

MANAGING ORGANIZATIONS

# What Makes a Family Business Last?

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The performance edge family businesses have over their non-family business counterparts has been explained by their dogged pursuit of operational excellence. Family firms tend to take a long-term view of investments and relationships, stay in ownership control to do things their way, focus on persistent improvement and innovation, develop loyal stakeholder relationships, build key talent in select individuals, carry lower debt, and build greater financial stability.

This approach to running a business reflects an Operator's Mindset. It is informed by specialized knowledge passed down from generation to generation. Those with this mindset attend diligently to all aspects of operations, prizing traditions while constantly tinkering to make improvements; they look for growth opportunities primarily within the industries where their operating abilities shine. This mindset is deeply embedded in the cultures of most family companies and business families: If you want to be important in the company and family, you have to be good at operations.

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Cultivating an Operator's Mindset has largely paid off because most industries and business models have, until recently, evolved slowly, making operations quality central to success. Families and

family companies have been able to adapt to most changes in their industries at a pace that avoids the ruffling of too many family feathers.

But dramatic shifts do happen and, when they do, family companies that can't think beyond the Operator's Mindset often fall behind, thinking they can innovate out of the mess, hanging onto traditional products and practices for too long. An Operator's Mindset ultimately gets in the way of adapting to large-scale change.

Family companies that have persisted over generations despite changing conditions strive for operational excellence, but not exclusively. They also are skilled at migrating to new value-creating activities and at leaving activities and practices that destroy value. They don't become stuck in traditional businesses or outmoded practices. Some, after exhausting growth opportunities in their core business, diversified into different industries. Some experienced their industry maturing and consolidating around them and decided either to stay and acquire

competitors or sell their outflanked business and redeploy assets. Some have parried the disruption of technology or regulation. Such adaptations are profoundly informative.

Consider the Cox Enterprises family company, which started in 1898 through the purchase of *The Dayton Daily News*. The company continued to expand over the next century through media acquisitions. As of 2000, 80% of Cox Enterprises was still focused on newspapers. “That’s terrifying,” says CEO Alex Taylor, a fourth-generation member of the Cox family in a 2015 interview. Through an intense and studied focus on investment in the telecom industry and automobile-related media, Cox Enterprises has since quadrupled in size while the newspaper industry has essentially collapsed. The company has grown to roughly \$21 billion in annual revenue today. “That,” says Taylor, “is a testament to diversification, innovation, promoting entrepreneurship in our businesses, and allowing people to try new things.” This is a family company that is able to balance both an Operator’s and an Owner’s Mindset.

What distinguishes these long-term adapters is their strong Owner’s Mindset among the owners and in their top boards. An Owner’s Mindset recognizes the importance of operational excellence, but insists on being in activities that create value (financial, social, relational, and reputational) according to the key values of the owners.

Those with an Owner’s Mindset ask: Where are we creating value? Where should we invest our financial and human capital? How do we develop leaders and organizations with the right culture? And all of these questions are rooted in the values of the owners. This is about timely “big bets” on capital, people, and culture in the service of prospering long-term.

## **Developing an Owner's Mindset**

To develop and protect an Owner's Mindset, key owners need to:

- Develop family and company missions that focus on creating various kinds of value (financial, social, relational, and reputational), and doing this according to your key values. Track the company's value and discuss whether you are operating according to your most important values. Continue to recognize the importance of operational excellence in the company, but only in activities that grow the value of the company.
- Design activities (an owners' council, board meetings, conferences, meetings with experts) to gain a high-level view of firm and family assets, as well as changes in the size and nature of the family and its activities.
- Develop an integrated plan for the family and its enterprise over time.
- Develop family and non-family talent to support value creation (and unity building). Track the investments you make in talent development.
- Move thoughtfully into new growth opportunities that have a good chance to grow the value of the company by learning to experiment. Strategic experiments for a company involve making measured investments in new activities and knowing when to increase your investment or pull out. Also identify what your company or family needs to be good at to excel in new value-creating activities.
- Challenge businesses and other activities that destroy value but remain due to old attachments, a sense of tradition, or conflict avoidance.
- Detach (more quickly than you are comfortable doing) from businesses, investments, practices, and people that aren't adding value. Loyalty is admirable, but loyalty to assets, activities, and people that don't support your mission or values is not.

Families often have a particularly difficult time with this last step. Leaders who possess an Operator's Mindset are often 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 change is needed. 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.

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