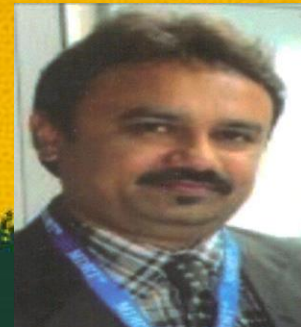
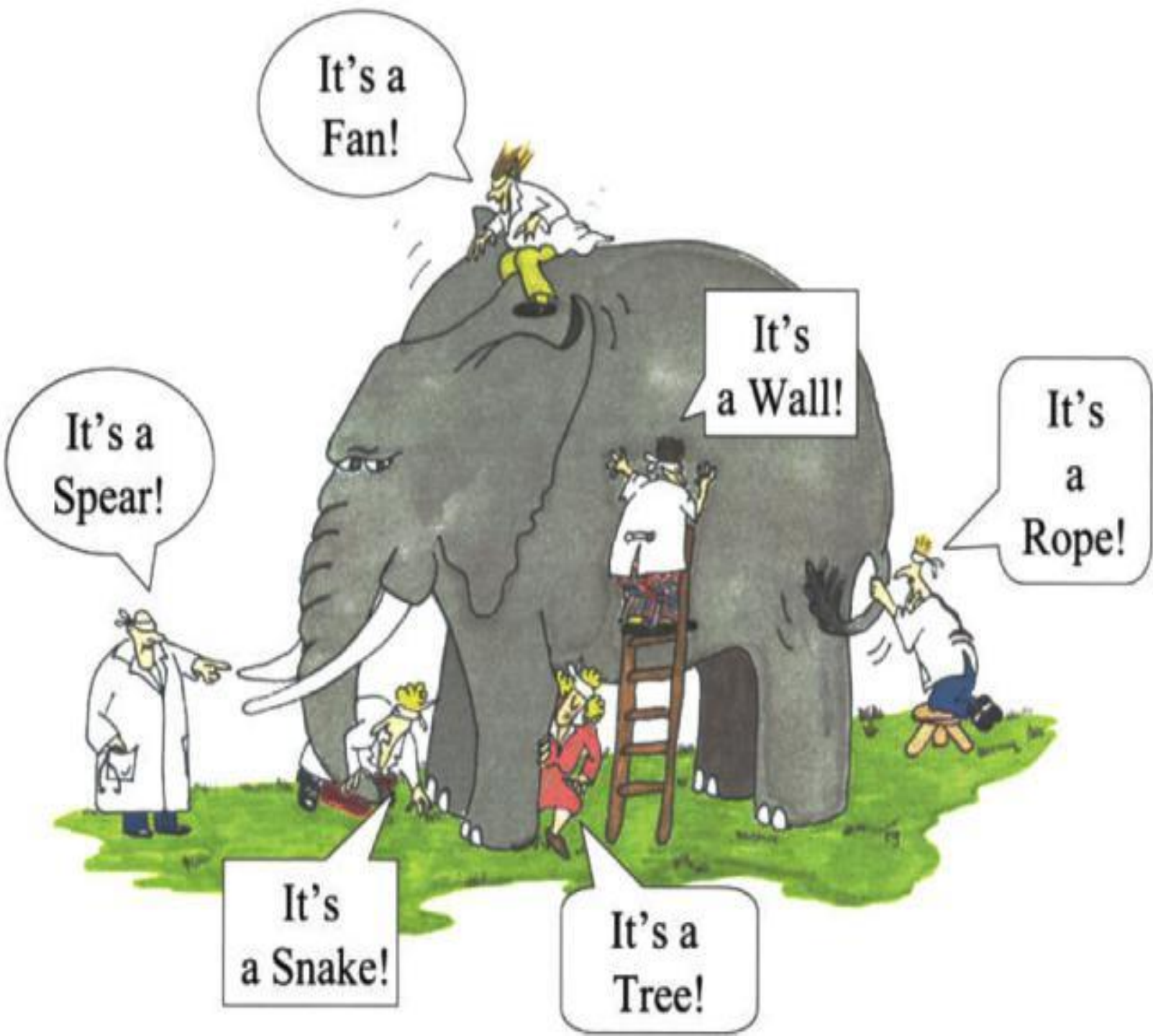




BUSINESS OWNERS' CHAKRAVYUHA

*CA MAHENDRA KAMATH
CA, CS, LL.B., DISA, CFP, MDP-IIMK
CORPORATE ADVISOR (RISK & WEALTH MANAGEMENT)*





Why to Learn ?

Smiling Face



Wheel of Wealth

**Risk
Management**





TAKING RISK

There's a fine line between taking a calculated risk and doing something dumb.

Risk Management

Individual

- Dying too early
- Critical Illness
- Accidental Disability
- Living too Long
- Children Future
- Continuation of Income

Corporate

- Business Mortgages
- Protection of Intellectual Property
- Disability of Key Persons
- Protection of Family Assets from Corporate Liabilities

One can mitigate these aspects by way of Transfer of Risk in considerable Low Premium.

Wheel of Wealth





GLASBERGEN

**“I do have a diversified retirement plan:
30% hopes, 30% wishes, 40% prayers.”**

Asset Allocation

- What, How, When to Buy any Investment
- Test of Wealth Pyramid
- Optimize Safety, Liquidity & Growth
- How to be immune to Market Fluctuations
- Designing of Customised Product Mix

Wheel of Wealth



**Asset
Allocation**

**Risk
Management**

**Cash Flow
Design**

HAPPINESS IS



**...a positive
cashflow.**

Cash Flow Design

- Financial Goal Setting considering “Good to Have” & “Not Negotiable” goals
- Consideration of Industry / Economical Inflation
- Computation of Funding requirement to achieve Inflation adjusted Goals
- Combination of different asset class as per the Need Analysis and Risk taking ability
- Ongoing Review of Cash Flow Chart till achievement of Goals

Wheel of Wealth



THE BLUCK STOPS HERE !

FEDERAL
INCOME
TAX

STATE
INCOME
TAX

PROPERTY
TAX

SALES
TAX

SIN
TAX

MISC
TAX

MINE

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earl guth

Tax Effects

- Advisory on taxation aspects at various stages
- Selection of Financial Instruments which are most tax beneficial
- Corporate Tax Planning with Structured Financial Instruments
- Use of EES, KMI, Group Schemes

Wheel of Wealth



Cost
of
Living



otto



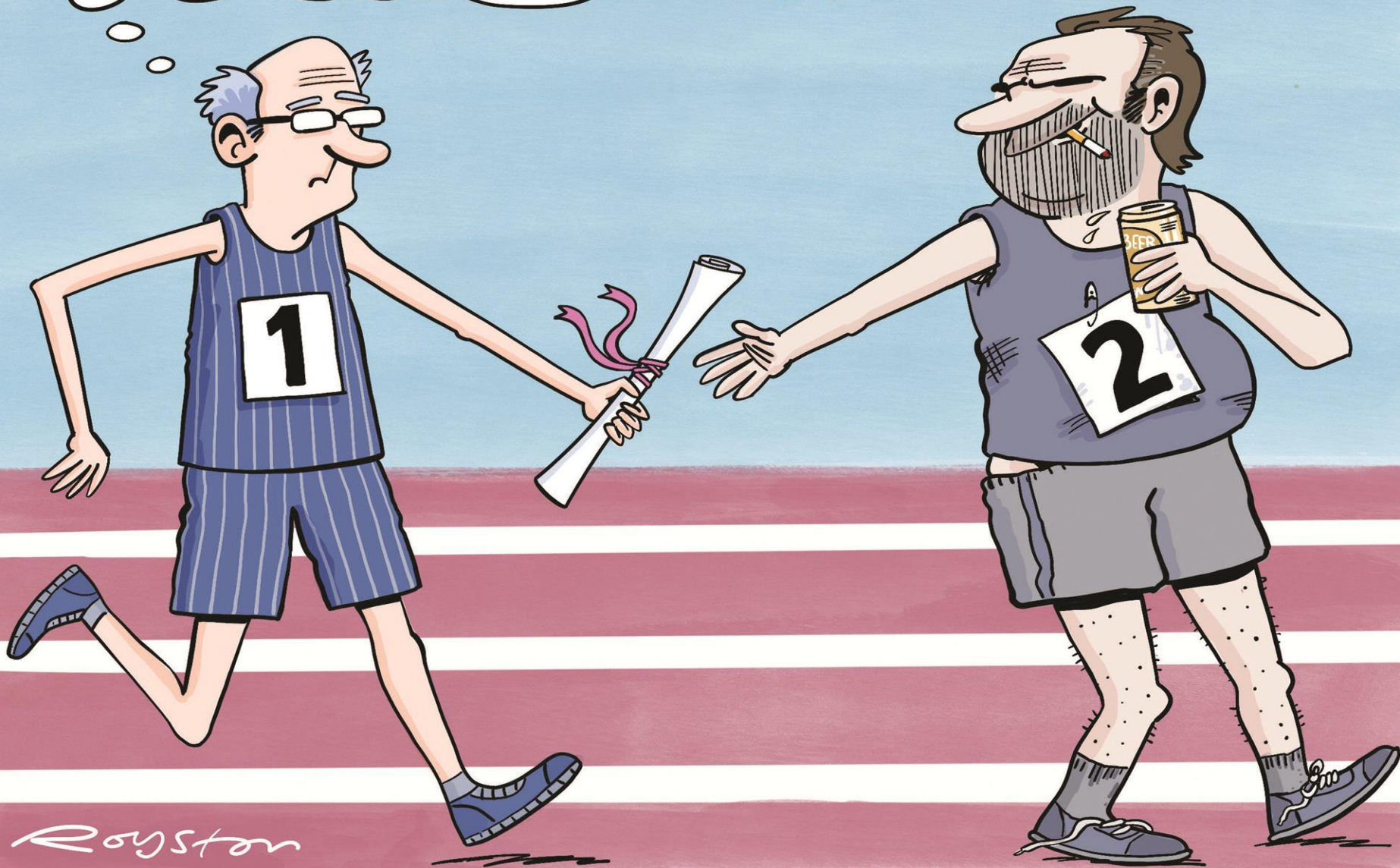
Expenses/Debt Management

- Advisory on correct method of Income, Expenditure & Savings
- Guidance about Essential and Non Essential Expenditures
- How to change habit from residual savings to preferential savings
- Productive and Non Productive Loans
- How to avoid over leveraging and falling in Debt Trap

Wheel of Wealth



MAYBE I SHOULD HAVE PLANNED
BETTER FOR THIS DAY ...



Succession Planning

Individual

- Estate Planning
- Use of Wills, Nomination, Assignments
- Family Income Continuation
- Estate Equalisation Planning
- Creating Family Estate through MWP

Corporate

- Business Exit Strategy
- Design of Buy-Sell Funding
- Partnership Succession Plan
- Key Person Retention Planning

Wheel of Wealth





RETIREMENT INCOME

- What's your plan to ensure substantial Passive Income ?
- Will that income be regular, adequate & guaranteed ?



Retire in Style



"सवाल ये नहीं कि, मैं किस उम्र में रिटायर होना चाहता हूँ बल्कि सवाल ये है कि किस आय (INCOME) पर रिटायरमेंट चाहता हूँ।"

Why Depend on Others ??

Be Self Dependant...

Turn your old age in golden age

me from Day One PAGE 28

For patriarch of Rs 500 cr group, love is thicker than blood

Ashapura chief backs wife, says son has left him with no money

Navnit Shah, 86, tells judge second wife Fizzah Shah is the only one who takes care of him and that he doesn't want his children to visit his house, as it "disturbs their domestic peace"

TRENDS
Navnit Shah, the chairman of the 100 crore Ashapura Group, has had to face several legal battles in a recent period by his wife's demand against him. A court has granted the wife the right to visit her husband at his house but she has refused to do so. She has also filed an application for maintenance against him. He has also filed an application for maintenance against her. He has also filed an application for maintenance against her. He has also filed an application for maintenance against her.



Navnit Shah with wife Fizzah

Life after 60: Rising trend of elders working post-retirement

End-of-work life no longer means rocking chairs and siestas; many opt for a second innings. TOI chats up seniors who have started over

Vipashana.VK
@timesgroup.com

It's 6am and the alarm hasn't gone off yet. Seventy-six-year-old P N Vishwanathan is already up; he doesn't need the wake-up call. He has a busy day ahead — meetings and conferences lined up with no siesta for respite. He will call it a day only at night.

Retirement no longer means taking charge of domestic chores ignored or spending 'quality time' with grandchildren. With technology to manage errands, nuclear families dispersed and lifestyles centered on productive living, senior citizens are refusing to hang up their working boots just yet.

Navi Mumbai-based Vishwanathan, who retired as a wing commander from the Indian Air Force in 1988 after 26 years of service, runs a security agency. After retirement, Vishwanathan joined top-notch companies like Mahindra & Mahindra and Reliance Industries as advisor before going solo. "I had the skill; I wanted to put it to good use. There was no question of quitting work. Also, there is no age bar to start something you want to do," says the septuagenarian.

According to Bangalore-based job portal headhunters India.com, more seniors have begun eyeing options to return to the workforce post-2010 and since then the trend has jumped about 25%. "Seniors now feel they are at the peak of their energy levels at 60. In fact, 60 is the new 40," says Kris Lakshmikanth, chairman & managing director of headhuntersHyd.com

What strengthens the trend is the willingness of companies to induct experienced though ageing hands. In banking, education, security, PSUs and SMEs specially, retired professionals are getting inducted as consultants.

Take the case of RR Shastri, a Tata veteran, who retired from the group in 2012. Shastri (64) has been working as a retainer with the holding company, Tata Sons, for the last four years. "Most companies have retirement age fixed at 60, your body

RETIRED? NOT YET	
 <p>P K SRIDHARAN: In 2008, Sridharan retired as executive director of a firm. He then took up mentoring jobs. In 2012, he and four friends set up a skill training institute</p>	 <p>R R SHASTRI: Retired from Tata group in 2012. Has been working as a retainer with the holding company, Tata Sons, for four years</p>
<p>“I had the skill; I wanted to put it to good use. There was no question of quitting work. There is no age bar to start something”</p> <p>P N Vishwanathan RETD IAF OFFICER, RUNS SECURITY AGENCY</p> 	

In 2008, when Chennai's P K Sridharan retired from Hexaware Technologies as executive director, not for a moment did he think it was the end of his career. The IIT Kanpur and IIT Chennai alumnus took up mentoring assignments at educational institutes. In 2012, he and four friends set up a skill training institute and today, he is busy expanding it. "By the time people retire, their children are settled and have their own lives. It was an obvious decision to continue working. I never had the mindset to sit at home. I wanted to do something socially relevant and now I can do it at my leisure," says the 68-year-old, who is also an avid traveller.

Also, many organizations that do not want to lose talent to retirement now prefer to extend tenures by creating posts of consultants, retainers, or advisors.

is able to carry on work for another few years. So, actual retirement happens only after 65."

Some say the trend is accentuated by the changing fabric of society. As people marry late, they have children even later and by the time they retire, their kids are not even adults, said a sociologist. So they keep going.

Employment post-retirement does promote better mental health, say psychiatrists. "With increase in lifespan and better lifestyles, people are fit and active after 60 too. So, it is necessary for them to keep themselves occupied before they become a nuisance for others," says Dr Manoj Bhatawdekar, a Mumbai-based psychiatrist.

With options galore, clearly times are a-changing. And it's a new credo after retirement — Work-life begins at 60!



EXIT STRETEGY

- What are your Exit Plan from Business?
- Who will own & run your business ?
- Will you retain, or sell, or transfer ownership to your children ?



पैसों की तंगी से जूझ रहे 12 हजार करोड़ की रेमंड के मालिक सिंघानिया, बेटे को बताया दोषी; किराए के घर में रहना पड़ रहा

एजेंसी | मुंबई

कभी ब्रिटेन से अकेले प्लेन उड़ाकर भारत आने वाले और देश के बड़े अमीरों में शुमार, 12 हजार करोड़ रुपए के रेमंड ग्रुप के मालिक विजयपत सिंघानिया आज पैदल घूम रहे हैं। मुकेश अंबानी के एंटीलिया से भी ऊंचे जेके हाउस में रहने वाले 78 साल के अरबपति उद्योगपति को मुंबई की सोसायटी में किराए से रहना पड़ रहा है। इसके लिए वे बेटे गौतम को दोषी बताते हैं। विजयपत ने आरोप लगाया है कि 'गौतम ने उन्हें पैसे-पैसे का मोहताज कर दिया है। वो कंपनी को व्यक्तिगत जागीर जैसे चला रहा है।'

हाल ही में विजयपत सिंघानिया ने बॉम्बे हाईकोर्ट में याचिका दायर कर जेके हाउस में अपने ड्यूप्लेक्स घर का पजेशन मांगा है। बुधवार को उनके वकील ने कोर्ट को बताया कि विजयपत पैसों की तंगी से जूझ रहे हैं। सिंघानिया ने कंपनी में अपने सारे शेयर फरवरी 2015 में बेटे के हिस्से में दे दिए थे। इन शेयर्स की कीमत करीब 1000 करोड़ रु. थी, लेकिन अब गौतम ने उन्हें बेसहारा छोड़ दिया है। उनसे गाड़ी व ड्राइवर भी छीन लिए गए हैं। जेके हाउस 1960 में बना था और तब 14 मंजिला था। बाद में बिल्डिंग के 4 ड्यूप्लेक्स रेमंड की सब्सिडरी पश्मीना होल्डिंग्स को दिए गए।

शेष | पेज 10 पर

दो दशक में इस तरह रेमंड को बना दिया आधुनिक

सबसे रईस लोगों में शामिल विजयपत का एविएशन और फिल्म इंडस्ट्री में भी रसूख था। दुनियाभर में सूटिंग और शॉटिंग के लिए मशहूर रेमंड की नींव 1925 में रखी गई थी। पहला रिटेल शोरूम 1958 में मुंबई में खुला। कंपनी,



विजयपत सिंघानिया गौतम सिंघानिया

टैक्सटाइल, इंजीनियरिंग और एविएशन बिजनेस में शामिल रही। विजयपत ने कंपनी की कमान 1980 में संभाली और इसे आधुनिक उद्योग समूह की पहचान दी। 1986 में प्रीमियम ब्रांड पार्क एवेन्यू लांच किया। फैशनेबल ड्रेस और नई स्टाइल चाहने वाले पुरुषों के लिए कंप्लीट

वार्डरोब रेंज उपलब्ध करवाई। ओमान में कंपनी का पहला विदेशी शोरूम 1990 में खोला। 1996 में देश में एयर चार्टर सर्विस शुरू की। स्पोर्ट्स स्प्रिट रखने वाले विजयपत ने 1988 में लंदन से मुंबई तक अकेले हवाई उड़ान पूरी की। पद्म भूषण विजयपत ने 'एन एंजल इन ए कॉकपिट' शीर्षक से किताब भी लिखी। 2005-06 में वो मुंबई के शेरिफ भी रह चुके हैं।

FAMILY INCOME CONTINUATION

- In your absence , how to ensure that your family receives your income ?
- Can the business afford to make payments to your family in your absence ?



MUSIC INDUSTRY TO LOOK AFTER AADESH'S FAMILY



Vijayta Pandit with her sons Anivesh and Avitesh and inset (Alka Yagnik)

Subhash K Jha

Most music composer Aadesh Shrivastava's shockingly premature death on Friday night, his colleagues from the music industry have taken a decision to financially support his wife — former actress and singer Vijayta Pandit and their two teenaged sons Anivesh and Avitesh.

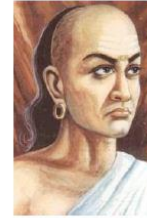
Says a source from the music industry, "Vijayta has gone through a lot. Aadesh's illness has left her financially disabled. Now that Aadesh is no more, she has to make sure their sons get the best possible upbringing and education. On top of that, her elder sister Sulakshana Pandit also stays with



Vijayta. So yes, there's a looming financial crisis in her family. Of course, her brothers Mandar, Jatin and Lalit are there to support her. But they have their families and responsibilities. We've decided to look after Aadeshji's family."

Confirming this decision singer Alka Yagnik a close friend of Aadesh and his wife says, "Yes, the initiative to support the family was taken by some of Aadesh's well-wishers. Besides some of us — his close friends, the entire music community is going to support and take care of his wife and sons. We have already spoken about this amongst ourselves. And we stand united in this decision!"

THE TIMES
Powered by I



275 BCE

THE KING CAN CONTROL EXPENSES ONLY THROUGH A BUDGET:

FIRST: FUNDING FOR CONTINGENCIES

SECOND: FOR INFRASTRUCTURE (AGRI, WATER BODIES, SCHOOLS..)

THIRD: FOR TODAY'S ESSENTIALS

FOURTH: FESTIVITIES

29-year-old dies of a heart attack during cricket game in city



A 29-year-old cricketer died during an inter-divisional game at Oval Maidan on Tuesday.

Ratnakar More, a Tata Power staffer, complained of chest pain and giddiness in the dressing room and suddenly collapsed. He had married last year and his wife is six months pregnant.

AWARE BEWARE

- Meaning of Nomination
- Ownership in Joint holding
- Implication of not having Will

Class I Legal Heir

- Hindu Male

- Mother
- Wife
- All Children
- Legal heir of any deceased child

(Distributed Equally)

- Hindu Female

(Self Acquired + Husband)

- Husband
- All Children (If any child passed away, their heir)

(Distributed Equally)

AWARE BEWARE

- Meaning of Nomination
- Ownership in Joint holding
- Implication of not having Will
- Do you travel together with spouse ?

BUY & SELL FUNDING

- After you, should your family continue to own interest in the business in which they are not involved ?
- Would you as a surviving owner want to be in business with the deceased owner's family and it's advisors ?



KEY MANAGEMENT LOSS



- Impact on death of any key people on business' sales, profits, growth potential, credit lines ?
- What special benefits are you providing to key people ?
- Plans which cover all employees are generally inadequate incentives for key people.

MOST MID-SIZE COMPANIES SUFFER SUCCESSION BLUES

PIYALI MANDAL
New Delhi, 12 September

When Ved Prakash Arya, managing director and chief executive officer of Milestone Capital died last week in a freak accident, the private equity firm faced a double whammy.

Besides the loss of its leader, the Mumbai-headquartered venture capital firm was struggling to fill the void left by the CEO as there were no second-rung leaders to take up his place. Arya's wife and brother were subsequently inducted into the board, but the uncertainty remains.

Like 1996-founded Milestone, most of India Inc lacks any proper succession planning. As a result, many organisations find themselves in the middle of a crisis during such eventualities.

Take the case of Unitech Wireless, a mid-sized telecom firm. When its board chairman Sanjay Chandra got arrested for the 2G scam



Milestone Capital managing director and chief executive officer Ved Prakash Arya died in a freak accident recently

bandwidth to have back-up companies compared to ₹800 firms create new positions to train their next level leaders."

...to Rs...
...ore,
...said.
"Power companies also contributed strongly to incremental growth in bottom

passenger cars and real estate companies lagged behind, the Crisil Research analysis showed.

est rate... since th... 1.5% to...
Rem...
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id In...
insa...
kers...
my'...
te w...
rem...
sho...
last...
pec...
fro...
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Keyman insurance premium valid biz deduction: ITAT

TIMES NEWS NETWORK

Mumbai: In its recent order, the Income Tax Appellate Tribunal (ITAT), Kolkata bench, has allowed as a business deduction in the hands of a private company a significant sum paid by it as insurance premium for covering three of its directors under a keyman insurance policy. The ITAT held that this premium was for the benefit of the company to protect itself

of the Bombay high court.

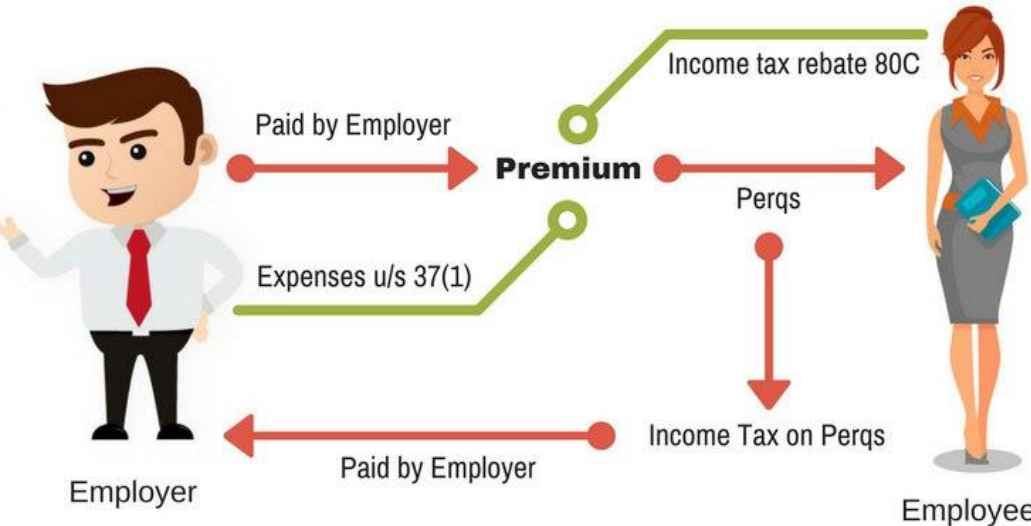
Marcopolo Products, a private limited company, had filed an income-tax (I-T) return for the financial year 2008-09, showing a taxable income of Rs 27.82 lakh. It

The ITAT held that this premium was for the benefit of the co to protect itself from any risk it would sustain on losing the valuable services of its directors owing to accident or death

any risk that it would sustain on losing the valuable services of its directors owing to accident or death. Thus, it was an expenditure wholly incurred for the purpose of the business and would be allowed as a deduction from the business income to arrive at the taxable income. The ITAT also relied upon a 1998 circular issued by the Central Board of Direct Taxes and a decision

had claimed Rs 45 lakh as a business deduction towards keyman insurance premium, which was paid by it in cash. The keyman insurance policy had a coverage of five years and the sum assured was Rs 75 lakh.

EMPLOYER-EMPLOYEE INSURANCE SCHEME





DISABILITY PLANNING

- Income to yourself and other key people in the event of disability ?
- If you are disabled for a lengthy period or permanently, will you retain your ownership in the business ?
- Have you heard about Springing Power of Attorney ?

MORTGAGE COVER



- Whether your Assets will remain with your family instead of Banks after you, due to mortgages and personal guarantees ?
- Have you created any estate which belongs only to your wife and children even in case of outstanding loan liabilities ?

After death-
Money
goes to
Wife only

Insured Person

Beneficiary Acts
as Trust

MWP Act 1874

Buys Insurance

Nominates Wife as
Special Beneficiary

Married Women's Property Act-1874

Stressed Loan-hit Promoters Create Trusts to Guard Assets Against Risks

Move to make it difficult for banks to recover dues as it would involve long and complex legal route

Sachin Dave & Maulik Vyas

Mumbai: Many promoters of companies with stressed loans are insulating their assets by transferring them into private family trusts fearing banks could go after their personal assets for defaulting on loans.

In past one year or so, say industry insiders, many promoters are creating family trust structures, where all the wealth is held by the trust. Banks seeking to recover dues by targeting the promoters' personal wealth would find it difficult as it would involve a long and tortuous legal route with an uncertain outcome.

The trusts are structured in a way where the promoter would not be a trustee and hold only 5-10% stake in the family trust.

Even where personal property is put as a guarantee, banks may not be able to acquire these personal assets. A majority stake in the family trust, that owns all personal assets, would now be held by the wife, son, parents and other family members who do not have any stake in the company.

"While family trusts were traditionally created by families that have large real estate holdings, many promoters are now going back to the drawing board and creating these structures. While the motivation for creating the family trusts vary, like succession planning or planning for estate duty (if any), in some cases some promo-

'Protecting' Personal Wealth

What are family trusts



Family trusts are entities where all the wealth is held by the trust



The trusts are structured in a way where the promoter would not be a trustee and hold only about **5-10%** stake in the family trust



Even where personal property is put as a guarantee, banks may not be able to acquire these personal assets

Lenders not taking chances



In some cases some of the lenders have started taking personal guarantees from the promoters not to transfer their property to anyone



oters who have stressed loans are also evaluating such a structure," said Hemal Mehta, partner, Deloitte Haskins & Sells.

A Mumbai promoter of a ₹1,500-crore infrastructure company is creating a family trust. This comes about a year after the infrastructure company's loans started getting stressed. "The fear is that the banks could even attach personal properties," said a tax expert who helped the promoter in creating the trust. The promoter now owns only about 5% in the trust while his family has the remaining stake.

In another case, two Kolkata-based businessmen are creating a family trust. The

promoters — two brothers — own a listed company that has already defaulted on a ₹200-crore loan. Both the brothers are now looking to create the trust and transfer all real estate, gold and other family wealth into it. "Both the brothers combined would not hold more than 10% in the trust," said a lawyer helping the family.

However, in some cases even family structures may not be able to help the promoters, say industry trackers. In some cases some of the lenders have

also started taking personal guarantees from the promoters not to transfer their property to anyone.

"Many lenders while obtaining guarantees are getting declaration from such promoter or a personal guarantor that they will not transfer their declared assets without the permission of lenders," said Vishwas Pathak director of Universal Trustees, a firm that specialises in managing family trusts and corporate trusts.

"Many lenders do not do due-diligence on the assets of a guarantor before they take a personal guarantee," said Anand Desai, managing partner of law firm DSK Legal.

Experts say that traditionally, family trusts were created by old Parsi families in Mumbai. This was mainly done to create a transparent structure around real estate holdings of the family and a smooth transfer of those from one generation to another.

"A family trust is popular because promoters want to make sure that their personal assets are protected from risk. Several promoters are also creating family trusts to have a smooth transition of their business to the next generation and not just to protect assets being taken over by lenders in case a personal guarantee is invoked," said Desai.

Office of the Superintending Engineer,
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ESTATE EQUALIZATION

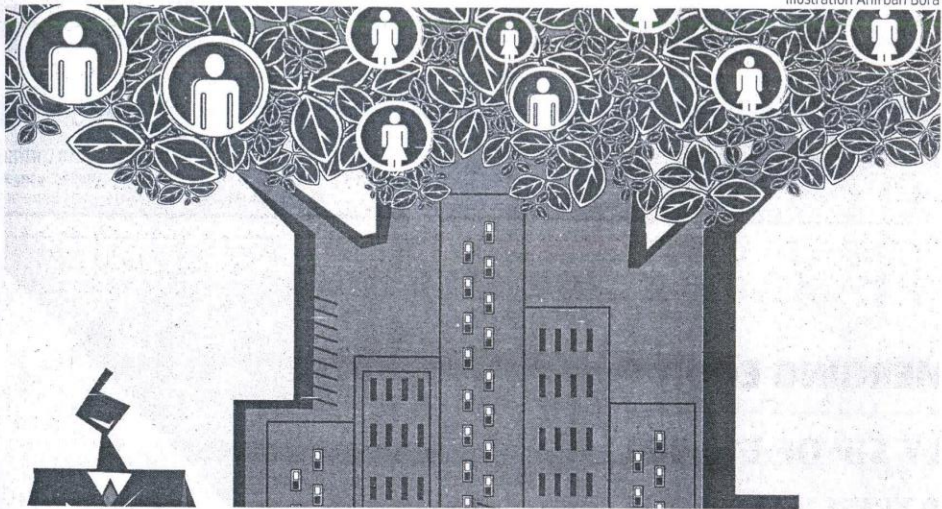
- Will your children be treated fairly in transferring and distributing your estate ?



We, the Family, Do Hereby Adopt this Constitution

Never has the need for stringent implementation of a family charter been as much as in today's world of complex family business ties

Illustration Anirban Bora



Lijee Philip & Kala Vijayraghavan

Increasing complexity in business and a growing propensity for disputes has birthed the concept of a family constitution, but the challenge, experts say, is to stay the course and execute it well.

Recently, a consultant who had set up a family constitution heard from one of the younger members of the clan. It was a complaint on the way a particular vertical was being handled. Surprised, the consultant checked with other family members, only to find that there had been no business and family plans review meetings for a long time, defying basic norms of the charter.

"The journey is difficult and some fall off track," says Vijay Dhingra of Deloitte Haskins & Sells. "Many such families tell us that it is difficult to coordinate and agree to meet on a particular day. The constitution then gathers dust."

But the amalgamation of profession and relations in a family-run business is not

a smooth road. The family constitution — meant to record and formalise evolution of familial wealth, vision, values and ethos over successive generations — fast becomes a compulsion.

In larger businesses, a detailed family charter lays down ground rules to ensure and delineate long-term ownership. It keeps the family together but also provides a mechanism for separation — explaining how the business will be valued and shared with the family member seeking exit.

The Hyderabad-based GMR Group and Delhi's Dabur have been early movers in setting up a constitution. Interestingly, it took the Daburs 18 months to do so. Others such as the TVS Group, Emami, Dr Reddy's Laboratories and Murugappa Group too have put constitutions in place.

At GMR, founder and group chairman GM Rao (60) began work on a well laid-out succession plan, a code of conduct and rules for every family member's entry to the business. With Rao's two sons and son-in-law in the business, it was necessary to build a strong foundation.

Harsh Mariwala's Marico has the options of a 'drop-dead successor' or developing internal talent in its family constitution.

A BUSINESS NECESSITY

With policies and regulations in India evolving in line with global best practices, families are increasingly focusing on how to adapt business plans and ownership structures to this new environment of greater compliance and transparency — catalysing the trend of a family constitution.

Experts say families today are conscious of, say, putting away some assets in bankruptcy remote vehicles or creating structures to legitimately address any potential introduction of inheritance tax.

Varun, son of Vikram Thapar of Thapar Group, entrepreneur and director of KCT Coal Sales, says, "History has taught us that the absence of a framework that defines the parameters of participation in a family business and a clear succession plan are likely to have a negative impact on relationships between family members."

"The current generation of Indian busi-

CONSTITUTION CHECKLIST

There's a whole lot of nitty-gritty that goes into the making of a family constitution

MISSION STATEMENT

- Family goal
- Reason for charter
- Family business goal Role of family members envisaged in the business

FAMILY COUNCIL

Details of eligibility & process for council membership or exit; its chairman, external advisers, non-family members & their responsibilities; marital status of daughters, daughters-in-law; council role, functions and procedure for decisions; meetings, frequency and subject matter; voting, minuting, chairman's veto powers

THE BUSINESS

Leadership, role of family members, external/professional leadership, policies for employment, dividends and voting, large capital investments within existing businesses, JVs, diversification or merger (both internal and external), aspects to be in the memorandum and Articles of family business entities

SUCCESSION

- In ownership
- In leadership positions (day-to-day management)
- Role of each family member with respect to succession
- Role of married daughters and their families (in-laws)

FAMILY MATTERS

Source of income of non-earning family members and personal matters such as marriage, separation or divorce, remarriage, real estate, investments, education, ongoing family expenses and maintenance, matters related to health, emergencies, death, holiday spend, assets such as jewellery, art and artefacts

EXIT STRATEGY

- Method of communicating the desire to exit
- Aspects to be considered by the Family Council on exit
- Valuation of share of exiting family member

ness families has learnt from their western counterparts on how to foster respect and affection between working and non-working family members by implementing strong family governance structures that bring clarity of purpose and intent. These sentiments are essential for the business to run smoothly," he says.

Regulators and equity-infusing investors expect succession to be properly defined to ensure conflicts in business families are urgently addressed. Having a constitution ensures that business and family objectives are well laid out, which, in turn, brings value to the shareholders.

However, its success hinges on how strictly the family head ensures rules and guidelines are followed.

GRUDDING THE RULES

Rajesh Nara in Gupta, managing partner at advocates SNG & Partners, says family members can be uncooperative about meetings and reviews. "Implementation of the family constitution is often a challenge. Not only are there legal hurdles, but the cost element is high, especially in case of assets transfer. Say, a family promoter trying to transfer his real estate to the trust would need to pay stamp duty."

The constitution also leads to creation of revocable and irrevocable trust structures and testamentary wills of family members. In several cases, promoters want to transfer shares of listed companies to the trust, which needs clearance from the capital markets regulator.

With the majority of Indian businesses being family-owned, private equity (PE) investors are also more comfortable with families that have set up the constitution.

Poonam Mirchandani, head of trust & fiduciary services for private clients, Barclays India, says the goodwill and market standing of a family-owned business now depends not only on governance at the corporate level but also on reputation. Hence, solutions that help maintain an efficient balance between the two have become critical.

Recently, a family constitution made it legally enforceable for a mid-sized PE investor wanting to the exit a family business, clearly stating considerations for shares and how it is payable over the next five years.

GAP IN DELIVERY

The charter, feels Barclays' Mirchandani, still lacks an effective implementation and execution mechanism in India. "While a

shareholder's agreement does help achieve delivery of certain aspects of the family constitution, it fails to provide an end-to-end solution."

Now, medium-sized family business owners have begun setting up trusts to bridge this gap in seamless integration with family constitutions. Though not all members will agree with the guidelines, conflicts, at least, can be avoided with regulation, says SNG's Gupta.

Peter Leach, partner, Deloitte, has worked with several successful family businesses. In his book, 'Family Enterprises,' he says the constitution should be regarded as a living document, with a provision to be reviewed every four to five years. There should also be mechanisms for family members to record any concerns before an impending review.

Wealth creation on the back of vibrant capital markets is seeing families struggle with inter-generational wealth and power transfer. The mentality of entitlement by accident of birth has not yet given way to a competence-driven framework.

"One of the ideas we experimented with was a democratic process of election of the next leader," says Shailesh Haribhakti, chairman, Haribhakti & Co, who is a leading chartered accountant and director on the boards of Bluestar, ACC, Torrent Pharma, Ambuja Cements, Future Lifestyle Fashion and L&T Finance Holdings.

However, succession based on flair and competence in family-managed businesses is difficult — also because of societal pressures of marriage ties and expensive international education. "It has therefore become important to provide for lumpy, anticipated expenditure through trusts for specific benefits to specific youngsters. Even insurance products are available to achieve this end," quips Haribhakti.

Many mid-sized families are beginning to hedge against reimposition of wealth and inheritance taxes. Others are planning for serious, organised gifting — often through socially-conscious investing. These activities can be successfully positioned among variable endowed family members, says Haribhakti.

Near-term, ownership with strong governance can be expected to separate from management under intensifying competition and the threat of disruption. Experts feel rewards too will be so structured that sustainability and an integrated way become main drivers of action.



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