THE ECONOMIC TIMES | Opinion
English Edition ▾ | 10 October, 2024, 05:24 PM IST | **Today's ePaper**

View: Family business thrives by balancing profit, purpose, frugality, trusteeship & governance

ET CONTRIBUTORS Last Updated: Sep 29, 2024, 11:02:00 PM IST

Synopsis
Family businesses prioritize preserving wealth for future generations through frugality and strategic governance. It is about balancing profit with purpose, benefiting all stakeholders. Clear policies and disciplined decision-making are essential for long-term success, ensuring wealth is managed prudently and sustainably.

Harsh Mariwala
Mariwala is chairman, Marico

Tatwamasi Dixit
Dixit is chairman, Family Business Makeovers and Takeovers (FABRIC)

Safe, and sound

In **family businesses**, profit is more than financial outcome-it's a legacy. Donning the custodian approach, successful owners avoid treating wealth as a tool for indulgence. Instead, they preserve it for future generations. They embrace **frugality**, a value that ensures wealth is preserved, aligning business goals with broader family and societal aims.

Many large family businesses began with a frugality mindset, driven by an objective: to serve the platform within resource constraints. These businesses were built on the pillars of purpose and profit, emphasising **value creation**. It's one of the core principles of such businesses to adopt a meticulous approach to resource management, not just for its immediate impact, but also for how it aligns with the business's long-term goals and values.

In family businesses, wealth takes on multiple forms, extending beyond financial assets to include intangible wealth, such as reputation, relationships, respect, and human capital. But at the core of this wealth is financial wealth.

Family businesses adopt a deliberate approach that balances current needs with long-term sustainability when it comes to producing wealth, preserving resources, or planning for future generations. It's the responsibility of the first gen to ensure that a frugal mindset is ingrained in future generations. Family members must recognise they are stewards of resources that belong to a larger context, impacting all stakeholders-society, shareholders, employees, associates, and consumers.

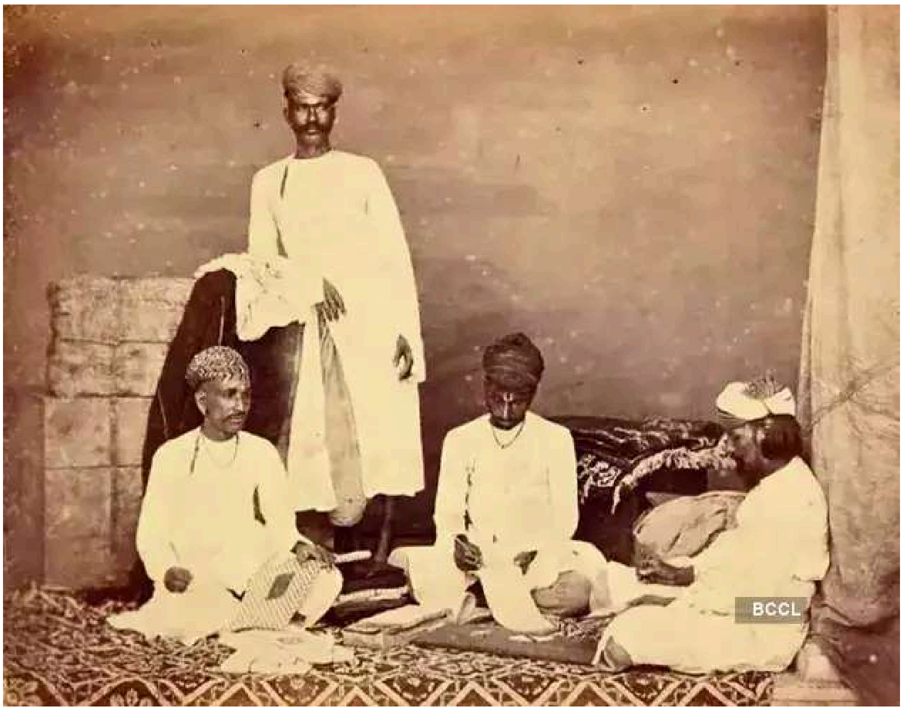
An organisation that focuses on adding value to all stakeholders will thrive over time, while one that prioritises only promoters fosters a consumption mindset in the younger gen. Interconnectedness of all stakeholders is crucial.

For instance, when employees are treated well, they become more motivated and productive, enhancing the organisation's value. This boosts liquidity, enabling acquisitions and growth, which opens more opportunities. As the organisation scales up, associates benefit, and government gains through increased employment and taxes. So, promoters should consider their interests and focus on the welfare of all stakeholders to ensure sustainable success. To achieve this, a 3P approach should be followed:

Produce Wealth: Creating wealth from entrepreneurship is not always guaranteed. Founding generations are intuitively tuned to choose wisely between sentimental and commercially viable investments in capital allocation. At every stage-ideation, conceptualisation, execution-their fundamental thought process is aimed at value creation and minimising wastage. As generations progress, they need to learn this. Dynamics of creating wealth can be paradoxical and counterintuitive. Trailblazers in family businesses are known to thrive in such paradoxes.

Value creation in a business should be viewed from an end-to-end perspective, where every aspect of the business's cost structure is scrutinised for efficiency and alignment with goals. This involves optimising production and operational costs and evaluating the supply chain.

By adopting a holistic approach to cost management, businesses can uncover hidden inefficiencies, negotiate better terms with suppliers, and streamline processes, ensuring that every rupee spent contributes to sustainable value creation. This view ensures that value is maximised at every stage, from concept to customer delivery, reinforcing the business's competitive edge and financial health.



Many large family businesses began with a frugality mindset, built on the pillars of purpose and profit, emphasising value creation

Preserving wealth: This approach must avoid a consumption-driven mindset, which can erode wealth. Well-thought-out policies should replace impulsive, comfort zone-based investment decisions. Preserving wealth can only occur when decisions are strategic and not opportunistic.

To effectively preserve wealth, a family must establish a system of governance that upholds its values. **Ownership governance** and ring-fencing are critical strategies for protecting wealth in family businesses. This ensures that decision-making processes are transparent, structured, and aligned with the family's and business' long-term goals. By establishing clear policies, roles, and responsibilities, ownership governance helps prevent conflicts and ensures that wealth is managed prudently.

Ring-fencing involves setting up safeguards to protect family wealth from potential risks, such as business downturns or personal liabilities. This can include creating separate legal structures, such as trusts or holding companies, to isolate family assets from the operational risks of the business.

Perpetuating wealth: Families may grow at a different pace than businesses. Matching family lifestyle demands with the business' capacity to generate wealth may become challenging as generations progress. Privilege and ostentatious lifestyles become roadblocks.

A clear distinction between business wealth, collective family wealth, and individual wealth is essential to avoid confusion and mismanagement. Access to wealth must be carefully monitored, as both over- and under-access can hinder its perpetuation. Clearly defining the purpose of wealth eases both spending and saving.

One of the biggest perils of privilege is its negative impact on entrepreneurship. Entitlement becomes a disease that infects entrepreneurship. Upholding these values while in privilege is easier said than done. It requires self-regulation and discipline. Frugality is both a mindset and a learned skill, and families can adopt it as a value.

Ultimately, the success of a family business lies in its ability to balance profit with purpose, guided by the principles of frugality, trusteeship, and effective ownership governance. This ensures a legacy for future generations.