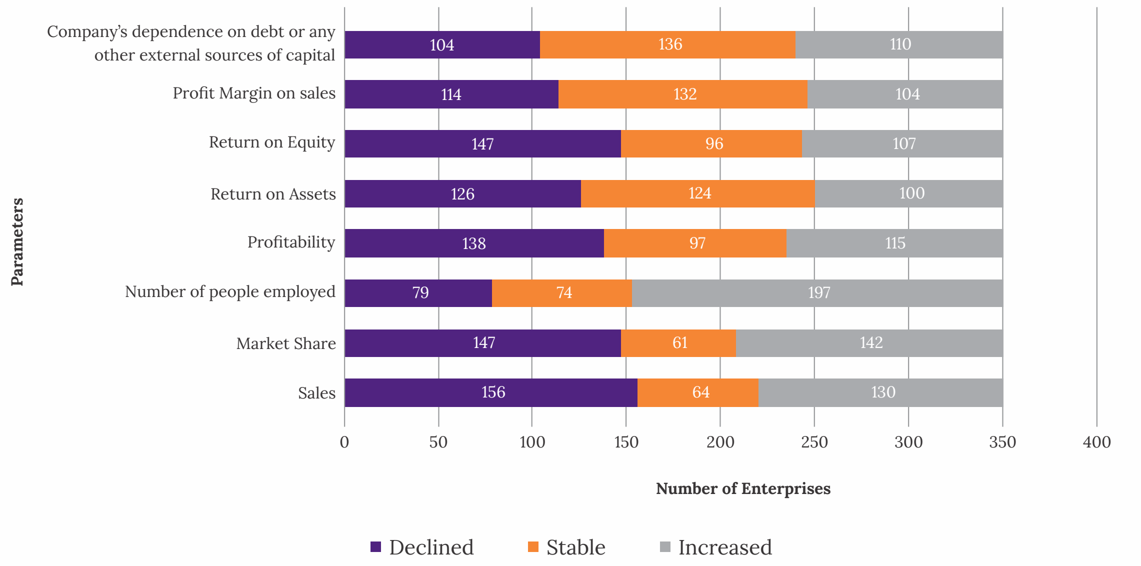




2. STATE OF BUSINESS PERFORMANCE

2.1 Business Performance in FY 2021-22

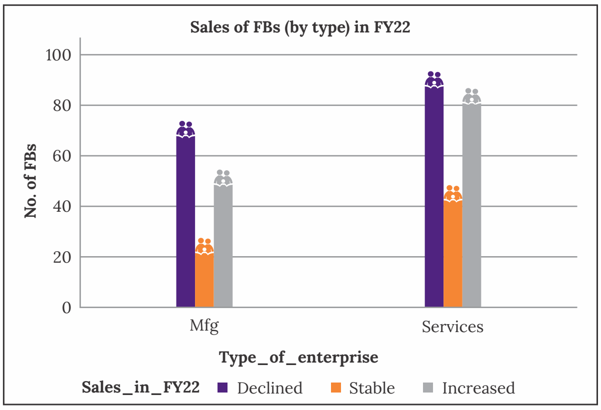
2.1.1 Overall Business Performance

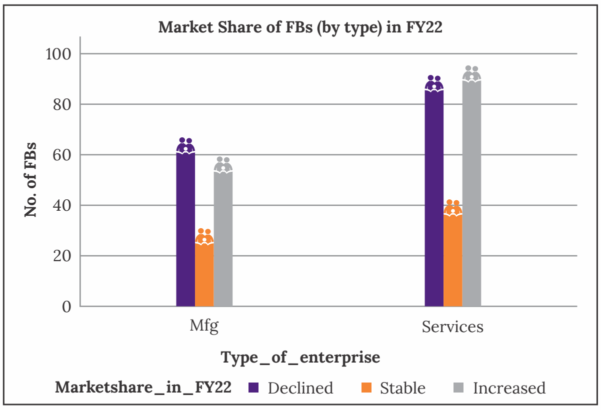


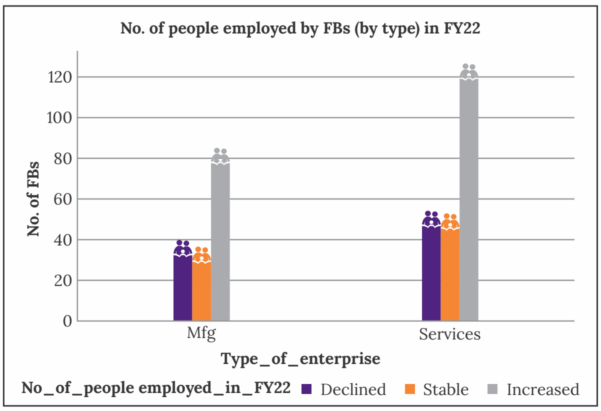
- Of the family businesses surveyed, the proportion of FBs cumulatively reporting stable (18.3%) and increasing sales (37.1%) was greater than those reporting declining sales (44.6%).
- The proportion of FBs which reported stable or increasing market share was cumulatively higher at 58% (i.e. 17.4% and 40.6% respectively), than those reporting a decline in market share (42%).
- Of the family businesses surveyed, a majority (56.3%) reported an increase in the number of people employed, while 21.1% reported stable numbers employed.
- Of the family businesses surveyed, a majority (60.6%) reported either stable or increasing profitability.

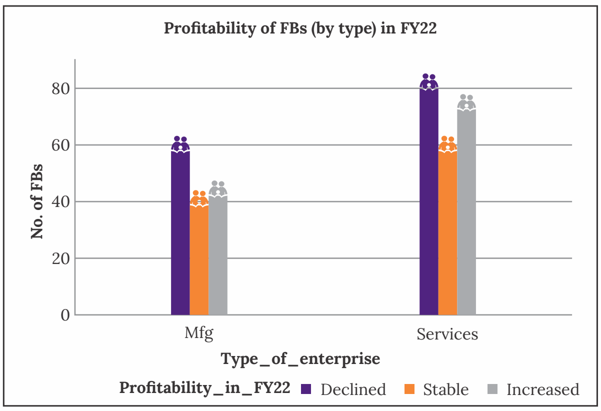
- Of the family businesses surveyed, the proportion of FBs which reported stable or increasing Return on Assets (ROA) was 35.4% and 28.6%, while those reporting a decline in ROA was 36%.
- Of the family businesses surveyed, the proportion of FBs which reported stable or increasing Return on Equity (ROE) was 27.4% and 30.6%, while those reporting a decline in ROE was 42%.
- Of the family businesses surveyed, a majority (67.4%) reported either a stable or increasing profit margin on sales.
- Of the family businesses surveyed, a majority (38.9%) reported stability in their dependence on external sources of funds. 31.4% reported increasing dependence, which might have to do with the capital requirements associated with scaling up.

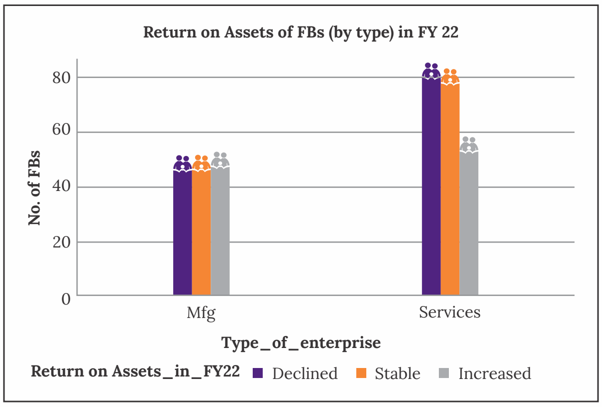
2.1.2 Based on the nature of business

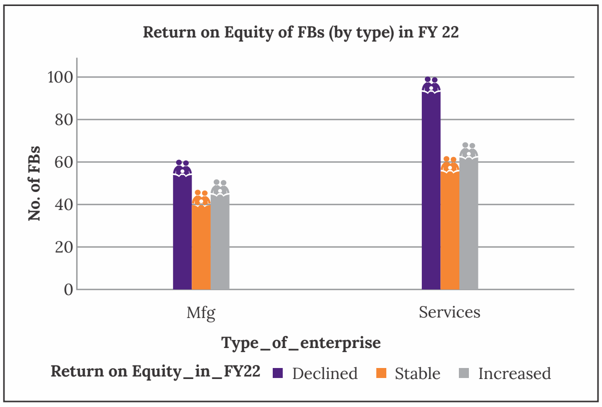


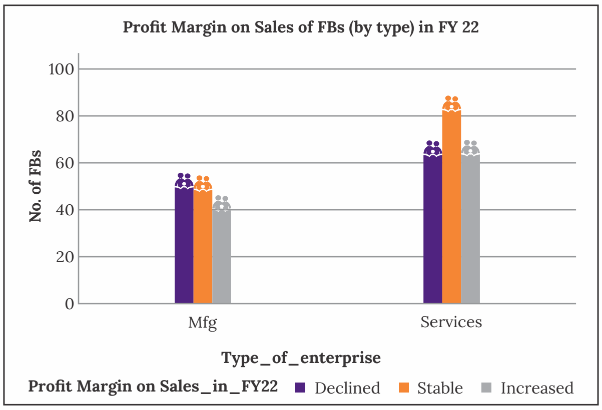


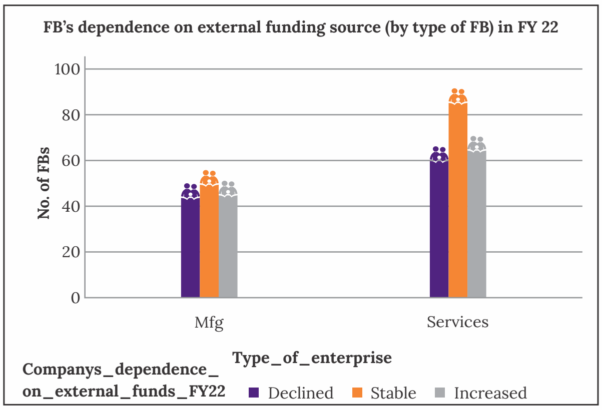












- Of the total family businesses in the manufacturing and service sectors respectively, the largest proportion of family businesses experienced a decline in sales in FY 2021-22. In the manufacturing sector, almost 49% of the enterprises experienced decline in sales, compared to about 42% of service enterprises. The proportion of manufacturing enterprises experiencing increase in sales was 35.25%, compared to 38.4% of service enterprises.

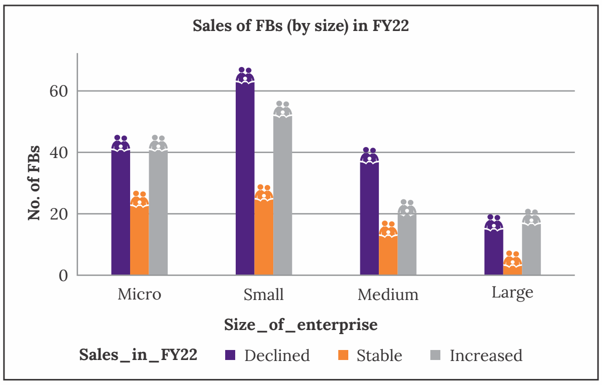
- Of the total family businesses in the manufacturing sector respectively, the largest proportion of family businesses (~ 44%) experienced a decline in the market share in FY 2021-22. Almost 42.2% of the service family businesses experienced an increase in the market share, compared to a decline in the market share of almost 41% of service enterprises.

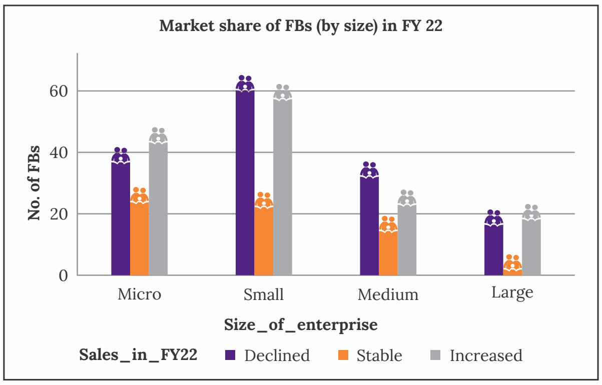
- More manufacturing and service family businesses experienced a decline, rather than stability or an increase in profitability. Thus, 41.7% manufacturing enterprises, and almost 38% of service enterprises experienced a decline in profitability. 58.3% of manufacturing enterprises and 62.1% of service enterprises experienced stable or increasing profitability.

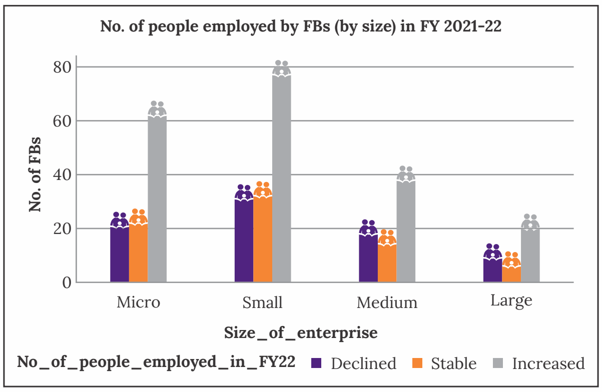
- Almost 56% of both manufacturing and service family businesses each increased the number of people employed within the respective sectors in FY 2021-22. About 20% of the enterprises in each sector maintained the number of people employed stable. Such stability/increase in the employment, despite the reduction in sales and profitability, may be attributed to the family's socio-emotional wealth goals and family values.

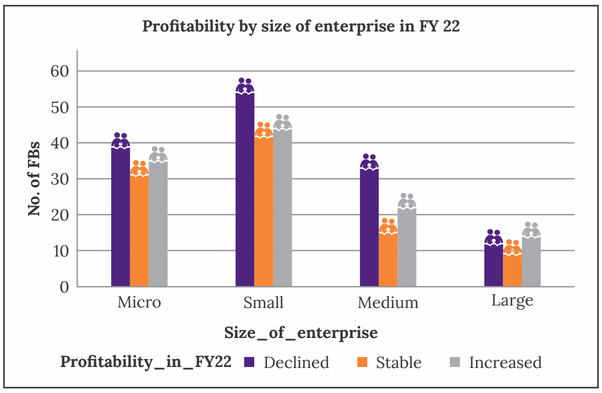
- The proportion of manufacturing family businesses experiencing a decline, increase and stability in the Return on Assets was almost equal. For service firms, 37.9% of these enterprises experienced a decline in ROA, while ROA increased for 25.1% of service enterprises and was stable for 37% of service enterprises.
- Return on Equity, similarly, declined for 38.8% of manufacturing family businesses, compared to 44.1% of service enterprises. A smaller proportion of service firms (29.4%) compared to manufacturing enterprises (32.4%) reported an increase in ROE.
- Most manufacturing (35.2%) and service family businesses (39%) reported stable profit margin on sales.
- The family businesses' dependence on debt was stable for 50 (35.97%) manufacturing enterprises, declined for 44 (31.7%), and increased for 45 (32.4%). Dependence on debt was stable for 86 (40.8%) service enterprises, declined for 60 (28.4%), and increased for 65 (30.8%) enterprises.

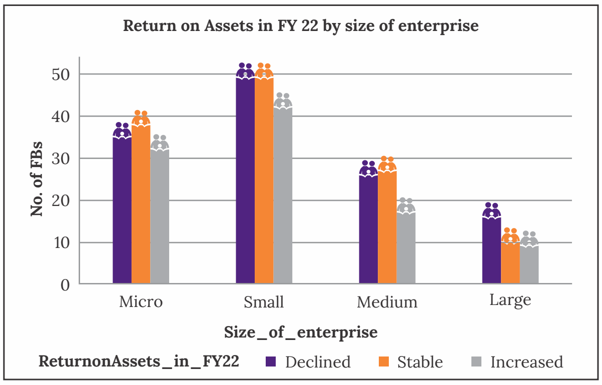
2.1.3 Based on Size of the Family Business

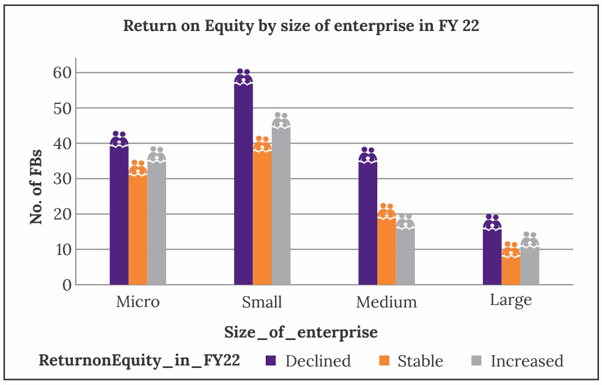


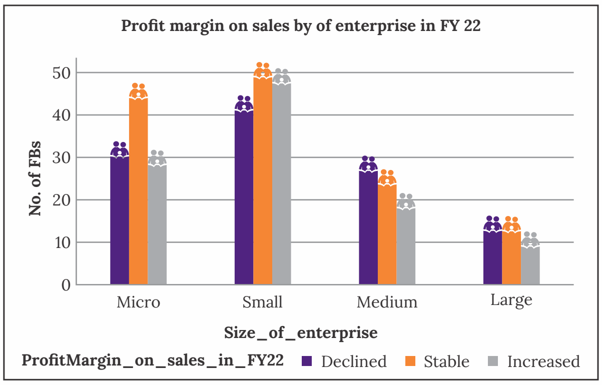


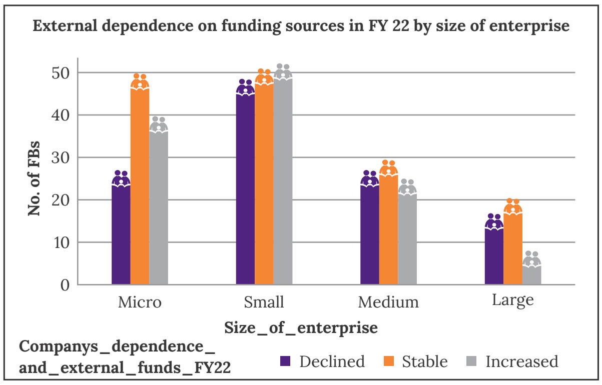










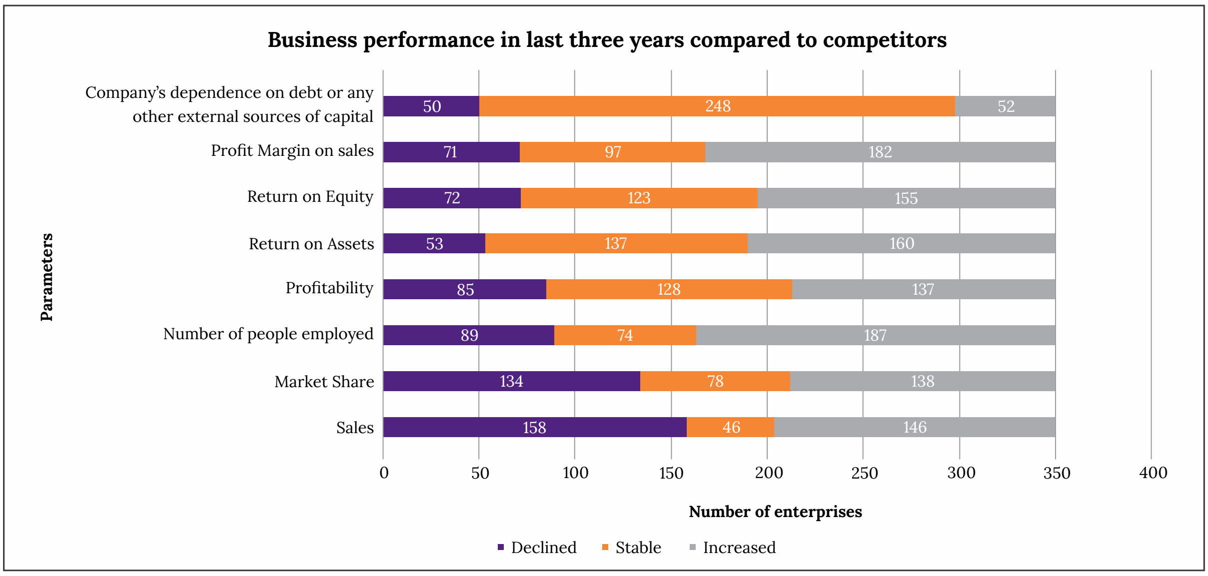


- 55% of the total family businesses (irrespective of size) experienced either stable or increasing sales in FY 22. Almost 61% of micro enterprises, 55% of small enterprises, 47% of medium, and 57% of large enterprises reported stable or increasing sales. Of the family businesses, surveyed, 39% of micro enterprises , 37% of small enterprises, 28.5% of medium enterprises and 48.5% of large enterprises reported a clear increase in sales in FY 22.
- Similarly, in terms of market share, 58% of the total family businesses (irrespective of size) experienced either stable or increasing market share in FY 22. Almost 65% of micro enterprises, 56.4% of small enterprises, 52.9% of medium, and 54.3% of large enterprises reported stable or increasing sales. Of the family businesses surveyed, 42% of micro enterprises , 40.7% of small enterprises, 32.9% of medium enterprises and 51.4% of large enterprises reported a clear increase in market share in FY 22.
- In terms of number of people employed, 56.3% of the overall family businesses reported an increase in the number of people employed. The number of microenterprises reporting an increase in the number of people employed was greatest (at 59% of the total microenterprises). 55% of small, 54.3% of medium and 57.1% of large enterprises also reported increases in the number of people employed.

- A greater proportion of enterprises of various sizes have reported either stable or rising profitability. 62.8% of microenterprises experienced stable or rising profitability. These proportions for small, medium and large enterprises were 61.4%, 52.8% and 65.7% respectively.
- Most micro (36.2%) and medium (38.6%) enterprises reported a stable return on assets in FY 22. The proportion of microenterprises reporting an increase in ROA was 30.5%, while 37.1% medium enterprises reported a decline in ROA. In the case of small enterprises, an equal proportion of enterprises (35%) reported declining and stable ROA. The largest proportion (45.7%) of large enterprises reported a decline in ROA.
- Most of the family businesses (irrespective of size) reported a decline in Return on Equity (ROE). The proportion of micro, small, medium and large enterprises reporting such a decline was 37.1%, 40.7%, 50% and 45.7% respectively.
- Profit margin on sales remained stable across most enterprises. However , most medium enterprises (40%) reported a decline in profit margins on sales. The proportion of small enterprises reporting an increase in profit margins (34.3%) was greater than other enterprises.
- For most family businesses, the dependence on external sources of funds remained stable or increased in FY 22. Such dependence was particularly high in the case of micro and small enterprises. 78% of micro enterprises, 68% of small enterprises and 67% of medium enterprises reported stable or increasing dependence on external sources of funds

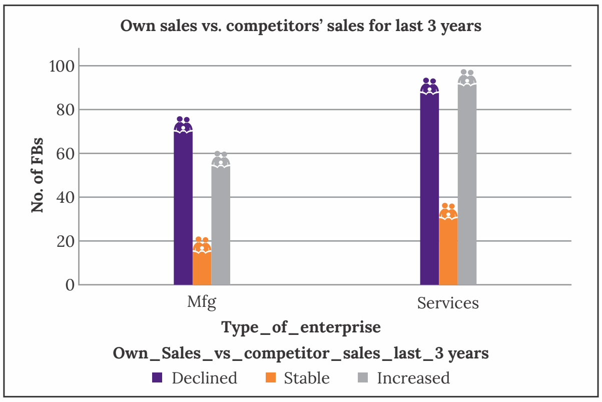
2.2 Business Performance Compared to Competitors in Last 3 Years

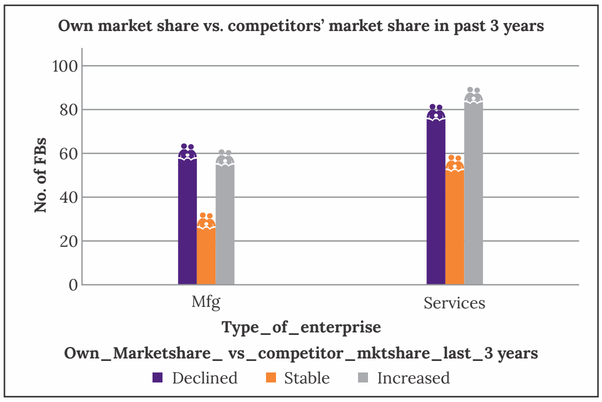
2.2.1 Overall business performance compared to competitors

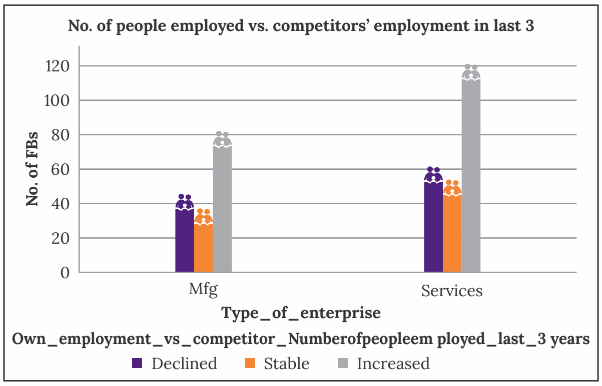


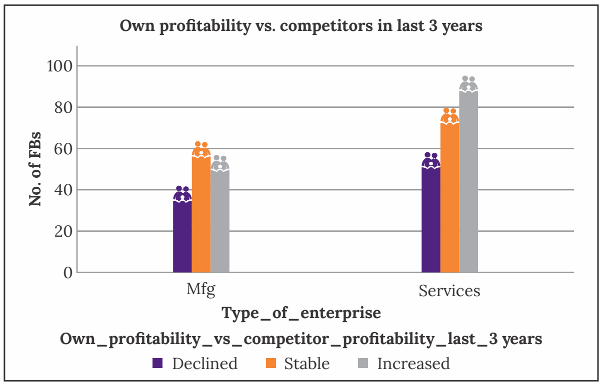
- A majority of the FBs surveyed reported stable or better results on most parameters compared to their competitors in the last three years

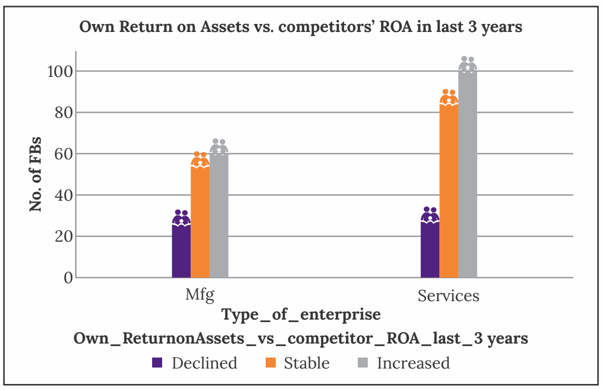
2.2.1 Based on type of business

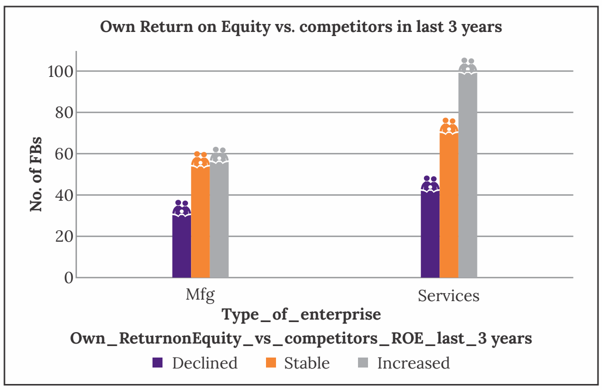


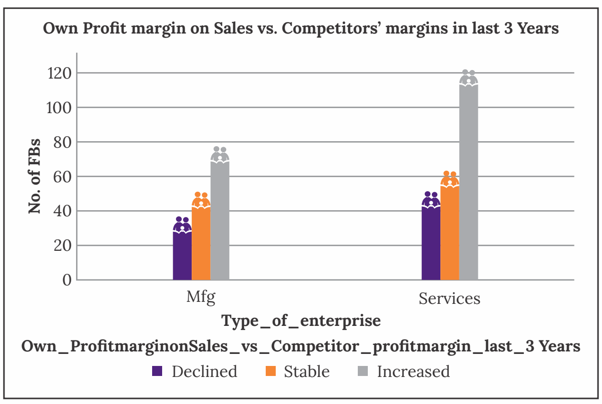


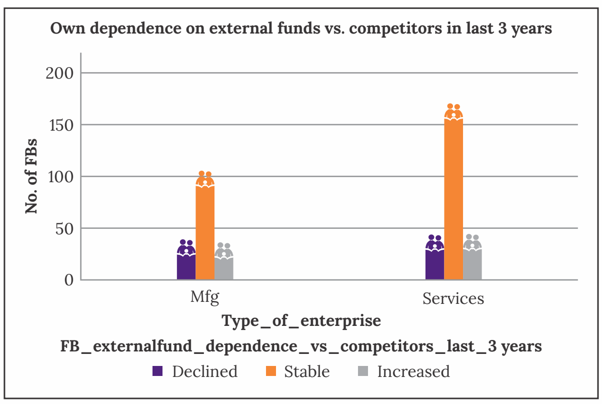






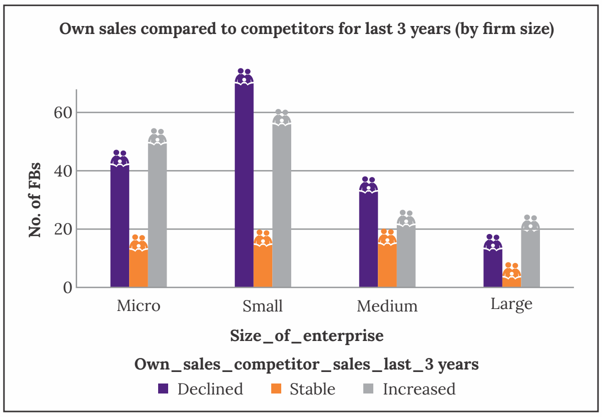


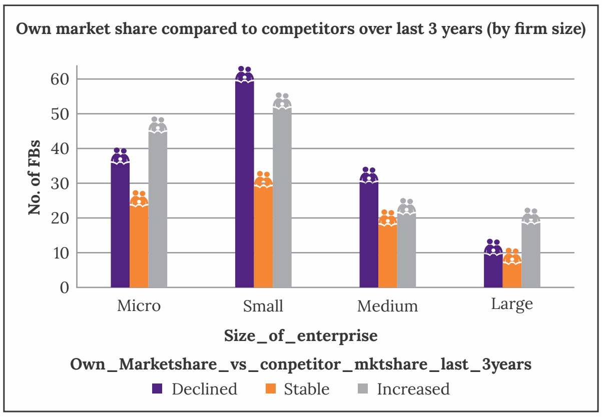


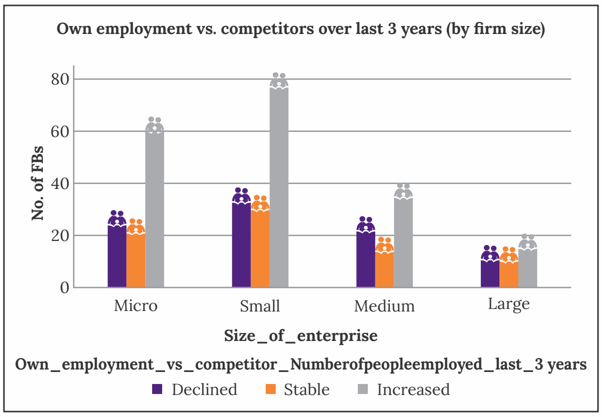


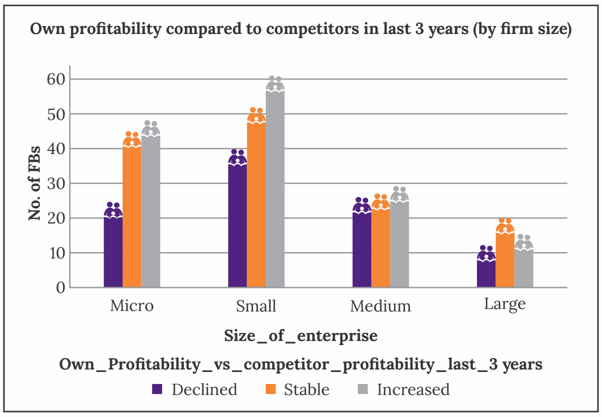
- Of the family businesses, almost 50% of manufacturing and 58% of service enterprises reported an increase in sales compared to competitors over the previous 3 years. 50.4% of manufacturing enterprises and 41.7% of service enterprises reported a decline in sales compared to competitors over the past 3 years.
- Of the family businesses, almost 58% of manufacturing and 64% of service enterprises reported a stable or increase in market share compared to competitors over the previous 3 years.
- Of the family businesses, 53% of manufacturing enterprises and 53.6% of service enterprises, reported an increase in the number of people employed compared to competitors over the past 3 years.
- Of the family businesses, 40.3% of manufacturing enterprises reported stable profitability and 35.3% reported an increase in own profitability compared to competitors over the past 3 years. 41% of service enterprises reported an increase in own profitability compared to competitors over the past 3 years.
- Of the family businesses, 38.1% of manufacturing enterprises reported stable and 43% reported an increase in return on assets (ROA) compared to competitors over the past 3 years. 47.4% of service enterprises reported an increase in own ROA, while 40% reported stable ROA compared to competitors over the past 3 years.
- Of the family businesses, 38.1% of manufacturing enterprises reported stable and 40% reported an increase in their own return on equity (ROE) compared to competitors over the past 3 years. 47% of service enterprises reported an increase in own ROE, while 33% reported stable ROE compared to competitors over the past 3 years.
- Of the family businesses, 50% of manufacturing enterprises reported an increase in their profit margins on sales compared to competitors over the past 3 years, while this proportion was greater at 53.6% for service enterprises.
- Dependence on external funds remained largely stable, with 67% of manufacturing enterprises and 73.5% of service enterprises reporting stability in dependence on external funds compared to competitors over the past 3 years

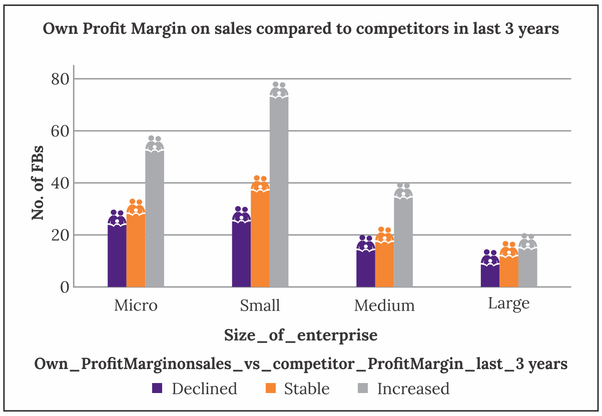
2.2.3 Based on size of business

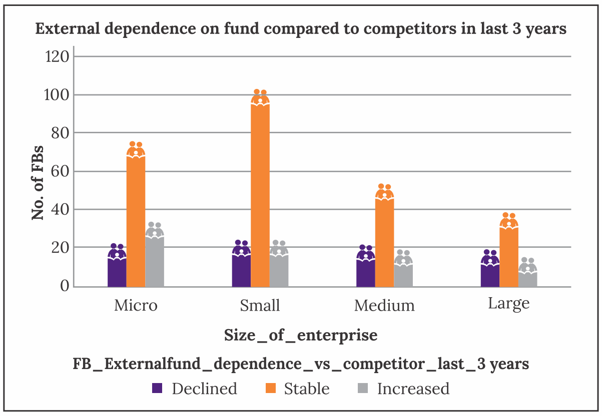












- Of the family businesses, 47.6% of micro enterprises and 54% of large enterprises, reported an increase in sales compared to competitors over the past 3 years. 50% of small and 47% of medium enterprises reported a decline in sales compared to competitors over the previous 3 years.
- Of the family businesses, 42.9% of micro enterprises and 54% of large enterprises, reported an increase in sales compared to competitors over the past 3 years. 42% of small and 42.9% of medium enterprises reported a decline in sales compared to competitors over the previous 3 years.

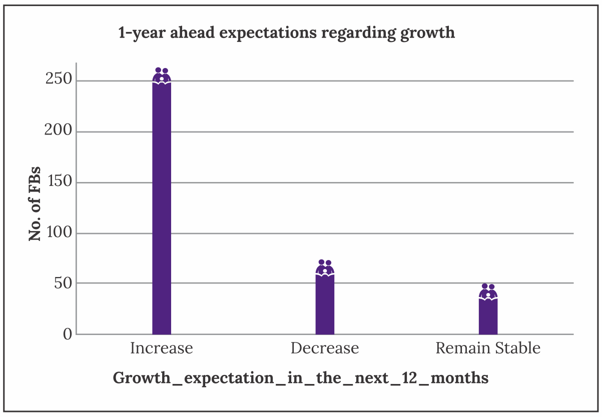
- A greater proportion of MSMEs reported an increase in the number of people employed compared to their competitors over the last 3 years, with 57% micro, 55% small and 50% medium enterprises reporting such an increase.
- A greater proportion of MSMEs also reported an increase in their own profitability compared to their competitors over the last 3 years, with 42% micro, 40.7% small and 35.7% medium enterprises reporting such an increase. Most large family enterprises (45.7%) reported stable profitability compared to that of competitors over the last 3 years.
- A greater proportion of MSME family enterprises also reported an increase in their own return on assets compared to that of competitors over the last three years, with 50% micro, 47% small and 45.7% medium enterprises reporting such an increase. Most large family enterprises (54.3%) reported stable ROA compared to that of competitors over the last 3 years.
- A greater proportion of MSME family enterprises also reported an increase in their own return on equity (ROE) compared to that of competitors over the last three years, with 46.7% micro, 47% small and 44.3% medium enterprises reporting such an increase. Most large family enterprises (51.4%) reported stable ROE compared to that of competitors over the last 3 years.
- A greater proportion of all family enterprises (irrespective of size) reported an increase in their own profit margins on sales compared to that of competitors over the last three years, with 53.3% micro, 54.3% small and 51.4% medium and 40% large enterprises reporting such an increase.
- A greater proportion of all family enterprises (irrespective of size) reported stability in their own dependence on external sources of funds compared to competitors over the last 3 years. Thus, 65.7% micro, 77% small, 65.7% medium and 71.4% large enterprises reported stable dependence on external funds.

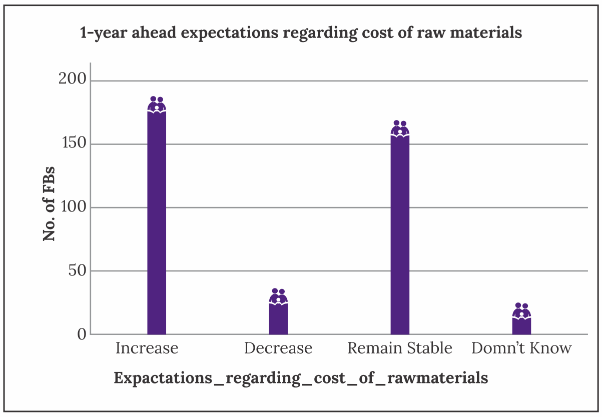
Bharatiya Vidya Bhavan's SPJIMR

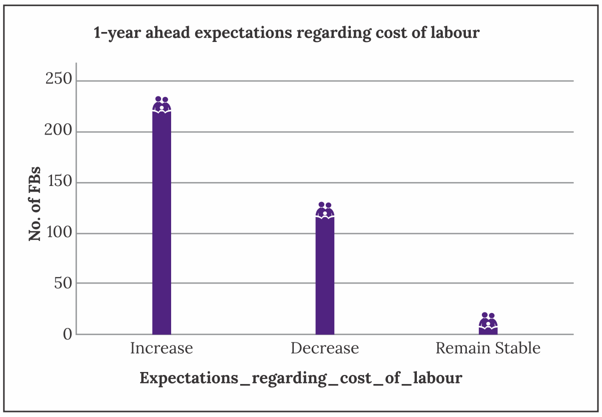
3. FAMILY BUSINESS EXPECTATIONS

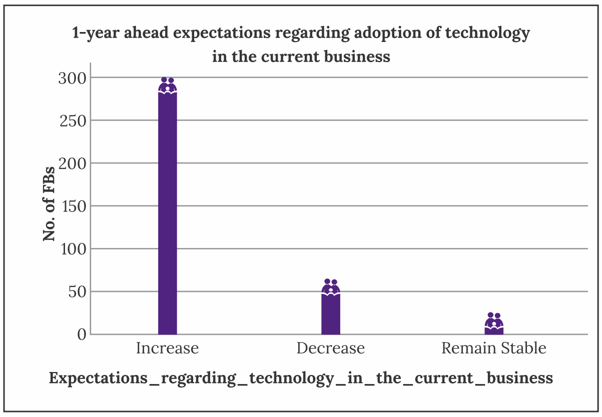
3.1 One-year Ahead Expectations Regarding Business

3.1.1 Overall business expectations





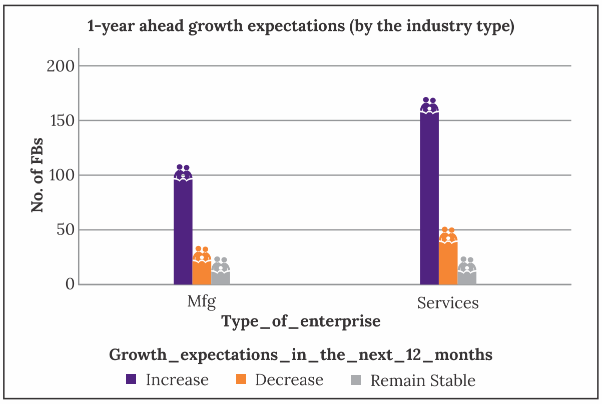


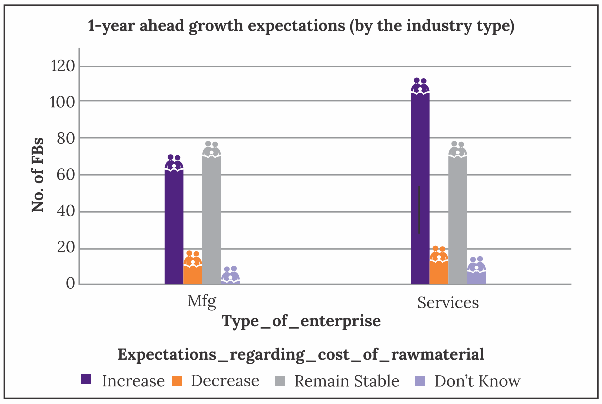


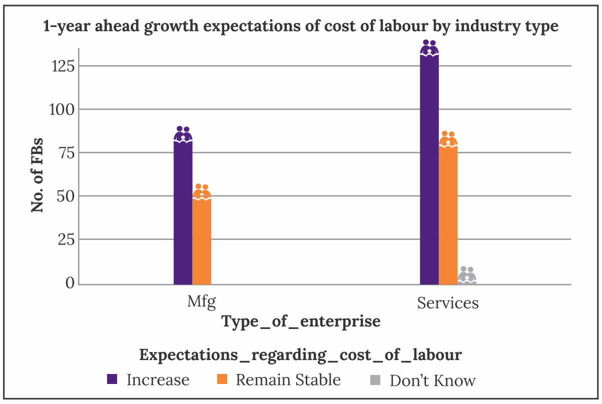
- About 71% of the family businesses surveyed stated that they expected their business to grow in the next 12 months.

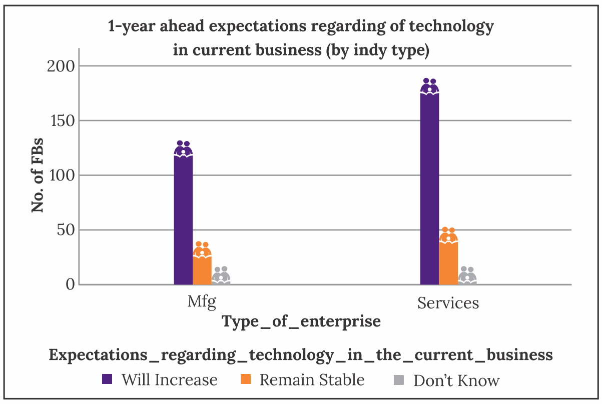
- 47% of the family businesses surveyed expected the cost of raw materials in their business to increase in the next 1 year, while almost 45% expect the cost of raw materials to remain stable.
- 64% of the family businesses surveyed expected their cost of labour to increase in the next 1 year, while almost 36% expect the cost of labour to remain stable.
- 84% of the family businesses surveyed expected adoption of technology in their current business to increase in the next 1 year, while 14% expect such technology adoption to remain stable.
- 61% of the family businesses surveyed expected to induct professionals into their top management in the next 1 year.

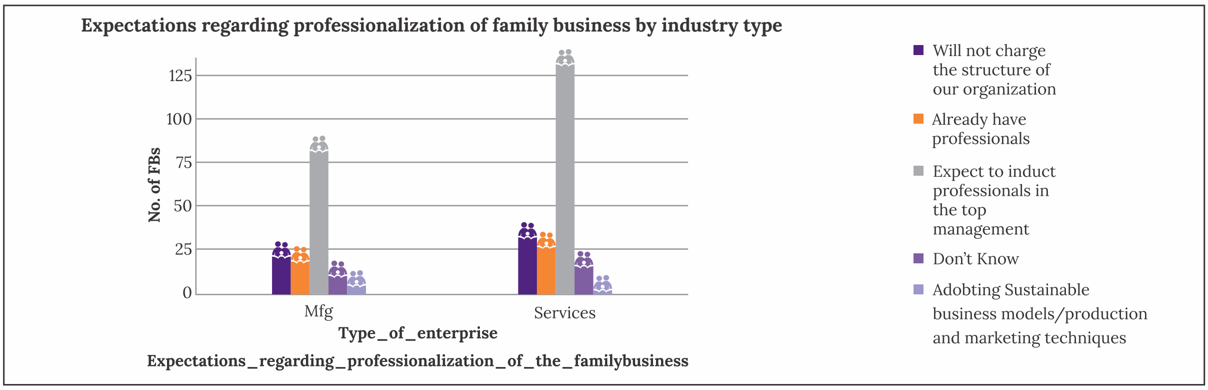
3.1.2 Expectations by industry type





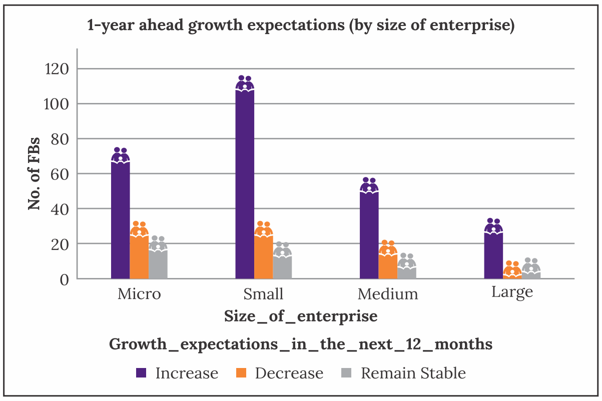


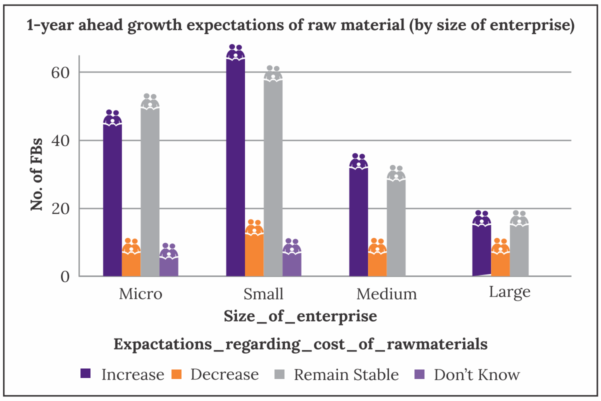


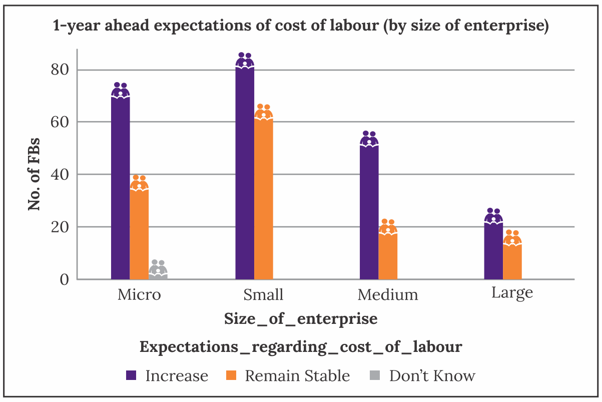


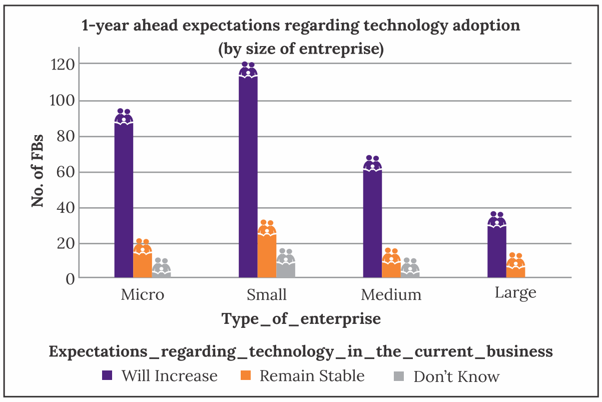
- 72% of service and 68% o manufacturing FBs reported that they expected increased growth in the year ahead.
- Almost 47% of manufacturing enterprises reported that they expected stable cost of raw materials in the year ahead, while 6.5% reported an expectation of lower costs. The corresponding proportion for service enterprises was 43.6% and 5% respectively.
- 66% of manufacturing enterprises reported that they expected the cost of labour to increase in the year ahead, while 62.6% service enterprises reported that they expected the cost of labour to increase.
- More than 80% of both manufacturing and service enterprises reported that they expected to increase their adoption of technology.

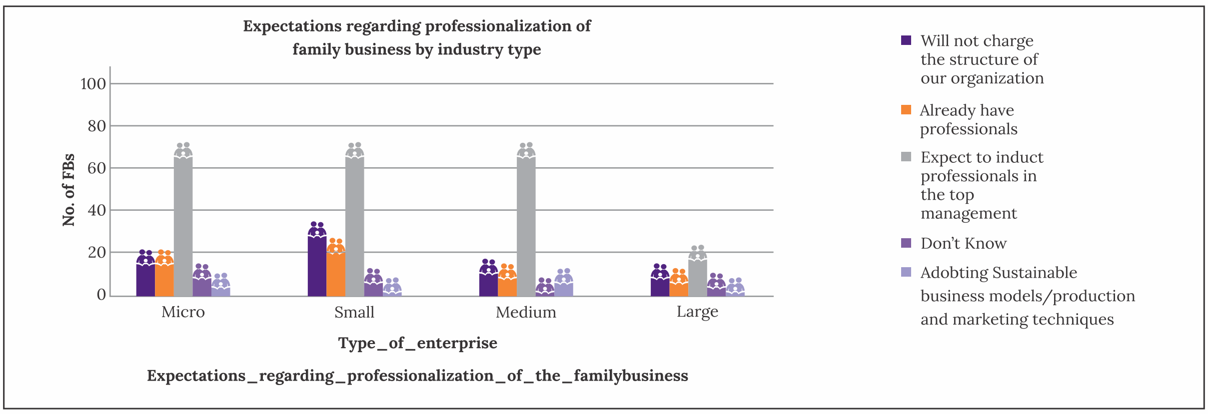
3.1.3 Expectations by size of enterprise







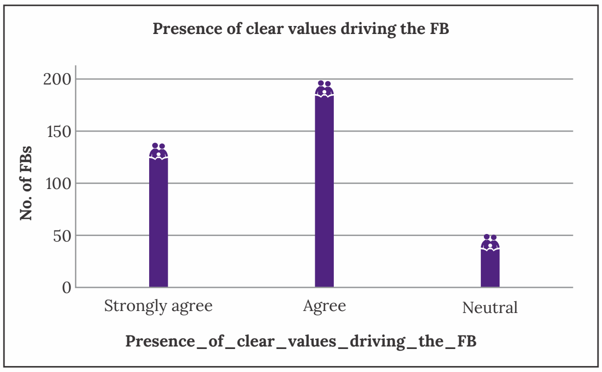


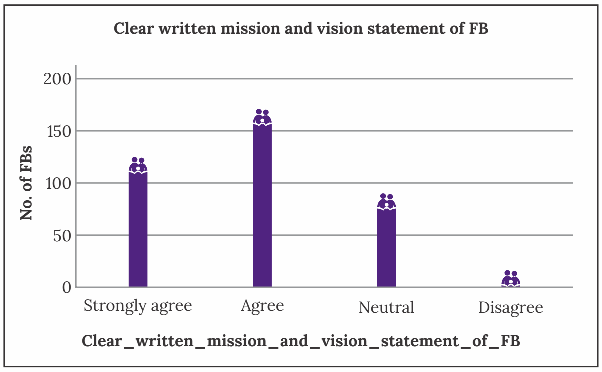


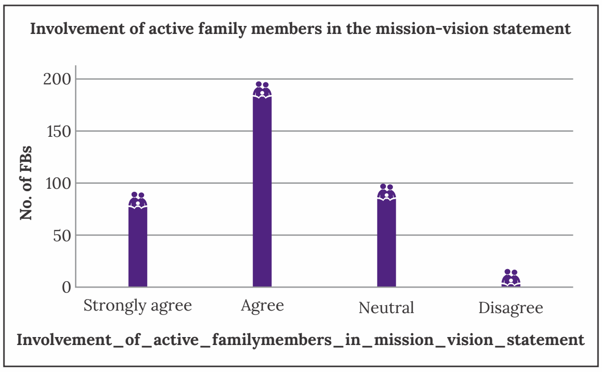
- Almost 2/3rds (64.8%) % of microenterprises reported they expected increased growth in the year ahead. 75% of the small and 69% of the medium enterprises reported they expected increased growth in the year ahead.
- Almost 49% of the microenterprises reported they expected cost of raw materials to remain stable, while this proportion for the small and medium enterprises was 41% and 46% respectively.
- The SME FBs reported expectations of cost increases for labour, with almost 68% of the microenterprises reporting that they expected cost of labour to increase, while this proportion for the small and medium enterprises was 57% and 74% respectively.
- More than 80% of the SME FBs reported that they expected to increase their adoption of technology. Almost 84% of the microenterprises surveyed reported such an expectation regarding the increase in technology adoption.

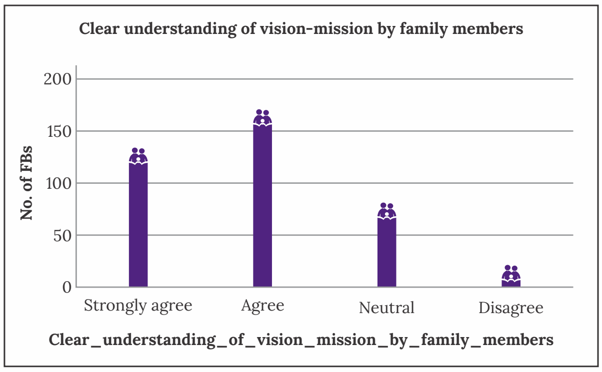
4. STATE OF THE FAMILY

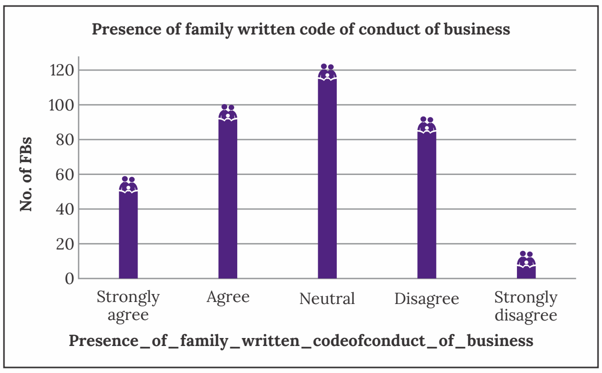
4.1 Family Values

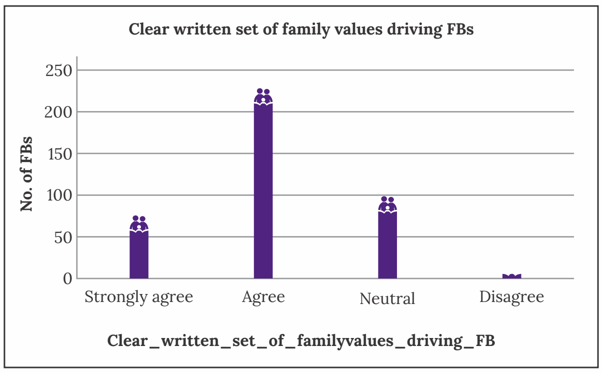


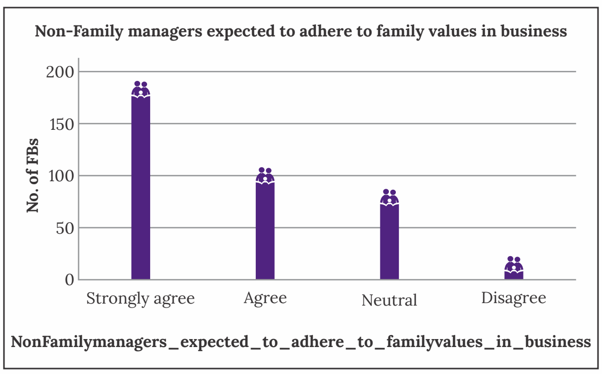








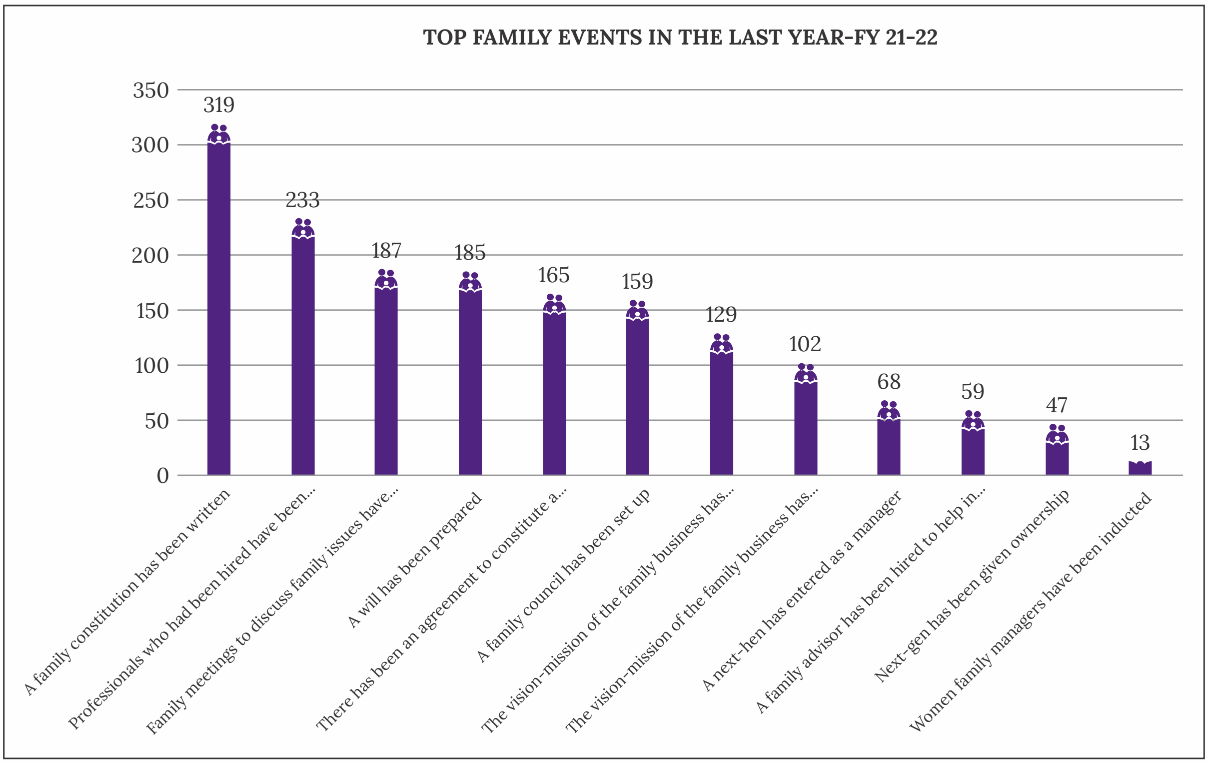




- The family businesses surveyed gave high priority to values and a code of conduct.
- 89% of the family businesses reported the presence of clear values driving the family business, with 77% agreeing (strongly) that the FB had a clear written mission-vision statement.
- Almost 75% of the family businesses surveyed reported that the active family members were all involved in the mission-vision statement, indicating a clear buy-in of multiple family members. It is not surprising then, that almost 79% of the FBs reported a clear understanding of the vision-mission statement.
- While a majority of the FBs (89%) reported a clear set of family values, a lesser number (76%) reported a set of written values driving the business. An even lower proportion of FBs (40%) reported a written code of conduct of business at the family level.
- It thus leads us to believe that the values driving a family business may be informal and oral and may still drive business, without it being translated into a written code of conduct for carrying out business.
- Equally, non-family managers are expected to adhere to these family values in their work lives.

4.2 Family Events in the Last Year

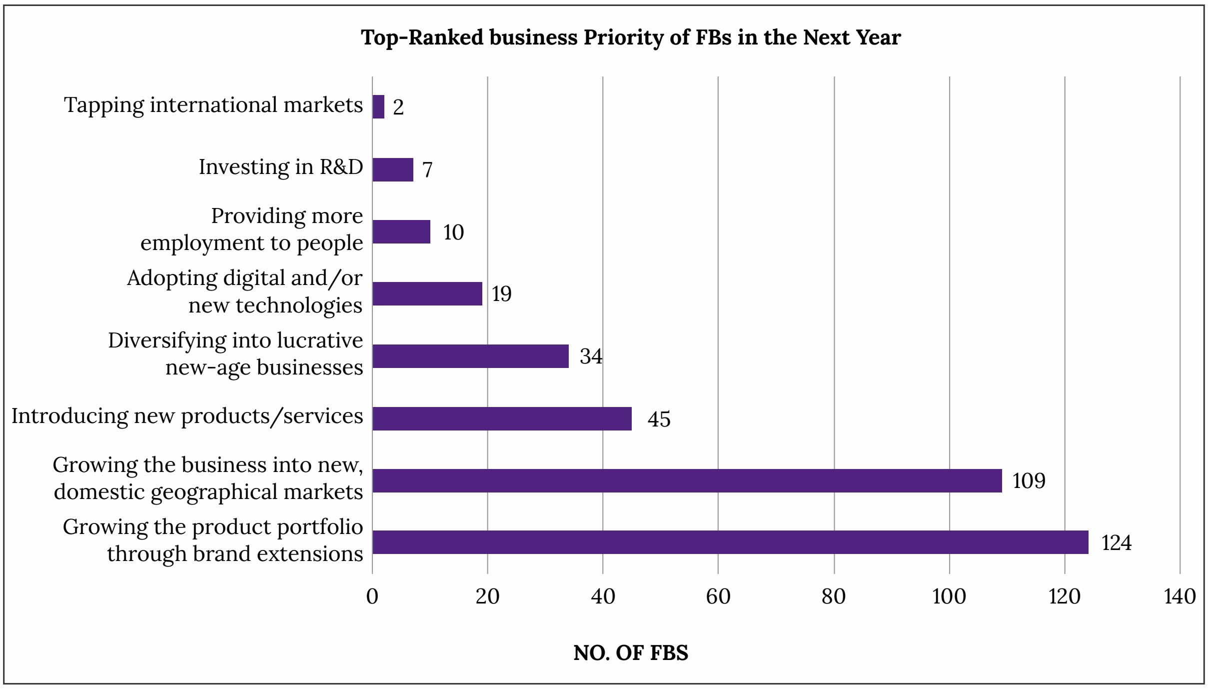
Family side events	Total	Percentage of total
A family constitution has been written	319	91.14
Professionals who had been hired have been terminated, and family managers have taken over	233	66.57
Family meetings to discuss family issues have been undertaken/begun to be undertaken in a systematic manner	187	53.43
A will has been prepared	185	52.86
There has been an agreement to constitute a Board of Directors, unrelated to the extended family	165	47.14
A family council has been set up	159	45.43
The vision-mission of the family business has been explicitly discussed	129	36.86
The vision-mission of the family business has been explicitly written down	102	29.14
A next-gen has entered as a manager	68	19.43
A family advisor has been hired to help in advising on the family side of the business	59	16.86
Next-gen has been given ownership	47	13.43
Women family managers have been inducted	13	3.71



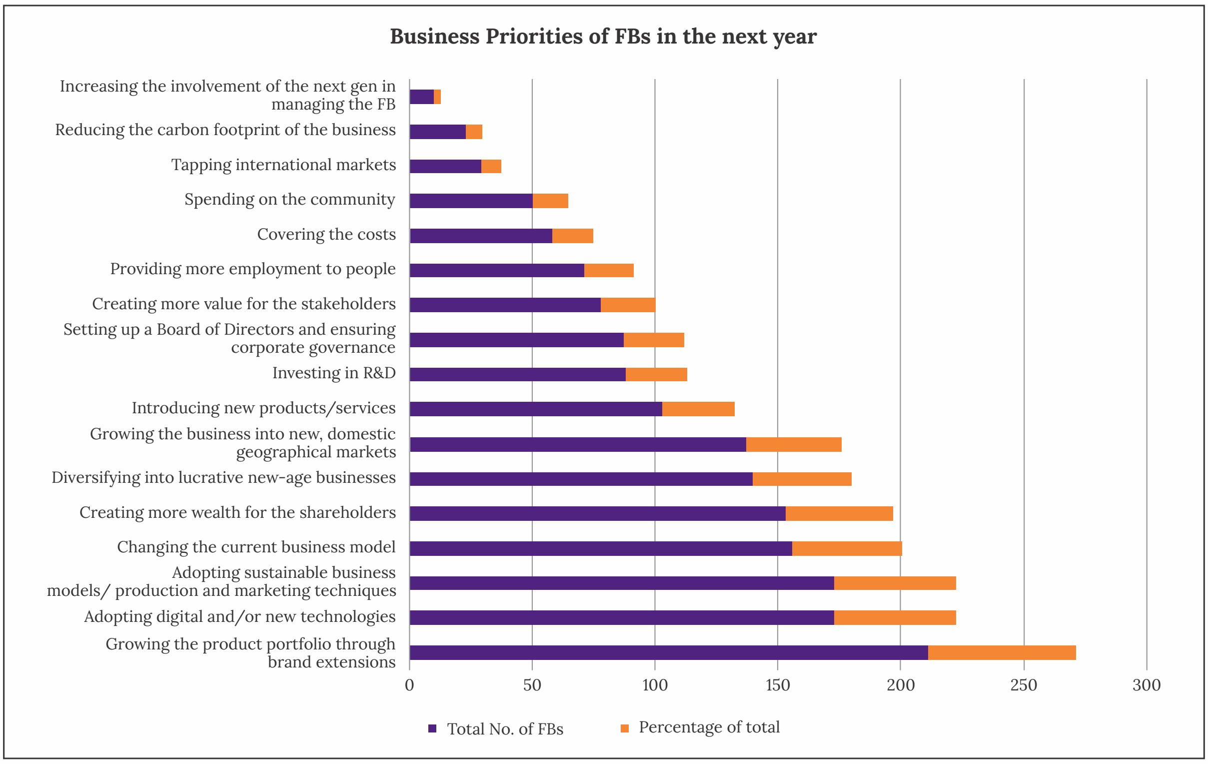
- The FBs were surveyed to check the major events that had occurred in the last year, FY 21-22.
- 91% of the FBs reported that a written constitution had been put in place.
- Almost 67% of the FBs surveyed reported that professionals had been terminated and replaced by family managers.
- 53% of the FBs reported that they had begun to have family meetings systematically in order to discuss family issues.
- About 53% FBs reported a will having been prepared in the last year.
- 47% reported that the family had decided to constitute a Board of Directors, unrelated to the extended family.
- Only 19% reported that a next-gen had been inducted as a manager in the FB, while an even smaller proportion (13%) reported that a next-gen member had been given ownership.
- Only 3% of the FBs reported that a woman had been inducted in the business in the last year.

5. PRIORITIES IN THE NEXT YEAR

5.1 Top Business Priorities in the next year



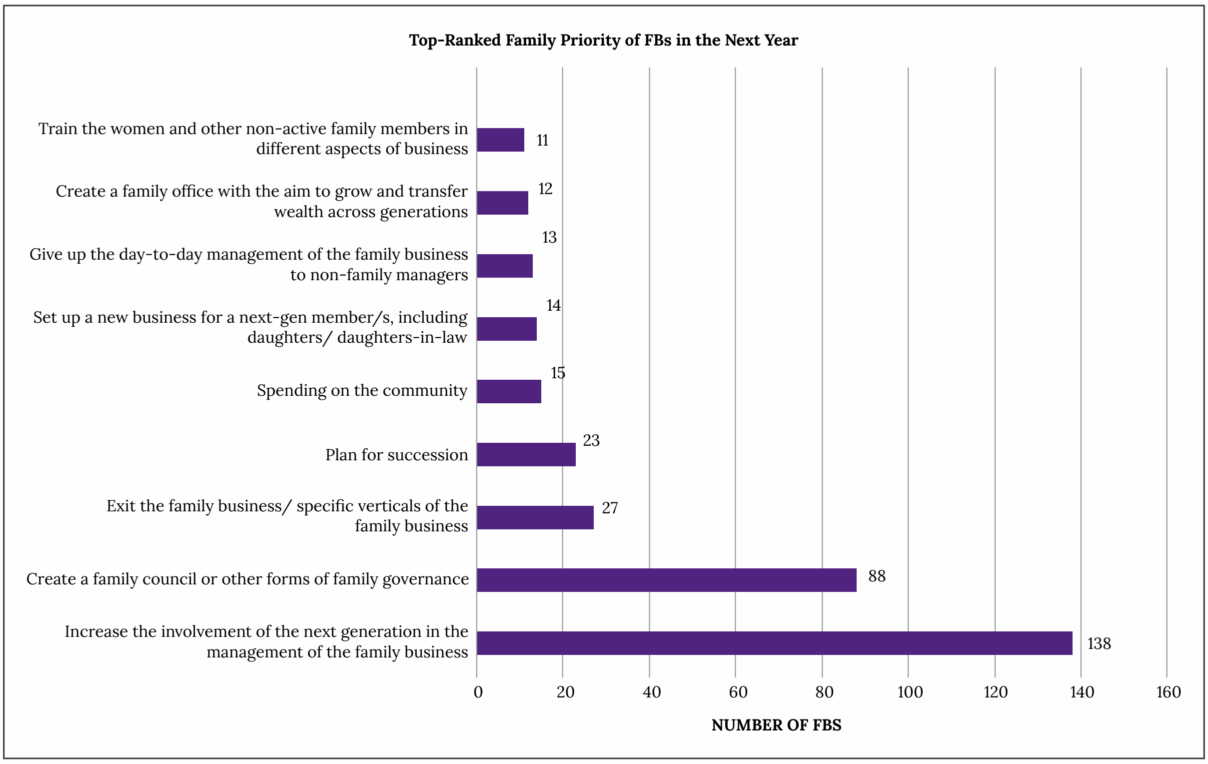
- The top ranked business priority in the next year was 'growing the product portfolio through brand extensions' (35%), followed by 'growing the business into new, domestic geographical markets' (31%). A much smaller proportion of FBs reported 'introducing new products and services', 'diversifying into lucrative new-age businesses', and 'adopting digital and other new technologies' as the top business priority in the next year.
- Cutting costs, investing in R&D, providing greater employment or even tapping international markets were not the top ranked short-term business priority.
- Nor did these score highly even within the top 5 business priorities as seen in the next figure.



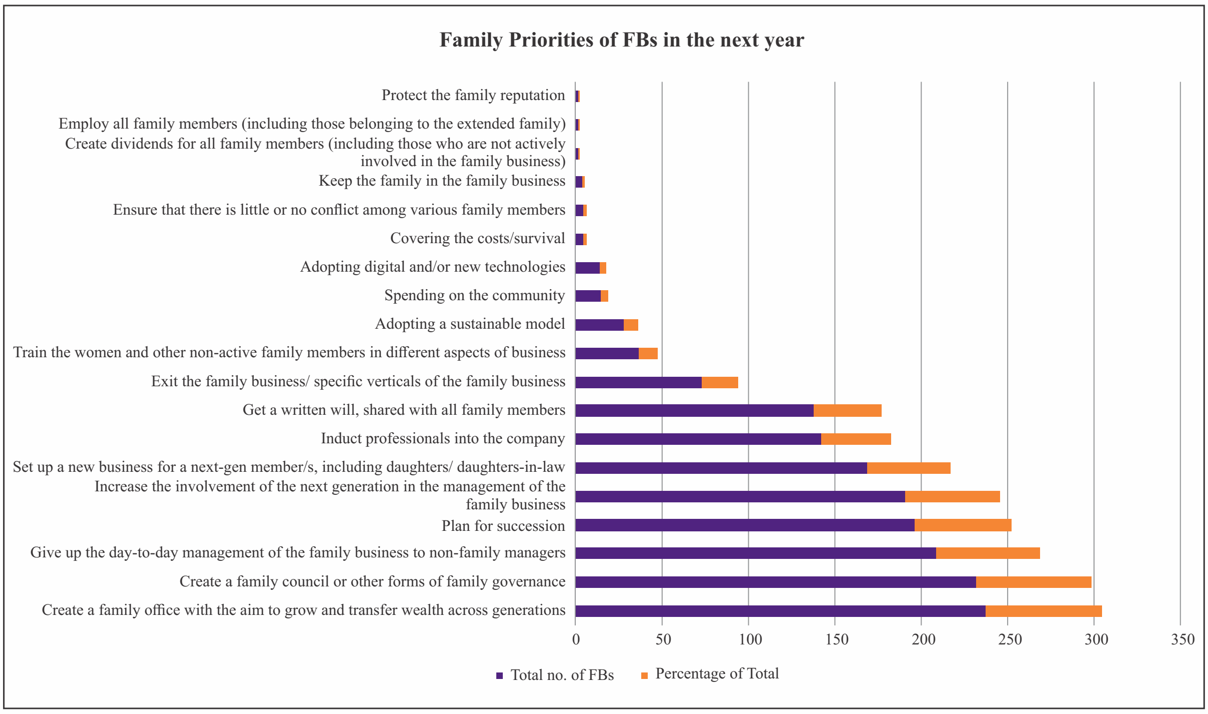
- Of the FBs surveyed to assess the top 5 business priorities in the next year, the largest proportion of FBs (60%) reported 'growing the product portfolio through brand extensions' as the top business priority.
- The other top business priorities for the short-term (up to one year) reported by the FBs surveyed were: 'adopting digital/ new technologies' (49%), 'adopting sustainable business models, production and marketing techniques'(49%), 'changing the current business models' (45%) and 'creating more wealth for the shareholders' (44%).

5.2 Top Family priorities in the next year

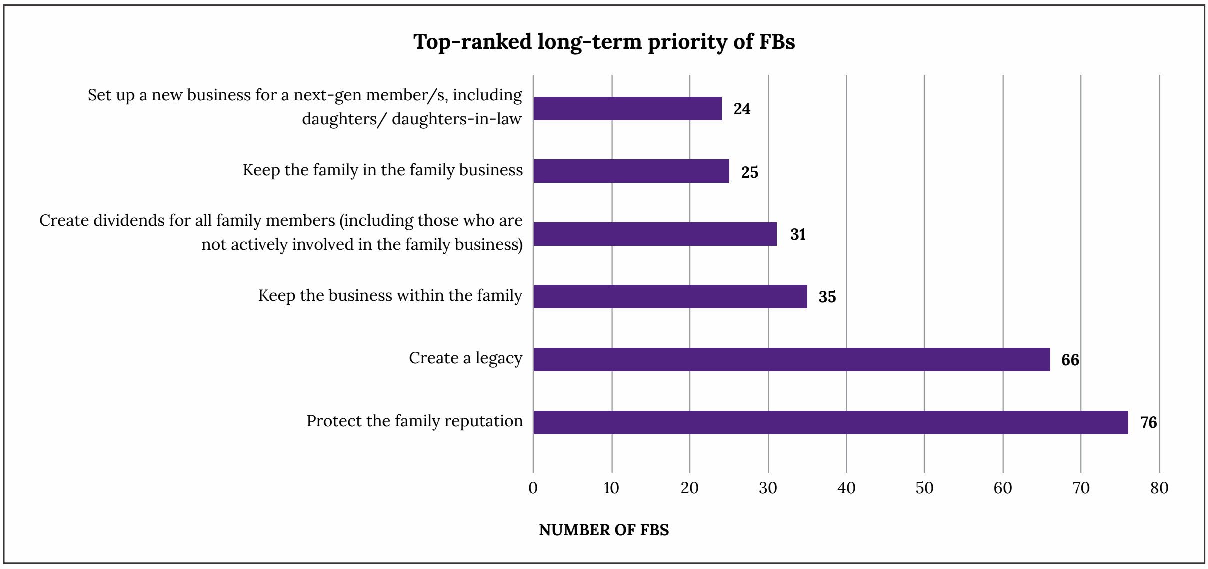
- The top ranked family priority in the next year was 'to increase the involvement of the next generation in the management of the family business' (39.4%), followed by 'to create a family council or other forms of family governance' (25%). A much smaller proportion of FBs reported 'planning for succession', 'to set up a new business for a next-gen member/s, including daughters/ daughters-in-law' or 'to train the women and other non-active family members in different aspects of business'.
- Keeping the family business in the family, protecting the family reputation, getting a written will and sharing it with all family members was not the top-ranked short-term family priority.



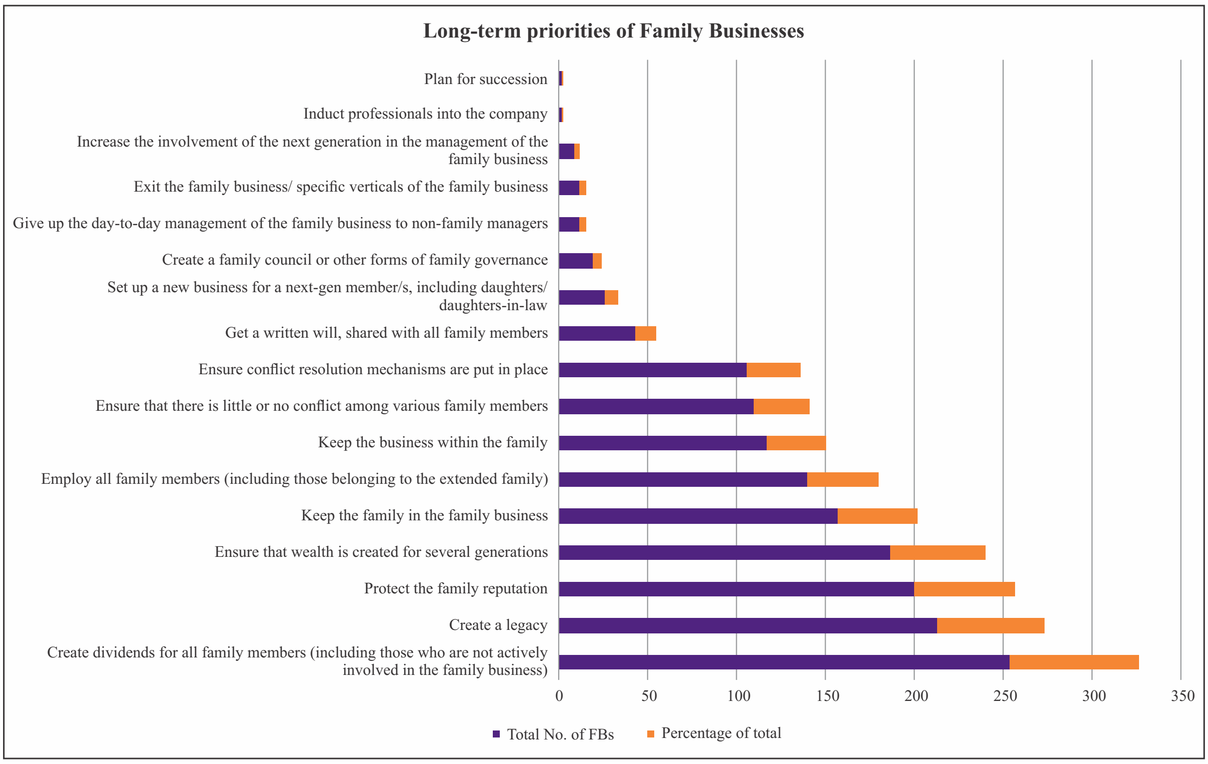
- Nor did these score highly even within the top 5 family priorities as seen in the next figure.
- Of the FBs surveyed to assess the top five family priorities in the next year, the largest proportion of FBs (67.7%) reported 'Create a family office with the aim to grow and transfer wealth across generations' as the top family priority.
- The other top family priorities for the short-term (up to one year) reported by the FBs surveyed were: 'to create a family council or other forms of family governance' (66.3%), 'Give up the day-to-day management of the family business to non-family managers'(59.7%), 'plan for succession' (56%) and 'increase the involvement of the next generation in the management of the family business' (54.57%).



5.3 Long-term priorities of Family Businesses



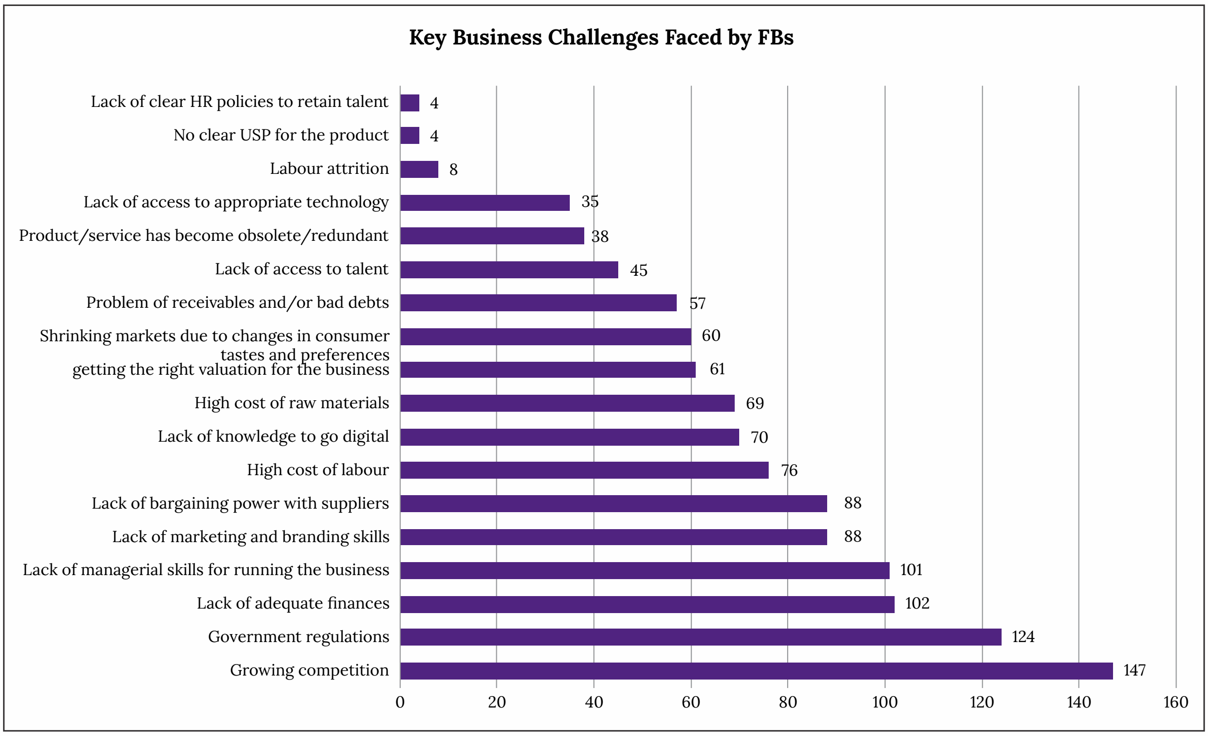
- The top-ranked long-term priority of all FBs taken together was 'to protect the family reputation' (22%), followed by 'to create a legacy' (19%). A much smaller proportion of FBs reported 'keeping the business within the family', 'to create dividends for all family members' or 'to keep the family in the family business'.



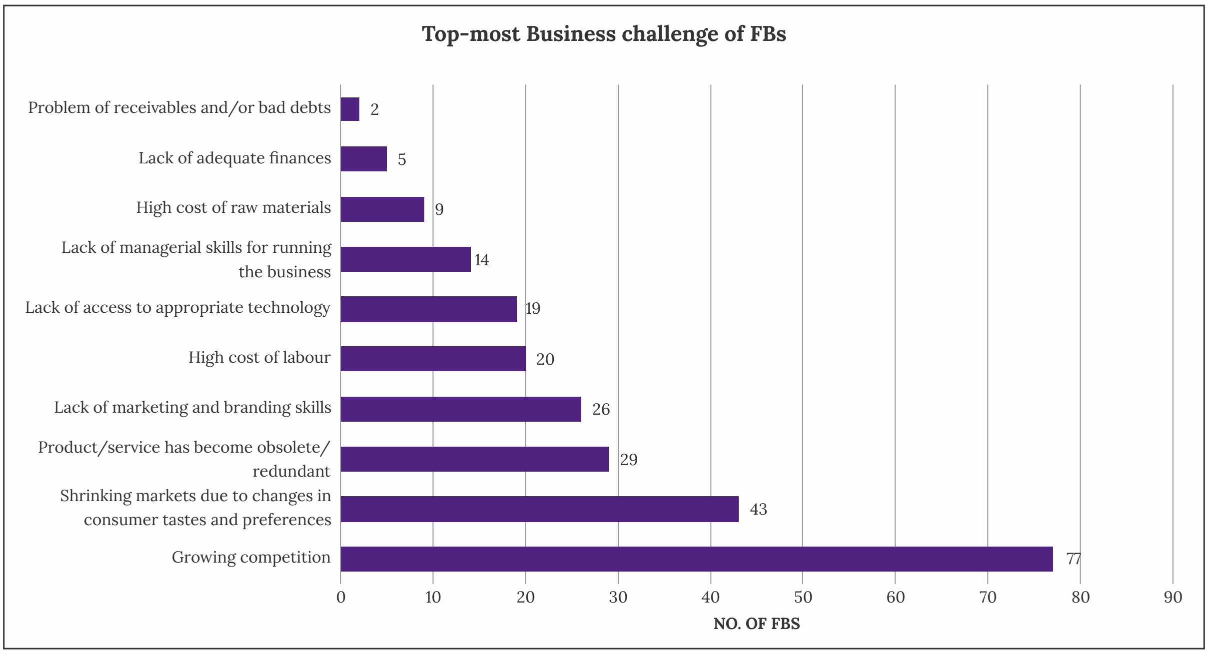
- Of the FBs surveyed to assess the top five long-term priorities of the FB, the largest proportion of FBs (72.5) reported 'creating dividends for all family members' as the top family priority.
- The other top family priorities for the long-term reported by the FBs surveyed were: 'to create a legacy' (61%), 'to protect the family reputation' (57%), 'ensure that wealth is created for several generations'(53%) and 'keep the family in the family business'(45%).

6. CHALLENGES FOR THE FAMILY BUSINESS

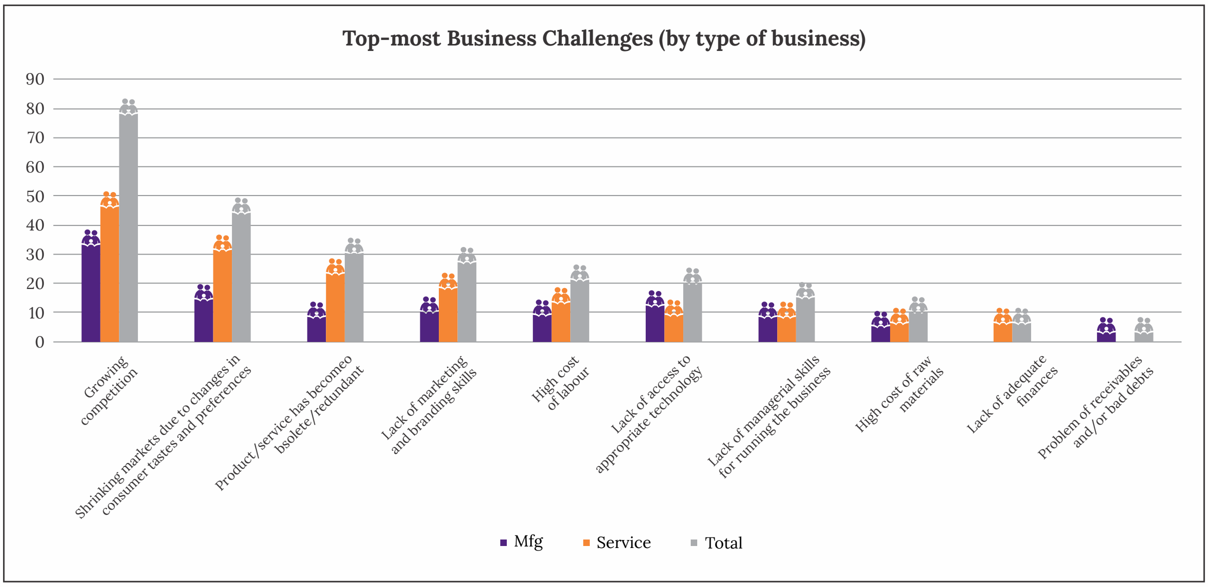
6.1 Business challenges faced by FBs



- The business challenges faced by the FBs included: Growing competition (42%), Government Regulations (35.4%), Lack of adequate finances (29%), Lack of managerial skills for running the business (28.9%), Lack of marketing and branding skills (25%) and Lack of bargaining power with suppliers (25%).
- However, in terms of the top business challenges faced by FBs, the following were reported :
  - Growing competition
  - Shrinking markets
  - Product obsolescence
  - Lack of marketing and branding skills
  - High cost of labour



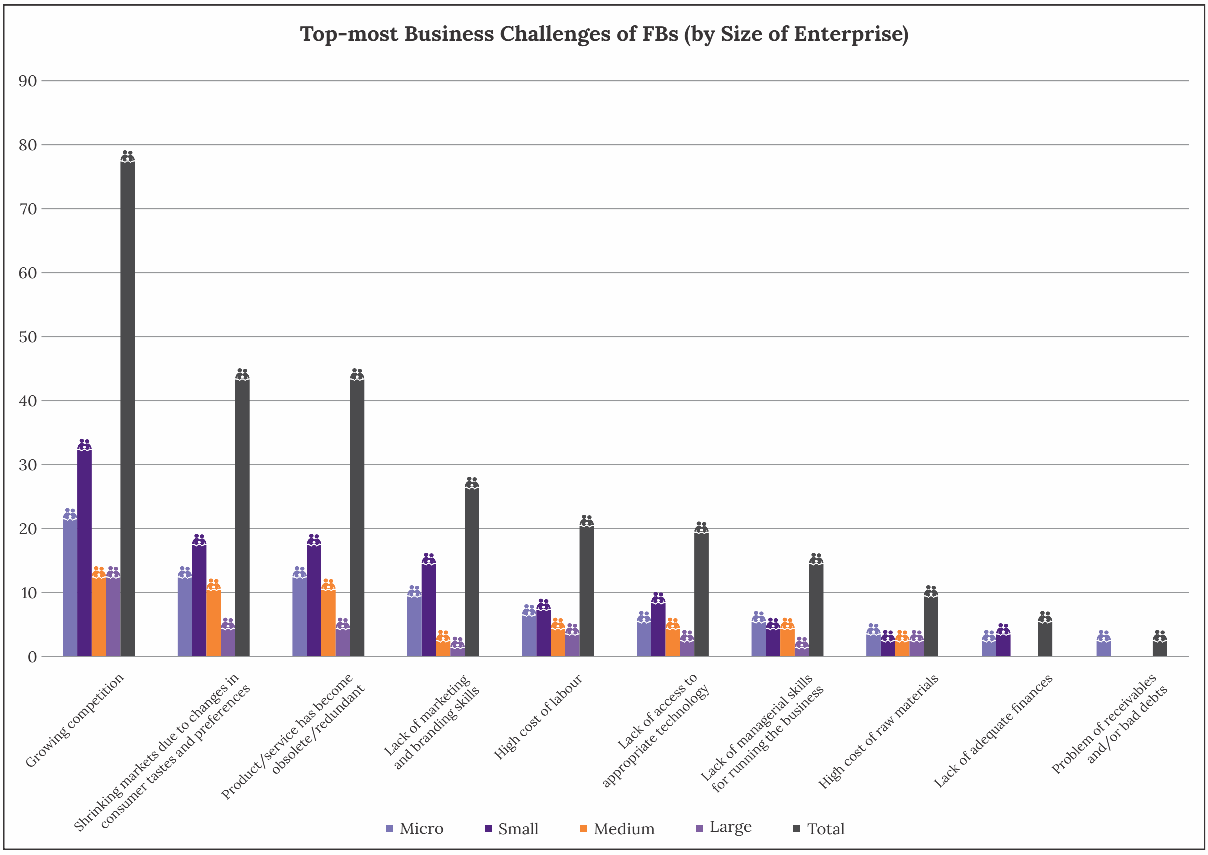
6.2 Business challenges by type of enterprise



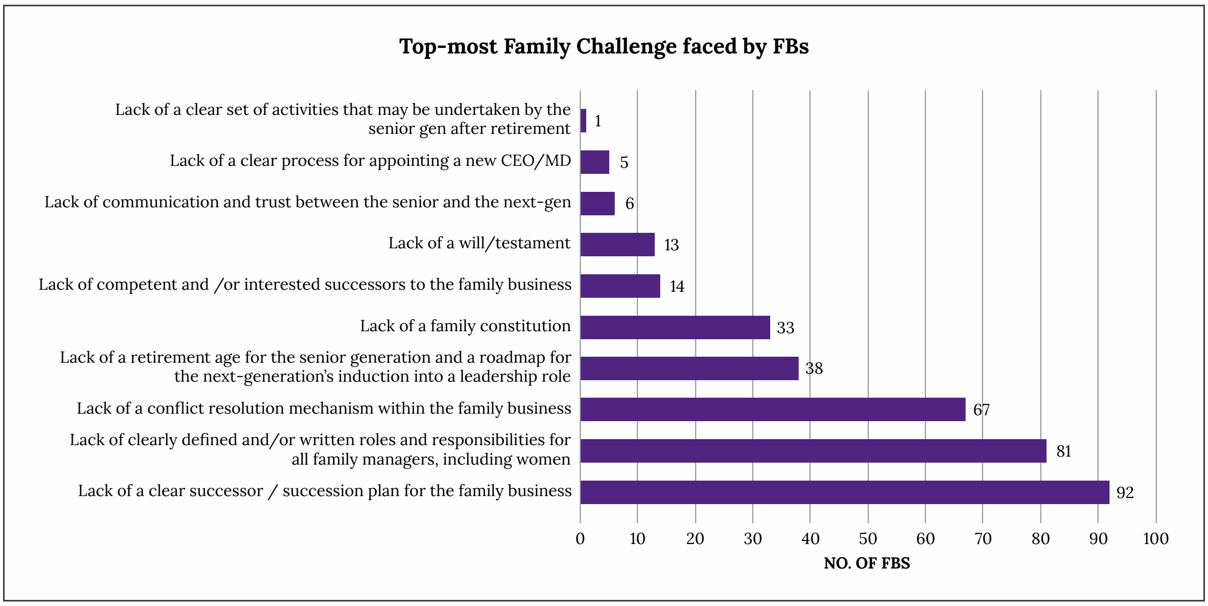
- Growing competition was the top challenge for both manufacturing and service FBs.
- Shrinking markets were reported as the next biggest challenge by both types of enterprises, but were a greater challenge for more service than manufacturing enterprises. For manufacturing enterprises, lack of access to technology was the next biggest challenge, while service enterprises reported product obsolescence as the third top challenge.

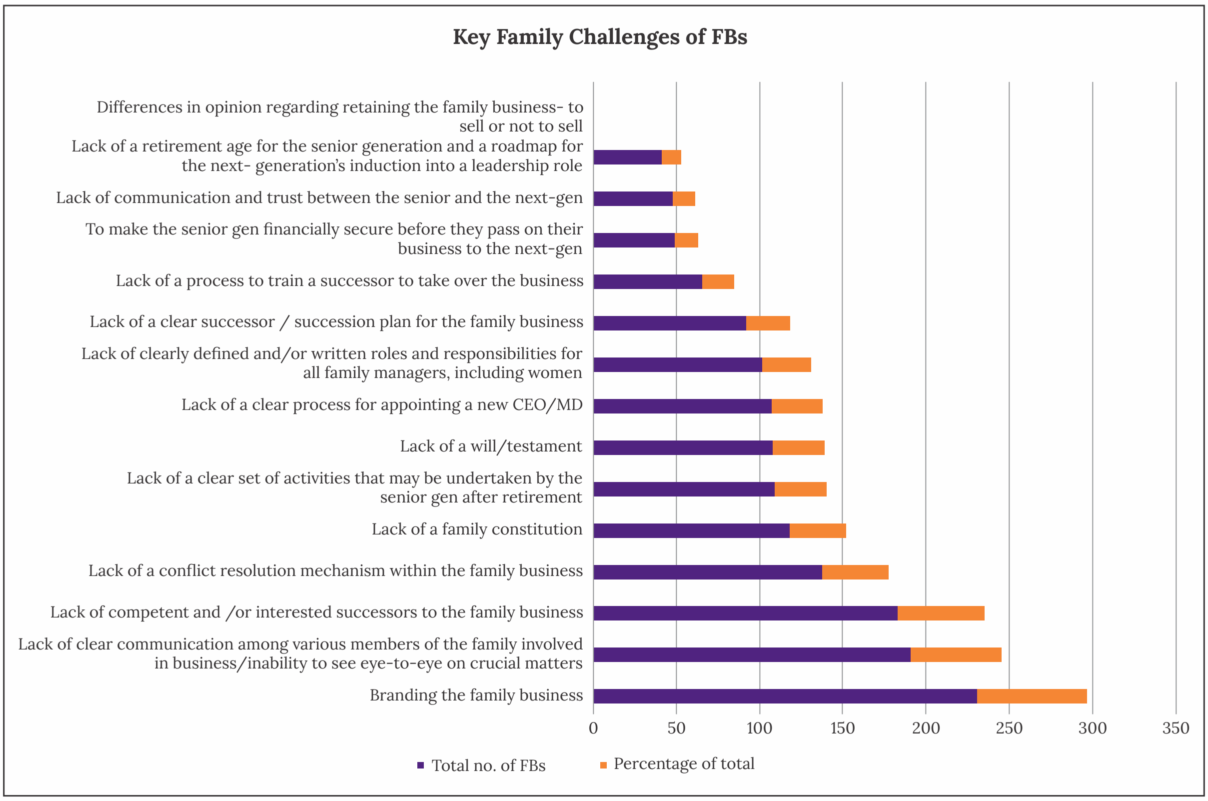
6.3 Business challenges by size of enterprise

- All FBs surveyed, irrespective of size, cited growing competition as the top challenge.
- Shrinking markets were reported as the next biggest challenge by all enterprises. For micro and medium enterprises, products becoming obsolete/redundant ranked equally high as shrinking markets, while small enterprises reported lack of branding and marketing skills as an important challenge, next only to shrinking markets. Large enterprises reported high cost of labour as the third top challenge.
- High cost of raw materials, lack of finance and the problem of receivables did not feature in the top challenges at all.



6.4 Top Family challenges of FBs





- The key family challenges faced by the FBs included: Branding the family business(66%), Lack of clear communication among various members of the family involved in business/inability to see eye-to-eye on crucial matters (54.5%), lack of competent and/or interested successors to the family business (52%), lack of a conflict resolution mechanism within the family business (39%), and lack of a family constitution (33.7%).

- However, in terms of the top family challenge faced by FBs, the following were reported :

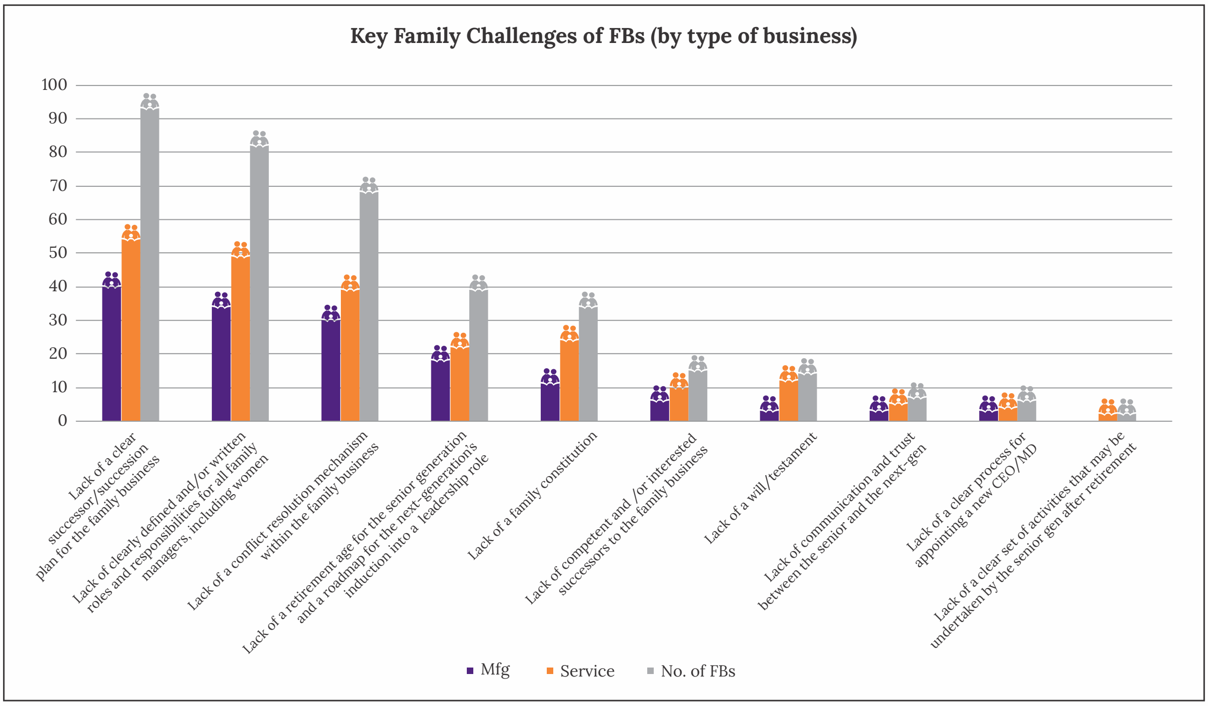
  - Lack of a clear successor / succession plan for the family business
  - Lack of clearly defined and/or written roles and responsibilities for all family managers, including women
  - Lack of a conflict resolution mechanism within the family business
  - Lack of a retirement age for the senior generation and a roadmap for the next-generation's induction into a leadership role
  - Lack of a family constitution

6.5 Family challenges by type of business

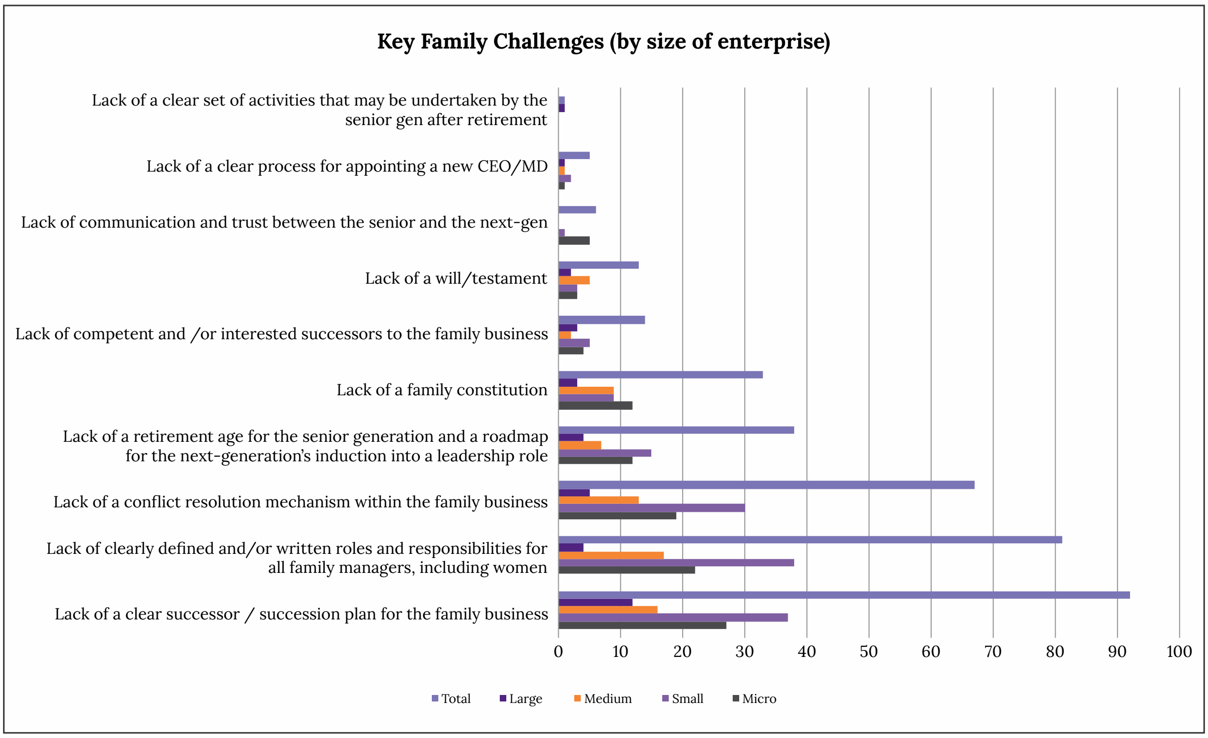
- Lack of a clear successor / succession plan for the family business was the top challenge for both manufacturing and service FBs

- Lack of clearly defined and/or written roles and responsibilities for all family managers, including women were reported as the next biggest challenge by both types of enterprises, but were a greater challenge for more manufacturing than service enterprises.

- Both manufacturing and service enterprises reported lack of a conflict resolution mechanism as the third key challenge, but this challenge was significantly higher among manufacturing than service enterprises.



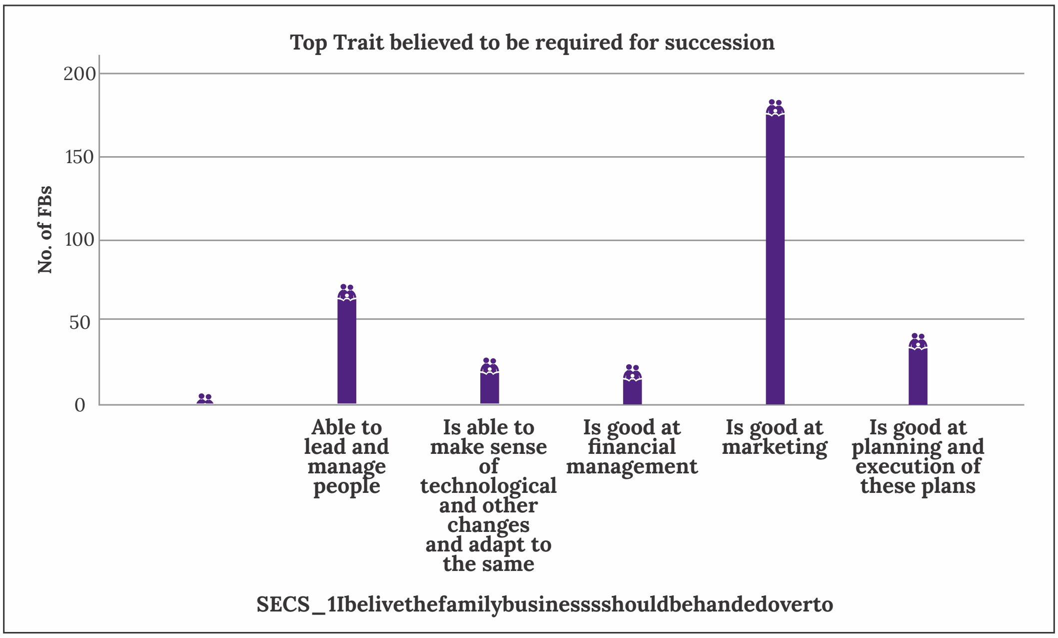
6.5 Family challenges by size of enterprise



- Lack of a clear successor / succession plan for the family business was the top challenge for all FBs (irrespective of size), but was reported as a key challenge by a higher proportion of large FBs.
- Lack of clearly defined and/or written roles and responsibilities for all family managers, including women were reported as the next biggest challenge by all enterprises, but were a greater challenge for more small than medium or large enterprises.
- All enterprises reported lack of a conflict resolution mechanism as the third key challenge, but this challenge was significantly higher among micro and small enterprises.

7. SUCCESSION

7.1 Key trait believed to be required for being a successor



SECS_Q11_1Ibelievethefamilybusinessshouldbehandedoverto

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		3	.9	.9	.9
	Able to lead and manage people	68	19.4	19.4	20.3
	Is able to make sense of technological and other changes and adapt to the same	27	7.7	7.7	28.0
	Is good at financial management	24	6.9	6.9	34.9
	Is good at marketing	187	53.4	53.4	88.3
	Is good at planning and execution of these plans	41	11.7	11.7	100.0
	Total	350	100.0	100.0	

- Of the FBs surveyed, most respondents (53.4%) cited 'being good at marketing' as the most important trait that should be considered for succession.
- Other traits seen as desirable were:
  - Ability to lead and manage people (19.4%)
  - Good at planning and execution (11.7%)
  - Ability to make sense of changes (technological and others) and to adapt to these changes (77%)

7.2 Succession Intent

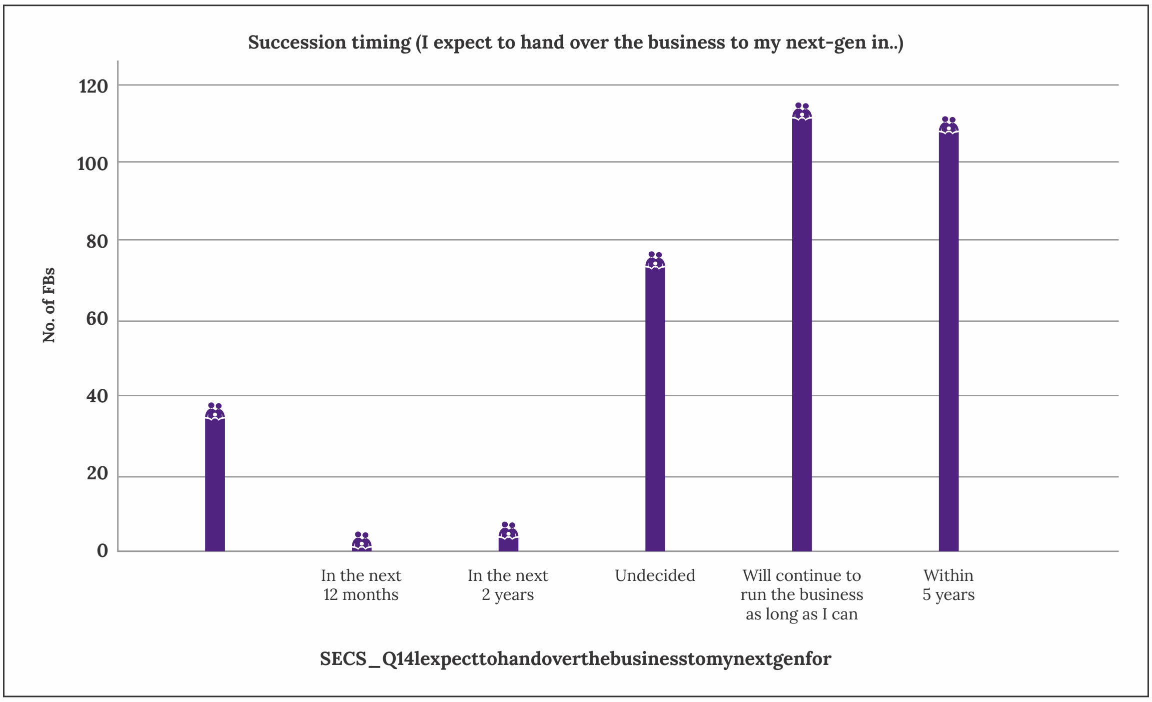
Succession intent	First-gen respondents	Percentage
To a current gen family member in the business	2	0.72
To a current gen family member not in the business	1	0.36
To a next gen family member in the business	261	93.55
To a next gen family member not in the business	4	1.43
To a non-family member in the business	2	0.72
To an outside non-family member (not currently in the business);	9	3.23
No succession strategy at this point of time	0	0.00
Plan to sell the business	0	0.00

- Most of the first-gen respondents surveyed expressed their intent to hand over the business to a next-gen family member in the business
- A minuscule proportion expressed their intent to hand over the business to an outside non-family member (not currently in the business) (3.23%) or to a next gen family member not in the business (1.43%).

7.3 Succession Timing

SECS_Q14Iexpecttohandoverthebusinesstomynextgenfor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		38	10.9	10.9	10.9
	In the next 12 months	2	.6	.6	11.4
	In the next 2 years	8	2.3	2.3	13.7
	Undecided	76	21.7	21.7	35.4
	Will continue to run the business as long as I can	114	32.6	32.6	68.0
	Within 5 years	112	32.0	32.0	100.0
	Total	350	100.0	100.0	

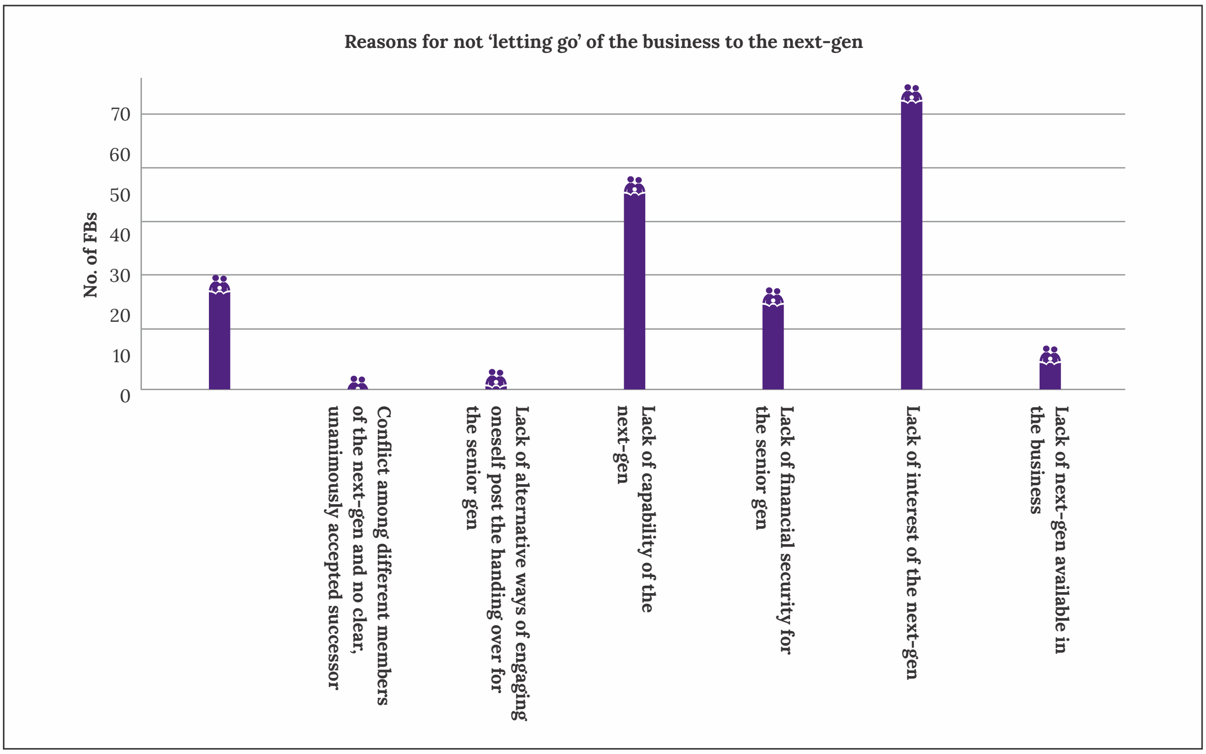


- While there is intent to hand over the business to the next gen, a majority (32.6%) stated that they would run the business as long as they could. About 32% gave themselves five years to hand over the business to the next-gen , while almost 22% were undecided about the timing of succession.

7.4 Reasons for not 'letting go' to the next-gen

SEC5_Q16 The most important reason why there has been no handing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		50	14.3	14.3	14.3
	Conflict among different members of the next-gen and no clear, unanimously accepted successor	3	.9	.9	15.1
	Lack of alternative ways of engaging oneself post the handing over for the senior gen	5	1.4	1.4	16.6
	Lack of capability of the next-gen	94	26.9	26.9	43.4
	Lack of financial security for the senior gen	44	12.6	12.6	56.0
	Lack of interest of the next-gen	137	39.1	39.1	95.1
	No next-gen available in the business	17	4.9	4.9	100.0
	Total	350	100.0	100.0	



- The most important reason cited for not letting go and handing over the business to the next-gen[1] is : Lack of interest of the next-gen (39.1%)
- Almost 27% of the respondents cited lack of capability of the next-gen, while 12.6% cited lack of financial security for the senior gen as reasons for non-transfer and lack of succession planning.

[1] 50 FB participants chose not to respond to this question

8. THE WAY FORWARD

While most policy proposals aim at the business side of small and medium enterprises, their 'familiness' and its constraints on business success are often overlooked. It is clear that family businesses face headwinds more from the family issues than from the business side. Thus, despite an uncertain business environment, it clearly emerges from the survey that small and medium family enterprises face greater challenges due to lack of corporate governance and succession. The MSME family enterprises will require not just domain-specific training programmes, but more of leadership and human resource development programmes.

The government would also need to partner with large enterprises, who by providing the SMEs with the required hard and soft skills, expertise, and access, can help in capacity and capability-building among SMEs. Our survey also reveals that it is time to look beyond mere financial support for MSMEs, most of which are family businesses. Advocacy and interest groups will also need to be sensitized to these gaps in SME FBs, so that they can serve as platforms for transforming the family business and entrepreneurial eco-systems.

ABOUT SPJIMR

S.P. Jain Institute of Management and Research (SPJIMR) is a constituent of Bharatiya Vidya Bhavan, an institution founded in 1938- almost a decade before India's Independence, with the objective of preserving and propagating Indian culture and Sanskrit. SPJIMR is among the top five business schools of India and as a premier management school is known for its pedagogic innovations and pioneering programs, particularly in socially under-managed sectors. The programs have helped SPJIMR stand out for its unique, innovative and distinct path in management education.

ABOUT THE CENTRE FOR FAMILY BUSINESS & ENTREPRENEURSHIP

The Centre for Family Business & Entrepreneurship (CFBE) is one of SPJIMR's flagship centres, which runs distinctive programmes for members belonging to family businesses as well as for entrepreneurs. The Centre's vision is to be the fountainhead for an agile, resilient, and sustainable family business and entrepreneurship ecosystem with a global outlook. Its Post Graduate Programme for Family Managed Business (PGP-FMB) was the first ever Indian management programme designed for members of the next-generation within family businesses. The Centre holds the distinction of having facilitated learning for members of family businesses across India and its neighbouring countries (including Pakistan, Bangladesh, and Nepal) ever since its inception in 1997. The Centre's 4000+ strong alumni base, with well- recognised and loved brand names, both within India and globally across multiple sectors, attests to the strength of the programme in nurturing and developing the family business eco-system.

The Centre also offers a Start Your Business (SYB) programme, directed towards aspiring entrepreneurs and early-stage start-ups. The goal of this programme is to provide knowledge and skills and instill among the start-up entrepreneurs the right attitude, which would help them create a sustainable venture.

The Centre, through its research and outreach activities, seeks to be a thought leader in the family business space. It is a member of the STEP Project Global Consortium - a global research initiative with specific focus on family businesses. The CFBE, in its role of supporting entrepreneurship, also runs capacity-building initiatives and programmes for continuous professional development. Its 'vRddhi' accelerator initiative, available to SPJIMR CFBE alumni, seeks to help entrepreneurs and family businesses bridge their funding gaps and to grow and scale up through mentoring them. vRddhi provides a platform for connecting fund-seeking family businesses/entrepreneurial ventures with those that are fund providers.

Bharatiya Vidya Bhavan's

SPJIMR

www.spjimr.org

Mumbai

S P Jain Institute of Management and Research,
Bhavan's Campus
Munshi Nagar, Dadabhai Road,
Andheri (West), Mumbai - 400 058
Board Line :+91-22-26237454/ 0396/2401

Delhi

Bharatiya Vidya Bhavan Campus,
3rd Floor Gate No. 4, Copernicus Lane
Kasturba Gandhi Marg, New Delhi-110001
Direct Line: 011- 23383563
Board Line : 011-23073121, 011-23006871