

Transgenerational entrepreneurship

The key to long-term business success lies in the ability to build and sustain an entrepreneurial family.



BY DAVID PISTRUI

FAMILY BUSINESSES are the engine that drives socioeconomic development and wealth creation around the world, and entrepreneurship is a key driver of family businesses. Entrepreneurial thinking and leadership are fundamental factors in the creation of new enterprises and the sustained competitive advantages of corporations both large and small. The ability to create and foster an entrepreneurial mindset across generations is a major element of family business continuity and longevity and is instrumental in effective strategic execution, innovation and growth.

In market economies (where resources are allocated via supply and demand), entrepreneurial family businesses are a primary source of job creation. In transition economies (in countries moving from a state-planned to a market-based system), the family unit is often the only intact socioeconomic institution capable of supporting entrepreneurial activities. The family also plays a leading role in new venture formation, often serving as the primary source of start-up capital, not to mention cheap labor and know-how. Another benefit of entrepreneurial

family enterprises is that they tend to be community-minded and support philanthropic causes.

What is entrepreneurship?

The concept of entrepreneurship derives from Richard Cantillon (1680-1734), an Irish economist

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working in France whose theory was published posthumously in 1755. Cantillon recognized the entrepreneur as an individual who accepts an element of uncertainty in the course of profit-seeking business activity. A wide variety of organizations have adapted entrepreneurial concepts as a means to compete in a changing and challenging environment.

Three types of entrepreneurship are noteworthy today:

- *New venture formation:* Creative human action that builds something of value from almost nothing through the pursuit of opportunity be-

yond the resources one actually controls.

- *Corporate entrepreneurship ("intrapreneurship"):* Activities inside a corporation where individuals champion new ideas—from development to profitable reality.

- *Social entrepreneurship:* Generation, development and implementation of new ideas and behaviors that build dynamic capabilities and differentiate an organization from its competitors.

Regardless of what form it takes, entrepreneurship links people's vision, commitment and passion to a common cause.

A must for family businesses

Over the next decade, as the U.S. population ages, many family businesses are expected to change hands. Since the average life span of a family firm is only 24 years, and a mere one-third of these businesses survive into the next generation, it's imperative for business owners to foster entrepreneurship across generations to increase the chances that their companies will be counted among the survivors.

Several key principles of entrepreneurship—such as the

focus on high achievement, wealth creation and community spirit—can be useful in addressing the challenges that occur when several different family branches or generations are involved in the business. A family that is committed to these principles is well positioned to create and sustain individual and family growth and learning. This is especially important in today's fast-paced global environment, with entrepreneurship increasing and new family firms emerging around the globe.

Entrepreneurship across generations

Transgenerational entrepreneurial behavior in family firms goes beyond simply increasing sales, head count or profits. Family business entrepreneurs create and support a growth- and learning-oriented culture in both the family and the business, and they reinforce entrepreneurial behavior in their relatives of all ages. They encourage successors to be alert to their environment so as to spot and take advantage of profit opportunities. At the foundation is a loving and learning family that fosters cooperative family dynamics between generations over time.

Transgenerational entrepreneurship is built around two central principles:

Entrepreneurial vision and mission: There must be a drive to create transgenerational wealth for the business and its owners. This is rooted in a growth orientation that motivates the family, the ownership group and their non-

family managers to be forward-thinking and to communicate and pursue specific strategic expansion plans for the business.

Dynamic and adaptive family values: While there is a commitment to family traditions, the family must be able to adapt to changes in family structures over time. The family must be committed to open communication, the use of formal protocols and policies, and conflict resolution.

The entrepreneurial mindset

Enterprising families work together to define the role and context of entrepreneurship in their family and business. They are committed to the long term and enlist champions among ownership groups,

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key family members and non-family managers.

These families explore the history of entrepreneurship in the family business, including actual examples from the past and present, and discuss ideas for the future within this context. This process helps entrepreneurs understand the role the family has played and what it can do to

advance and perpetuate success in the future.

Enterprising families are “peoplecentric”—they focus on teamwork and on internal and external relationship building. In addition, the family business leadership identifies, agrees upon and pursues a clearly outlined strategic direction. This strategy emphasizes entrepreneurial behaviors such as market expansion, technological advancement, and refinement of operational activities and processes.

My research on more than 1,400 family businesses from around the globe has shown that entrepreneurial families embrace five fundamental principles of entrepreneurship across successive generations.

1. Entrepreneurial leadership: The ability to anticipate future circumstances, maintain flexibility, think strategically and work with others to initiate change that will create a viable future for the organization.


2. Opportunity recognition: The capacity to imagine dramatically new ideas or to find new ways to differentiate existing products or services to create and sustain cost-effective and profitable competitive advantage and customer satisfaction.

3. Internal continuum of entrepreneurial activity: A people-centered strategy emphasizing organizational systems, structures and practices that encourage innovation and creativity and do not present insurmountable roadblocks to flexibility and fast action.

4. Balanced strategic positioning: A strategic vision that is defined, translated, communicated and aligned operationally across the entire organization through the balancing of performance metrics and compensation programs as envisioned from multiple financial and non-financial perspectives.

5. Future-based orientation: People are encouraged to perceive opportunities and empowered to embrace change, control costs, enhance product/service quality, and improve offerings and services through innovation and learning.

Creating and maintaining an entrepreneurial mindset is vital for socioeconomic growth and sustained competitive advantage in today's dynamic marketplace. Entrepreneurs speculate, anticipate and direct resources in pursuit of profitable business activities under uncertain conditions.

Transgenerational entrepreneurship promotes a common vision and mission among key family business stakeholders across generations. This inclusive, forward-looking strategy creates a set of adaptive values and protocols that promotes family unity and business acumen. 

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