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How to cultivate entrepreneurship in the next generation

By Donald Levitt

Many family business owners want to transfer their business to their children. But if they don't also transfer an entrepreneurial mindset – the ability to grow a business and generate new economic opportunities – the business is likely to stagnate. The owners need to transfer both a business and a legacy of entrepreneurship.

How can family business owners cultivate entrepreneurial capabilities in their children?

Recently published research from the global **STEP Project** (STEP stands for "Successful Transgenerational Entrepreneurship Practices") describes the following components that support the development of entrepreneurial capability in the next generation.

Development of the next generation

Development of the next generation can be formal – as in higher education – or informal. Informal development includes:

- assigning a series of work projects which progressively build leadership and entrepreneurship
- working outside of the family business (before entering the family business)
- intentionally building connections with customers
- encouraging the next generation to pursue their own interests and ideas within the business

Professionalization of the family business

Many first-generation, and even second-generation, family businesses are run in a rather informal manner with respect to standards and corporate decision-making. While this informality can support the flexibility required to be entrepreneurial, it can also inadvertently allow next-generation family members to not achieve their full potential.

For example, some next-generation family members come to assume that being a family member is a sufficient qualification for leadership. "Professionalizing" the business with respect to annual performance goals, review of performance, compensation levels and development goals helps to create a framework for developing the next generation.

An external advisory board, or independent directors, also create a level of formality that encourages business excellence in the next generation.

The influence of nonfamily members

Trusted nonfamily members of the business who have an entrepreneurial mindset can be terrific mentors for the next generation.

During the time of succession, when the senior generation is leaving the business, these nonfamily executives can help to maintain the entrepreneurial capability. When the next generation is not yet ready to lead, a nonfamily executive can serve as CEO during a transition period and can coach and mentor the next generation as they develop their entrepreneurial capabilities.

Alliances and networks

Successful entrepreneurs understand their industry and have connections to external resources and markets.

Members of the next generation in a family business are more likely to be entrepreneurial if they have systematically developed these external alliances and networks. Such networks can lead to the development of new lines of business within the family business or even to joint ventures.

New ventures and diversification

To develop entrepreneurial capability, there is nothing like having a member of the next generation actually start a business. Some family businesses encourage this kind of entrepreneurship by providing seed capital and mentoring to the next generation as they think through, plan, and start a new venture.

It is sometimes said that "Your business is either growing or dying." Simply transferring the ownership and management of a family business to the next generation is not enough to assure continuity. The ability to be entrepreneurial – the ability to grow the business and find new revenue streams – is a critical component for success in the next generation.

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