GENERATIONAL ISSUES

Is the Next Generation of Your Family Business Entrepreneurial Enough?

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May 08, 2020

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The great secret of business families that achieve tremendous wealth and hold onto it for generations is that they persistently promote the entrepreneurial spirit that led to their initial success. That drive — a combination of ambition, sheer will, and the willingness to take calculated risks — is integral to long-term success, particularly in challenging times.

One third-generation family CEO we know recently delivered a powerful message to his teenaged next generation when he said, “In times like this, a lot of companies will go bankrupt. But, because we’ve always run our family business on the tenets of entrepreneurial drive and diversification, our family business will survive this crisis and be in a position to prosper in the long term. Learn from this experience and think about what you can do as an entrepreneur.”

This is valuable advice, not just for the younger generation as they grow and develop as individuals, but also for the future of the family businesses in general, especially as many are having to pivot in response to the Covid-19 pandemic. Inculcating entrepreneurial drive early on helps to ensure that the collective family business will flourish across generations, and in the face of future economic crises. But doing that well is not easy, and there are multiple challenges to navigate along the way. Here, we share our best advice for how to get it right.

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Many family businesses are built around the legend of the entrepreneurial founder who persevered in the face of adversity. But for some business families, it’s easier to pay lip service to the founding entrepreneurial values than it is to actually instill the drive required to nurture those values generation after generation. The senior generation in a family enterprise often struggles to distinguish the fine line between nurturing entrepreneurial talent and coddling. Some worry whether their children, nieces, and nephews have real entrepreneurial ambition and a valid business idea — or if they are just pursuing pet projects and expensive hobbies. Others may be concerned about the perception of fairness throughout the family — whose projects do you support and how much do you support them? Even more wonder how to make sure the next generation doesn't embarrass the family or the brand. In contrast, the next generation often wonders whether they should build their entrepreneurial ventures within the legacy business or outside of it? With family support or completely separate? And so on.

These are all valid concerns and questions. While there is no one right path to creating a sustainable entrepreneurial drive in business families, successful ventures do have common threads. In particular, they foster the right attitude in future generations by focusing on several core principles:

1. Share the hard reality.

There's little benefit for latter generations in hearing the founder's story if you gloss over the hardships, the struggle, and the failures that came before the glory. If the next generation wants to make their own success, they deserve to hear the gritty truth. Rather than raising the founder's legacy to mythical proportions, humanize them, perhaps by describing a time when they had to go without during a particularly tumultuous period for the business, so that the next generation can relate to and learn from the founder's experience.

Dining table conversations are some of the most valuable opportunities business families have to exchange ideas with each other. And certainly dining table conversations or Zoom conference calls about how your family business is navigating the extraordinary current challenges can be a valuable tutorial. The family members leading the business should talk with the next generation about what's hard, how you are making decisions, and what doesn't go well. You are providing your next generation with a real-time case study about how the current generation is managing a crisis and how your family business will survive.

2. Test for viability.

Indulging every half-baked idea that a budding entrepreneur has will not help them — or the business — in the long run. We've found that financial support can be as much a detriment as it is an advantage to a young entrepreneur if it's too readily available from family coffers. Having easy access to funds, without strict conditions, can make those funds seem like play money.

Instead of immediately defaulting to financial support, offer your next generation the family's collective wisdom first. Ask smart questions and require well thought-out answers submitted through a clear process with appropriate deadlines. Hold ideas up to a "public standard" to see if they *could* attract outside interest. And if appropriate, have these would-be entrepreneurs pitch their ideas to outside venture capital firms — for the experience, if nothing else. If it's a business idea only a mother could love, then ask the entrepreneur to further develop it before pulling out the family checkbook. If the idea has merit, then by all means, proceed, but at least your budding entrepreneur will have worked hard to demonstrate the value proposition (not least to themselves) first.

3. Offer benefits beyond money.

Consider what "extra benefits" you can offer that your rising entrepreneur may not be able to get elsewhere. Money can come from multiple sources, from institutions to private funding. If an idea is good enough, there will be no shortage of financial backers trying to stake a claim. As a business family, you're in the unique position to offer *more* than just money. Could your head of strategy act as a mentor as your entrepreneur develops their business plan? Could you offer connections to help with marketing, supply chain, or distribution? Could you structure financing as a loan so that the entrepreneur doesn't have to surrender a large chunk of shares?

4. Establish mutual ground rules before you need them.

Whether you elect to set aside a financial fund to support family entrepreneurial dreams or informally provide access to family money, it's critical to establish clear guidelines for what support will be provided. Have a cross-generational dialogue about the purpose of the fund, what the ground rules are for access and usage, and how the family and the entrepreneur will interact (e.g., what influence the family expects to have in the process, when and how much information will be shared, etc.). Any type of family support requires clarity up front to maintain fairness and keep the peace, regardless of who is involved or how the venture performs.

5. Support aspiring entrepreneurs who want to flourish on their own.
Don't be afraid to let promising talent venture outside the family business. They could learn skills and lessons on the outside that they can later apply within the legacy business — either in an operational role, as a board director, or as an active shareholder. And the potential upside for a revolutionary new idea or business (and the personal satisfaction and fulfillment your family member will get from doing it) is limitless. Consider the next generation striking out on their own as a sign that you have *succeeded* in instilling an entrepreneurial drive.

6. Give "boosts" without micromanaging.
One of the biggest challenges for successful entrepreneurs who have built tremendous businesses is how to mentor their next generation without taking over. How do you balance giving the next generation enough guidance so that they can learn from your mistakes — but not so much that they dismiss all advice outright? Consider establishing a policy for yourself about the topics on which you will provide unsolicited advice, and those where you will not. Done effectively, a transfer of knowledge can carve years off of a new business's development time and increase its likelihood of success. Done poorly, it can damage family relations if both sides are not clear on what would be valued and well-received.

7. Give an intrapreneur some breathing room.

Some of the best visionaries we know made their mark *within* an existing family business. Because they have the benefit of learning the lessons from the generation before them, they're able to capitalize on that advantage by applying it to evolving market trends — putting the business at the forefront of a new market. If you have a promising intrapreneur, make sure to give them room to test out their ideas, to learn, and to grow — even if it's not exactly how you would do it personally. Next generation intrapreneurs are often reacting to different market cues than what worked in prior generations. Stoke their talent and interests. It will ultimately be a boon to the family business if the next generation is engaged, driven, hungry, and enabled to create something of their own.

These principles highlight how important it is to find the balance between offering wisdom and dictating how something must be done so that you stoke the next generation's entrepreneurial fire. No matter how great the founding idea or business is, it cannot last indefinitely. Business families need fresh infusions of entrepreneurial drive and passion to adapt to changing environments, so they continue to thrive. And individuals need to test their own mettle and be driven to succeed on their own for their own sense of self-worth.

Perhaps most importantly, don't be afraid to fail. Failure is only a tragedy if it's a destination rather than a step along the journey. As tempting as it may be to have a safety net always in place, it can be more of a hindrance than a benefit to individual development and entrepreneurial drive in the long-term. Allow your next generation the space to take risks, to fall down, to fail. And if failure does occur, encourage them to learn from their mistakes, to recover, and to chart a new course.

For one seasoned entrepreneur we know, the idea of failure was as prized as the idea of success. He put together a collective fund for his six children to invest in entrepreneurial pursuits with no rules or strings, just a "training ground." The next generation was astonished by the degree of trust he had in them. They promptly divvied up the fund into seven equal shares, one for each of them and the last for a joint venture later. Absent any structure or guidance, each stumbled in their own entrepreneurial attempt, all of which differed wildly (space rockets, surgical robots, a brew pub, and commercial real estate, to name a few).

Instead of getting mad when his children sheepishly reported their losses, the father asked what they learned in the process. Once the siblings peeled apart the lessons they learned individually, their combined experience led them to invest what was left in the fund in an innovative medical device, which turned out to be a success. Both generations agreed that losing money was painful, but ultimately it was also the best investment they ever made because they learned how to fail, recover, and work together. The experience and wisdom they gained navigating those hardships was worth its weight in gold, and has been especially useful during difficult economic times like the one we're having today.

Remember, nothing about entrepreneurship is straightforward. There is no prescribed formula or established way to develop something revolutionary. Your own family business legend will probably attest to that. While, as in our example above, your own road to success may be a winding path, we hope these principles help you to always keep your north star — cultivating entrepreneurial drive — in sight.

**Some details have been disguised to protect confidentiality.*

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