



Confederation of Indian Industry

Empowering the next generation

Building future business leaders



November 2024

kpmg.com/in

KPMG. Make the Difference.

Foreword

It has been a revelation as to how family managed businesses based out of Kerala have innovated and improvised, catering to three different markets - local, national and international, and thriving all the while. The entrepreneurial nature of those trading along the ancient Malabar coast, might have had something to do with it, but it is also telling that successful businessmen and women from Kerala have built empires across India, Middle East, Africa, Europe and the Americas- in a wide range of businesses ranging from healthcare to manufacturing to IT and retail.

One important aspect of continuity and sustainability of such amazing stories is the ability of businesses to think about 'what next', as well as 'who next'? Given the rapid advancements in technology and the recent trend regarding the willingness of generational businesses to be managed by younger leaders, we are seeing a huge wellspring of interest in Kerala, for having younger talent in Board positions as well as gradually taking the reins of family businesses. In recent times, we have also

witnessed many such businesses onboarding private equity firms and eventually going public, which underscores the changing mindset of the family business and the momentum to grow and leap beyond the traditional set boundaries. We also see a reverse trend in next generation coming back to Kerala to take charge of the family businesses, and also nurture global expansion aspirations. This paradigm shift has also brought increased focus on Board governance and a 'professional driven' mindset.

We at KPMG in India, are happy to be part of the journey at these monumental junctures, helping families manage this transition from old to the new, from traditional to modern. Kerala is at the forefront when it comes to entrepreneurship at scale - with a strong governance-based outlook that fosters sustainability at its core. The next 10 years shall see a transition to a brave, young generation of business leaders, that upholds all the values of the old, while exploring the frontiers of a more tech-driven, information arbitrage bridged world.



Vishnu Pillai

Office Managing Partner –
KPMG Kochi – KPMG in India

Is your next generation geared up for family business?

India is poised to be the 4th largest economy in the world overtaking Japan and by 2030, it is expected to overtake Germany to become 3rd largest economy¹.

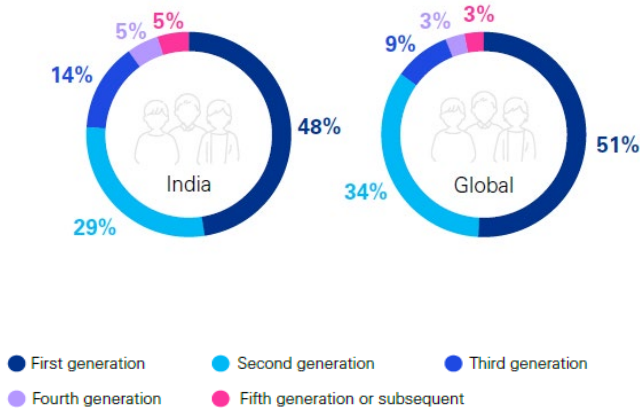
The family-owned businesses continue to be principal driver of the economic growth and key employment generator in India as well as globally.

In the said context, it becomes vital that the family has the right structure and succession planning in place. The family-owned business is not just about business but is equally about human and emotional capital, building a legacy for the family.

For a business to become multigenerational, passing off of the family legacy to the next generation, although critical, is equally an overwhelming task if the same is not addressed adequately by the senior generation.

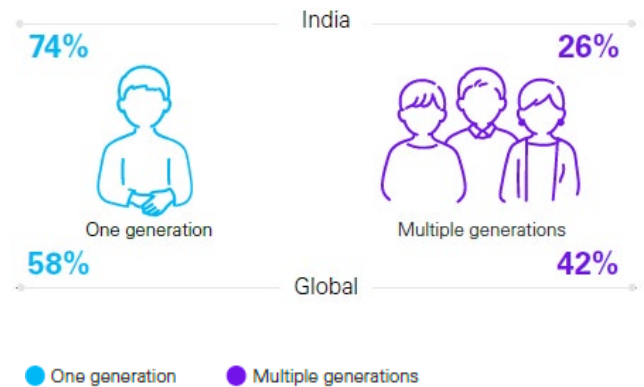
In order to achieve perpetuity, it is pertinent that the senior generation shapes the next generation by inclusive approach with continuous mentoring.

Which generations are currently owners in your business?



About 80-85% of all incorporated businesses in India are family-owned, yet only 14% make it to the third generation, and a mere 5% to the fourth².

How many generations are currently active in managing your business?



These statistics², compared to world average, provide us an overview that Indian multigenerational businesses are behind compared to the world averages in terms of next generation involvement in business.

Traditionally, these averages have mainly been driven by the owner without any formal succession plan in place. While some of the businesses have succeeded on account of succession planning, some have succeeded by chance. More and more people are now creating a formal structure and plan in place to ensure:

- that the business and family vision continue
- culture, values and legacy are preserved
- goals of the business and family are aligned.

Can the balancing goals of the family and the business be done in an appropriate manner to ensure smoother transition and giving perpetuity to business?

One of the key elements that will enable the business to be multi-generational and continues the legacy forward is how the senior generation brings in, involves and mentors the next generation.

¹ KPMG report on decoding India's economic growth issued in May 2024

² STEP Project Global Consortium and KPMG Private Enterprise Global Family business report issued in 2024.

A simple but pertinent question that arises to all family business – **Is your next generation equipped to take the helm of your family business?**

Some of the discussions with the next generation provided us the insights on the key aspects such as lack of adequate training, not having sense of purpose, not being given importance etc. The same leads to lack of emotional connectedness with the senior generation resulting in, at times, exit from the family business.

Families need to understand that encouraging the next generation in family business is a long and slow process which needs to start early when the next generation are at a nascent stage of their career. Families need to build a sense of togetherness within each next generation so that the next generation can work towards the common vision and mission that the family business looks to achieve and benefit all family members.

The process of making next generation business ready needs to have a formal

structure and a well thought out plan. However, just making a plan for encouraging the next generation may not work in favor of the family business since different members have different expectations in family business. It is important to translate such plans and discussions into concrete actions which are aligned to next generation's skills, capabilities and actions.

Also, careful considerations need to be given to the wants and requirements of the next generation of their roles and expectations.

Having the next generation involved in the family business early on inculcates not only an emotional attachment but also results in shared vision of perpetuity of family business legacy.

This paper seeks to touch upon some of the key focus areas that needs to be addressed to achieve the goal of a multi-generational business.



What are the challenges faced in transitioning leadership across generations?

In India, only a few multigenerational family-owned businesses have managed to transition smoothly across generations, resulting in significant growth and the flourishing of their legacies.

Conversely, many businesses have faced family conflicts that have led to disintegration of business, transfer of ownership to non-family members, or even their eventual collapse. Through discussions with various family-owned enterprises, we have identified several key bottlenecks and issues that hinder successful transitions in these businesses:

Issues faced by the senior generation

- **Next generation's disinterest:** Many senior family members believe that the next generation lacks interest in the operations and legacy of the family business.
- **Perception of being not ready:** The absence of adequate training, mentorship, and essential business skills among the next generation contributes to the view that they are not ready or equipped to advance the family business.
- **Non-alignment with family goals:** Traditional approaches taken by senior generation may clash with the technological innovations and advancements proposed by the next generation.

Issues faced by the next generation

- **Senior generation's reluctance to step back:** The transfer of power, control, and authority is often not addressed or discussed, which hinders the next generation from stepping up and taking charge.
- **Lack of serious engagement:** Communication tends to be one-sided, lack of sharing of vital information, minimal inclusivity and openness often fosters disinterest among the younger members.
- **Insufficient exposure and training:** The absence of formal guidance, knowledge sharing, and mentoring results in limited learning opportunities for the next generation.
- **Family conflicts and disagreements:** While often intangible, family dynamics and individual conflicts among members pose significant risks to the long-term viability of the business across generations.
- **Divergent visions:** The next generation may hold different values and perspectives that do not align with the traditional approaches of the senior generation.

To address these issues, an effort needs to be made by both the generations to not only bridge the gap but also create a conducive environment for a successful business transition.








Grooming the next generation



01. Identifying the Right Family Members

Grooming the next generation, who are the stewards of the business, play a very crucial role in preserving and growing the family business and in bringing new ideas and approach for the business. This can be planned by identifying the family members that can be involved in business, the age at which family members would be introduced to the business, the qualifications that they need to achieve, etc.

Key attributes for next generation to possess/assess :

-  Business acumen
-  Ability to manage the risk and uncertainties arising due to expansion of the family business;
-  Ability to manage family resources for expansion of business;
-  Ability to efficiently address the needs and expectations of family members; and
-  Keep the family legacy alive with values and cultures.

It is vital for the senior generation to not only hear the thoughts and ideas of the next generation, for the business, but equally listen to their desires and engage in conversation with them.

More likely than not, the next generation who are engaged in the family business are ambitious in terms of expanding their business beyond their original markets i.e., they envision diversifying their offerings, increasing revenues, starting new businesses etc. in this evolving world. It becomes important that there exists a framework for continued conversation and communication by both the generations.

The next generation must take the following into consideration while getting involved in the family business:

- Shared purpose and legacy are maintained;
- Vision and objectives to be achieved;
- Synergy benefits; and
- Harmonious co-existence of various family business and family goals.

This would play a pivotal role in building of confidence between the next generation and senior generation and shall promote a sense of peace and harmony within the family.

Pathway for Next Generation

- Requisite understanding of the roles and responsibilities
- Requisite rotational business experience

Pathway for Senior Generation

- Encourage Next Generation to experience the business
- Take advice on efficiencies, new technologies and modernization ideas

03. Training and Development

It is critical to strike a balance between the formal and informal learning. Hard skills learned in university definitely gears up the next generation for entering the Family business, however it is the soft skills and additional relevant trainings that enable the next generation to not only better perform and adapt to the changing needs and requirement of the business environment but also maintain peace and harmony within the family.

At an initial stage, the family member may undergo internship during their formative years to obtain experience of the business. Thereafter, next generation may also be put into work in other companies before they join the business. This would give them a hands-on experience on how the business and management functions work. Many next generation family members of family businesses have undertaken formal professional trainings on various aspects of business which help them in their family business.

Pathway for Next Generation

- Requisite formal education
- Requisite soft skill development.

Pathway for Senior Generation

- Think about the transition
- Have discussion with Next Generation on transition issues/goals.

While technical and hard skills establish the groundwork for a successful transition, it is often the emotional intelligence and soft skills that help in navigating day to day business and management functions alongside family dynamics.



04. Mentorship Programs

As a response to our discussion with business leaders, we often found that many families have identified mentors either from within the family, senior generation essentially or from outside the family to groom their next generation. Mentors play a crucial role in shaping their mindset and helping them in navigating the business world. Generally, the mentorship is focused on development of business acumen and technical skills necessary for expansion of business. In the pursuit of such training and development, more often than not, the soft skills mentorship takes a secondary role. Considering the importance of soft skills in business management, it is critically

important that mentors take special efforts to groom the next generation in soft skills as well.

Another great initiative that family businesses can undertake for grooming the next generation grooming is to couple a family business mentorship program with peer interactions. This would involve the next generation to enter forums / programs with a group of next generation members in a different family business. This would provide the next generation with a different experience and a varied approach to business and understand varied viewpoints.

Pathway for Next Generation

- Identify the right mentor – may or may not be a family member
- Network with other Next Generation groups.

Pathway for Senior Generation

- Seek right guidance for Next Generation
- Encourage and support Next Generation.



A right mentor to the next generation develops them to trust their decision-making ability. It will shape the next generation to build future sustainable business with impact on community.



05. Communication is the key to planning

Effective communication between the existing family business owners and the next generation regarding the business, future roles and expectations fosters an environment where the younger members feel welcomed to co-create, learn and collaborate with the existing family members. In our discussions with the families, we found that there is lack of invitations to the next generation to co-create plan or strategy.



06. External professional, learning and experience

It is essential for the next generation to gain perspective which leads to them on path to success and that is derived from learning and working experience. However, it may be difficult to obtain such knowledge and information due to lack of expertise and knowledge in areas of transitioning of the business and lack of access to internal professionals. In such cases, external professionals can play a key role in obtain information and knowledge on business transition. They would provide a great insight on the business transition basis their knowledge and experience and would ensure smooth process.

Many family businesses in India however are reluctant to seek external professional advice on matters pertaining to business transition since they believe that it would be simple to

obtain all the relevant information and knowledge. However, in a practical scenario, it would be difficult to execute such transition due to various business considerations arising on such transition. This may include introducing the use of Artificial Intelligence and other technology in business wherein relevant external professional can provide their advice / input.

It is vital that family business resort to experienced external professionals to help next generation with the transition and provide their professional guidance and learning. Further, next generation needs to understand that external professionals have the ability and the experience to guide the next generation through the business transition and help them achieve the desired objective.



Next generation's quest for new ventures

One of the aspects which has always remained ignored or seldom discussed is the desire of the next generation for newer business outside the family-owned business. The need to preserve the family legacy business and to chalk the path for new businesses have always been a point of conflict or debate amongst both the generations.

In our discussion with business leaders, we had posed a question on their approach in case the next generation is not interested in the legacy business but more inclined to new age business. More than half of the business leaders whom we spoke, said that they would like their legacy business to be taken forward by the next generation and at the same time, would ensure that they also ensure that they are able to engage in new ventures.

Many of the business leaders have created or identified separate corpus to be allocated to the next generation for such ventures, with direction to take it to next level with additional funding from external sources. Some of the business families have created family office and often they become the investor in such ventures form by the next generation, thereby ensuring that the next generation stays connected with the family and the legacy continues in that sense.

It becomes necessary to define accountability along with responsibility for the next generation when they are exploring new ventures. The same ensures that they are able to preserve the family business / wealth vis-à-vis the risk and vagaries of the new ventures.

Some of the views expressed :



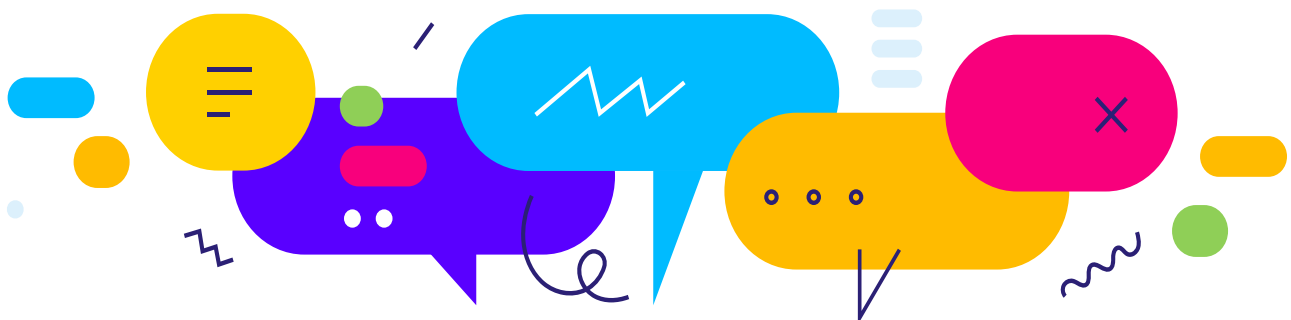
We, as a family, would want to see our next generation take the legacy business forward and would like to discourage moving out of the family business by providing sweat equity or such incentives to motivate them.



There is a fixed corpus and management support for the next generation to invest in their ventures.



Risk, Reward and accountability is pre-defined and it is allowed for next generation to start new venture within the framework for agreed time to succeed.



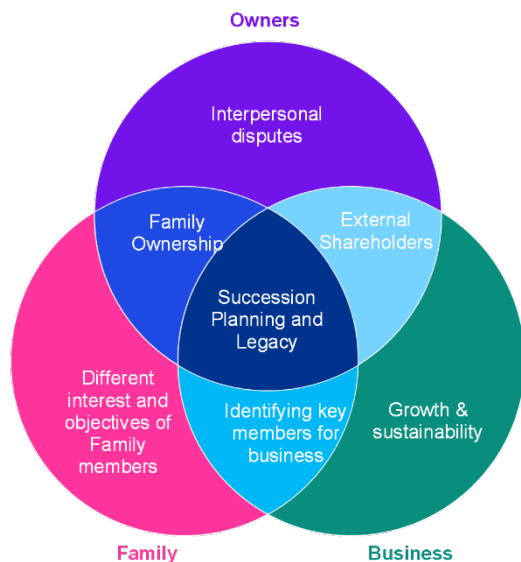
Conflict resolution in Business

Control and Influence in business plays a vital role in family businesses. This becomes more complex in a family business where there are gaps in family dynamics. This can lead to various conflicts in business which can lead to separation of family and business. The importance of having a formal framework to address and resolve conflicts amicably cannot be undermined.

Some of the gaps in family dynamics that may lead to conflicts are:

- Lack of shared purpose
- Relation/ emotional connect within the family
- Mismatch in expectations and roles
- Difference in ideologies

Family conflicts are inescapable, but one needs to ensure that it doesn't become unmanageable. A representation of conflicts arising in family businesses is given below:



Such conflicts may result in de-growth, reduced valuation and stress stakeholders which directly or indirectly affects the business. We have seen many family businesses wherein there are dispute in the families which are a long-drawn battle and result in uncertainty in the business.

Examples of conflict resolution techniques adopted by business families:

Develop a formal structure

One of the effective ways to create succession plan is to develop a formal governance structure addressing various aspects to achieve perpetuity of legacy business whilst preserving its values and cultures.



Private Trust structures



Family charters / constitution



Family offices

The framework needs to create the family vision and mission which derives the value system dwelling into contingency management, creation of platform for effective communication with next generation, transformation, and institutionalization of businesses, embracing technology etc.

Mutual resolution between conflicting parties

Here the family members need to understand the problem statement due to which conflicts arose. The members can discuss the problem and come to a mutual consensus. This may be done based on the family dynamics between the conflicting family members and the relations between them. Where the relations are strained, it may be difficult to resolve conflict through this technique.

Internal facilitation for disputes

This technique is generally adopted where the dispute is within a family branch or between two family branches having a common ascendant. Here the parties have a mediator that acts as a truce maker between the conflicting parties.

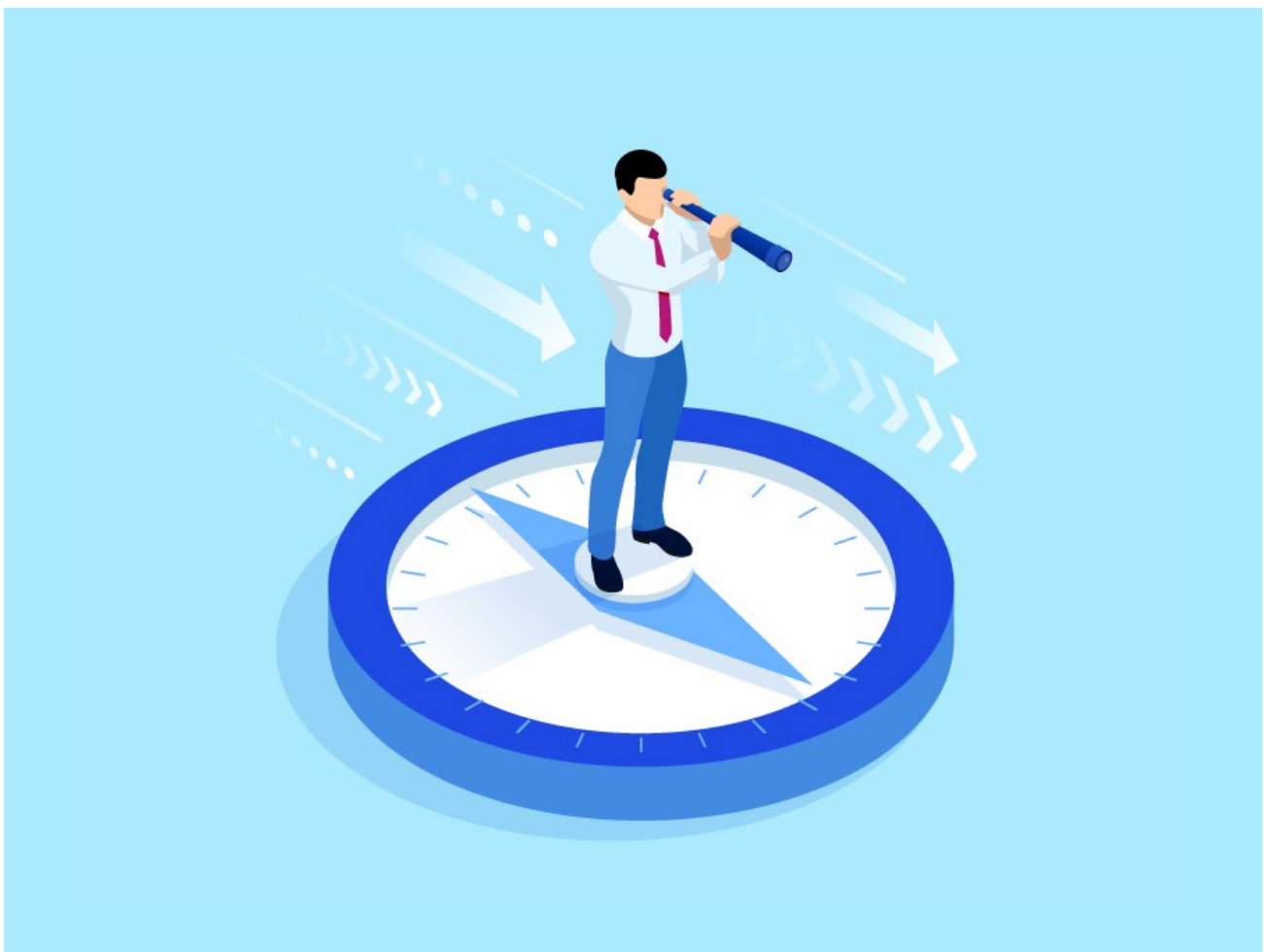
External facilitation for disputes

This technique is generally adopted where the dispute is between family members of two branches where the other members of such branches cannot act as mediator due to conflict of interest. This is done by appointing an external mediator who is known to both branches and is unbiased. This is commonly done by family business where there is a power struggle between the members of the family.

Court / Arbitration

However, there may be situations where the conflicts continue to remain unresolved. In which case, Court / Arbitration shall be required. This is a long drawn, tedious and substantial cost consuming process where the parties come to resolution based on the outcome of the decision of the court / arbitration award.

Resolving conflicts is never easy, but it is advisable to be empathetic and understanding to amicably resolve the same.



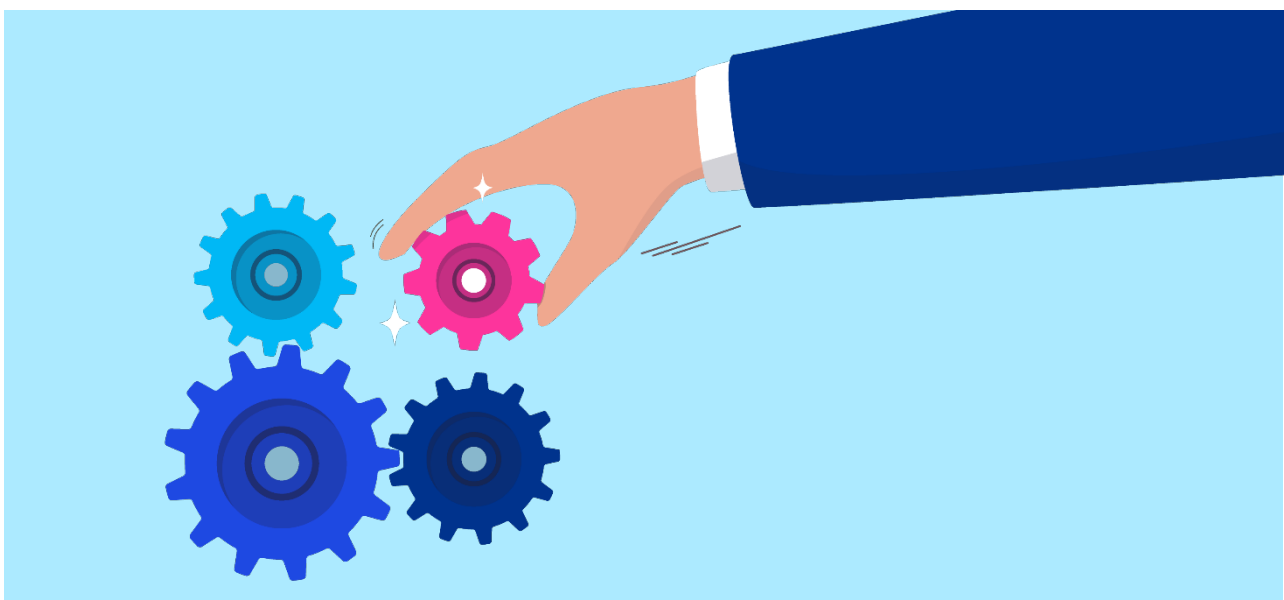
Key Recommendations for next generation

It is imperative that families empower the next generation in getting involved and being groomed for taking the helm of the throne of the business in future and the next generation also needs to take active effort in being involved in the business. Best approach to achieve process of empowering the next generation shall be by way of implementation of formal structures.

One of the popular structures is developing a family charter and family constitution that acts as a guiding force to set a strategy to induct the next generation into the business and enable structured transition of power between the several generations of family members.

Each family has peculiar goals, vision, strengths, weaknesses and objectives and hence it is important to discuss and evaluate the following within the family members:

Value	What is important to our family?
Vision	Based on family values, what could be the desired future?
Training	How will we make next gen ready to be good stewards of business?
Investment	What human and financial and resources do we need?
Governance	How do we make decision and ensure accountability?



On the aspect of next generation grooming and training, KPMG in India conducts various training and development programs to enable the next generation to be good stewards of business.

Details of the programs are as under:



About KPMG in India's Family Office practice

Your journey

Going public

Taking your company public can bring higher visibility and related benefits. However, you get exposed to new risks, such as complex listing requirements and new stakeholders to manage.

KPMG in India works with you

- IPO readiness
 - Listing destination
 - Pre IPO diligence
 - Financial reporting
 - IT Systems readiness
- Assurance services
 - Group structure
 - Corporate governance
 - Investor relations
 - Project management

Your journey

Succession planning

Timely and diligent succession planning is key to a smooth transition of business to the next generation.

KPMG in India works with you

- Family continuity and inheritance planning
- Designing a holding structure
- Wealth structuring

Your journey

Exit strategy

When necessary, exit strategies or divestments are often a one-time transaction with just one opportunity to get it right.

KPMG in India works with you

- Identifying potential buyers
- Deal structuring and valuations
- Exit - Tax structuring

Your journey

Risk management and internal control

Frauds, corporate crimes, cyber threats, commercial disputes and litigations result in negative impact on your reputation and stakeholders' confidence.

KPMG in India works with you

- Internal controls review
- Risk compliance services
- Forensic services
- Third party risk management
- Cyber security
- Process Documentation/SoP

Your journey

Maintaining and improving your business

Businesses are facing ongoing threats from new technologies, competition, or changing industry landscape.

You need to think about the future today so that you can build a sustainable business model.

KPMG in India works with you

- Business process transformation
- Margin enhancement
- Digital transformation
- Business intelligence
- Managing customer experience
- Climate change and sustainability

Transitioning your business
Plan for the future

Strengthening your business
Improving operations and reducing risk

Your success is our legacy.



Acknowledgements

We are grateful to the Confederation of Indian Industry (CII) and our esteemed experts for sharing their valuable insights and suggestions. These consultations have been prominent in developing this paper.

Author:

- Nilesh Mody, Partner, M&A and Family Office, KPMG in India
- Jinal Doshi, Director, M&A and Family Office, KPMG in India

Research Team:

- Shweta Goyal, Associate Director, M&A and Family Office, KPMG in India
- Aditya Menon, Manager, M&A and Family Office, KPMG in India
- Harshita Totla, Assistant Manager, M&A and Family Office, KPMG in India
- Vaishnav Singh, M&A and Family Office, KPMG in India

Design Team:

- Venkatesh R
- Harshita Totla, Assistant Manager, M&A and Family Office, KPMG in India
- Vaishnav Singh, M&A and Family Office, KPMG in India

CII Kerala Team:

- Mr. George M George, Convenor, CII Kerala Family Business Panel
- Mr. Naveen Philip, Co-Convenor, CII Kerala Family Business Panel

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organisation, with around 9,000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 365,000 enterprises from 294 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on

policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness, and business opportunities for industry through a range of specialised services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

With 70 offices, including 12 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with about 300 counterpart organisations in almost 100 countries, CII serves as a reference point for Indian industry and the international business community.

About KPMG in India

KPMG entities in India are professional services firm(s). These Indian member firms are affiliated with KPMG International Limited. KPMG was established in India in August 1993. Our professionals leverage the global network of firms, and are conversant with local laws, regulations, markets and competition.

KPMG has offices across India in Ahmedabad, Bengaluru, Chandigarh, Chennai, Gurugram, Hyderabad, Jaipur, Kochi, Kolkata, Mumbai, Noida, Pune, Vadodara and Vijayawada.

KPMG entities in India offer services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG in India contacts:

Akhilesh Tuteja

Head – Clients and Markets

E: atuteja@kpmg.com

Vishnu Pillai

Office Managing Partner – KPMG Kochi

E: vishnupillai@kpmg.com

Nilesh Mody

Partner – M&A and Family Office

E: nileshmody@kpmg.com

kpmg.com/in



Access our latest insights on
KPMG Insights Edge

Follow us on:

kpmg.com/in/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance & Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000

© 2024 KPMG Assurance & Consulting Services LLP, an Indian limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is meant for e-communication only.