FAMILY BUSINESS SUCCESSION PLANNING IN INDIA

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SCOPE OF THE PRESENTATION

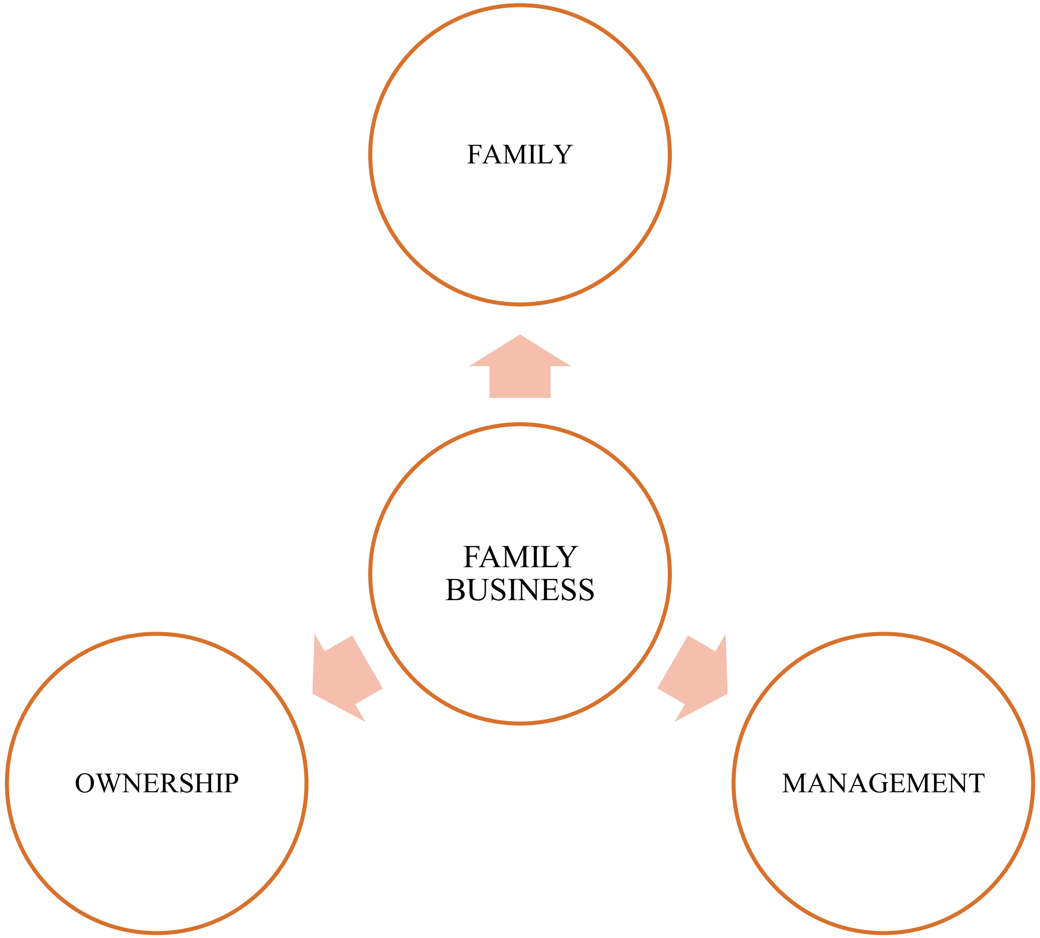
- Introduction
- Family Business: Concept, Objective and Business Models
- Family Business: Advantages & Challenges
- Succession Planning and its Process
- Designing a Family Business Succession Strategy
- Major issues to consider/ take care of while designing a Family Business Succession Strategy
- Succession Planning in different situations
- Trust as a Tool for Succession Planning
- Family Offices
- Family Charter/ Constitution
- Financial instruments in succession planning
- Exit and Entry of New Members in the Family Business: Issues & Proposed Solutions
- Role of New Generation
- Succession Planning Lessons – Tata, Infosys and Raymond
- Succession Planning Case Studies

INTRODUCTION

- The family firms still dominate business life around the globe which are especially important in the emerging markets. Many of the world's largest multinational companies (MNCs) are family influenced (Casillas and Pastor, 2015), and several small and medium sized family enterprises are internationally recognized for their globalization strategies.
- Indian firms, by and large, continue to be family-run. The current composition of the benchmark indicates a majority of family-run companies. The Nifty50 has 31 family-run companies and S&P BSE Sensex has 16. **They contribute 52% and 49% to the market cap of the Nifty & Sensex, thereby highlighting their pivotal roles in cultivating investor culture.**
- India has also seen some very influential families in business. These families have made a lot of difference in the business and industrial culture of the country. These families have existed for over hundred years and have influenced the economic situation of the country like Tatas, Birla's, Bajaj, Adani, Jindals, Reliance, Mahindra, Godrej and Wadia.

CONCEPT OF FAMILY BUSINESS

- A Family business is one that is owned and managed (that is controlled) by one or more family members.
- Family-owned firms are – "organizations where two or more extended family members influence the directions of the business through the exercise of kinship ties, management roles, or ownership rights."



OBJECTIVE OF FAMILY BUSINESS

- Family Harmony
- Perpetuate the business
- Family values, ethics & culture to be the core of Corporate Governance
- Sustained Growth
- Children ambition to fulfill
- Profile and nature of children to take care
- Financial security for retirement/disability
- Financial security for surviving family members

Owners define the value of the company.

Trust between owners and managers

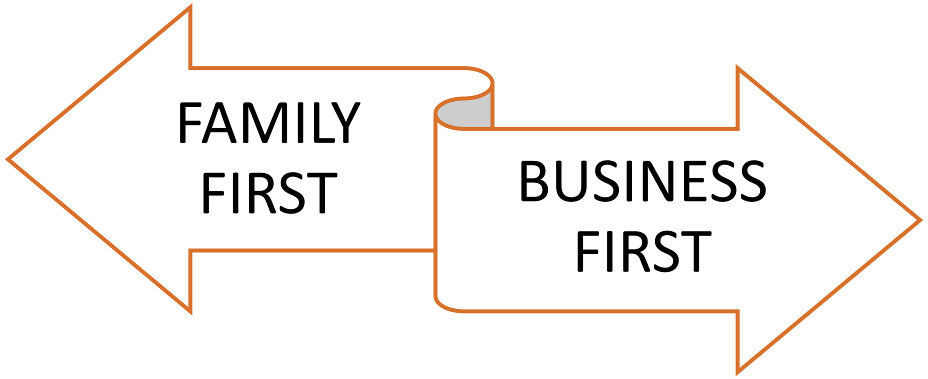
Trust between owners and the Board of Directors.

Family gets an automatic opportunity for management of the business

Entrenchment of management is more common in family business.

FAMILY BUSINESS MODELS

- Business decisions favor equality and unity as fair.
- Differences in contribution aren’t recognized.
- A happy and united family is good for the business.



- Business decisions based on what’s best for the company.
- Professional principles for compensation, promotion and recruitment are seen as fair.
- Caliber of child to consider
- Principles are followed even if it leads to unequal treatment of family members.
- Treatment is fair and just for all stakeholders

ADVANTAGES OF A FAMILY BUSINESS

- **Stability:** Family position typically determines who leads the business and as a result there is usually longevity in leadership, which results in overall stability within the organization. Leaders usually stay in the position for many years, until a life event such as illness, retirement, or death results in change.

- **Commitment:** Since the needs of the family are at stake, there is a greater sense of commitment and accountability. This level of commitment is almost impossible to generate in non-family firms. This long term commitment leads to additional benefits, such as a better understanding of the industry, organization and job, stronger customer relationships and more effective sales and marketing.

ADVANTAGES OF A FAMILY BUSINESS

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- **Flexibility:** You won't hear, "Sorry, but that's not in my job description" in a family business. Family members are willing to wear several different hats and to take on tasks outside of their formal jobs in order to ensure the success of the company.

- **Long-term Outlook**: Non-family firms think about hitting goals this quarter, while family firms think years, and sometimes decades, ahead. This "patience" and long- term perspective allows for good strategy and decision-making.

CHALLENGES FACED IN FAMILY BUSINESS

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- Leadership clarity
- Successive generations:
  - Competence and Commitment,
  - Lack of clear vision and mission,
  - Capacity and capability building in lack of interest in current line of business,
  - Interest in working abroad or in art, sports, culture,
- Assuming that past success will guarantee their future success;
- The legacy value attributed to the business does not translate into a market value or advantage;

CHALLENGES FACED IN FAMILY BUSINESS

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- Lack of motivation for professional managers;
- Lack of liquidity;
- Professional management may feel subservient to family's interest;
- Quality of family governance determines the corporate governance;
- Lack of clarity on ownership and the financial position of non-listed family-controlled holding companies are material credit weaknesses;
- Inadequacy of mentors and succession planners

PREVALENT CONFLICTS IN FAMILY BUSINESS

- Emotional Concerns versus Business Performance
- Family Needs versus Business Demands
- Desire for Stability versus Change
- Justice Conflict
- Work-Family Conflict
- Role Conflict

PREVALENT CONFLICTS IN FAMILY BUSINESS

- Identity Conflict
- Succession Conflict
- Financial Interest Conflict
- Unethical practices to divert funds by family factions
- Lack of time and devotion
- Issues with respect to money contribution

SUCCESSION PLANNING

Succession Planning is a formalized process to successfully transfer company leadership from Current Management to Successor Management. It is designed to ensure the ongoing viability of the company.

SUCCESSION PLANNING PROCESS

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Determine how the succession planning **process** will work including a communication plan

Consider the view of the Current Management including **objectives, timing** and personal matters

Determine the **financial needs** of the Current Management who is retiring and the viability of the business to support those needs

Consider the **potential Successor** Management including capabilities, comfort with supervising former peers and role acceptance

Understand the **family members role** in the company including those outside the business and future family members

Maintain a process which provides for **periodic reviews** to determine viability of the Succession Plan including after the plan is in place and is being executed

Incorporate an appropriate methodology for **transferring wealth** in accordance with current shareholders' desires

DESIGNING A FAMILY BUSINESS SUCCESSION STRATEGY

- **<u>TREAT SUCCESSION PLANNING LIKE IT IS URGENT</u>** - A family business ignoring its succession plan is akin to a 30-year-old worker ignoring his retirement plan. Both events (succession and retirement) seem like they are a long way off, but the reality is that ignoring the early years can lead to major problems down the road
- **<u>PLAN FOR A PROCESS, NOT AN EVENT</u>** - Succession process require a lot of planning and preparation. Business owners should concerned about generating adequate financial returns; Having sufficient trust in potential successors; and Receiving enough interest from potential successors to take over the business. One should also figure out the legal and tax issues associated with succession.
- **<u>FAMILY VALUES</u>** - Family values are more than a slogan. During times of conflict or struggle, the leadership and family employees will rally around the family values, using them as a guidepost for making tough decisions. Succession planning should be an opportunity to create a compass that a family gets to carry from generation to generation.

DESIGNING A FAMILY BUSINESS SUCCESSION STRATEGY

- **HOLD MEETINGS AND DISCUSS SUCCESSION** - The process of Involving and communicating with family members no matter which generation they belong to are the immediate contributions to the firm.
- **DEVELOP A WRITTEN FAMILY CONSTITUTION** - The best way to cement a succession plan is to construct it in conjunction with a written family constitution. The constitution serves two functions:
  - It acts as a governing document that promotes ongoing family business continuity.
  - It defines and emphasizes family values.

DESIGNING A FAMILY BUSINESS SUCCESSION STRATEGY

- **EDUCATE YOUR FAMILY -** Education is the foundation of a successful transition. Without training and learning, people struggle to contextualize what they need to do in the succession process. A family must be capable enough to perform the following tasks:
  - Meet challenges, Opportunities harnessing, vision, initiative, business acumen,
  - Handle conflict, whether for family or business reasons and accept positions of responsibility in the company;
  - Act as advocates for the business no matter their present responsibilities; and
  - See the family business as a living legacy, with an interconnected past and future.

MAJOR ISSUES TO BE TAKEN CARE OF…

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- **Minimising disputes**
- **Distribution**
- **Best channels and costs**

How family structure in proprietor and partnership can converge into companies without disturbing their succession plans

Tax and stamp duty impact

*On owner name change

*On transfer to another entity

*Transfer of subsidiaries to separate successor

MAJOR ISSUES TO BE TAKEN CARE OF…

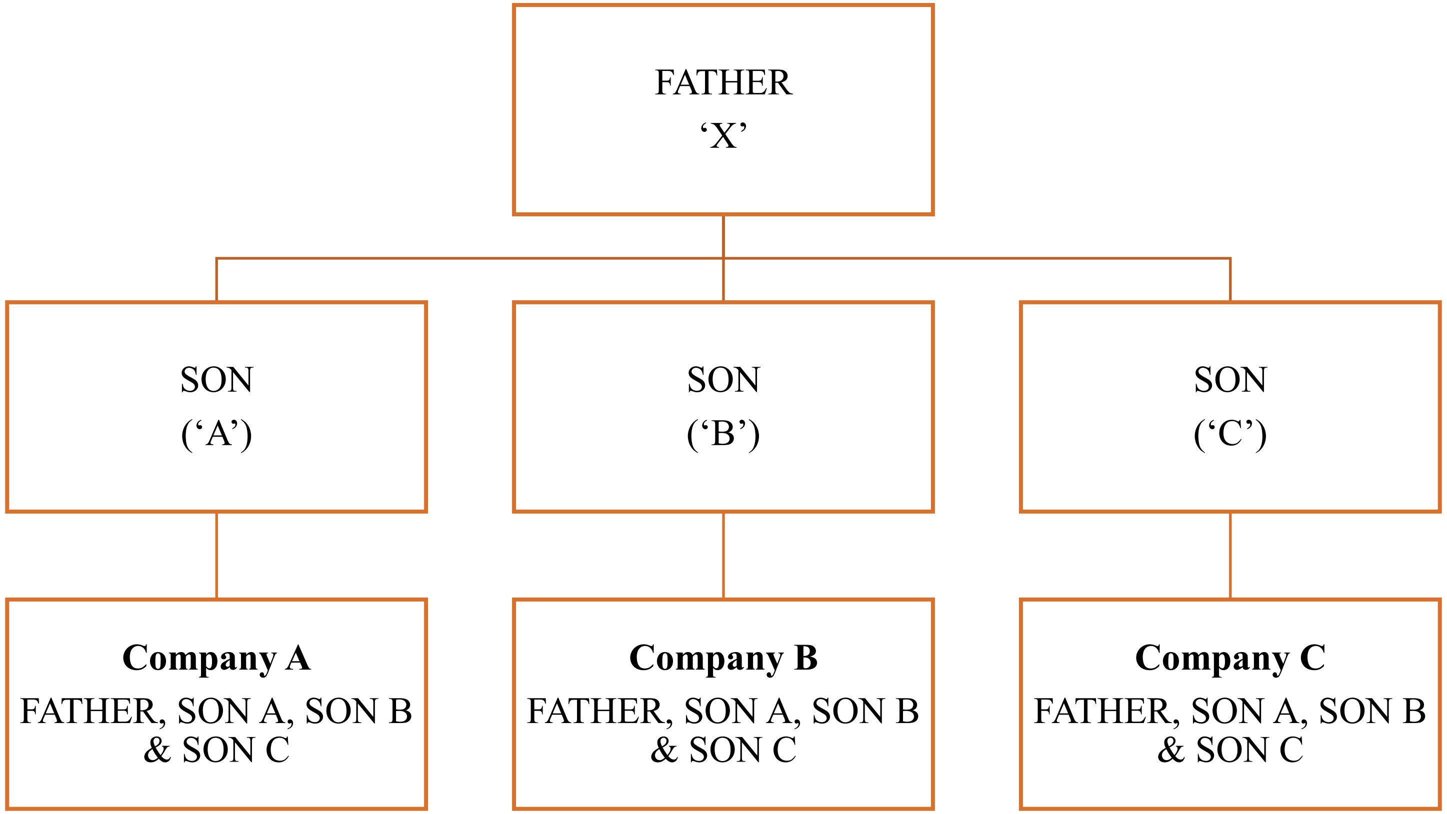
CROSS-HOLDINGS IN FAMILY ENTITIES

How to value, re-distribute the share after liquidating part of business

Buying and selling of businesses by unorganized structures in crisis time

MAJOR ISSUES TO BE TAKEN CARE OF…

CROSS-HOLDINGS IN FAMILY ENTITIES



MAJOR ISSUES TO BE TAKEN CARE OF…

DISTRIBUTION OF ASSETS AND ALLOCATION OF SURPLUS

- There should be normally no distribution of Business Assets among family members during the continuance of Business
- In case , withdrawal of one's own share is permitted, it should be allowed in a planned manner
- Different branches of family may have tendency to draw more and more
- In case of business need, the different branches of family to be mandated to contribute or the resultant change in ownership and profit ratio need to be planned in advance.
- Business Assets should not be diverted or utilized for the social/ personal purpose of the family

ALLOCATION OF DUTIES & RESPONSIBILITIES

This decision should be taken carefully keeping in mind the interest of the business professionally keeping in view the :

- Education
- Capability
- Interest in specific area of activity
- Experience
- Business interest and actual performance

It is important for family leadership to communicate with clarity about Duties and responsibilities

MAJOR ISSUES TO BE TAKEN CARE OF…

APPROPRIATE CHECKS AND BALANCES

- Clear fiduciary obligations of Management towards:
  - minority shareholders
  - those not in day to day governance
- Board of Directors with appropriate blend of independent directors, prepared to guide the family Directors, where necessary - Risk of destabilization of control to balance.
- To take cognizance of culture of shareholders activism, with a supporting media and financial environment, able to shake up poorly performing companies - electronic voting and E AGM impacted dynamics.
- Regulatory framework

MAJOR ISSUES TO BE TAKEN CARE OF…

CLAUSE 49 – APPLICABLE TO LISTED COMPANIES

Board Composition

- At least 1/2 the Board should consist of non-executive directors
- If the chairman is an executive director, at least 1/2 the board should be independent directors (otherwise 1/3)
- At least 4 board meetings per annum
- Specified information to be presented to the Board- clear Board responsibility

Audit Committee

- Qualified and independent audit committee
- At least 2/3 members & Chairman – Independent Directors
- At least 4 meetings per annum
- Role and powers of the Audit Committee comprehensively defined

SUCCESSION PLANNING

Alternative I: Segregation Between Ownership & Management

Alternative II: Creating a Trust and transferring the Business to the trust. Thereafter, appointing the professional, unbiased and capable trustee to manage the business on behalf of the beneficiary children.

Alternative III: Corporate Culture - Shareholding to decide Board Seats

Alternative IV: Offload the Business - (Unleash Value like Ranbaxy)

SUCCESSION PLANNING IN DIFFERENT SITUATIONS

DAUGHTERS AS SUCCESSORS

- In the past, family business owners were more likely to see their sons as successors and that situations where daughters were identified as successors tended to be limited to those generated by a crisis in the family or business.
- The above led to less access to training, qualifications, and networking opportunities to daughters than sons and that sons were viewed as the "designated heirs" to the business.
- In today's scenario, various family business are opting to give equal share in ownership and management to daughters as well.
- **Apollo Hospital** , India's largest hospital chains, established by Dr. Prathap Reddy is currently being run by his four daughters, The Reddy sisters – Preetha, Sangita, Sunita and Shobhana, are all serving as directors in the Apollo Hospitals.
- Mcorp Global, which is run by **B.K. Modi,** has decided to flag off Spice Global and offload stakes to his son Dilip and daughter Divya.

EXIT AND ENTRY OF NEW MEMBER IN THE FAMILY- ISSUES

Entry and exit to and from the family business is often one of the most caustic and stressful decisions that the current generation can make to decide. Some major issues that are always in conversation are hereunder:

i. **Whether birth right is an entry criterion into the family business?**

ii. **Should there be a professional exercise of judgement based on Capability requirement?**

iii. **Whether incoming family members should have outside experience before joining the business?**

iv. **To whom family members joining the business should report in initial 5 years?**

v. **To provide adequate incentive to next generation to join family business and freedom to self actualise**

vi. **To determine when and how the current generation leadership will transition out of the business gradually?**

EXIT AND ENTRY OF NEW MEMBER IN THE FAMILY- PROPOSED SOLUTIONS

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- In case of **SRF Ltd.,** Ashish Bharat Ram MD of SRF Ltd., he and his brother Karthik were exposed to the business and were groomed by their father. He worked very closely with the professional CEO and CFO to learn and get a deeper understanding of the financial and operational aspects of the business. His father was always very supportive and he groomed and nurtured them. In 2007, he paved the way for Ashish Bharat Ram to become the CEO of the company.
- In case of **DCM Shriram**, before Vikram, Ajit and Ajay took up management roles, they worked at the manufacturing plants. The very experience of working at the factory, sharing meals with employees and getting to know their people helped them understand the fabric of the business and the aspirations of the employees. When they got the opportunity to lead, they drew upon the wisdom of the professionals and the chemistry between them and the professionals paid off in the long run.
- In contrasting case of **NR Group**, The earlier generation told the incoming generation that **'you help us structure our exit rather than we structure your entry.'** Similar to how Ranga transitioned the business, Arjun's father retired and took a back seat. He took a minority share in the company and transferred half his shareholding when Arjun joined the business and did the same for Arjun's brother as well. This gave both of them tremendous confidence and belief. They both also have a similar plan and have clearly articulated a phase-wise transition of shareholding to the fourth generation to encourage them to join the business.

ROLE OF NEW GENERATION

The next generation play different roles in a family business:

- **Stewards -** focus on protecting the profitability of the family business and ensure its long-term sustainability
- **Intrapreneurs -** set up their own venture within the family business, often with the backing of family
- **Transformers -** look at driving change in the firm towards sustained growth
- **Entrepreneurs -** set up their own venture outside the family firm Irrespective of the role they play, the next generation have a clear vision and strong ideas of how they will contribute — either from within or outside the family business.

NEW GENERATION & ENTREPRENEURSHIP

- **<u>Bhavin Bhagat</u>, the founder of Indiabizforsale,** after completing his Executive MBA from UK and gaining professional experience returned to India and refused to join the decades old pharmaceutical business with a turnover of over Rs 18 crore. He instead invested his capital to start his own online platform for business transactions. According to him, his family business was a 'Me Too' business with increasing competition, while he had discovered a wider gap in the market, which he wanted to address. Besides, he did not want to enter a business having several partners.
- **<u>Nishank Shah</u>, an alumnus of EDII**, dropped the idea of joining family business of real estate construction running since 1975 with an approximate turnover of Rs 20 crore and started Duro Green, a company into manufacturing of composting machine. Nishank wanted to do something different and did not want to continue with the traditional business.
- **<u>Faraz Wadhwania</u>** left his family business, recording Rs 150 crore turnover, to start JnF Grenergy Pvt. Ltd., only to follow his passion of doing something for the society, a flexibility which he could never get in his family business. There are several other such cases where the new generation has restrained from joining the family business and followed their own instincts.

Goldmedal Electricals

- Kishan Jain's grandfather Otmalji Goraji, along with his son and Kishan's father, Jugraj Jain, started trading in electrical switches and wires in a small shop in 1979 under the name **Goldmedal Electrical,** with a capital of Rs 2.5 lakh.
- In 1998, Kishan completed his graduation and joined his father in the business. Goldmedal underwent a radical transformation when the second-generation leader came on board. His foresight of investing in the expansion and modernization of the company and infrastructure led to rapid growth in the product portfolio of the company.
- In 2001, the company began manufacturing polycarbonate switches and launched a series of 3-Magic, which soon gained prominence in the southern market, including Tamil Nadu and Kerala. A few years later, Kishan's brother, Bishan Jain, also joined the family business, and since then, there has been no looking back.
- The company now has 20,000 dealers base across the country and employs more than 1,000 people in its company. The company vies with the likes of **Legrand and Panasonic, and has recorded Rs 1,400 Crore turnover** in 2019.

FAMILY OFFICES

- The concept of a ‘family office’ includes:
  - what a family office is,
  - why one is established,
  - how one can be structured,
  - what services and
  - benefits it can provide - is still relatively nascent in India.
- In its simplest form, a family office is a private office for a family with considerable wealth.
- Some of its functions include, but are not limited to, wealth management, investing, managing corporate and family governance issues and performing administrative and concierge duties. .

FAMILY OFFICES

- While there is a rich history of entrepreneurialism and family business in India, family offices remain a fairly new entity. Traditionally, Indian families have kept tight control over their family businesses, investing and re-investing profits back into operations and buying up public shares to ensure that they maintain close control over the business. Diversity has primarily been done through subsidiaries of the family business with little appetite being shown for risk, despite the potential rewards.

- However, the rapid expansion of ultra high net worth individuals in India has led to a growing appetite for more efficient, effective and prosperous ways to invest money and manage assets. Fueled by global trends and a desire to further professionalize a family's practice, families of great wealth are starting to set up family offices as vehicles through which they can invest their wealth into different asset classes such as equities, private equity, real estate, fixed income and hedge funds.

FAMILY OFFICES

- The number of staff working within a family office depends on the type of family office it is and the services it provides. Thus, family offices can vary from just a couple of members of staff to 100 or more.
- Families are increasingly setting up single family offices as they offer more privacy and independence
- Employing investment professionals who are savvy and skilled at operating across the different asset classes enables families to flexibly navigate changing tides, both in pursuit of alpha and when needing to balance high and low risk investments. This enables families to not only preserve but grow their wealth for current and future generations.
- Given the relative newness of the westernized model of family offices in India compared to Europe and the United States, which have housed family offices since the 19th century, this presentation uncover where India currently resides in its private wealth management evolution.

WHO ARE ULTRA HIGH NET WORTH INDIVIDUALS ('UHNWI')?

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- Increasingly, India's rapid increasing population of UHNWIs have started to set up their own family offices to manage and grow their wealth and create a lasting legacy for future generations.
- The tide turned when Uday Kotak, the eight- richest person in India, announced last year that he was setting up a family office to invest his $10bn fortune. Up until then, India's wealthy preferred to reinvest any profits they made back into the family business. Avoiding risky ventures was the rule.
- However, this boom is still in its early stages. There are only around 45 family offices in India. That figure is a far cry from an estimated 5,300 single family offices worldwide, according to the *Family Wealth Report 2018: a Roadmap for the Indian Family Office* published by Campden Research in partnership with Edelweiss.
- "*The rapid extension of UHNWIS in India has led to a growing appetite for more efficient, effective and prosperous ways to invest money and manage assets*," the report said.

RANGE OF SERVICES OF FAMILY OFFICE

Investments
- Analyse market outlook
- Investment management
- Due Diligence
- Governance

Compliance
- Tax planning and returns
- Insurance
- Property management

Enterprise
- Operate Family Business
- Manage real estate
- Business governance Philanthrophy

Operations
- Recordkeeping
- Reporting
- Bill management
- Property management

Legacy
- Family vision and charter
- Strategic planning
- Family governance
- Education plans

Succession
- Create estate plans
- Serve as trustee
- Organise training
- Leadership succession planning
- Wealth transfer planning

Technology
- Network/ IT support
- Cybersecurity
- Account and investment systems
- CMR, Document management & Reporting

RANGE OF SERVICES OF FAMILY OFFICE

FAMILY CONSTITUTION AS A TOOL FOR GOVERNANCE

The Family Constitution or protocols enable transition from ‘family business’ to ‘business family’. The Constitution documents the family’s understanding and the rules defining:

- Family values, vision and objectives
- Business relationships
- Roles, responsibilities and authorities
- Boundaries between family and business

Only 15% of family businesses have a robust, documented and communicated succession plan. A clearly documented Family Constitution brings clarity, strengthens cohesion, minimizes conflicts and drives a family towards achieving a common purpose. It brings governance into the family and ensures long-term sustainability of the family business.

FAMILY CONSTITUTION AS A TOOL FOR GOVERNANCE

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- The building of the Constitution is a consultative process between current and incoming generations. It is created with a spirit of fairness and has the buy-in of all family members. The process encourages open communication, unearths concerns and unresolved issues, which have not been addressed and pre-empts issues on transition from one generation to the next.
- The Family Constitution should broadly lay down rules on succession of ownership and management, decision-making process, induction of family members into the business, role assignment and membership of various business and family forums. The Constitution helps create a structure and increases bonding among family members.
- The basic principles and guidelines set forth in a Family Constitution is expected to continue for generations. However, with changing times it is also necessary to revisit and review the constitution and refresh values and philosophies every 5 to 10 years.

FAMILY CONSTITUTION: MAIN ASPECTS

Vision Statement
- Ownership Philosophy
- Family vision, mission and values
- Business vision and mission

Family Ownership and Structure
- Ownership of Shares
- Holding entity structure
- Who can or cannot become a shareholder
- Governance of owners & shareholders
- Role and responsibilities of ownership council of shareholders assembly
- Decision making and voting

Family Council
- Role and membership

Family Representation on Boards
- Board Structure (family and non-family directors)
- Election process, terms of office
- Appraisal and remuneration of board of directors

Family employment policy
- Criteria for family employment
- Family personnel committee
- Appraisal, progression and remuneration

Investments by Family Members
- Restrictions on Investment
- new business – personel v. family

FAMILY CONSTITUTION AS A TOOL FOR GOVERNANCE

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Family Office

- Types of Family Office
- Services – administrative or concierge and investments

Conflict Resolution

- Mechanism for resolving conflicts
- Conflict Resolution Committee

Exit Policy

- Mechanism and process of exit
- Valuation Methodology

Next Generation Committee

Philanthropy

Dividend Policy

Shareholders Obligation & Code of Conduct

HEMAS GROUP:

WHAT IS BEST FOR THE BUSINESS IS BEST FOR THE FAMILY,

LET'S NOT MAKE A TASTELESS CONCOCTION / BUSINESS COMES FIRST.

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- Formed in 1948 by Sheikh Hassanally Esufally [Grandfather]. He set up his own business after moving out of the existing family business. [Exited for Entrepreneurship]
- By the 1960s, the second generation, comprising his four sons, joined the business and continued the entrepreneurial spirit to develop and expand the business and by the 1970s and 80s, the third generation were ready to come in and make their own mark.
- Going public and professionalizing was not a vision shared by two brothers and in 2000 they sold their share to the third generation—Abbas, Imtiaz, Murtaza and Husein in equal proportion.
- Abbas was the first third-generation Esufally to join the business in 1977. In 1981, his younger brother Husein joined Hemas. The family policy at the time was to train younger members ‘on the go’. In 1984, Imtiaz joined the business and Murtaza followed in 1992.
- In 2001, Husein was appointed as the Group CEO and the other members of the family took on the role of driving different verticals of the business. In 2003, with the objective of sustaining the business, they embarked on a journey and successfully took the company public.

HEMAS GROUP:

WHAT IS BEST FOR THE BUSINESS IS BEST FOR THE FAMILY,

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- They recognized early on that they, as family members, can drive things only to a certain extent and taking the company public automatically brought in a certain level of professionalism. They had an independent Board and any differences of opinion within the family, was aired in a Board meeting, which helped them to take decisions in a rational manner.
- They understood early on the importance of the external dimension brought in by professionals and appointed an external CEO. They became stewards to ensure the future success of the family business.
- Hema's Holdings' second transition was appointing a Chief Executive in 2014 who, for the first time, was not from the controlling Esufally family. When the leadership team is in place, convincing the patriarch to let go is the second challenge. Even when they have resolved to leave, founders often dawdle on the way out. They find that passing the burden of management was easier than completely fading away from a firm that they built.
- The maxim that '*family money does not pass to a third generation*' wasn't something the four cousins needed to be told. They wanted to be able to sustain the company; and felt that, once it grows, it will benefit a far wider set of stakeholders than just the immediate family.

HEMAS GROUP:

WHAT IS BEST FOR THE BUSINESS IS BEST FOR THE FAMILY,

LET'S NOT MAKE A TASTELESS CONCOCTION / BUSINESS COMES FIRST.

- The answer they realized for effective governance of the business was a family charter or constitution— establishing family protocol– as far as the governance of the business was concerned.
- "*When there are conflicts, to have a mechanism of resolving them is very important*," explains Husein about the family constitution adopted by the Esufally family in 2013.
- The constitution also gives the next generation, who may not fully appreciate the evolution process, a perspective of how things need to be done.
- The family constitution moderates that sense of entitlement, in that you have to earn your way into privileges.
- The family constitution also establishes what is referred to as a 'Family Business Board'. The business board has fewer participants than does the family council but requires of it complex outcomes. Currently, the business board comprises five members: the third generation Esufallys and an independent member, Chandima Gunawardena.

HEMAS GROUP:

WHAT IS BEST FOR THE BUSINESS IS BEST FOR THE FAMILY,

LET'S NOT MAKE A TASTELESS CONCOCTION / BUSINESS COMES FIRST.

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- The key objective of the family council is to ensure that we look after the interests of the family, irrespective of the business. Family council members don't necessarily automatically gain an official role in the business. Fourth generation members' spouses will also become family council members.
- Family interests include education, health and engaging family members to better understand, appreciate and adhere to family values. The constitution, of which the 'family council' is a key component, addresses three broad areas—the importance of family, the company (Hema's) and their values.

"Professionalizing the business is something the entire family needs to buy into and it cannot be just one person's vision. It is a journey, and we decide, which direction the family wants to head towards. As a family we understood that every business is unique and there is no 'one size fits all'. Our underlying principle is that 'business comes first' and this principle drives all our decisions."

CORPORATE RESTRUCTURING: WHY RESTRUCTURE?

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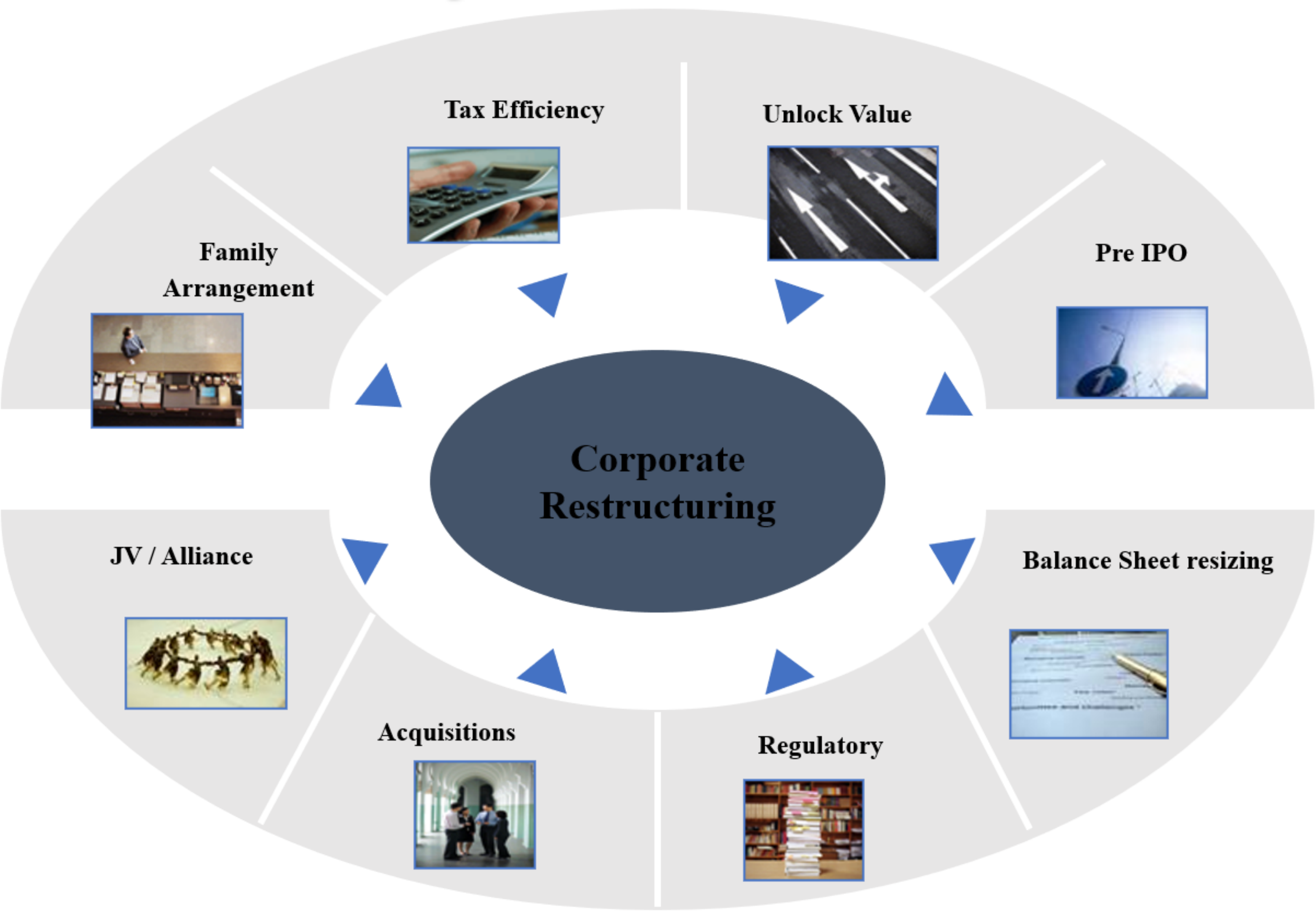

CORPORATE RESTRUCTURING: DRIVERS OF RESTRUCTURING

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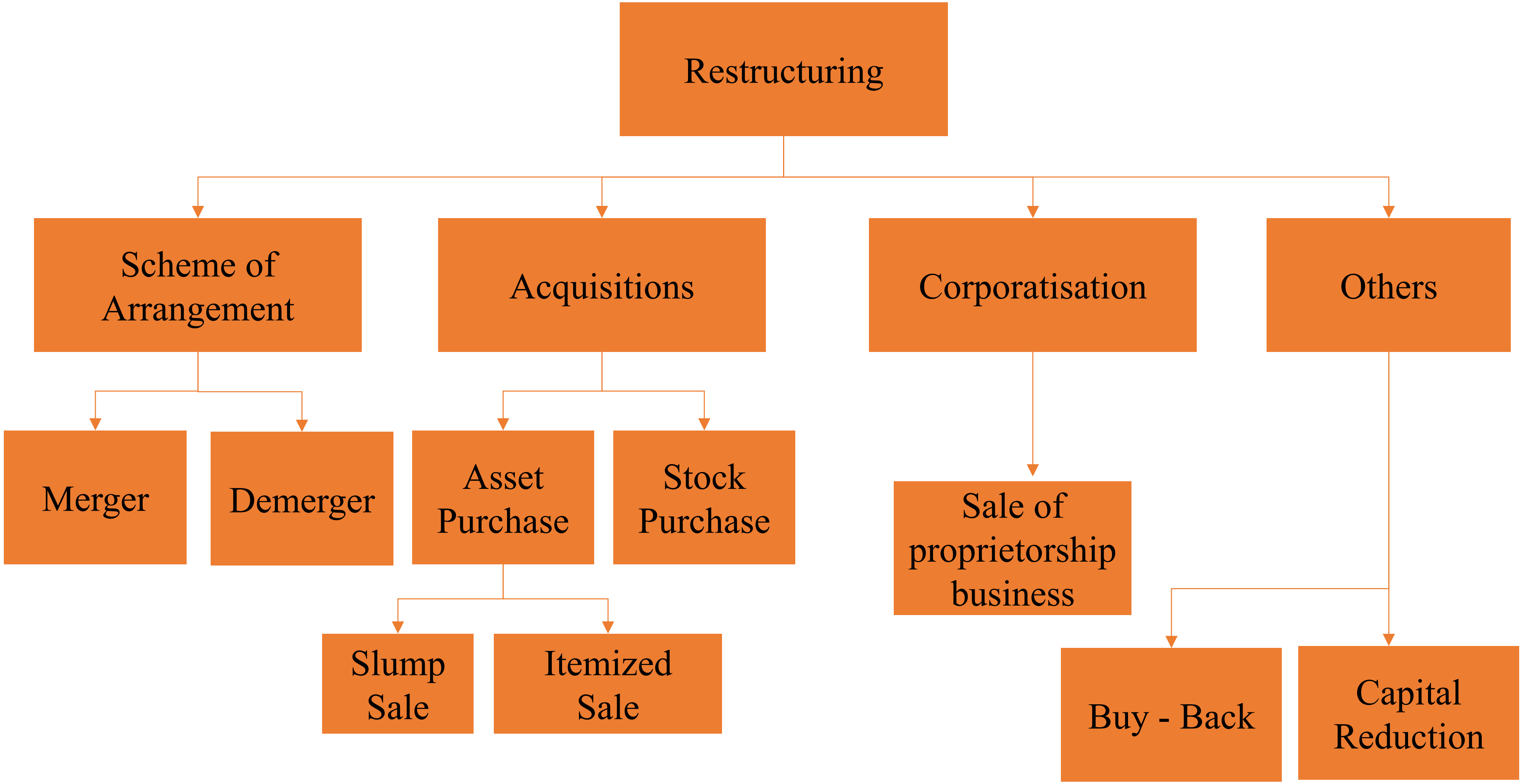
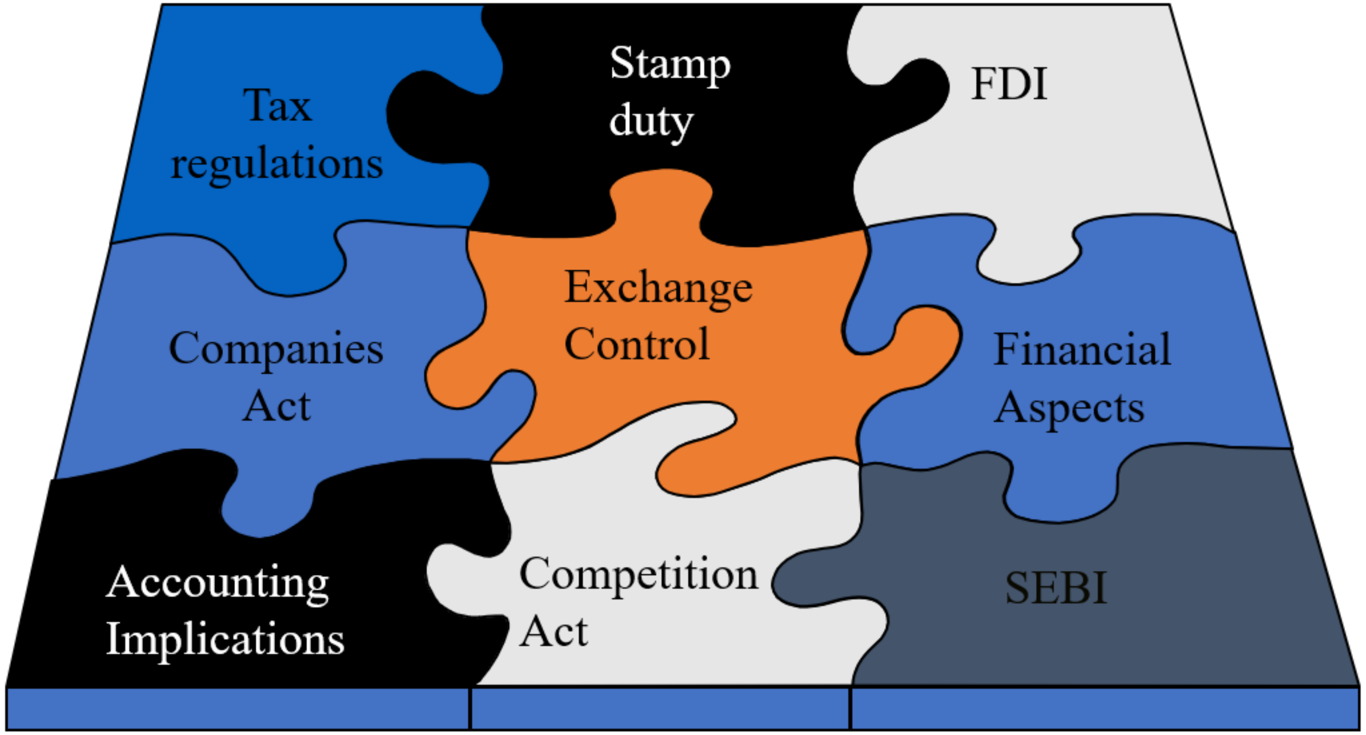
CAUSE	EFFECT
Multiple corporate layers	Collapse
Promoter holding Low	Increase
Tax losses	Efficient utilisation
Cash to promoters	Upstreaming
Similar businesses	Consolidation
Unrelated business	Sale/ Hive-off
Brand value/ value of Intangibles	Creating/ Enhancing
Worthless assets/ Book losses	Rightsizing Balance Sheet
Pre - IPO	Restructuring
Recording assets at Fair Values	Restructuring
Highly capitalized Balance sheet	Capital reduction

CORPORATE RESTRUCTURING: MODES OF RESTRUCTURING



CORPORATE RESTRUCTURING: ASPECTS AND ISSUES



Financial, Accounting and Tax Aspects lead to Restructuring Decisions

Multiple laws affect the business reorganization

CORPORATE RESTRUCTURING: MERGER

A merger involves the union of 2 or more legal entities into 1 legal entity accompanied by pooling of all financial and other resources of the entities.

Types of Mergers

- Horizontal
- Vertical
- Conglomerate
- Forward
- Reverse
- Triangular

Key Drivers

External

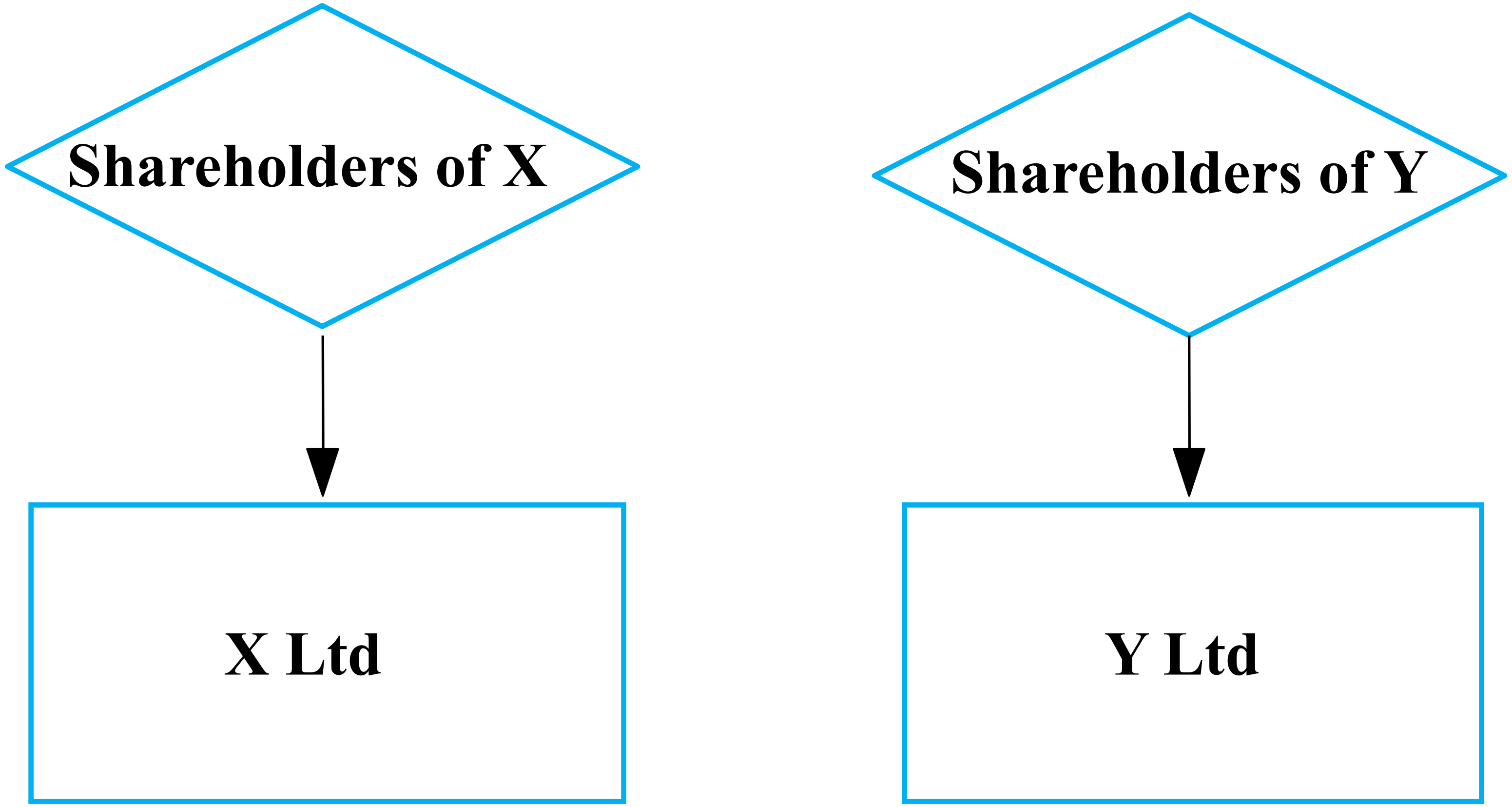
- Acquisitions
- Takeover of a sick entity

Internal

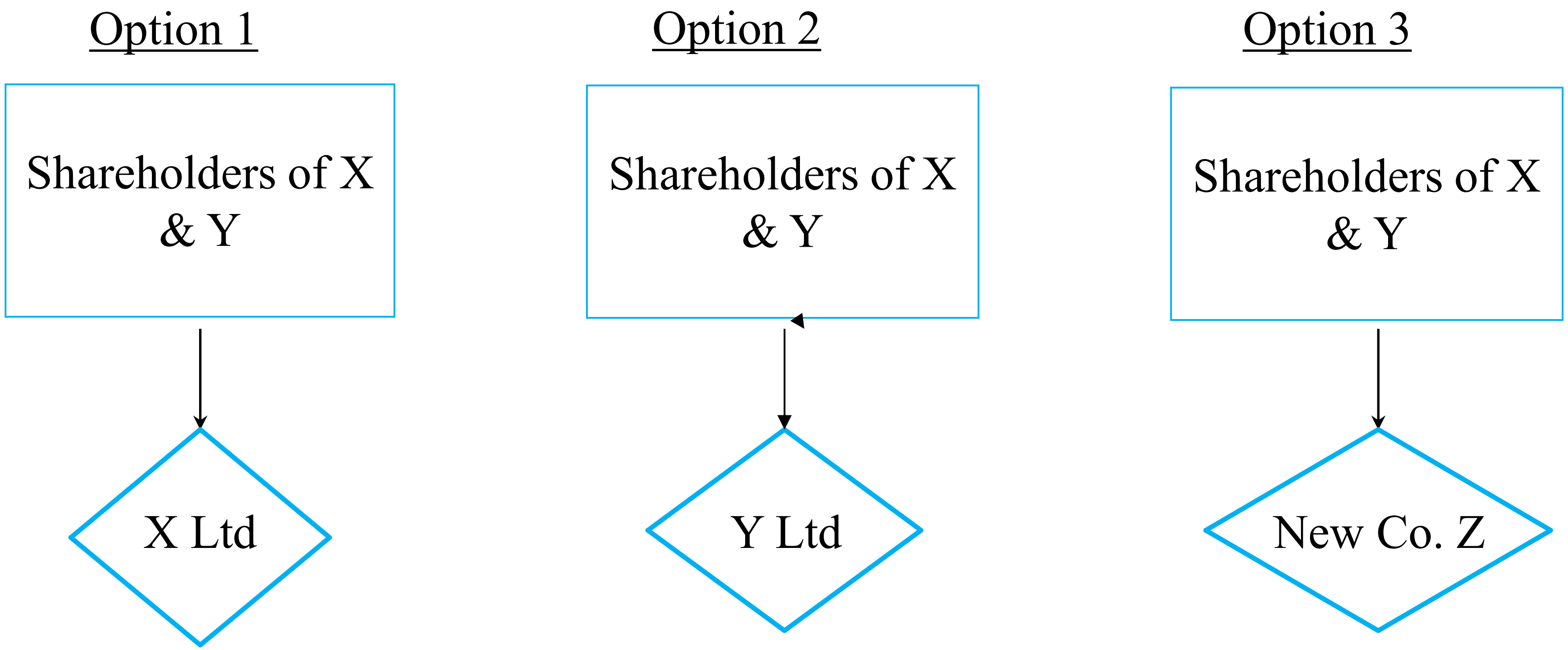
- Consolidation of Operations
- Consolidation of Promoter holdings

- Tax savings
- Eliminate multiple layers of holdings
- Eliminate companies who have outlived their utility
- Bal. sheet right sizing
- Automatic Listing of Co - Reverse Merger

CORPORATE RESTRUCTURING: BEFORE MERGER



CORPORATE RESTRUCTURING: AFTER MERGER



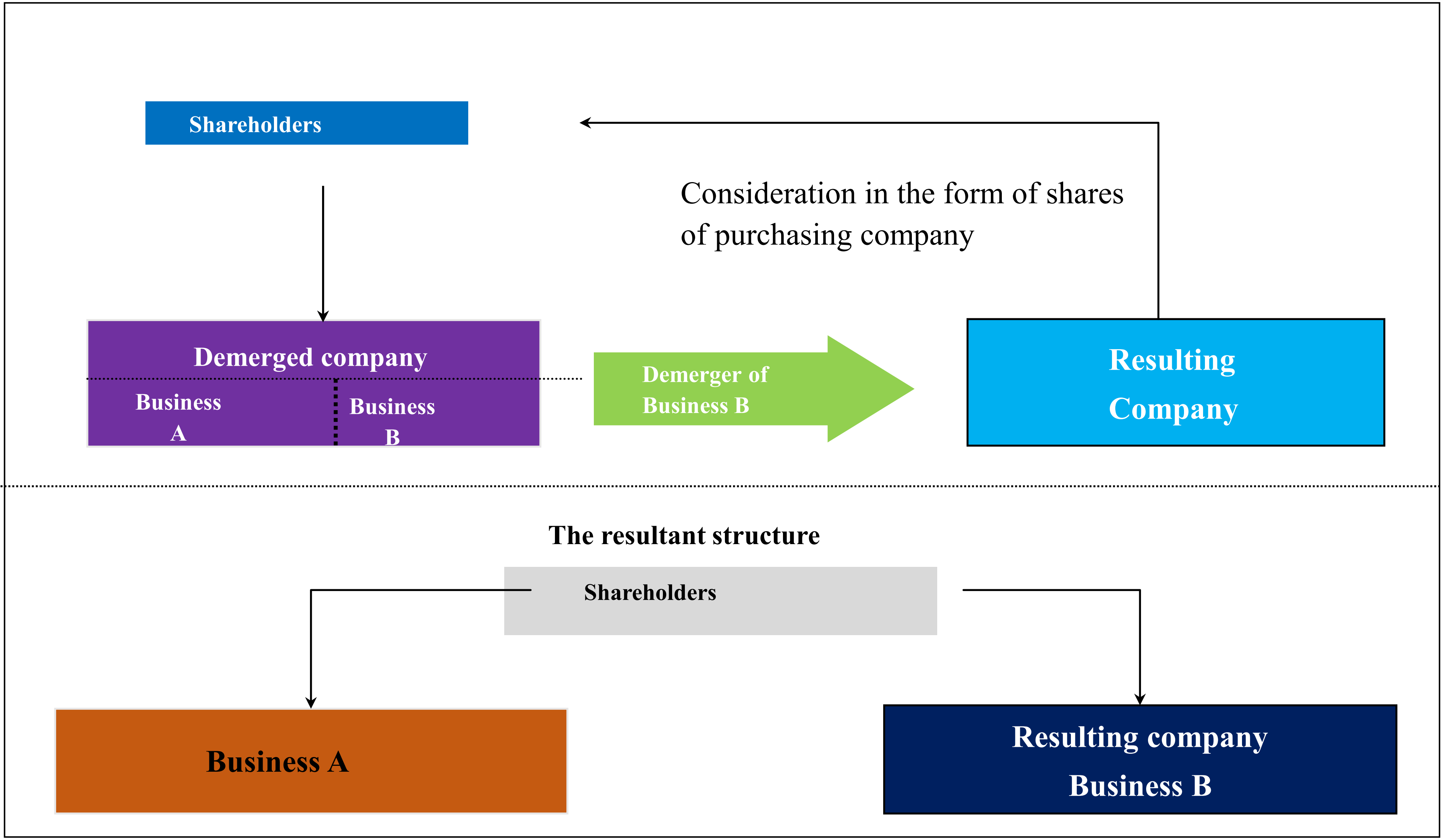
CORPORATE RESTRUCTURING: DEMERGER

Demerger involves transfer of identified business from one company to another and in consideration, the company which acquires the business issues shares to shareholders of the selling company.

Key Drivers

- Overall lower market capitalization of diversified companies
  - Diversified business operations, without synergies, impact the market valuations as compared to pure play companies
  - Management focus and attention gets spread
  - Strategic investor may not be willing to invest in a diversified company with unrelated business
- Value unlocking for the shareholders
- Family Separation

CORPORATE RESTRUCTURING: DEMERGER



CORPORATE RESTRUCTURING: BUY-BACK

One-time returns
- Equity no longer a permanent liability
- Cyclical businesses

Undervalued share
- Book value significantly higher than traded price
- Shore up/ support stock price

Capital management
- Reduction in cost of capital (falling interest rates)
- Return surplus funds to shareholders

Consolidation
- Fend off hostile suitor
- Decision making freedom through greater control

Improved financial parameters
- Improved ROCE, RONW, EPS
- Improved market perception and share price in the long run

Signaling effect
- Sign of management confidence
- Infuse fresh liquidity and renewed trading energy

Exit route
- To common and institutional investors
- Perceived attractiveness for stock in the market

CORPORATE RESTRUCTURING: SUBSIDIARISATION

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Holding Company

Book values or fair values

Transfer of business

WOS

Subsidiarisation means transferring of business to its WOS

Why Subsidiarisation

- No designated buyer to buy all the assets at the desired time
  - Under this option business gets transferred to a subsidiary and the parent company continues to hold 100% equity stake in the subsidiary
- Helps in disinvestment of shares

- Helps in shifting of control of business from the shareholders of the holding company to the holding company

SUCCESSION PLANNING LESSONS
TATA – INFOSYS – RAYMOND

TATA, Raymond and Infosys have more than 30 to 100 years of legacy. They have contributed to the economy and job creation in the country in a significant way. Currently all the three are facing issues and criticism in reference to their succession planning. While all businesses go through the cycle of profit & losses, succession is an important and critical part of the Business planning. Although the most obvious, this has been a challenge for many.

The same issues existed back in the days of Ramayana and Mahabharata. Kingdoms were destroyed because of succession issues. Brother killed a brother, son imprisoned the father and less deserving son was made a king. We have read many such stories and yet refuse to learn or adapt.

LEADERSHIP & ITS ACRIMONY
TATA

- Founded by Jamsetji Tata in 1868, the Tata group is a global enterprise, headquartered in India, comprising of over 100 independent operating companies & present in more than 100 countries. Tata Company's revenue is at $100.39 billion and the group collectively has employed over 695,000 people.
- In 2005, the board increased the retirement age of non-executive directors to 75, ensuring that Tata would be in office till 2012. And finally, when he packed his bags at Bombay House and handed over the baton to Cyrus Mistry, it was only to return four years later in 2016.
- Mistry was not hands-on with most group businesses as being the group chairman is a different ballgame altogether from being a board member. In contrast, Ratan Tata joined the group in 1962 and became its chairman only about three decades later, in 1991. By then, he knew the group inside out.
- Cyrus Mistry was selected to lead the group. He was selected because he was young, his family was a major shareholder, and he was Managing Director of Shapoorji Pallonji Constructions, he was known to the Tata family.
- The issues that led to Mistry's ouster are majorly his style of leadership and his decisions to on board young leaders in the leadership team. The decision of selling the UK steel business and the public spat with DOCOMO. Mr. Ratan Tata felt that there was lack of governance.

LEADERSHIP & ITS ACRIMONY
TATA

- Mistry was selected as he was one of the largest shareholders and was known to TATA group and family. But Mistry had never handled large diversified group of companies spread across several countries and geographies. There was huge communication gap between Mr. Ratan Tata and Mistry. Succession Planning lesson 1 – **never discount the importance of capability over personal rapport**
- His style of functioning and leadership lead to some discomfort or insecurity. His exit was acrimonious. Now there is a new leader N Chandrashekaran, who was the Managing director of Tata IT business. *The difference between him and Mistry is that he is an employee promoted to lead a group and Mistry was a promoter chosen to lead a group.* The style of functioning may make the difference as the new CEO would be more receptive and open to seek guidance from the old senior Tata veterans. This could pay way to smooth functioning.- **an example of professional management under guidance**

NO WILL TO LET GO
INFOSYS

- Sh. Narayan Murthy wanted to drive the company from the rear seat. The Company was promoted by six major promoters who agreed that their second generation will not join this business.
- Promoters Sh. Narayan Murthy , Sh. Nandan Nilkeni set up an example of professional management before India Inc.
- Promoters retired one by one and appointed a selected professional to lead the business
- Promoter shareholders soon realized certain gaps in Corporate Governance
- Sh. Narayan Murty decided to rejoin as Chairman – setting a new challenge to bring his successor
- Succession Planning lesson – **Founders must know when it is time to let go and let others steer the company**.

NO WILL – NO TRUST
RAYMOND

Dispute Regarding Ancestral Property Succession

- In 1987, the Singhania family had a family settlement, where three groups Mumbai, Kanpur and Kolkata got their share of wealth. But that did not go will as planned, the issue continued till 2017 for a bungalow property in Juhu, Mumbai.
- Dr. Vijaypath Singhania and his late Brother Ajaypat Singhania's family also had to go through their own share of family litigations. Dr. Vijaypath Singahia's estranged son Madhupati Singhania who relinquished his rights post the family settlement has brought a new angle to the family litigation.
- This time Madhupati Singhania children went up against the grandfather and have filed a suit against him.

Share gifted to Son during Lifetime

- In the year 2002, Dr. Singhania gifted his share of holding (37.17%) in the Raymond group to his youngest son Gautam.
- Now there is some issue major issue between Dr. Singhania and son Gautam Singhania about right to residence .

This is a classic case of not executing a proper and well-structured estate and succession plan. Along with the Trust it is also important to have other legal documents and agreements in place

LESSONS

- Mentor should groom the successor while retiring leader has not moved out.
- Give a descent timeline to the grooming process, don’t rush.
- Define the do’s and don’t.
- Giving up of complete control should be done in a phased manner, can be linked to performance.
- While identifying the successor the retiring team should analyze the leadership style and whether that would suit the culture and the ethos of the organization.
- Family values, ethics and culture to be communicated, inculcated and nurtured.

LESSONS

- One can give management but not the entire stake or ownership (especially when it comes to the handing over to the next generation). – Love, Money and Control – Balancing is the Key.
- Don’t just look at the hard qualities but it is important to consider the softer qualities of the successor also.
- It is important to try before you let go off the control but once you have decided it, then move on and don’t hang on (everything comes with an expiry date) - keep enough to take care of post retirement period.
- Put the successor on a training, take over period and then move on (once you are satisfied)
- Professional management to be adequately monitored and guided by the family owners. – Role of Family Council, Family Charter & Family Governance.

FAMILY CORPORATE SUCCESSION: BIRLA GROUP

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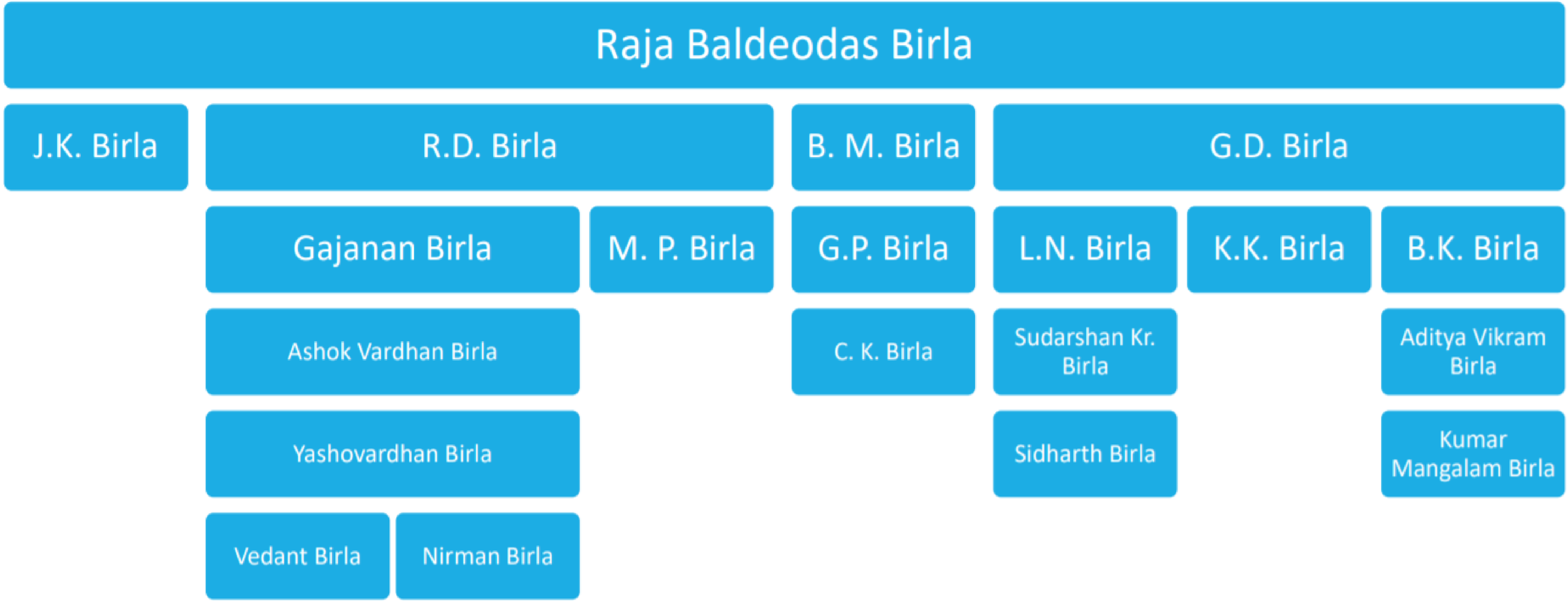
- BIRLA GROUP : **Grand Father – Grand Son Model**



GODREJ GROUP:
DIFFERENT ENTITIES TO EACH SUCCESSOR

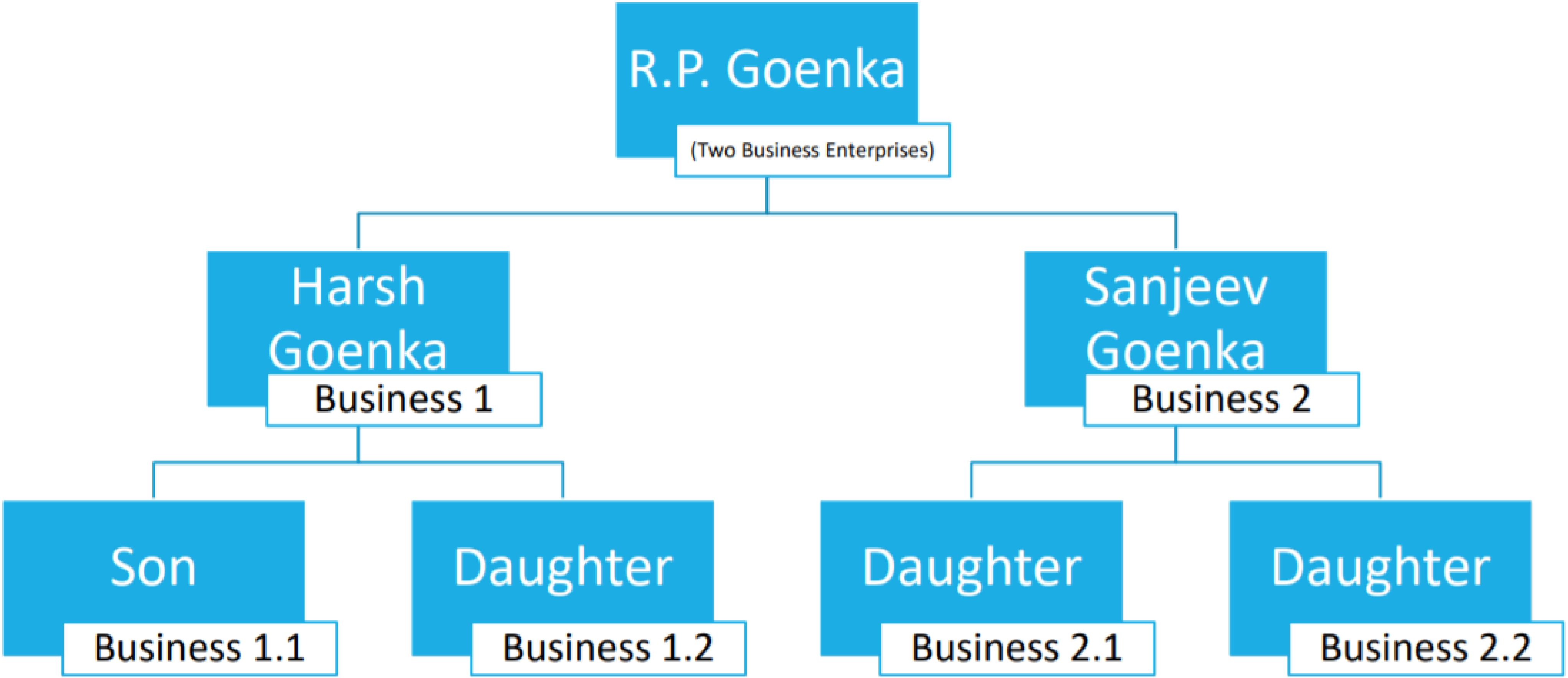
Mr. Adi Godrej

- Ms. Tanya Dubash
  Executive Director of Godrej Industries Limited
- Ms. Nisaba Godrej
  Executive Chairperson of Godrej Consumer Products Limited
- Mr. Pirojsha Godrej
  Managing Director of Godrej Properties

The succession plan has ensured that there are specific and clearly defined roles for the next generation based on individual strengths. Hence, family members seeking to enter the businesses in management roles are required to be well qualified.

FAMILY CORPORATE SUCCESSION: GOENKA GROUP

- R P GOENKA GROUP : **Goenkas Model**



FAMILY CORPORATE SUCCESSION: NR GROUP

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NR GROUP

NR RANGA RAO (1912-1980)

SECOND GENERATION

ALL BROTHERS HAD EQUAL SHARE.

GURU

(ELDEST SON)

- **SUDHA**
- **PUSHPA**
- **PAVAN RANGA** (ELECTRONIC ENGINEER)

CEO OF **RANGSONS ELECTRONICS PRIVATE LIMITED**

ONE OF THE LARGEST EMS COMPANIES IN THE GLOBAL EMS MARKETS PROVIDING SERVICES IN VARIED SEGMENTS.

R.N. MURTHY

- **PREETHI**
- **ANIRUDH** (MASTERS IN INDUSTRIAL PRODUCTION)
- **ARJUN RANGA** (ENGINEER)

MNAGING DIRECTOR AND CEO OF **N RANGA & SONS**

CONSISTING OF 54% MARKET SHARE.

HEAD OF **NESSO**

GLOBAL LEADER IN INDIAN FLORAL EXTRACTS

VASU

- A MARRIED DAUGHTER
- **VISHNU** (WORKED IN N.RANGA & SONS
- **KIRAN RANGA** (GRADUATE AND MBA)

HEAD OF **RIPPLE FRAGRANCES PRIVATE LIMITED**

LEADING PLAYER IN ALL SEGMENTS OF FRAGRANCE DELIVERY

SRIDHAR

MEDICAL PRACTITIONER

- **NIKHIL** (MASTERS IN U.S.)

KRISHNA

MOHAN

VENKATESH

ALL THREE SEPARATED FROM NR GROUP AND HAD THEIR **OWN BUSINESS OR OCCUPATION**

THIRD YEAR GENERATION

WOMEN ARE ALLOWED TO SELL SHARES TO ANOTHER FAMILY MEMBER, BUT NO WOMAN WILL HAVE PART IN OWNERSHIP AND MANAGEMENT.

MARICO LIMITED: PROFESSIONALISM ON BOARD

- Marico Limited is one of India's leading companies in the fast-moving consumer goods (FMCG) and skin care businesses, founded by Harsh Mariwala.
- In 2014, Mariwala, who was till then, the Chairperson and Managing Director of the company, inducted a professional MD on the board – Mr. Saugata Gupta. He proceeded to then make his role non-executive – he would no longer look after the day-to-day operations, instead allowing a team of professionals to run the company. He would remain the chairperson of the company.
- Mariwala's son Rishabh spent three years at Kaya, the beauty-salon business of the company, and then left to start a venture of his own in 2011. His daughter, Rajvi, left the company after two years and is now a canine behaviorist. His children are no longer part of the management or the board.
- Mariwala has stated that he intends to make himself redundant in the company over time. By making an investment in professional leadership and staying away from day-to-day management, he has sought to demonstrate to the market that the interests of the promoter group are aligned with those of other stakeholders.
- *Marico's case is an excellent example of the promoter handing over the leadership to a professional and distancing themselves from day-to-day operations.*

SRF LIMITED: QUALIFICATION BASED PROMOTION

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- Proper Planning of Succession = Successful Business
- Three circle model: Family, Owners and Management
- The successors worked very closely with the professional CEO and CFO to learn and get a deeper understanding of the financial and operational aspects of the business.
- *"We will be more than happy if our next generation wants to join the family business but we don't believe in nepotism. Whether it is the next generation or outside generations, we strongly believe that whoever has the zest, zeal and capability should run the business. I don't believe in forcing the responsibility of running the family business onto our children. The stakes are high and we want to keep creating value for all stakeholders. If our next generation are interested in joining the family business we are committed to nurture them. It goes without saying that they need to be capable and of course passionate about running the business. At the end of the day we are here to serve the society and create value for our investors."* - Ashish Bharat Ram

POLY MEDICURE LIMITED:
EXPERIENCE OUTSIDE THE FAMILY BUSINESS

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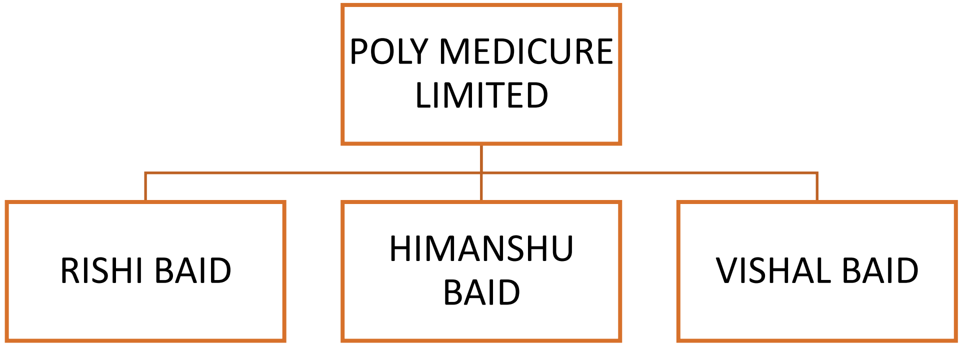
- Rishi, Vishal and Himanshu Baid firmly believe in letting next generation explore their interests and they are not bound to join the family business.
- They have a clear policy for a family member joining the business. The family member is encouraged to work outside for few years prior to joining the family business. This gives them exposure and working through various levels in the organization helps them realize their area of interest in the business.
- If the next generation show the intent, capability and passion to pursue the family business, they will groom and encourage them to take up such international expansion projects and over a period of time each of the next generation can be responsible for a particular geographical area.



FEATHERLITE GROUP: DEMARCATED RESPONSIBILITIES

Leave no one behind – It's a Family Thing

- Gopal Ramnarayan
  - Jawahar (Eldest)
    - Complete ownership of Real Estate business along with investments and all financial matters
  - Manohar (Middle)
    - Responsible for marketing and sales and is involved in both the real estate and furniture business equally.
  - Dhiren (Youngest)
    - Manufacturing and R&D along with the task of technology up-gradation-in their plants. (Furniture Business)

SUCCESSION PLAN = DEMARCATED RESPONSIBILITES + EQUAL OWNERSHIP + EQUAL SHARE IN PROFIT & LOSSES

THANK YOU

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