News Date: 29-08-17 **Publication**: Mint

Succession plans save business and family

When a business grows, the family grows, and especially when both grow; their continuity demands that assets and incomes be demarcated in a planned manner

BY LISA PALLAVI BARBORA
lisa.b1@livemint.com

iSTOCK

Earlier in August, there were several reports about how the industrialist Vijyapat Singhania—who led Raymond Ltd to become one of India's most popular textile brands, before handing over reins to his son Gautam Singhania—is now left with little money; and the one to blame for his state is, allegedly, his son.

Talk to any estate planner and they might just say: 'I told you so.' Family businesses, thanks to their inherent nature, are prone to internal disputes, especially in matters of succession. These disputes can impact personal funds as well, since the family's fortune and business income are tied. As generations get added to the business, managing succession and asset distribution can become a challenging task. This is true for smaller family-run enterprises as well.

Here are key reasons why you should reconsider a formal succession plan to manage family businesses and joint assets.

Wealth preservation: A family business is typically an enterprise started by one or more members of a family. As the family expands with the next generation coming in, expectations also evolve. Along with that, personal expenses expand. However, there is no certainty that in future the business will continue to generate returns at the same rate. Along with business income, returns from accumulated assets like property need to be distributed to family members as well. According to Sraboni Haralalka, executive director, Wodehouse Capital Advisors, "A formal or informal succession plan ideally divides the assets optimally between inheritors and also puts into place the roles and responsibilities of the heirs to the business. If this is done in an amicable way, keeping all interests in mind and with the consent of all parties involved, it keeps the wealth, family and business together and ultimately paves the way for their growth."

The second generation does not always continue with the family business and a succession plan can address this change too. Since the family relies on business income for personal expenses, conflicts may arise between operationally contributing and non-contributing members. Now add another layer of complexity, the third generation.

According to Sandeep Nerlekar, managing director and chief executive officer, Terentia Consultants, "Lack of clarity in regards to devolution of financial assets and management of business leads to insecurity amongst the family members and could create potential future issues. Many family splits are acrimonious. With a sound exit policy in place, families can save the pain of going through potential litigations."

Court cases among parents, siblings and their children and different branches of the same family are only too common where no formal provisions are in place for a clear succession of business assets and the wealth.

Expectations: While wealth and assets are quantifiable, there is an intangible element to the need for succession planning. Each generation can potentially have a different lifestyle, professional desires and ability to contribute to the business. Nerlekar said, "As part of the overall succession planning exercise, we undertake a survey of all the family members where they have to highlight what is important, and there are various questions asked to everyone. In one such survey we found that while trust and love were the foremost attributes for the patriarch and his spouse, other family members did not trust each other at all. Once identified, we were later able to resolve these expectations smoothly with the family." As successive generations get added, several sub-units are formed. Even if each is involved in the business, the responsibilities may differ and as a result the impact that each member has on the income of the business differs. But the expectation of compensation could be high. At the same time, expenses of each sub-unit in a large family can vary.

Haralalka said, "While the ideal scenario is that all units are treated equally, putting this in place in reality becomes a challenge. Each unit may have different sizes, individual assets and places within the power structure. For one family (the priority) may be paying for a child's foreign studies, while another may have an expensive ailment. Such issues need to be addressed through multiple individual and group meetings and then a solution can be provided."

All this assumes that family members are well intentioned. However, at times there could be cases where greed and power breed ill intentions and lead to feuds among family members.

Creating a formal trust structure is advised by planners to clearly mark out beneficiary rights.

Unseen events: If the head of a business undergoes a serious illness and is unable to contribute, or there is an untimely death, in the absence of a succession plan, there could be chaos within the next generation. While a lot of succession issues can be addressed through actions like setting up trusts, clearly valuing and demarcating assets among members and so on: business continuity requires a capable next generation. Nerlekar cautions, "One of the main issues is that the second generation is not groomed to take over. Often the patriarch does not want to lose control. This lack of preparation can impact the business when something untoward happens." Ideally, ownership should not be transferred completely to the next in line and there needs to be some meritorious grant of responsibilities. Without a succession plan these matters are often left to one person's judgement, which other family members could dispute.

There can be acrimony if a formal process and structure is not in place. An official succession plan prepares business owners and their family members when it comes to handling assets, income and responsibilities; as the business grows and the family expands.

Source: http://www.livemint.com/Money/7s6aDes35AVFaEApPUnomJ/Succession-plans-save- business- and-family.html