

Private Bank **citi**

Legacy Insights

Families Today Must
Think Like Owners



Private Banking for Global Citizens

FAMILIES TODAY MUST THINK LIKE OWNERS

CAMBRIDGE INSTITUTE
FOR FAMILY ENTERPRISE



HAVING AN OWNER'S MINDSET IN TODAY'S DISRUPTIVE ENVIRONMENT MEANS EXCELLING AT MAKING FOUR TYPES OF OWNER-LEVEL DECISIONS. ALL FOUR 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.

Traditionally, as family business 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.

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 four types of owner-level decisions:

- Important **investments** (when to enter new bets and exit bad bets)
- **People** in critical decision-making roles (including when to change people in key roles)
- **Governance** for the enterprise (carefully architecting and integrating governance across the business, owners, family, and family office)
- **Culture** of the family and enterprise (including when to adapt the culture to keep it effective)

All four 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.

OPERATORS AND OWNERS MINDSETS



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EDUCATION RESOURCE:

To further explore how family enterprises navigate today's disruptive environment, Professor John Davis offers two deep-dive programs at the M.I.T. Sloan School of Management:

[Future Family Enterprise](#)

For family enterprises in the 2nd, 3rd, 4th, and later generations

This 6-day program leads teams of family members through an engaging discussion of how family enterprises are being shaped by disruptions of various kinds, and what will drive their success in the future economy. Specifically for sibling and cousin groups in their second or later generation of family ownership.

[Founder to Family](#)

For founders and the 2nd generation

This 5-day program leads teams of founders and second generation members through a stimulating discussion of how to build on the founder's success and clarify a transition plan for the family and business in today's disruptive environment. Specifically for family enterprises transitioning from the founder generation to a second generation organization.

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