

# THE OWNERS' MINDSET IN THE AGE OF DISRUPTION

John A. Davis  
MIT Sloan School of Management  
Cambridge Family Enterprise Group

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**CAMBRIDGE**  
INSTITUTE FOR FAMILY ENTERPRISE

## **OWNERS NEED TO THINK MORE LIKE OWNERS**

A major focus of the Cambridge Institute for Family Enterprise, and in my new faculty position at MIT, is to track how certain disruptions are shaping the future of family enterprises.

Technological change, globalization, social and demographic changes, environmental degradation, and the breakdown of government and political discourse—to name a few—are disrupting family enterprises in important ways. The impact of these forces goes well beyond reshaping industries and affecting the way you do business (what, where and how you sell, source and produce; how you prepare your organization for change; how you recruit, develop and retain good talent).

These forces also uproot the traditional ways in which families own their companies, invest their wealth, manage their families, and think about long-term success. They affect a family's investment portfolio and time horizons (what companies or assets they choose to invest in and for how long), how they structure the ownership and governance of their companies, ways to source capital for growth, and how to guide and unite the family itself.

Individually, the impact of a particular disruptive force can present a particular company with challenges, opportunities or both. Collectively, these disruptive forces are indicating how we should think about family enterprise and what families need to be good at to keep their companies healthy and to regenerate their wealth. Owners of

family companies must understand how these forces are acting on their entire family enterprise—family company, investing activities, social impact activities, talent development, and family unity. And you don't have years to study these forces. Things are changing too quickly for that.

“ Today's disruptive forces show families what they need to be good at to keep their companies healthy and to regenerate their wealth. ”

### **HOW FAMILY COMPANIES BECAME SUCCESSFUL, HISTORICALLY**

Family companies do well managing economic cycles, but typically aren't wired to flex with big disruptive changes. Family companies have been superior performers historically mostly because they have focused on operational excellence. “Keep the system running well. Tinker, tinker, tinker. Make it better. Sure, we need to buy better equipment and change people in roles occasionally, but mostly we just have to keep things humming.”

The formula for enduring success has largely been: focus on maintaining your competitive edge in business; emphasize quality and make steady improvements; grow within one's industry or in related areas of business; reinvest aggressively in your business; build loyalty with customers, employees and suppliers; keep the family at peace and committed to the company; and choose the right successor to lead the business. This approach to performance has worked for generations, and may seem dull today, but in fact, it is innovative about improving products and processes. Research demonstrates that family companies are more innovative than non-family companies. The cultures of successful family companies have tended to be obsessed with product and service quality, operational excellence, and steady improvement. This has served family businesses well up to this point.

Emphasizing stability and tradition, along with steady improvement, generally worked because industries and business models have gone through long periods of not changing much—punctuated with occasional disruptive times. Families and family companies generally do better in stable or gradually changing environments because gradual change

is more compatible with family culture. Families in business want to stay connected to their valued and loyal employees, customers and suppliers, they try to keep their family and company hierarchies in place, and they prefer to make changes at a more natural life pace when stars align and feathers won't get too ruffled.

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With this guiding attitude, we shouldn't be surprised that family companies have faced their biggest challenges during industrial revolutions when they needed to quickly make big changes in how they did things and even what they did or produced. Each industrial revolution has been triggered by a big technological change (e.g. from water power to steam power, from steam to combustion engine power, from analog to digital technology), and in every one of these disruptive periods, many family companies have failed because they didn't adapt quickly enough to changing conditions. Interestingly, after the technological disruption caused many family companies to close their doors, some of the same families that failed in business soon got on board with the new technologies and built new companies that succeeded using the new technology.

### **SUCCESS TODAY REQUIRES THINKING LIKE AN OWNER**

Family companies, it turns out, generally like new challenges and are good at exploring new opportunities. They are unfortunately slow at letting go of practices and activities that have defined them. But what should concern us all is that they are really awful at letting go of their losing bets—like the bets they have made on businesses in decline, old practices and technologies, people who are no longer capable in their roles, and dying industries. They hang onto these losing propositions way too long.

That should scare you because if there is anything that families in business have to be good at, and fast at, in these disruptive times, it's letting go of things that aren't working. This requires business leaders and owners to actually recognize that they are losing on an investment they have made and understand that they can't make their bet succeed. This requires gaining altitude, detaching from one's business, and *thinking like an owner*.

Those with an operators' mindset often are very slow to see these problems. They could simply be too attached to the business, to the tradition or legacy, or to some people. Or they see the problems, but think they can innovate their way out of them. This is often foolhardy; you don't want to bet against your industry. It's like the casino. You're probably not going to win.

### **OWNERS MAKE CHANGE HAPPEN**

Our approach to managing change also needs to fundamentally transform. Things in business, families, and society have always changed—but change has generally happened at a pace that strong, innovative families could typically absorb. Today, change has become frantic, fundamental, bumpy, and relentless. Change, it turns out, has changed. What in the past families could take two or more generations to understand about their mission, company, and other enterprise activities, they must understand quickly today.

Families no longer have lots of time to gradually figure out how to adapt to changes in their situation. Families must be the force for change in their companies. They must make change happen. The family ownership group must be the always-steady gyroscope, center of gravity, and engine of change.

To be at the center of various forces acting on one's company, families need to be very clear about their family enterprise mission and values. And their mission cannot be: we are here to make this particular product or provide this particular kind of service, in this particular place and in this particular way. *The mission of family enterprise must be about growing and transmitting economic, social, and relational value while living by the values the family and enterprise determine are meaningful.*

### **TWO IMPORTANT MINDSETS**

To keep a company thriving and growing over generations actually takes two distinct mindsets and owners need to appreciate both.

One is the *operators' mindset*, focused on nimble operational excellence—responsive to customer needs while managing costs, innovating, watching competition, adjusting to supply chain issues, creating a responsive and attractive workplace, dealing with the many people and operating issues that appear constantly. To be a good operator you have to be close to the “street”, stay on your toes, and have your feet on the ground—to mix three useful metaphors. Most families in business are superb operators and try to

imbue their next generation with this perspective. I rarely see a need to improve on the operators' mindset but I often see a need to balance it.

Families also need to have an *owners' mindset*, which is distinct from the operators' mindset. To have an owners' mindset you need to gain altitude on your business and be good at making two kinds of bets:

1. Good bets on investments (including when to exit bad bets), and
2. Good bets on people (including when to change people in key roles).

Both types of bets are important for the family and its company to succeed long-term. Most bets on employees and on investments are made by the management or board of the company. But big bets on investments and on people often rise to the level of the owners for input or decision: Should we take on more debt, bring on an investor, or go public? Should we sell a particular line of business or the whole company? Should we enter this new industry? Who should be the next CEO?

Such decisions of course are informed by management analysis and wise counsel from one's board and other advisors. Still, even with good advisors, the most important decisions in a family company generally come back to the family owners. In disruptive times, it's these types of decisions that often make or break a business.

#### **DEVELOP AN OWNERS' MINDSET:**

##### **4 Questions for Family Owners to Answer**

1. What is our mission as a family (what are we really trying to accomplish)?
2. What are we good at doing?
3. What responsibilities are ours and what can be usefully delegated to non-family employees and advisors?
4. What kinds and levels of returns are we expecting from our activities?

Both mindsets help to ensure success and sustainability of the family company. I advise having an "A Team" of managers and key employees, but you also need an "A Team" of family owners. Good owners do not neglect operational excellence by any means, but

rather delegate operational excellence to a capable management team. Owners need to embed the company with the family's values, arm managers with the owners' vision and the board's approved strategy, and let them operate. Charge them with designing better products and better processes. And expect the owners to step up and see things from an ownership perspective.

Some owners are capable of having both mindsets. Others have just one, which is fine as long as they appreciate the value of the other. What you must avoid in ownership groups is one mindset—usually the operators' mindset—becoming the religion of the group. When some owners or advisors point out that the industry is maturing or being disrupted, and the family business can't succeed in this environment and maybe it's time to sell, they shouldn't be branded as heretics. Owners need to appreciate the value of both perspectives.

### **GIVE YOURSELF PERMISSION TO THINK LIKE AN OWNER**

For decades, families have been encouraged to be good stewards of their family company, meaning to grow the economic value of the family business and pass it to the next generation. This directive doesn't mean to support the business even when it or its industry is losing value and conditions can't be improved. And it doesn't mean to keep the company the same when the family's skills and interests require a different portfolio of business activities.

The owners' correct mandate is to “Build Value and Values” across generations. It's neither realistic nor necessary for good stewards to insist that they keep owning any particular business. Businesses come and go in popularity and value, industries mature, and families' interests and skills change over time. How a family builds economic and social value can change over time; often it needs to change for a family to remain financially viable.

Give yourselves permission to think like owners. Structure periodic owner-level conversations. Adopt the owners' mindset.

### **BUILD YOUR TEAM OF ACTIVE OWNERS**

Generally, the owners that deal with key ownership-level decisions facing the system are employed in the business or serve on the company's board. Sometimes they do neither, but are important owners knowledgeable enough to help make and support key

decisions. We call this small group of individuals the Active Owners. They need to be knowledgeable about the company and the family's other wealth creating activities, understand the company and its industry and management group, its financial situation and the needs, interests and capability of the family. Some families only have one Active Owner; other families have a number. If you have a number, they need to behave like a team.

The right mindset of Active Owners emphasizes long-term, “joyful value creation”, entrepreneurial experimentation and thoughtful diversification, embracing new thinking, letting go of value-destroying and outdated activities in a timely way, and prudent consumption by the family and its company. They focus on growing and passing Value and Values.

More than ever before, your success and survival require good decisions at the ownership level. I want you to be prepared to make the important decisions that owners must make. These decisions will be upon you sooner rather than later.



## JOHN A. DAVIS

MIT Sloan School of Management  
Cambridge Family Enterprise Group

Professor John Davis is a globally recognized pioneer and authority on family enterprise, family wealth, and the family office. He is Faculty Director of the Family Enterprise Programs at MIT Sloan School of Management where he researches and educates family enterprises on preparing for the future. He is an advisor to leading families around the world at the Cambridge Family Enterprise Group. His latest book, *Enduring Advantage*, explores how families can shape their enterprises and families as they navigate this era of disruption. To follow his writing and speaking, visit [johndavis.com](http://johndavis.com) and twitter [@ProfJohnDavis](https://twitter.com/ProfJohnDavis).

## ABOUT THE CAMBRIDGE FAMILY ENTERPRISE GROUP

The Cambridge Family Enterprise Group, founded in 1989 by John A. Davis, is a global advisory, education, and research organization dedicated to family-owned enterprises. We help families in business achieve transformative change and multigenerational success for their families, ownership groups, enterprises, and financial wealth. It is comprised of two divisions: Cambridge Advisors to Family Enterprise, a highly specialized, international advisory firm serving family enterprises, and Cambridge Institute for Family Enterprise, a leading education and research institute dedicated to the significant issues family enterprises face.

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