THE HINDU Business Line
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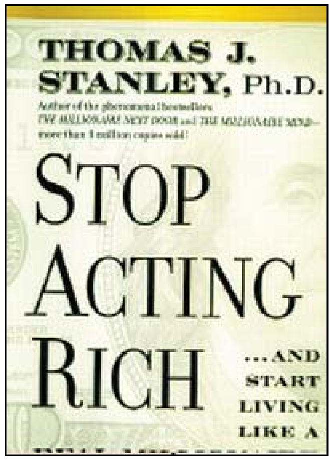
Unhealthy assumptions



You can't drive your way to happiness, yet some people believe otherwise, rues Thomas J. Stanley in Stop Acting Rich… and start living like a real millionaire (www.wiley.com).

“They may see some fellow driving a fully accessorised BMW, Corvette, or Cadillac and assume something about him. They whisper to themselves, ‘There goes a happy guy. If I had that car instead of my Toyota, I would be off the far end of the happy scale.'”

Alas, there is no significant correlation between the make or brand of motor vehicle you drive and your level of happiness with life, Stanley instructs. Most people who are economically successful in objective terms do not need status brands to convince themselves or others in their social circles of this fact, he finds.

Apart from the rich who may drive prestige makes of motor vehicles, there are those who ‘act rich,' the author discovers.

The ‘actors,' the ‘pseudo-affluent' are those who ‘think they are actually rich, even upper-middle-class rich,' and those who ‘believe that they will soon be rich.'

The book emphasises that there is a major difference between earning a high income and actually being wealthy (or, financially independent). Income is not the same measure as wealth; and if you do not have investments (of which your home can be no more than 25 per cent) valued at $1 million (at least), you are not wealthy, the author guides.

“It does not matter what college you attended, for how long, or the number and types of degrees you have earned. Educational achievement is not wealth.”

Often, the acting-rich crowd has people who are college graduates earning good incomes, and who feel compelled to display the products and brands that they think many truly rich people own, observes Stanley. And, in the process of exaggerating their wealth, “often they have to struggle, really struggle, to pay their club dues, lease payments on their prestige makes of automobiles, payments on the interest-only jumbo mortgages, private school tuition, and on and on.”

What good is it to drive a Mercedes, live in an expensive home, belong to a country club, and pay up for wine and spirits if you are always living on the edge of financial solvency, the author asks? Or, “if you can't weather an economic downturn? If there is any question that you might be unable to pay for the college of your daughter or son's choice? Or can't pay for healthcare services for your parents or grandparents?”

Many of our assumptions about wealth – who has it, what they spend it on, how they live – are downright wrong, the author bemoans.

“We have confused status and prestige with wealth.” He adds that while the glittering rich and the merely wealthy spend below their means, it is the hyper-consumers, particularly high-income individuals, who have little wealth that spend on those things they assume their flush counterparts spend on.

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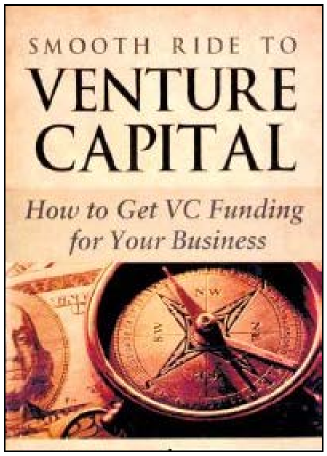
"We try to emulate the consumption patterns of the glittering rich, not realising that we can never pass muster and will only erode our own wealth by doing so."

Helpful counsel for those who would pause to listen.

Six myths about VCs



The first of the six common myths about venture capitalists is that VC will take over the business, says Pankaj Sahai in Smooth Ride to Venture Capital: How to get VC funding for your business (www.visionbooksindia.com).

Running your business is not the VC's job, Sahai clarifies.

"The VC's business is money management. They are financial managers interested in making a good return on their investment. VCs invest in about 5 to 10 companies per VC fund and are interested in ensuring that the businesses in which they invest, mature over time and provide them with a substantial return."

A major criterion of VC investment is the existence of a complete, capable, creative, cohesive and experienced management team in the business, the author observes.

"VCs invest in a business because they find that the management is capable and trustworthy."

He, however, cautions entrepreneurs that in situations where there is a clause giving the VC the right to change the management, they have to ensure 'that the circumstances that can trigger the process of management change never occur as a result of negligence or carelessness.'

The second myth is that the VC is looking to control the business.

"VCs are not interested in having a say or a veto in day-to-day operational decisions. However, they seek to have a say in the strategic direction of your business," Sahai explains. Examples of the latter category are: capital expenditure above certain limits, new product development, opening new offices, sale of key assets, formation of joint ventures, and loans beyond certain limits.

Most businesses in which VCs invest benefit by the discipline of external oversight at board level and from the broad commercial experience of the non-executive director representing the VC, the author advises. "VCs bring valuable experience and skills to the business and may sometimes even take on a semi-executive role, if so required. This arrangement provides the company with skills which it may otherwise not be able to afford."

The next myth - `I will have to sell my business to enable the VC to exit' - may, in fact, have alternative options such as listing on the stock exchange or refinancing. Even if sale is the agreed exit route, the overall `timetable' may be flexible, the author assures. "There is almost always a balance to be found between realising cash and making it work for a bit longer if the desired returns can be obtained."

Myth four is that the entrepreneur has to change his or her way of working. This is true to some extent, concedes Sahai. The changes may include greater transparency in your decision making, speedier implementation of HR best practices, methodical decision making rather than over-dependence on personalities, process orientation, financial discipline, formal documentation, and so on. "All these changes would make the business more structured and better organised, thereby giving the founder more time to focus on growing it."

The penultimate myth is that the VCs will come to know of the business secrets and may use them to the entrepreneur's detriment. No, the VC is not likely to jeopardise your business by working against the company's interest, the author notes. "The VC will become your partner in growing your business after he invests in it. Any act that destroys value in your business harms the VC as much as it harms you."

And the final fear is that the VCs would unreasonably demand high returns. Wait, expectations of

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returns are commensurate with the risks involved, Sahai reasons. "Venture capital is a very risky business and the returns have to adequately compensate for the high level of risk that the activity entails. Not only does the VC provide you with funds, he is also there by your side to add value to your business by his experienced counsel and networking reach. He helps to expand the pie."

The VC makes money and, in the process, you the entrepreneur too make more money than you would have otherwise made if you had remained small and in the `lifestyle business' mode, the author concludes.

Recommended addition to the entrepreneurs' shelf.

D. Murali

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