

Business, Nothing Personal

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Synopsis

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In family businesses, the process is seldom as straightforward. Balancing business goals with family obligations — such as catering to various life stages and lifestyles, and accommodating individual aspirations — becomes

paramount in capital allocation decisions. Carefully assessing mindsets and idiosyncrasies of family stakeholders also becomes central to these deliberations.

In a [family business](#), there's no guarantee that all capital allocation leads to optimum profit-making. Capital may be allocated for the promoter's passion projects, to feed the ego of attention-seeking disruptive family members, to maintain loss-making but sentimental businesses, or to maintain harmony in relationships. When decision-makers operate from unconscious cognitive biases, it's inevitable that they lose perspective. These aspects are often not spoken about. Yet, they significantly influence the capital allocation process.

[Growth](#) or greed Entrepreneurial businessmen possess an unquenchable thirst for growth. Trailblazers are constantly seeking improvements, creating abundance along the way. However, this pursuit can also breed unhealthy [power dynamics](#), arrogance and lack of balance. When ambition lacks balance, it can morph into self-centred greed. Growth initiatives driven by desire for power, comparison, unhealthy competition or rivalry often result in long-term failures. If left unchecked, greed can result in unmanageable debt, and eventual decline of the family business.

Power plays a vital role in investment decisions, particularly when business owners and decision-makers act as power centres. They may make financial decisions with minimal analysis solely to assert their power. Such actions not only disrupt fair collaboration with other family members but also jeopardise the business' growth by prioritising personal advantage over collective success.

Disconnect Successful founders possess the capacity to operate with a deep understanding of the business at its core. They have mastered the art of

staying connected to every intricate detail of business operations, and their decisions regarding growth and diversification are always grounded. However, as generations progress, and wealth, position, power and politics come into play, promoters become increasingly disconnected from reality.

There is a significant lack of alertness and agility when decisions are based on data filtered through various structures and layers. Effective capital allocation and business acumen for growth require both macro- and micro-level connections. When strategic capital allocation decisions are made from this disconnected space, it impacts growth.

Purpose alignment How family directors decide on capital allocation is very important. One of the best practices is to create consensus around 'purpose of family business'. Aligning this fundamental criterion is the starting point of the capital allocation process. This ensures that diverse motivations, strategies and perspectives are all transparently discussed to invoke commitment. The capital allocation process varies, depending on the agreed purpose:

Family businesses aspiring to perpetuate across generations, adapting a custodian mindset, make long-term investments. Growth is balanced by retaining ownership control at any cost.

During a specific phase of the business' life cycle, a need for diversification arises. It becomes imperative to allocate resources judiciously for new ventures.

In few family businesses, it is common to notice that capital allocation decisions are made to cater to individual aspirations of certain family members and to harmonize relationships. Under such conditions, resorting to a fair process becomes mandatory.

It is imperative for business families to address evolving lifestyle needs across generations by allocating the required capital, necessitating careful planning and establishment of adequate corpus. It is also imperative to establish specific governance systems.

Governance framework Once clarity is attained regarding the 'why' and 'what', attention turns to the 'how'. Good governance demands setting up fora such as family business council (FBC), family office board (FOB), shareholders committee (SHC) and investment committee (IC).

While FBC is responsible for envisioning capital requirements to drive business growth, FOB is responsible for forecasting the budget for family needs, such as promoter-level debt reduction, corpus for new ventures, funds for living cost and philanthropic initiatives. SHC has to play a crucial balancing act of protecting and building economic value, as well as fulfil familial needs while engaged in capital allocation.

While large family businesses can afford to set up various governing fora, it may not be feasible for small family businesses to do so. They should learn how to wear different hats while dealing with different subjects. When they

wear the business manager's hat, they think what is right for the business. When they wear the family hat, they tend to focus on what's required for the family. The shareholder's hat helps them perform a balancing act, catering to both business and family needs.

When family members engage themselves in the capital allocation process, they may lose objectivity. Which is why they should bring in external independent professionals to various fora to offer external perspectives and insights to establish objectivity.

Traditional metrics like ROI, IRR, net worth and free cash flow often fall short in the nuanced landscape of family businesses while engaged in capital allocation. Success hinges on the delicate equilibrium between data-driven analysis and intuitive understanding — logic meeting instinct.