

5 HABITS OF DISRUPTION-READY FAMILIES

Professor John A. Davis
Founder and Chairman, Cambridge Family Enterprise Group;
Senior Lecturer and Faculty Director, Family Enterprise Programs,
MIT Sloan School of Management

CAMBRIDGE
INSTITUTE FOR FAMILY ENTERPRISE



To deal with the rising vulnerabilities of this turbulent environment, business families must prepare not only their business, but their family for disruption. The five habits below offer a blueprint for families to intelligently and proactively get ready.

Once exclusive to the military, the acronym VUCA has secured solid foothold in the business world, where companies must navigate increasingly volatile, uncertain, complex, and ambiguous environments. Today, change is rapid, problems are multifaceted, and predictability is by and large an assurance of the past.

For business families, this new landscape presents an existential challenge to traditional ways of doing business—of owning and leading their companies, building consumer loyalty, retaining talent, investing, and planning for the long-term. The VUCA environment is demanding a new kind of ownership and leadership among family enterprises.

To deal with the rising vulnerabilities of this turbulent environment, business families must prepare not only their business, but *their family* for disruption.

The five key habits below offer a blueprint for families to intelligently and proactively get started.

Habit 1: Get altitude and consider the big picture.

Families can no longer focus exclusively on their competency of operational excellence—the incremental tinkering to their established business. They must equally be able to step outside this day-to-day activity, zoom out, and “gain altitude.” From a birds-eye view, families can study how the world and their industry are changing, recognize new opportunities and challenges, and then deploy capital accordingly to maintain the sustainable growth of their assets.

It is only from a high altitude (30,000 feet or 9,000 meters) that families keep abreast of important changes—obvious or subtle—in their sector. What are new threats? Where is relevant technology moving? Where are startups focusing? What is trending among the next generation? How are demographic shifts affecting our market?

Gaining altitude also affords perspective on broader concerns like how the family’s interests and aptitudes are shifting, how environmental degradation may impact the business and family, how political changes and globalization are influencing their markets, among other mega trends. These variables, often in confluence, can compound the change that companies and families experience, generating new instabilities alongside new windows for value creation.

A third-generation CEO of a multi-billion dollar family business in the U.S. notes the importance and difficulty of gaining altitude. “Sometimes it’s hard to get people to think about what’s the next new thing,” she says. “When everybody is running the machine there’s a tendency to look at the short-term and focus on incremental opportunities and not look ahead to the really big opportunities.” She makes it a priority to talk frequently with people who are scanning what’s ahead, and she encourages her team to do the same. “What’s on the horizon? What’s *beyond* the horizon?” she asks.

One’s board of directors is a vital resource for this kind of big-picture talk, so families must recruit strategic thinkers, family and non-family, to serve on the board. In addition, convening an owner’s council to focus on owner-level decisions is beneficial. Both of these groups, after all, will comprise the most trusted and knowledgeable people when it

comes to strategic, owner-level decision-making. In addition to good external advisors, periodic learning trips away from the workplace help to shake off blinders and illuminate what's happening in business and in the world.

Habit 2: Redefine what it means to be stewards.

Being ready for disruption as a family means being prepared, even on short notice, to let go of businesses and people that aren't working in order to embrace new growth opportunities. It is a readiness, in other words, to split with some tradition.

Families often consider it difficult to divest legacy businesses or let go of certain people because they believe that holding on and being loyal is part of what makes them “stewards.” For generations, this idea has asked families to nurture and cultivate a family business, take care of it, grow it if you can, and pass it, along with important traditions, to the next generation.

In today's environment, families must reconsider what it means to be “stewards” of their enterprise. Today's turbulent environment calls for a reinvention of the idea of stewards as care-takers of a specific business. It is no longer reasonable for families to insist on owning one or another particular business; they can no longer devote their efforts (and their name) to a specific product or service tied to a specific geography. Given the rapidity with which industries transform, businesses turnover, and family members' interests and skills change, stewardship today implies managing and growing assets and values in broad pursuit of a family mission.

This approach gives successive generations the necessary latitude to define their business and investment activities in new ways, and to craft a new vision for the family enterprise as the environment calls for it. They can rely on a deeper family mission to move misallocated resources, finding economic and social value not according to a particular product or service, but a particular approach and mentality.

Family enterprise should tackle this identity shift as early as possible. Instill in your family a presiding comfort with change—with a willingness to turn away from some traditions or some parts of the family's legacy. Stewarding a family enterprise today means responding agilely to threats without losing sight of the family's mission. The most successful enterprising families today embrace this broader notion of “stewardship.”

Habit 3: Keep up with new technologies.

Modern technology is driving cycles of disruption more quickly. While the transition from steam power to electric power took a century, the last production era recognized by scientists (automation and computers) lasted only 17 years. Another is now underway, driven by AI, robotics, blockchain, and connected technologies. Experts predict these cycles will only accelerate.

The speed at which technology is changing the status quo is profound. Societies and businesses move almost continuously into new ways of doing things. Families must be keenly aware of when technologies are poised to disrupt their industry—a historical weakness of family enterprises.

Importantly, keeping up with new technology doesn't mean simply adopting new tools that do old things better; it also means understanding the manifold spheres of innovation that overlap with your core business, including your suppliers and customers. Consider the Schaeffler family of Germany, which manufactures ball bearings. 60% of its products are sold to auto companies for use in combustion engines. By 2018, this sales channel was drying up given the auto industry's investment in electric engines. Schaeffler is adjusting, belatedly and reactively, to new products, but only after losing substantial value.

Don't wait until value has been lost before you pay attention to new technologies that will impact your business. Watch startups in your sector and in those of your customers and suppliers. Attend conferences and education programs to learn the latest in technology. Invite technology experts to present at board meetings. Heed the warnings.

Habit 4: Learn to experiment.

The biggest threat to incumbents today tends to be nimble startups. This means big firms need to think like small firms. And since a culture of innovation must start at the top with the owners, families need to get comfortable with experimentation.

This is not an easy change. Experimentation is not built into the DNA of most families. Rather, families tend to be risk averse with a low tolerance for failure and a low desire for frank conversation. But an experimentation culture requires a lot of risk-taking, some failure to learn from, and real candor. Even though it is not instinctive to families, the process of experimentation must be learned.

A number of pathways can help families incorporate an experimental culture into their companies. They can, for instance, seek young, strategic acquisitions and invest in startups. Another pathway is to launch a startup of your own. Cox Enterprises, a fourth generation conglomerate with over \$20 billion in revenue, did this in 1997, a year before the company's centennial. As an experiment, Cox launched its own startup, Autotrader, an online portal for finding new and used cars. This subsidiary now has roughly \$1 billion in revenue. In addition, to keep their finger on the pulse in their industries, Cox is a supporter of several business accelerators and venture capital funds.

Not every experiment will succeed, but even in the face of failure, the learning gained from a contained experiment is worthwhile.

Habit 5: Partner Across Generations.

Steering the family enterprise toward success should be a generationally inclusive project, not one led by the oldest generation and observed by the younger. Think NASA's mission control crew, not the few astronauts on-board the shuttle.

The senior generation has accrued deep operational and strategic expertise over time, and will be intimately familiar with the distinct facets, values, and mission of the family enterprise. But this set of knowledge cannot replace insight into probable technological disruptions, novel competitive threats, or changing consumer trends—areas in which the next generation may be better equipped. In short, constructing bulwarks against disruption is too big a task for one generation to manage alone. Families should involve the talents, capabilities, ideas, networks, and capital of every generation.

Such collaboration is also essential for speaking with a unified voice to the board and executive team. No matter which generation is talking, the message should be the same: we, as a family, are ably prepared for disruption.

Are you?

Five Habits of Disruption-Ready Families

1. Get altitude and consider the big picture.

Regularly step outside of your day-to-day activity and study your environment. Scan how the world is changing, how your markets and industries are shifting, where technology is moving, where your family's interests are trending, and from where new opportunities and challenges are emerging.

2. Redefine what it means to be stewards.

Let go of being a care-taker of a specific business. Stewardship today means managing and growing assets and values in broad pursuit of a family's mission. This gives families latitude to define their business and investment activities in new ways as today's rapidly-changing environment calls for it.

3. Keep up with new technologies.

Remain keenly aware of the impact that changing technologies will have not only on your business, but on your customers, suppliers, and family.

4. Learn to experiment.

For a family and business to remain agile today, they must learn to experiment with new ideas, business models, and value-creation methods. Experimentation is not built into the DNA of most business families, but it can be learned.

5. Partner across generations.

Navigating today's volatility is too big a task for one generation alone. Involve the talents, ideas, networks, and capital of two or three generations to benefit from this collective intelligence and the unique aptitudes of each generation.

ABOUT THE AUTHOR



PROFESSOR JOHN A. DAVIS

Founder and Chairman, Cambridge Family Enterprise Group;
Senior Lecturer and Faculty Director, Family Enterprise Programs,
MIT Sloan School of Management

John A. Davis is a globally recognized pioneer and authority on family enterprise, family wealth, and the family office. He is a researcher, educator, author, architect of the field's most impactful conceptual frameworks, and advisor to leading families around the world. He leads the family enterprise programs at MIT Sloan. To follow his writing and speaking, visit johndavis.com and twitter [@ProfJohnDavis](https://twitter.com/ProfJohnDavis).

ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, is a highly specialized, international, advisory firm that assists family enterprises with navigating the new economy, solving sensitive issues, and making the entire family enterprise strong and united over generations.

The copyright on this article is held by Cambridge Family Enterprise Group®. All rights reserved. Articles may be available for reprint with approval. For permission to duplicate, distribute, or copy, in whole or in part, contact inquiries@cambridge-institute.org.