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Stage VI: Entrepreneurship in the family business

Peter Vogel

Professor of family business and entrepreneurship
IMD Global Family Business Center
IMD Business School

1. Introduction

Family businesses have a hard-earned reputation for mastering the art of longevity. This may create misleading impressions of rigidity, yet some of the most established multi-generational family enterprises have managed to navigate through centuries of industrial transformations and survived pandemics, globalisation, financial crashes and world wars.

In fact, rather than a lack of dynamism, family businesses emerge, grow and endure because of the dynamic spirit of entrepreneurship and renewal. The most successful businesses are able to combine a resilience that strengthens the core with an agility that seeks and embraces innovation. They retain this spirit across generations, long after the founders have stepped out of the driving seat.

In essence, family businesses are built and operated to ensure that wealth is created, preserved, sustained or ideally increased across generations. Over time, it is easy to see why this family incentive might encourage a conservatism that can be both constructively prudent and potentially damaging to the future wellbeing of the business. Relying on the legacy business to always deliver without evolution will sow the seeds of inevitable collapse.

History teaches us that business resilience is rarely founded on inflexibility – the most sustainable businesses find a way to adapt and evolve as times change. At the same time, it is not helpful to only focus on evolution as a constant state of flux makes it difficult for businesses to mature. When combined with a prudent and structured approach, adaptability can become a powerful weapon in the marketplace. The creation of an ambidextrous family enterprise system, embracing both the exploitation of core business opportunities and the exploration of new ones, has been one of the key recipes for long-term success.

This is where the strengths of the family business come into play. While any businesses are caught between the competing demands of managing shareholder expectations of immediate gain and the need to give strategies time to succeed while taking calculated punts on new technologies or ideas, family businesses can leverage their unique, common characteristics to their advantage.

With more of an eye on longevity, family businesses are able to take a patient approach to strategy and performance while also having the quick decision making, careful management of resources and ready pool of emotionally invested, loyal talent that can foster a healthy balance between resilient performance and agile exploration. The notion of patient capital also allows families to place bigger and more long-term-oriented bets as compared to their non-family counterparts, whose managers' performance is mostly measured in short-term revenue and/or profit growth.

For some families, it can mean divesting out of legacy businesses as they grow outdated and shifting into new areas of growth. For others, it can mean exploring innovation to evolve businesses gradually over time so that they move with the times. There are many combinations of these two approaches, but they all require agility, resilience, structure and foresight. So, the big question for family businesses today is simple: How do we anticipate, prepare for and adapt to change in an era of unprecedented turbulence, while building for the long term?

In an increasingly uncertain and rapidly transforming world, this need for a blend of agility and resilience is crucial. On the one hand, the health of the business is at stake. Family businesses find their areas of strength facing threats from disruptive and innovative newcomers, often from various parts of the world simultaneously. At the same time, the strength of the family ecosystem is also on the line as changes in the way generations interact and live call for more flexibility, better communication and new ways to cooperate.

Unfortunately for some, the entrepreneurial spirit of the first

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generation of family business owners, who spotted a golden opportunity and took a leap of faith, fades as the next generations come on board. In the worst-case scenario, younger family members may feel disenfranchised by an overbearing patriarchal or matriarchal figure and choose to go their own way in life, meaning that the family business loses crucial talent and any connection to its values and traditions. Equally as bad, the next generation may succumb to pressure from older relatives, lack the necessary skills and experience, or feel duty-bound to maintain the status quo despite the obvious risks of rigidity. Ultimately, therefore, alongside the need for agility and resilience, the successful onboarding of the next generation can play a crucial role in the longevity of any family business.

Because many of these dynamics are peculiar to family businesses, a large proportion fail by the time the third generation is in charge. Learning to be more agile and engaged while empowering the next generation is, therefore, a matter of survival, not just a quest for new growth or family harmony.

How can families structure their businesses to remain relevant, innovative and motivated in turbulent times? How can they embrace the agility to take risks on new ideas and pivot when required, while building resilience and strengthening, fine-tuning or winding down

their core activities? How can they enable the next generation to lead the business in the future?

The IMD Global Business Center has been researching and working with family businesses of all shapes, backgrounds and sizes for more than 30 years – the longest project of its kind in the world. In this time, we have studied first-hand how the most successful families are able to renew their businesses and strengthen their family ecosystem no matter what is going on in the world around them.

Our research and practical experience have shown time and time again that this remarkable resilience and agility is often built around the concept of entrepreneurship, from simply adopting an entrepreneurial mindset to actually investing in their own startups.

Indeed, in this heady age of transformation, we see more and more family businesses understanding the need to overhaul existing business models or diversify into new areas, with entrepreneurialism as the catalyst for renewal and evolution. Of course, this often runs hand-in-hand with the motivations and perspectives of the next generation, who are eager to step up with fresh ideas and contribute to the family enterprise system.

We have concluded over time that the most enduring and agile businesses do not stop after they have embraced a startup mindset in some areas or fired up an innovation incubator for new ideas – they put entrepreneurial practices at the heart of their business models and family. This allows the spirit of entrepreneurship to live on as a family tradition, instead of fizzling out with the founding generation.

Entrepreneurialism naturally appeals to, and finds particular resonance with, the next generation because it presents vital breathing space and an atmosphere of possibility. Constructing entrepreneurial pathways and vehicles within the family enterprise system can offer younger family members the opportunities and responsibilities they yearn for in a relatively safe space.

Rather than potentially falling on deaf ears, the new ideas of the next generation can be tested and explored if a family business retains or creates capacity for entrepreneurial activity. This allows the next generation to learn the ropes and earn trust and respect, which can help to ensure a smoother transition through succession when the time comes.

So, there are clear family and business benefits from fostering entrepreneurialism:

- It provides a platform for the next generation to develop into more confident and engaged successors rather than passive heirs.
- It enables generations to work collaboratively on a project or an initiative that is possibly a bit outside of the core line of business, thus oftentimes resulting in less conflict between generations when it comes to strategic decision making.
- It strengthens the bonds and helps build shared emotional ownership among the next generation.
- It ensures organisational renewal and competitiveness.
- If new ventures are created outside the legacy business, then these might become a core business in the future.

While nurturing the entrepreneurial skills and behaviour of family members, this approach can also be extended to non-family employees by creating an intrapreneurial innovation ecosystem inside the business. This can boost employee engagement, contribute to the longevity and agility of the business and lead to a healthy evolution and diversification of the family business portfolio.

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