Succession Planning in Family Business in India

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Family Business: The growth engines of Indian economy

Family businesses have traditionally been the mainstay of the Indian economy. From corner-shops to some of the biggest listed organizations, family businesses impact the life of every Indian. Family businesses have been the growth engines of economic output and employment. Around 65% of India’s GDP in the organized sector comes from family business.

Think of successful corporate houses like Tata, Birla, Ambani, Bajaj, Adani, Mahindra, Jindal etc. and you will find family businesses in abundance in India. Globally, 35% of Fortune 500 companies are family owned businesses. Domestic market reports have revealed that 15 out of the top 20 business groups in India are family owned. 

On the other hand, it is startling to note that 70% of the family businesses globally are sold before the second generation gets a chance to take over. Only 10% of family businesses are able to survive till the third generation. Majority of Indian family businesses are not as mature as their western counterparts, but they still see succession planning, private sector competition and talent retention as their main challenges. Studies indicate that Indian family businesses focus a lot on resilience and stability rather than the break out growth unlike the US.

When you compare the overall performance of a traditional family business with a non-family business, they are more profitable, take less debts, as well as do smaller mergers and acquisitions. While majority of family businesses in India are open to the idea of innovation, only a fraction has actually partnered with outside organizations for the purpose of innovation. Perhaps, this has made Indian family businesses more self-reliant and long lasting than western counterparts.

While these statistics may be flattering for Indian family businesses there are still some factors that need to be addressed especially in the succession planning.

“15 out of top 20 business groups in India are family owned”

“Only 10% of family business survive till 3rd generation”

1Based on Credit Suisse Research Institute’s (CSRI) CS Family 1000 report
Complexity in Family Business

The complexity in family businesses arises from the duality of systems that exist side by side, family and business. Some factors like family values, centralized decision making, cost-consciousness and reliance on relationships over facts and figures play crucial role in Indian family business. Quite often the family is involved in both ownership of the firm and its management leading to growing complexity. It is often observed that complexity in relationships among family members leads to issues in business governance and succession planning.

Hence, it is vital to separate the family, ownership and management components while doing succession planning in family business. Statistics have revealed that around 75% of the Indian family business have non-family members on their board against global average of 57%.2

“When the ideal duration of 24-36 months is considered the benchmark for successful transitions in the family business”

When to start succession planning

While there is no single answer to this million-dollar question but the earlier is generally the better. The ideal duration of 24-36 months is considered the benchmark for successful transitions in the family business. It is imperative to think of succession as a process rather than an event, something that addresses all the visible and probable issues of transition.

It is also important to make the next generation, one that is going to make the decision tomorrow a part of the succession planning process for the ownership and management succession strategies. This ensures higher comfort levels between future management and family.

2Based on PwC India Family Business Survey 2016
Three most important things for succession in family business

1. **Identifying your next generation leader**
   Picking the next leader for your business will require you to potentially look at several different people. Consider what are the position requirements. For example, if you are looking for the next-gen CEO of your company, look out for the presidential traits needed in your family members.
   It’s always a good idea to let the family successors have an exposure of professional life outside the comfort zone of one’s own family business.
   Remember, you always need talented personnel and it could be vital to look outside the family for succession in certain roles. It might happen that the coming generation might not be interested in taking up a role in the family business. So, plan for it.

2. **Creating a transition plan**
   Are you retiring today or a year from now? Now, look at what transition plan you would need. As a CEO, you may want to think about how you pass the baton to the next generation leaders.
   The transition plan is not just for the successor but might also be for the change in the organization structure. Perhaps from promoter driven model to a professionally managed firm. The culture of meritocracy and performance needs to be institutionalized to provide a ready playing field for the next generation of successor and employees.

3. **Implementing a family constitution**
   Most family businesses struggle to have a written framework for succession plans and dispute resolution mechanism. Family constitution is one such document that literally lays out set of agreed rules and purpose for the business.
   It creates the right protocol and practices for operating as a board and serves as a guiding document during major decisions and family conflicts. Obviously, it is up to the coming generation to revise the rules as per the family and business needs. This document would be the best asset you would be passing on to the incoming generation.
Conclusion:

The business with a sound strategy in place has an edge over the competition. It must be remembered that when it comes to family businesses, there can be no “one size fits all” approach. It’s always advisable to seek expert guidance from an external consultant or search firm to manage succession planning in family business.

When it comes to issues and challenges of succession planning, ValuEndow has got your back! We, at ValuEndow, offer our sincerest assistance and consultation to the Indian business families. We help you in creating a well-defined plan that places the culture, values and goals of the family on the same plane as that of the business.

Our Services:

- Aligning vision, mission and business goals of the family and business
- Manage succession planning and developing next generation leaders
- Leadership discovery training & workshop – unleash the hidden potential of current and next generation leaders
- Quantitative and analytical support to family businesses and Small and Medium Enterprises (SMEs) for successor selection

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