CAMBRIDGE
FAMILY ENTERPRISE GROUP®

GENERATE ™
THE NEXT

# The New Future: 6 Practices for Enterprising Families to Succeed

**In the turbulent landscape of our world, enterprising families must be resilient and agile, able to recover from challenging conditions, and quick to pivot and seize new opportunities. The six practices below offer a blueprint for helping your business and your family to be future-ready.**

---

Each day, we are buffeted by news of technological advances and perils, industry disruptions, environmental disasters, economic crises, political turmoil, social injustices and protests, and demographic shifts, not to mention the ups and downs of the world's uneven recovery from a global pandemic. Today, change is rapid, problems are multifaceted, and predictability is by and large a thing of the past.

Once exclusive to the military, the acronym VUCA has secured solid foothold in todays' business world, where family enterprises – and their owners – must navigate increasingly volatile, uncertain, complex, and ambiguous environments. Business families are being challenged to rethink their traditional ways of doing business and investing. They must work harder to build family unity. They are being called upon to take a leadership role in addressing tough societal problems. There is much on the agenda for enterprising families in this turbulent era.

Here are six practices that can help prepare enterprising families, and their companies, for success in this new future.

## Practice 1: Gain altitude to understand the big picture.

Families can no longer focus exclusively on their traditional competency of *operational* excellence —the incremental tinkering to their established product and service offerings and business processes. They must take a more ownership-driven, outward-looking approach and "gain altitude" to study how the world and their industries and regions are changing. This allows them to 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 that families can keep abreast of important changes—obvious or subtle—in their sectors and their environment. What new threats are looming? Where is relevant technology moving? Where are startups focusing? How are generational and other demographic shifts impacting our markets, customer loyalty, and our ability to attract and retain talent?

Gaining altitude also provides perspective on how environmental degradation, political and social changes, globalization and deglobalization, and other mega-trends may impact the family enterprise. Stepping back to consider how the family's interests and aptitudes may be shifting also is important. All of these variables can compound the disruption that families and companies 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. noted the importance and difficulty of gaining altitude. "Sometimes it's hard to get people to think about what's the next new thing," she said. "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 for what's ahead, and she encourages her team to do the same. "What's on the horizon? What's *beyond* the horizon?" she asks.

A Board of Directors is a vital resource for this kind of big-picture thinking. It should include strategic thinkers – both family and non-family – and invited guests with deep subject matter expertise. Convening an Owner's Council to focus on owner-level decisions and a Family Council to keep the family adaptive also are beneficial. These groups are a business family's most trusted and knowledgeable allies when it comes to strategic decision-making. In addition, bringing in good external advisors and taking periodic learning trips can help owners and leaders to shake off blinders and understand what is happening in business and in the world.

## Practice 2: Redefine what it means to be stewards.

Being future-ready as a family enterprise means being ready, willing, and able – even on short notice – to let go of businesses, investments, and people that no longer add value to the enterprise. It is essential to be able to redirect resources and embrace new growth opportunities but, for many enterprising families, this requires a painful break with tradition.

Families often find it hard to divest legacy businesses or to let go of certain people because that runs counter to what they believe makes them good "stewards" of their enterprise. The imperative, for generations, has been to nurture and cultivate the family business; good stewardship has meant taking care of the business, growing it if you can, and then passing the company and its traditions on to the next generation.

Today's environment calls for a reinvention of the idea of stewards as caretakers. 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 turn over, technologies change, and family members' interests and skills morph, a broader and more far-reaching definition of stewardship is now required.

Stewardship today implies managing and growing assets in broad pursuit of a family's mission. This value- and purpose-driven approach gives successive generations the necessary latitude to redefine their business and investment activities, and to craft a new vision for the family enterprise as conditions call for it. They can rely on a deeper family mission and shared values and goals, not a particular product or service, to guide resource allocation decisions and create economic and societal value. As John Davis says, families must focus on "building *value* according to their *values*."

The most successful enterprising families today embrace this broader notion of stewardship. Family enterprises should tackle this identity shift as early as possible. Increasing the family's readiness for change and instilling a willingness to turn away from some traditions or parts of the family's legacy help make way to create new ones as needed.

## Practice 3: Keep up with new technologies.

Rapidly advancing technologies are driving and accelerating industry and societal changes. 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 transition is now underway, driven by AI, robotics, blockchain, and connected technologies. Experts predict that 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. Companies must be keenly aware of when technologies are poised to disrupt their industry—something that historically has been a weakness for family enterprises.

Keeping up with new technologies doesn't mean simply adopting new tools to do old things better; it requires understanding technological innovations throughout your business value chain, including your suppliers and customers. Consider the Schaeffler family of Germany, whose company manufactures ball bearings. In early 2018, they were among the wealthiest families in Germany. A closer look reveals that 60% of their company's products were sold to auto companies for use in combustion engines. By 2020, due to the auto industry's shift to electric engines, this sales channel was drying up, and the family's wealth evaporated to one quarter of its 2018 level. Schaeffler is adjusting, belatedly and reactively, to new products, but only after losing substantial value.

The lesson is clear: 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 and ownership meetings. Heed the warnings and seize the opportunities.

## Practice 4: Learn to experiment.

A big threat to industry leaders today tends to be nimble startups. Larger, established companies increasingly are working to build cultures of innovation to become more agile and entrepreneurial. Experimentation, which is an important part of the entrepreneurial process, involves placing small bets, being smart and quick about deciding which ones to further invest in, then scaling fast, and learning from failures as well as successes.

Experimentation is not built into the DNA of most owning families, beyond the founder stage. The original founder is typically an entrepreneur, but succeeding generations tend to become more risk averse with a low tolerance for failure and a low desire for frank conversation about diversification or divesting. 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 is a valuable skill to learn. One approach is to invest in, acquire, or form strategic alliances with innovative start-ups related to your current business or in a new sector of interest. Another is to launch a startup, on your own or with a partner, either as part of your company or as a standalone venture.

Cox Enterprises, a privately-held U.S. family business, offers an example of a long history of innovation and experimentation. Cox was founded in 1898 with the purchase of the Dayton Daily News, in Ohio. Through a steady stream of acquisitions, it built a media and communications empire and, in 1965, entered the automotive industry through the acquisition of an auto publication and auto auction businesses. In 1997, as an experiment with private equity partners, Cox launched Autotrader.com, an online marketplace for car shopping that now generates roughly $1 billion in revenue. Now in its fourth generation of ownership, with $21 billion in total revenue across its diversified conglomerate, Cox continues to keep its finger on the pulse of emerging trends and industries through several business accelerators and venture capital funds.

## Practice 5: Partner across generations.

Steering the family enterprise toward success should be a generationally inclusive project, not one led by the oldest generation and quietly observed by the younger ones. 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 all facets of the family business. That is extremely valuable, but the next generation may be better attuned to emerging technologies, novel competitive threats, or changing consumer behavior. Both are essential to the success of the family enterprise.

Families should involve the talents, capabilities, ideas, networks, and capital of multiple generations. Partnering allows the generations to dream together and jointly create a new vision and strategy for the family enterprise. The next generation then has a hand in shaping the family enterprise that they will inherit, increasing their motivation to lead it. Together, the generations can develop family mission, vision, and values statements and policies. They can co-invest in new ventures together, build a joint portfolio that satisfies their different interests, and partner in philanthropy and social impact activities to build societal value together.

Multigenerational 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 aligned in moving forward.

## Practice 6: Prioritize your social impact.

In this era of turbulence, there is heightened attention on the deep-rooted societal problems that governments have failed to address adequately. Routinely, there are global protests regarding environmental issues, income inequality, the rise in poverty, lack of access to healthcare and vaccinations, gender and racial injustice, and many other issues. Having a positive effect on society and the planet (a "social impact") has taken on increased importance for consumers, employees, investors, businesses, and owning families—in part, called to action by younger generations.

Stakeholder capitalism is the new rallying cry for business leaders, owners, and influential families who are asked to be change agents. Companies and boards are increasingly required to pay meaningful attention to ESG (environmental, social and corporate governance), DEI (diversity, equity and inclusion), and SDG (sustainable development goals). New social finance tools (e.g., venture philanthropy and impact investing) are becoming mainstream and the wealthy are being challenged to use their resources for public good (e.g., the Giving Pledge).

Enterprising families have a long tradition of service to their communities through their business ventures, philanthropic efforts, and nonprofit support. Today, the world is calling for even more to be done, and enterprising families are aptly positioned to help bring about real change while increasing their family's net positive social impact. In this new future, social impact can and should be an integral part of a family's ethos and their company's strategies and performance metrics.

**Is your family doing all it can or should be doing to be future-ready?**

## 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.