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# From Legacy to Leadership: The power of a family charter in succession planning

*A family charter helps reduce family disputes by providing succession guidelines, though it remains non-legally binding. It outlines leadership roles, succession plans, and general concerns, maintaining harmony and business continuity across generations.*

**Padmaja Choudhury**

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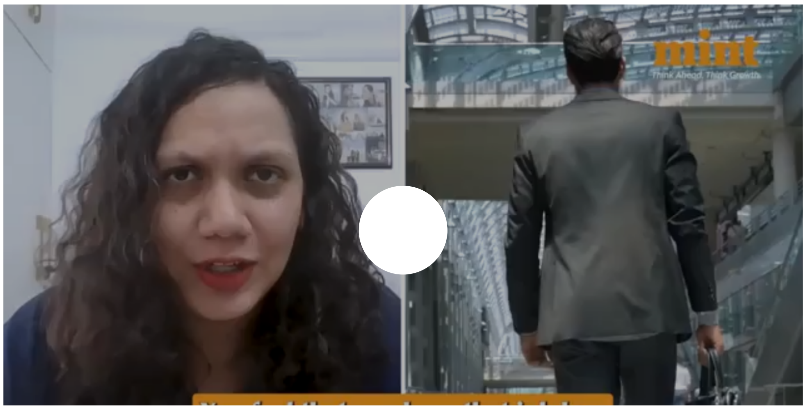
*A Family Charter reduces family disputes by providing succession guidelines, though it remains non-legally binding.*

Family charters, also known as family constitutions, serve as a fundamental document for governing family-owned businesses to ensure smooth succession across generations. These charters are crafted by promoter families to codify values, set guidelines, and provide a roadmap for future business continuity which can ultimately help in keeping family harmony.

In this article, we will look at some of the key components of a family charter, its significance, and the roles of the supplementary legal framework.

## The role of family charters in business continuity

Let us imagine a family that has built a successful business from the ground up, starting with just one or two founding members. As the company grows, so does the family, and with each new generation, the dynamics shift.




The first generation, having poured their heart and soul into the venture, understands the sacrifices and struggles that went into its creation. But what about the second and third generations? They might not have the same level of attachment or understanding, having been born into a life of relative comfort.

This is where a family charter comes into play.

It's not just a fancy term; it's a tool that helps define how the business will be passed down through the generations.

"The Charter outlines who will take on leadership roles, not just based on age or family hierarchy, but on merit. It's crucial to recognize that as the family expands, not everyone can or should be at the helm. Sometimes, bringing in external professionals is the best way to ensure the business continues to thrive, especially if the next generation lacks the necessary skills or experience," said Nikhil Varghese, Co-Founder, **Yellow**.

According to Amit Pathak, Managing Director, **Warmond Trustees & Executors Private Ltd.**, family charters are crucial in maintaining family harmony and ensuring business continuity.

"It helps in minimising potential disputes within the family. These charters often include guidelines for appointing successors to the board of directors and may involve an advisory board comprising family members and independent experts to oversee the process. However, it is important to note that family charters are not legally binding," said Amit.

## The structure of a family charter

Neha Rai Mathur, Senior Vice President, Head Family Office, **Catalyst Trusteeship Limited** emphasised that each family charter is unique and should be tailored to the specific needs of the family.

She explains, "A Family Charter has to be a bespoke document since each family is unique in its own way and no common template can be used."





Although the family charter varies among families, she said that a typical family charter usually consists of four key components: introduction, family details, business succession plan, and general concerns.

### Introduction

This section includes the mission statement and the values of the family.

### Family details

- This section includes the family's mission statement, values, history, family tree, and an assessment of the family's assets and liabilities.
- It also identifies family leaders, outlines decision-making protocols, and maps out risks relevant to the family.

### Business succession plan

- This part focuses on the organisational structure, governance, and management of business ownership.
- It covers succession planning, power allocation, employment policies, and contingency plans to ensure smooth transitions.

### General concerns

- This includes philanthropy, dispute resolution procedures, media policies, and references to key documents like trust deeds and shareholder agreements.
- A well-structured family charter, along with a good succession plan, ensures the longevity of a family business and maintains harmony among the different family members.

"When creating a Family Charter psychological assessment of the family's aspirations, emotional and human capital, and incorporating the various legal structures, like trust, having an insurance plan, other processes and documents should be factored in," added Neha.

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### Importance of formation Of trusts

In a well-structured succession plan, the family and business are the two aspects that are often separated. Family members may continue to enjoy the financial benefits of the business without necessarily being involved in its day-to-day operations. This is where trusts come into the picture.

"By placing the business's shares in a trust, the family can ensure that decision-making remains unified and efficient, even as the family grows larger. This way, while the dividends and financial benefits are distributed among family members, the control over business decisions remains centralised, preventing fragmentation," said Nikhil.

Amit talked about the importance of complimenting family charters with legally binding documents like private trusts and shareholder agreements. He explained, "Formation of a private trust ensures consolidation and preservation of assets. A shareholder agreement, on the other hand, works in families where many shareholders are holding some part of the equity. This ensures that the shareholders are bound by the terms of the agreement."

These legal frameworks provide a structured approach to managing family wealth and control, reducing the potential for disputes and ensuring that the business remains intact across generations.

### Conclusion

A well-drafted family charter, tailored to the unique needs of a family, is essential for the sustainable governance and succession of family-run businesses. While these charters are not legally binding, they provide a foundation for maintaining harmony and continuity within the family.

Supplementing the charter with private trusts and shareholder agreements ensures that both the family's wealth and control over the business are preserved across generations.

*Padmaja Choudhury is a freelance financial content writer. With around six years of total experience, mutual funds and personal finance are her focus areas.*

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