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All in the family
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THE SUNDAY READ

Emami Group Joint Chairmen RS Agarwal and RS Goenka with members of the second generation from their respective families

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As promoter-run businesses diversify, and expand to include newer generations, the family office is becoming increasingly important to manage a variety of functions

SATISH MALAVADE

RPG Enterprises Chairman Harsh Goenka with son Anant, Managing Director of CEAT (left)

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It's well known that the Kolkata-based Emami Group is run by two families — the Agarwals and the Goenkas — who work so closely that they operate as one. Founder-promoter RS Agarwal and RS Goenka's rapport is legendary. Now it seems the 11 members of the next generation, who have joined the business over the years, are close too. Each vertical has at least one Goenka and one Agarwal heading it; the 'family council' has representatives from both clans; and the two families even take an annual vacation together, all 50 of them. "Our surnames may be different, but we consider ourselves to be one family, even when it comes to business," says Manish Goenka, son of RS Goenka. But, adds Aditya Agarwal, son of the other founder: "The real test will come now, when a third generation from both families is priming to enter the business. We have been guided by the older generation, but with the new entrants, it's time to renew and refresh our understanding -- both of one other, and of the business." With more scions in the picture, the group might have to expand its decade-old council into a full-fledged family office – an entity that will manage the wealth, investments and needs of the individual family members who work in the company.

"Approximately 70 per cent of all listed companies in India are family-owned," says Aditya Gadge, founder of the wealth network Priwexus. "With wealth exploding and the economy transforming, there is a huge demand for estate planning, wealth protection, taxation advisory services and more. One concept beginning to gain currency among the rich is that of family offices, which straddle the space between pure investment advice offered by financial institutions, and the personal and family needs of high net worth individuals (HNI). A family office takes care of the day-to-day administration and management of the funds of a super-wealthy family."

There was a time when the business was inseparable from the family that started it. "The profits from the company would become the personal wealth of the family and, as a Director, if you went on holiday, you could bill it to the company," says Amit Patni, Director, Raay Global Investments. "You could also buy private property in the company's name." Then, as equity funds began to make their way into promoter-run companies, and many of them decided to go public, a new layer of accountability was brought in which necessitated delinking the family's private assets from that of the company's. "This led to a demand for family offices which could facilitate this separation," says Patni.

According to The Family Wealth Report 2018 – a study of 78 ultra high-networth (UHNW) business families in India, conducted by Edelweiss Private Wealth management and Campden Family Connect — the idea of a family office is still a very nascent one. For instance, of the UHNW respondents, only 49 per cent have some sort of a family office, and Campden estimates that there are only about 40 to 45 formal family office structures in India at the moment. "India has about 1.5 lakh UHNW families with a cumulative net worth of $2 trillion," the study finds. "With the projected growth rate, this is expected to rise to four lakh UNHW families with a net worth of $5 trillion by 2025." With such wealth likely to be generated, the need for a family office will only increase.

Anshu Kapoor, Head, Edelweiss Private Wealth Management, adds: "Let's not forget that wealth creation in India – or even in Asia – is only a generation or two old, unlike the old-money families of Europe and the US which have been managing their assets through many generations. That's why the idea of a family office is still new in India." Research carried out by Priwexus shows that in India, the fortune amassed by a founder-entrepreneur rarely lasts beyond the third generation – which also clearly indicates the need for a structure to protect and facilitate an inter-generational transfer of wealth.

While most family offices are customised to the needs of their creators, they typically provide a gamut of services: From private wealth management, investment opportunities and protection from legal risks, to governance, succession planning, the setting up and managing of family trusts and even aligning and executing the philanthropic desires of the family. Also on the tasks-roster are the drafting and executing of wills; creating a family constitution and administrative, legal and tax assistance besides – in some cases – value-added services like property management and concierge facilities. "Ten years ago, the so-called family offices that existed were concerned more with basic things like what a will or a trust is," says Rishabh Shroff, Partner, Cyril Amarchand Mangaldas. "But in the last three years, people who have approached us to seek advice on family offices, have been preoccupied with deeper issues such as family governance and suc-

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cession planning. It's not surprising since many of the founder-promoters may be in the 60s or 70s now, and are worried about the future of their companies", and questions of legacy.

Not all business families require — or even want — a full-fledged family office. Some are happy to make do with an in-house investment arm or a family constitution. The GMR Group, for instance, is said to have an exhaustive family constitution that lays down the rules and responsibilities of every member of promoter GM Rao's family. The family constitution of a well-known footwear company lays down the roles, functions and even emoluments (commensurate with responsibility) of each of the 16 members who are a part of the company — for the next 15 years. "India has had a long history of feuds in business families over wealth, thanks to a lack of succession planning and lack of capability and compatibility among new generations, when it comes to running the businesses. Or even a sheer lack of will or inability to separate the professional management of an enterprise from the emotional attachment towards it," says Gadge. "With the younger generations going their own ways and the older ones becoming outmoded in their approach to work, many families are worried their businesses will not be able to cope in an increasingly competitive landscape." Indeed, not all members may be capable, or inclined to, join the family business.

The family office came in handy when the Patnis decided to merge their IT business with the US company iGate in 2011. Amit Patni's father Gajendra and his two brothers had started the business, and were later assisted by Amit, his brother Arihant and two of their cousins. "We already had a family office at the time of the deal, so when we decided to liquidate everything and divide it equally between the family members, we were able to do so quite smoothly," says Patni. "Each of us could take our share and do whatever we wanted with it." The original family office still takes care of Arihant, their father and an uncle's interests, while Amit has formed his own family office, the peer-to-peer HNI platform Campden and an associate company, Waterfield Advisors, which operates as a multi-family entity (it consults with various families in helping them set up their individual offices).

(From left) Brothers Amit Patni and Arihant Patni, whose family business involved computers, now run their own venture firm

With the younger generation going their own way, families are worried their businesses will not be able to cope in an increasingly competitive landscape.

– Aditya Gadge, Founder, Priwexus

The RPG group, says chairman Harsh Goenka, has had a family office for many years "though it was not called anything so fancy". He adds: "It was managed by my brother Sanjiv, and when our businesses separated, I felt I should have my own family office. Thatwas set up in 2010 – we were perhaps one of the earlier ones to have up a full-fledged family office – and currently employs 21 experts in legal, taxation, accounting, properties, secretarial and compliance matters." While managing the family's assets and wealth is its primary objective, Goenka says having onboarded most of the team, he now plays a very "hands off" role as far as the family office is concerned. As does his son Anant, who heads CEAT. "The idea is to ensure capital protection and returns for the family, and the next generation," says Goenka. "Philanthropy is also an important constituent of our family office. Our philosophy of investment can be summed up as moderate-risk. There are some family offices that take a high-risk approach and invest in unrelated businesses or equity markets, but that is not our style or approach. I believe experts in the family office should set the overall strategy for risk and allocation of financial assets, but activities such as stock picking can generally be outsourced to a financial institution."

While a family office now appears to be a must-have for many business groups, Kapoor of Edelweiss cautions against rushing into this. The wealth report says business families in India are "making decisions quite differently from those in the Western economies. [Most] prefer the advice of 'close friends' over consultants, [and even] identify their advisers through close personal contacts." Adds Kapoor: "Families need to examine if they need a family office to begin with in the first place." And setting it up is expensive too – not to mention to getting a buy-in from all other members of the family, finding the right people to run it and – most importantly – allowing them to do so independently." Indian entrepreneurs might iscover that this letting go, may be one of the hardest things to do.