CAMBRIDGE
FAMILY ENTERPRISE GROUP®

GENERATE ™
THE NEXT

Families Today Must Think Like Owners



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

Having an owner's mindset in today's disruptive environment means excelling at making five types of owner-level decisions. All five are central to the long-term success of the family and its enterprise.

To remain competitive in today's environment—one defined by disruption, borderless competition, rapid economic transitions, and constant technological transformation—families need to reconsider the way they own and lead their companies. Strategies that have remained reliable for centuries may no longer deliver results.

The traditional road to success

Family companies have historically focused on operational excellence. They have emphasized quality and steady improvements; aggressive reinvestment in their business; growing within their industry or in related areas; building loyalty among customers, employees, and suppliers; and choosing the right successor to lead the business. This has served family businesses well: when it comes to profitability, growth, and other performance measures, family companies have an impressive record of outperforming and outlasting their non-family competitors.

© CAMBRIDGE FAMILY ENTERPRISE GROUP, 2024. THIS MATERIAL MAY NOT BE QUOTED, REPRODUCED, OR DISTRIBUTED WITHOUT WRITTEN PERMISSION.

Traditionally, as family businesses have recognized the need for change, they have approached change slowly and circumspectly. They may acquire better equipment, work faster in some areas, improve processes somewhat, tinker with products and services, and promote talent as needed – but they make these changes incrementally with the goal of keeping things steady. This is an ownership and leadership style rooted in stability, tradition, and deep familiarity with a particular corner of the economy. It is informed by specialized knowledge and methods that have been passed down from generation to generation.

Professor John Davis of M.I.T. calls this approach to business the *operators' mindset*. It has long suited family enterprises. But the reason such a mindset has worked is because industries and business models in the past have evolved slowly, over long periods of relative stability. Dramatic shifts or disruptions have occurred infrequently. When change has been needed, adaptation could take place naturally, as the pace of the business world moved in step with families' natural instinct to change slowly, wait for the right time, and obtain unanimous agreement.

We now, of course, live in a different world. Reliance on this approach alone appears to be a liability rather than an advantage.

The importance of an owner's mindset

Success today requires blending the "operators' mindset" with the owners' mindset.

In contrast to operators, owners:

- Gain altitude to take a high-level view of the trajectory of their businesses, industry, markets, competitors, assets, and family. They integrate plans across all of these considerations;
- Move into growth opportunities by prioritizing value-creating activities and rejecting value-destroying activities sustained from old senses of loyalty, tradition, attachment, or conflict avoidance; and
- Detach from businesses, investments, and people that aren't working. Tradition and legacy are important, but they are not inviolable reasons to hang on to something that is no longer making—or in some cases even losing—money.

Families often have a particularly difficult time with this last one. Leaders who possess an operator's mindset can be slow to recognize losing bets. They may be too attached to the business, to a tradition or legacy, or to specific people to admit that things need to change. Or, when they see problems, they think (in good operator's style) that they can innovate their way out of the mess.

© CAMBRIDGE FAMILY ENTERPRISE GROUP, 2024. THIS MATERIAL MAY NOT BE QUOTED, REPRODUCED, OR DISTRIBUTED WITHOUT WRITTEN PERMISSION.

That should scare you, because if there is anything that families in business have to be good at in these disruptive times, it's letting go of what isn't working. This requires business leaders and owners to, first, clearly recognize when an investment has lost its momentum and, second, understand that they cannot necessarily make their bet succeed. When the problem before you is a changing industry trend, hanging on to practices that don't work is foolhardy.

Industries are like a casino: you shouldn't bet that you can outsmart important trends. You are unlikely to beat the house.

How to think like an owner

The mindset of active owners emphasizes long-term value creation through agility, entrepreneurial experimentation, and thoughtful diversification. It embraces new thinking, prudent consumption by the family and its company, and letting go of value-destroying and outdated activities in a timely way. These owners focus, most broadly, on growing and passing value in ways consistent with their *values*—whatever those may be. That is, the mission of the family enterprise from the owners' perspective must be about growing and transmitting economic, social, and relational value while living by the values the family and enterprise determine are meaningful. We call this *growing value through your values.*

Having an owner's mindset means excelling at making five types of owner-level decisions:

1. Setting the owners' **Strategic Vision** for what they want to achieve and own with their jointly-held assets
2. Good bets on **Capital Investments** (including when to exit bad capital investment bets)
3. Good bets on key **People** (including when to change people in key roles)
4. Setting, protecting, and adjusting the **Culture** that is key to the family enterprise's success
5. Designing the right **Governance** for the family enterprise so decision-making structures and processes are effective

All five are central to the long-term success of the family and its enterprise.

Some active owners are capable of having the mindset of both an operator and an owner at once. Others readily embody 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 such an environment, and that maybe, just *maybe*, it's time to sell the family business and invest in new growth areas, they shouldn't be branded as heretics. Owners need to appreciate the value of both perspectives.

© CAMBRIDGE FAMILY ENTERPRISE GROUP, 2024. THIS MATERIAL MAY NOT BE QUOTED, REPRODUCED, OR DISTRIBUTED WITHOUT WRITTEN PERMISSION.

Build a team to represent both mindsets

Ultimately, both mindsets—operator and owner—help to cultivate the success and sustainability of the family and its assets. Good owners do not neglect operational excellence by any means, but rather delegate operational excellence to a capable management team (whether family, non-family, or both). Owners need to embed the family's values within the company; they need to arm managers with the owners' vision and the board's approved strategy, and let them operate. Charge them with designing better products and processes then step out of the way and work to solve owner-related challenges.

For example, as noted above, big bets on investments and on high-level talent recruitment 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? Should the next CEO be a family member or non-family? Counsel from the board and other advisors is useful for informing such owner-level decisions, but the final choice ultimately lands with the family owners.

To achieve parity between these two mindsets, families should establish forums where owner-level issues and important owners' goals can be discussed, owner-level policies decided, and new directions set. One way to do this is an owners' council. Also, under the right circumstances, a portfolio board that recommends portfolio strategy is useful. Independent advisors on boards and elsewhere are a third resource for assuring an owners' mindset has room to guide the company and family assets. In short, give yourselves permission to think like owners by structuring regular owner-centered conversations.

In disruptive times, it is owner-level decisions that often make or break a business. And it is precisely these types of decisions that demand an owner's mindset. Without taking steps to establish and reinforce an owners' mindset at the top of your family enterprise, the past epoch of success may become nothing more than that—something of the past.

Build a team to represent both mindsets

Operator's Mindset

- Focus on operational excellence and quality
- Steady improvements of products and processes
- Aggressive reinvestment in their core business
- Growth within their industry or related areas
- Prioritize strong stakeholder loyalty

Owner's Mindset

- Gain altitude to take a high-level view of the business, industry, assets, and family
- Be agile as owners
- Prioritize value-creating activities; let go of value-destroying activities
- Detach from businesses, investments, and people that aren't working
- Move into growth opportunities

© CAMBRIDGE FAMILY ENTERPRISE GROUP, 2024. THIS MATERIAL MAY NOT BE QUOTED, REPRODUCED, OR DISTRIBUTED WITHOUT WRITTEN PERMISSION.

About the Author



Professor John A. Davis

Founder and Chairman, CFEG;
Senior Lecturer and Faculty Director, Family Enterprise Programs,
MIT Sloan School of Management
jdavis@CFEG.com

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.

About Cambridge Family Enterprise Group

Cambridge Family Enterprise Group (CFEG) is a global advisory, education, and research organization that serves family enterprises with growth aspirations—enabling them to flourish across generations. As a go-to trusted partner for the world's enterprising families, CFEG offers a wide range of services to navigate changing times, build pathways for continued growth, and achieve lasting success. Its pioneering thought leadership, strategies, and programs are used by families, family businesses, and family offices worldwide. Since its founding in 1989 by Professor John Davis, CFEG has advised and educated thousands of families from more than 70 countries.

© CAMBRIDGE FAMILY ENTERPRISE GROUP, 2024. THIS MATERIAL MAY NOT BE QUOTED, REPRODUCED, OR DISTRIBUTED WITHOUT WRITTEN PERMISSION.