RETURN ON EFFORT – THE FORGOTTEN METRIC IN ENTREPRENEURSHIP

Why Every Entrepreneur Must Measure the Return on Time, Risk, Health, Relationships, Freedom and Peace of Mind Before Investing Capital

By Arun Sehgal

"The biggest investment decision an entrepreneur ever makes is not where to invest money. It is where to invest the remaining years of life."

— Arun Sehgal

Introduction: The Biggest Lie in Entrepreneurship

One of the biggest lies that entrepreneurship has taught us is this:

"If a business makes more money, it is automatically a better business."

Nothing could be farther from the truth.

For over four decades, as an entrepreneur, investor, mentor, teacher and independent director, I have observed people becoming prisoners of businesses that appear highly profitable on paper.

I have also seen entrepreneurs running smaller enterprises, earning comparatively less, yet living happier, healthier, more secure and more meaningful lives.

One entrepreneur may earn ₹5 crore a year but remain permanently anxious, overleveraged and unavailable to the family.

Another may earn ₹1 crore a year, own the business without debt, work five hours a day, travel regularly, sleep peacefully and have enough time for the family.

Who is more successful?

Traditional accounting will say that the first entrepreneur is more successful because the business earns more.

Life may give a very different answer.

Entrepreneurship is not merely the deployment of financial capital. It is the deployment of our remaining years, our health, our emotional bandwidth, our relationships, our reputation and our peace of mind.

Money can sometimes be recovered.

Time cannot.

Health may not always return.

Relationships damaged by years of neglect may never become the same again.

A reputation built over decades can be destroyed by one desperate decision.

That is why every entrepreneur must ask a question far more important than:

"How much money will this business make?"

The more meaningful question is:

"What will this business demand from my life, and will the total return justify the total cost?"

This is the essence of Return on Effort.

Profit Is Not the Same as Prosperity

Profit is an accounting number.

Prosperity is a condition of life.

A business may be profitable and still make its owner miserable.

A company may report impressive earnings while:

- carrying excessive debt,
- depending entirely on the promoter,
- consuming every waking hour,
- creating constant litigation,
- damaging family relationships,
- generating poor cash flow,
- exposing the owner to reputational risk,
- and destroying physical and emotional health.

Conversely, a modest enterprise may provide:

- dependable income,
- low debt,
- sufficient liquidity,
- operational independence,
- time with the family,
- freedom to travel,
- intellectual satisfaction,
- social respect,
- and peaceful sleep.

Prosperity must therefore include more than profit.

True prosperity includes:

Financial security, physical health, emotional stability, strong relationships, personal freedom, dignity and peace of mind.

An entrepreneur who earns more but loses all of these may have built a financially valuable enterprise but a personally destructive life.

"A business should support life. Life should not become permanently subordinate to the business."

The Traditional Measures Are Incomplete

Entrepreneurs, investors and financial analysts regularly calculate:

- Return on Investment,
- Return on Equity,
- Return on Capital Employed,
- Internal Rate of Return,
- Net Present Value,
- EBITDA,
- operating margins,
- asset turnover,
- and free cash flow.

These measurements are important. They tell us how efficiently financial capital is being used.

But they do not tell us how efficiently the entrepreneur's life is being used.

A business can produce an excellent return on capital and a terrible return on life.

It may earn 30 per cent on capital but require:

- 14-hour working days,
- constant personal supervision,
- recurring borrowing,
- stressful negotiations,
- delayed customer payments,
- frequent employee disputes,
- no holidays,
- deteriorating health,
- and permanent anxiety.

Financial return is visible in the balance sheet.

Human cost remains hidden.

That hidden cost is what the Return on Effort framework attempts to measure.

Understanding Return on Effort

At its simplest:

Return on Effort = Total Return Generated ÷ Total Cost Incurred

However, neither return nor cost should be restricted to money.

Total Return may include:

- profit,
- cash flow,
- appreciation in enterprise value,
- dividends,
- knowledge,
- experience,
- reputation,
- relationships,
- networks,
- strategic optionality,
- personal fulfilment,
- freedom,
- social impact,
- legacy,
- and a sense of purpose.

Total Cost may include:

- capital invested,
- time committed,
- debt assumed,
- working-capital pressure,
- stress,
- complexity,
- health deterioration,
- relationship damage,
- emotional burden,
- opportunity cost,
- reputational exposure,
- dependence on key employees,
- dependence on the promoter,
- and the loss of personal freedom.

The framework forces an entrepreneur to look beyond accounting profit and examine the full exchange taking place between the business and life.

Every business gives something.

Every business also takes something.

The entrepreneur must judge whether what the business gives is worth what it takes.

Risk-Adjusted Return on Effort: RAROE

Return on Effort becomes even more meaningful when adjusted for risk.

This leads to the concept of:

Risk-Adjusted Return on Effort — RAROE

Two businesses may appear to offer the same income, but their risks may be completely different.

One business may generate ₹1 crore with:

- no debt,
- advance payments,
- diversified customers,
- low fixed costs,
- minimal regulatory exposure,
- and limited dependence on the promoter.

Another may generate the same ₹1 crore while carrying:

- large bank loans,
- high employee costs,
- customer concentration,
- long credit periods,
- volatile raw-material prices,
- regulatory uncertainty,
- and complete dependence on the owner.

Their profits may be identical.

Their quality is not.

RAROE therefore asks:

How much sustainable return is being generated for every unit of financial, physical, emotional and reputational risk being assumed?

A business with slightly lower profit but dramatically lower risk may create much greater long-term value.

"The highest return is not always the best return. The best return is the one that survives adversity without destroying the entrepreneur."

The Fixed-Cost Trap

One of the greatest threats to Return on Effort is the burden of fixed costs.

Consider two businesses.

Business A

- Monthly income: £5,000
- Monthly fixed costs: £2,200
- Employees: 1
- Owner involvement: approximately 50 hours per month

The business is relatively simple. Its break-even point is manageable. If revenue falls temporarily, the owner still has room to respond.

Business B

- Monthly income: £7,000
- Monthly fixed commitments: £50,000
- Employees: 10
- Owner involvement: full-time

At first glance, Business B may appear larger, more prestigious and more ambitious.

But its risk profile is radically different.

Its owner must constantly generate enough revenue to support:

- salaries,

- rent,
- utilities,
- insurance,
- compliance,
- suppliers,
- financing costs,
- maintenance,
- taxes,
- and other overheads.

Business A may be smaller, but Business B carries far greater existential pressure.

A temporary fall in demand may inconvenience Business A.

The same fall may destroy Business B.

This is the fixed-cost trap.

Many entrepreneurs do not own their businesses.

Their fixed costs own them.

Once fixed costs rise beyond a safe level, the entrepreneur loses the freedom to pause, reconsider, experiment or withdraw.

Every month becomes a race against the calendar.

Revenue must arrive before salaries, rent and interest become due.

The entrepreneur may appear independent to the world but, in reality, becomes dependent on employees, landlords, banks, suppliers and customers.

"A large business with fragile economics may offer less freedom than a small business with strong cash flow."

Return on Time

Time is the entrepreneur's most finite capital.

Consider the earlier examples.

If Business A generates £5,000 per month and requires approximately 50 hours of the owner's time, the implied gross return on the owner's time is:

£5,000 ÷ 50 hours = £100 per hour

If Business B generates £7,000 per month but requires approximately 320 hours of the owner's time, the implied gross return becomes:

£7,000 ÷ 320 hours = approximately £22 per hour

Business B generates more monthly income.

But Business A generates more than four times the return on the owner's time.

The question is therefore not merely:

"How much does the business earn?"

It is:

"How much does the business earn for every hour of my life that it consumes?"

An entrepreneur must calculate:

- hours spent at work,
- hours spent travelling,
- hours spent worrying,

- hours spent resolving employee problems,
- hours spent collecting payments,
- hours spent dealing with compliance,
- and even the hours during which the body is at home but the mind remains trapped inside the business.

Mental occupation is also a form of time consumption.

A business that occupies the mind throughout the night is using more than office hours.

It is using life itself.

Return on Health

Health is often treated as an unlimited resource during the early years of entrepreneurship.

It is not.

Many entrepreneurs tell themselves:

- “I will rest after the business stabilises.”
- “I will exercise when this project is complete.”
- “I will take a holiday after the loan is repaid.”
- “I will pay attention to my health once the company becomes profitable.”

But businesses rarely declare themselves complete.

One challenge is replaced by another.

A new customer brings new expectations.

A larger facility brings larger fixed costs.

Higher revenue brings greater working-capital pressure.

More employees bring more management complexity.

The entrepreneur keeps postponing health until the body refuses to cooperate.

Consider a restaurant owner whose business earns £150,000 annually.

On paper, it is an attractive profit.

But suppose the owner:

- works 14 hours a day,
- remains on call seven days a week,
- cannot take holidays,
- eats irregularly,
- sleeps poorly,
- faces constant staffing problems,
- and develops hypertension, diabetes or chronic anxiety.

Is the £150,000 truly profit?

Or is part of it deferred compensation for future medical suffering?

Every business should be evaluated for its return on health.

Ask:

- Does the business permit regular sleep?
- Does it allow exercise?
- Does it permit proper meals?
- Does it generate chronic stress?
- Can the owner take time away without operations collapsing?
- Is the owner becoming healthier, weaker or emotionally exhausted?

- Is the income sufficient to compensate for the physical cost?

Some costs do not appear in the profit-and-loss account because the invoice arrives years later.

The body eventually presents the bill.

"When profit is earned by liquidating health, it is not income. It is a withdrawal from life's principal."

Return on Human Capital

A business should not only use the entrepreneur's abilities. It should expand them.

Human capital includes:

- knowledge,
- judgment,
- experience,
- confidence,
- relationships,
- credibility,
- problem-solving ability,
- communication skills,
- and leadership capability.

Some ventures make the entrepreneur wiser, stronger and more valuable.

Others merely keep the entrepreneur busy.

Busyness should never be confused with growth.

A person may repeat the same operational routine for ten years and claim ten years of experience.

In reality, it may be one year of experience repeated ten times.

A high-Return-on-Effort business should create transferable human capital.

Even if the venture eventually fails or is sold, the entrepreneur should emerge with:

- deeper market understanding,
- stronger professional relationships,
- greater strategic capability,
- enhanced reputation,
- and improved decision-making ability.

A venture that produces temporary income but leaves the entrepreneur with no transferable capability may have generated poor Return on Effort.

Ask:

- What am I learning?
- Am I becoming more valuable?
- Is this knowledge transferable?
- Are my relationships expanding?
- Is my reputation improving?
- Will this experience create future optionality?
- If this business ends tomorrow, what will remain within me?

The best enterprises produce both financial capital and human capital.

Return on Relationships

Relationships are among the most valuable and most neglected assets in entrepreneurship.

A business may demand:

- missed family occasions,
- cancelled holidays,
- emotional unavailability,
- broken commitments,
- impatience at home,
- absence during children's formative years,
- and the permanent transfer of stress from the workplace into the family.

Entrepreneurs sometimes justify this by saying:

"I am doing all this for the family."

But the family may not need only future wealth.

It may also need present companionship.

Children may benefit from inheritance, but they also need memories.

A spouse may appreciate financial security, but also needs attention, respect and emotional presence.

Parents may value success, but they also need time before time runs out.

The cost of neglect is rarely visible immediately.

Relationships often absorb pressure silently.

By the time the damage becomes obvious, emotional distance may already have become permanent.

An entrepreneur must therefore ask:

- Is the business strengthening or weakening my closest relationships?
- Am I emotionally available when I am physically present?
- Do the people I love experience the business only through my stress?
- Does the venture allow meaningful family time?
- Am I postponing relationships to an imaginary future?
- Will the people for whom I claim to be working still feel close to me when I finally become free?

A business should create security for the family without destroying the family's emotional foundation.

"Success loses much of its meaning when the people with whom we hoped to celebrate it no longer feel connected to us."

Return on Emotional Bandwidth

Every business occupies mental space.

Some occupy little.

Others consume the entrepreneur completely.

Emotional bandwidth is the capacity to:

- think clearly,
- remain patient,
- make balanced decisions,
- enjoy relationships,
- absorb setbacks,
- remain creative,
- and experience peace.

Businesses with poor systems and high uncertainty consume enormous emotional bandwidth.

The entrepreneur may constantly worry about:

- salaries,
- receivables,

- customer complaints,
- statutory notices,
- employee resignations,
- product failures,
- lease renewals,
- bank repayments,
- raw-material prices,
- legal disputes,
- regulatory approvals,
- and the possibility of reputational damage.

Even when no immediate crisis exists, the anticipation of crisis may remain.

This has a hidden opportunity cost.

A mind occupied with daily survival cannot easily think about:

- innovation,
- long-term strategy,
- personal growth,
- family,
- health,
- spirituality,
- or new opportunities.

Some businesses generate money but consume all the mental capacity required to enjoy it.

A high-RAROE business should not require permanent psychological emergency.

The entrepreneur should be able to step back, think, reflect and make decisions from clarity rather than fear.

Return on Freedom

Entrepreneurship is often chosen in the name of freedom.

Yet many entrepreneurs become less free than employees.

They cannot:

- take leave,
- switch off their phone,
- travel without anxiety,
- fall ill,
- attend family events,
- or spend one uninterrupted day away from operations.

Their business is technically an asset but functionally a demanding employer.

True entrepreneurial freedom exists only when:

- systems operate without continuous personal intervention,
- decision-making is delegated,
- cash reserves provide breathing room,
- debt remains manageable,
- customer concentration is low,
- and the owner can leave temporarily without the enterprise collapsing.

An enterprise that cannot function without the entrepreneur may not be a business.

It may merely be a self-created job with additional risk.

Ask:

- Can I take a two-week holiday?
- Can the business operate if I am unavailable?
- Do systems exist, or does everything depend on me?
- Can I refuse an unsuitable customer?
- Can I walk away from an unethical transaction?
- Can I reduce my workload without destroying income?
- Does the business increase or reduce my choices?

Freedom is not the absence of responsibility.

It is the presence of choice.

Return on Peace of Mind

Peace of mind is one of the highest forms of wealth.

It comes from:

- manageable obligations,
- ethical conduct,
- sufficient liquidity,
- low dependence,
- good health,
- trusted relationships,
- limited debt,
- and confidence that temporary adversity can be survived.

An entrepreneur should never underestimate the value of sleeping peacefully.

A business that earns slightly less but allows deep sleep may be superior to a higher-earning enterprise built on excessive leverage, questionable practices or constant uncertainty.

Peace of mind is not laziness.

It is not the absence of ambition.

It is the absence of unnecessary fear.

The best entrepreneurs do not eliminate all risk. That is impossible.

They select risks that are:

- understood,
- compensated,
- manageable,
- reversible where possible,
- and unlikely to cause permanent damage.

"The true quality of an investment is revealed not only by the return it generates, but by the peace with which the investor can hold it."

The Owner-Dependency Test

One of the most important components of RAROE is owner dependency.

A business may report excellent profit, but if every important decision depends on the promoter, the enterprise carries hidden fragility.

The owner may be required for:

- customer relationships,
- supplier negotiations,
- employee discipline,
- technical decisions,

- collections,
- quality problems,
- banking,
- regulatory matters,
- and crisis resolution.

This creates two risks.

First, the business cannot scale efficiently.

Second, the owner cannot withdraw without damaging the enterprise.

A high-quality business must gradually convert personal effort into institutional capability.

This requires:

- documented systems,
- trained managers,
- clear authority,
- measurable accountability,
- diversified relationships,
- financial controls,
- succession planning,
- and a culture that does not depend entirely on the promoter's presence.

The objective is not to become irrelevant.

The objective is to become unnecessary for routine survival and valuable for strategic direction.

The Debt Multiplier

Debt can improve returns during favourable periods.

It can also destroy Return on Effort when conditions change.

Borrowing introduces:

- fixed repayment commitments,
- interest costs,
- collateral exposure,
- covenant restrictions,
- refinancing risk,
- and emotional pressure.

A leveraged business may appear highly profitable while demand is strong.

But if revenue falls, the entrepreneur still has to service debt.

Possible causes of disruption include:

- illness,
- the exit of a key employee,
- delayed customer payments,
- refusal by a landlord to renew a lease,
- recession,
- a pandemic,
- burnout,
- a legal dispute,
- a regulatory change,
- supply-chain interruption,
- customer insolvency,
- technological disruption,
- or a sudden loss of reputation.

No business plan can predict every disruption.

RAROE therefore examines not only expected return but survivability.

Ask:

- Can the business survive a 30 per cent decline in revenue?
- Can it survive six months of delayed payments?
- Can it survive the owner’s illness?
- Can it survive the loss of its largest customer?
- Can it survive a sharp rise in interest rates?
- Can it survive without fresh borrowing?

A business that performs brilliantly only under perfect conditions is not robust.

Return on Reputation

Reputation is accumulated slowly and lost quickly.

Some ventures offer attractive profit but expose the entrepreneur to:

- questionable counterparties,
- regulatory ambiguity,
- product-quality risks,
- aggressive financial structures,
- unethical selling,
- environmental damage,
- or legal uncertainty.

The apparent return may be high.

The risk-adjusted return may be extremely poor.

An entrepreneur must ask:

- Could this venture damage my name?
- Would I be comfortable if every transaction became public?
- Are the promoters and counterparties trustworthy?
- Are customer promises realistic?
- Does the product create social harm?
- Are regulatory standards being followed in spirit as well as in form?
- Is the return sufficient to justify the reputational exposure?

Money can often be earned again.

Trust is far more difficult to rebuild.

A transaction that threatens a lifetime’s reputation rarely offers an acceptable RAROE.

Return on Opportunity Cost

Every commitment closes other doors.

Capital invested in one business cannot simultaneously be invested elsewhere.

More importantly, time and emotional energy devoted to one venture cannot be recovered for another.

Opportunity cost includes:

- businesses not pursued,
- investments not made,
- relationships not cultivated,
- knowledge not acquired,
- holidays not taken,

- health not protected,
- and years not lived differently.

An entrepreneur may continue in an average business merely because substantial effort has already been invested.

This is the sunk-cost trap.

Past effort cannot justify future suffering.

The correct question is not:

"How much have I already invested?"

It is:

"Knowing what I know today, would I invest the next five years of my life in this business?"

If the answer is no, continuing merely because of the past may be irrational.

The RAROE Evaluation Framework

Before starting, buying, expanding or continuing a business, an entrepreneur should evaluate it across the following dimensions.

1. Financial Return

- What is the expected profit?
- What is the free cash flow?
- How much capital is required?
- What is the return on capital?
- Is the return sustainable?
- How much of the reported profit converts into cash?

2. Capital Risk

- How much capital can be permanently lost?
- Is personal property exposed?
- Is additional funding likely?
- Does the business require continuous reinvestment?
- Is the downside limited or open-ended?

3. Debt Risk

- What are the fixed repayment obligations?
- Can the business survive a revenue decline?
- Is refinancing required?
- Are interest rates fixed or variable?
- Are personal guarantees involved?

4. Time Requirement

- How many hours will the owner devote?
- Is travel required?
- Is the business operationally intensive?
- Can time commitment reduce over the years?
- What is the effective return per hour?

5. Health Cost

- Will sleep, exercise and nutrition suffer?

- Is the business physically demanding?
- Does it create chronic stress?
- Can the owner take medical leave?
- Is the health cost temporary or permanent?

6. Relationship Cost

- Will family time decline?
- Will important occasions be missed?
- Does the business demand relocation?
- Is the spouse supportive?
- Will stress enter the home?

7. Emotional Cost

- Is income predictable?
- Are collections difficult?
- Are customers or employees frequently confrontational?
- Does the business create constant anxiety?
- Is the owner temperamentally suited to it?

8. Complexity

- How many employees, suppliers, customers and regulations must be managed?
- Is the supply chain fragile?
- Is technology changing rapidly?
- Does the business have multiple points of failure?

9. Owner Dependency

- Can the business operate without the promoter?
- Are systems documented?
- Is a second line of management available?
- Can relationships be institutionalised?
- Is succession possible?

10. Strategic Return

- Does the business create knowledge?
- Does it build reputation?
- Does it improve the entrepreneur's network?
- Does it create future optionality?
- Can it lead to more attractive opportunities?

11. Freedom

- Can the owner take leave?
- Can unsuitable customers be refused?
- Can the business be sold?
- Can involvement be reduced?
- Does the venture create choices or remove them?

12. Peace of Mind

- Is the business ethical?
- Is liquidity adequate?

- Are obligations manageable?
- Can adversity be survived?
- Can the entrepreneur sleep peacefully?

A Practical Scoring Model

Each category may be scored on a scale of 1 to 10.

Dimension	Score
Financial return	/10
Cash-flow quality	/10
Capital safety	/10
Debt resilience	/10
Return on time	/10
Return on health	/10
Return on relationships	/10
Emotional sustainability	/10
Operational simplicity	/10
Low owner dependency	/10
Strategic learning	/10
Reputation enhancement	/10
Freedom and flexibility	/10
Peace of mind	/10

The total score should then be adjusted for the probability of permanent capital loss and permanent life damage.

A business offering strong financial returns but scoring poorly on health, relationships, debt resilience and peace of mind may be commercially attractive but personally unsuitable.

Conversely, a lower-return enterprise with excellent cash flow, low capital exposure, flexible working hours and strong strategic value may offer superior RAROE.

The purpose of the score is not mathematical perfection.

Its purpose is disciplined thinking.

Different Entrepreneurs Will Reach Different Answers

RAROE is personal.

A business suitable for one entrepreneur may be completely unsuitable for another.

A young entrepreneur with:

- limited family obligations,
- high energy,
- a long time horizon,
- and strong risk tolerance

may rationally accept greater volatility and longer working hours.

An entrepreneur in the later stage of life may place greater value on:

- capital preservation,
- predictable income,
- health,
- family,
- liquidity,
- freedom,
- and peace of mind.

The same person may also make different decisions at different stages of life.

At 30, the priority may be growth.

At 50, it may be scale with systems.

At 65, it may be preservation, purpose, mentoring, freedom and legacy.

There is no universal answer.

There must, however, be conscious evaluation.

The tragedy is not choosing a demanding business.

The tragedy is entering one without understanding what it will demand.

The Myth of Scale at Any Cost

Modern entrepreneurship glorifies scale.

Entrepreneurs are encouraged to:

- expand rapidly,
- hire aggressively,
- raise external capital,
- enter multiple markets,
- increase valuation,
- and chase growth.

Scale can create enormous value.

But scale also increases:

- complexity,
- fixed costs,
- compliance,
- employee dependence,
- reporting obligations,
- investor expectations,
- cash-flow risk,
- and loss of control.

Not every business needs to become large.

Not every entrepreneur wants to build an institution employing thousands.

A smaller enterprise with high margins, low debt and personal freedom may be a better business for its owner than a much larger organisation carrying permanent pressure.

Growth should be chosen.

It should not become an addiction.

Before expanding, the entrepreneur should ask:

- Will growth improve cash flow or merely increase revenue?
- Will margins improve?
- Will owner dependency decline?
- Will the balance sheet strengthen?
- Will the business become more resilient?
- Will my life become better or merely busier?
- Am I expanding because the economics are attractive or because scale satisfies my ego?

“Turnover may impress the world. Free cash flow and freedom improve the entrepreneur’s life.”

Designing a High-RAROE Business

A high-RAROE business generally has several of the following characteristics:

- low or manageable fixed costs,
- strong gross margins,
- predictable cash flow,
- advance or timely customer payments,
- limited debt,
- low capital intensity,
- diversified customers,
- repeat business,
- pricing power,
- simple operations,
- strong systems,
- low dependence on one employee,
- low dependence on the promoter,
- low regulatory ambiguity,
- ethical products and practices,
- transferable knowledge,
- and the ability to operate without constant intervention.

The objective is not to avoid effort.

Effort is essential.

The objective is to ensure that effort compounds.

Good effort creates:

- systems,
- reputation,
- recurring revenue,
- intellectual property,
- customer loyalty,
- capable people,
- and strategic options.

Poor effort disappears the moment the entrepreneur stops working.

A high-RAROE enterprise gradually converts effort into assets.

A low-RAROE enterprise demands the same effort repeatedly merely to remain alive.

When Should an Entrepreneur Walk Away?

Walking away from a business is emotionally difficult.

The entrepreneur may feel responsible for:

- employees,
- customers,
- suppliers,
- lenders,
- and family expectations.

There may also be pride, identity and sunk cost involved.

However, continuation should be reconsidered when:

- the business persistently destroys health,
- debt keeps increasing,

- cash flow remains structurally weak,
- the owner cannot withdraw,
- relationships are being permanently damaged,
- the industry economics have deteriorated,
- ethical compromises are becoming necessary,
- no meaningful learning or strategic value remains,
- or the expected return no longer justifies the effort and risk.

Exiting is not always failure.

Sometimes, continuing is the greater failure.

A disciplined entrepreneur knows when to persevere and when to redirect life's remaining capital.

The Most Important Due Diligence

Before investing money, entrepreneurs undertake due diligence on:

- markets,
- customers,
- technology,
- competition,
- legal issues,
- financial projections,
- and valuations.

But they rarely conduct due diligence on themselves.

They should ask:

- Do I genuinely understand this industry?
- Does my temperament suit this business?
- Can my health support the required effort?
- Is my family prepared for the commitment?
- Do I possess the necessary relationships?
- Can I tolerate the uncertainty?
- Am I entering because of conviction or comparison?
- Am I trying to prove something?
- Is the expected return worth the years involved?
- What kind of person will this business make me?

The last question may be the most important.

Businesses do not merely create wealth.

They also shape character.

Some develop patience, courage and wisdom.

Others create fear, aggression, compromise and bitterness.

The entrepreneur must evaluate both outcomes.

Conclusion: Invest the Remaining Years Wisely

Entrepreneurship is often described as the art of allocating capital.

It is more accurately the art of allocating life.

Every entrepreneur invests:

- money,
- time,
- health,

- relationships,
- reputation,
- emotional energy,
- and freedom.

The return must therefore be measured across all these dimensions.

A business that earns impressive profit but destroys the entrepreneur’s health, relationships and peace of mind may offer a poor Return on Effort.

A business that creates reasonable wealth while preserving dignity, freedom, relationships and health may offer an exceptional RAROE.

The objective is not to build the largest enterprise.

It is not merely to report the highest turnover.

It is not to impress society with visible scale.

The objective is to build an enterprise that creates wealth without consuming the very life that wealth was intended to improve.

At every important decision point, ask:

- What is the financial return?
- What is the risk?
- What is the return on my time?
- What is the impact on my health?
- What will this do to my relationships?
- How much emotional bandwidth will it consume?
- Will it increase my freedom?
- Will it strengthen my reputation?
- Can it survive adversity?
- Will it allow me to sleep peacefully?
- And, above all, is it worth the remaining years of my life?

Because the greatest investment an entrepreneur ever makes is not capital.

It is life itself.

“Do not measure success only by the wealth your business creates. Measure it also by the health, relationships, freedom, dignity and peace it allows you to retain.”

— Arun Sehgal