Entrepreneurship means different things to different people. In its simplest form, it is the ability to set up a business and to pursue that business in order to generate revenue and profit. But what does it mean to businesses that are already well established? Indeed, what does it mean for family businesses?

Entrepreneurship — which is so essential to economic development and prosperity — is extremely rare. And maintaining a level of entrepreneurship over multiple generations is a primary concern for family firms.

In their efforts to stay dynamic across generations, family businesses have a number of advantages and disadvantages. But how can the advantages that family businesses have be used to renew the original entrepreneurial energy that began it all?

Of course, what works for one business may not work for another, but we have given a simple framework that might help to guide family firms toward the preservation of an entrepreneurial spirit from generation to generation.

Professor Guido Corbetta
Bocconi University, Milan, Italy

Guido Corbetta is Professor of Strategic Management and AldAF-EY Professor of Strategic Management in Family Business at Bocconi University in Milan. He is also Senior Faculty Member of the SDA Bocconi Business School and a member of the editorial committee of the journals Entrepreneurship Theory and Practice and Family Business Review. He has been working on family business since 1988, as a researcher and consultant for more than 130 companies, covering topics such as: entrepreneurship, succession, governance, growth in family business and family office. He serves on the board, or is consultant of, four of the major family groups in Italy ranked by revenue.

The controlling family as a propeller of entrepreneurship

Families that control businesses are often important repositories of entrepreneurial knowledge and energy, as well as of much other technical, industrial and commercial knowledge. This can often be passed down to their sons or daughters. And through their values and behavior, family members can influence how the next generation acquires its knowledge and skills.

One common characteristic of the most successful family firms is their very extensive entrepreneurial knowledge. Family firms are often founded on the basis of just one or a few product or process innovations, which are handed down from generation to generation. Because family firms, regardless of their size, often focus on a small number of business areas, they can quickly accumulate technical, industrial and commercial knowledge. And this can help to foster a relentless commitment to innovation and creativity, which can facilitate a continuous renewal of the firm’s strategy.

The controlling family as a roadblock to entrepreneurship

Nevertheless, family businesses face many challenges to their continued potential for entrepreneurship and, ultimately, to their survival. These include factors such as nepotism and family conflicts. There are various reasons why such problems arise, including:

- **Distraction**
  The family may be caught up in dealing with any number of issues – whether these relate to the business or not. Such distractions can leave the family with little time or energy to plan the next growth phase.

- **Jealousy**
  Some owners see growth as a threat to the firm or to their position within the firm. They will do everything in their power to block plans for growth that come from other family members – regardless of whether such plans make business sense.
Maintaining an entrepreneurial spirit across generations

“Forcing the next generation down a prescribed path can undermine their sense of freedom – the very essence of entrepreneurship.”

Guido Corbetta

### Complexity
Complex ownership structures can slow down decision-making. This can prompt family arguments and can reduce the business’s speed and agility.

To maintain an entrepreneurial spirit over the generations, it is therefore essential to find a path where the advantages of the generations overlap. It is therefore essential to pass on entrepreneurial spirit to the next generation after a father or mother is an entrepreneur, you become entrepreneurs. Of course, this is not automatic, and there is certainly no guarantee that simply because your father or mother is an entrepreneur, you will become one too. Indeed, it is often very difficult to pass on entrepreneurial behavior to the next generation after a successful business has been established. However, with hard work, a spirit of sacrifice and enormous commitment, becoming an entrepreneur is a real possibility for anyone.

Here are three ideas to bear in mind when attempting to pass on entrepreneurial skills over to the next generation:

1. **Do not make entrepreneurship an obligation.**
   Many family businesses fall into the trap of assuming that the next generation has an obligation to become entrepreneurs because they owe it to their family dynasty. But this attitude can be counterproductive. Forcing the next generation down a prescribed path can undermine their sense of freedom – the very essence of entrepreneurship. Instead, young family members should be allowed to pursue their own paths, even if that means not joining the business. Of course, this will not exclude them from coming back to the business at a later date if they decide to embrace entrepreneurship as more motivated adults.

2. **Do not rely on nature to produce entrepreneurs.**
   Some hold the view that entrepreneurs are simply born entrepreneurs and that there is little that can be done to promote entrepreneurial spirit. This attitude can lead the next generation and their parents to waste time and effort continually searching for evidence of a natural inclination for entrepreneurship. Both groups can also live in fear of never finding any such proof. Even assuming that such an innate propensity exists, one thing is perfectly clear: there is no scientific basis whatsoever for the assertion that entrepreneurship manifests itself in childhood. Although their success depends on many factors, the vast majority of young people are capable of developing as entrepreneurs.

3. **Nurture entrepreneurship in the next generation.**
   Entrepreneurship as a value can be transmitted, fueled and enriched through a process of nurturing; it can be transferred through example, explanation and codification by the older generation. It is worth looking at these factors in more detail:

   **i. Example.** Entrepreneurial families and dynasties transmit values through their actions. Entrepreneurship values must be supported by the example of people who truly believe in the values they profess. Entrepreneurship often means making sacrifices, but this can also become a reason for inner satisfaction and self-realization. When entrepreneurship is conveyed in this way, it can become captivating for the new generations. Personal commitment, as the French novelist Albert Camus said, springs first from love rather than law. This means that it is not the “ethic of duty” that will capture younger generations, but the “ethic of passion.”

   **ii. Explanation.** Actions and behavior are important, but that is not all. It takes to transmit entrepreneurship values. The family has to dedicate time and effort to explaining to the next generations the reasons why they hold certain fundamental values. Examples without explanation could fail to convey a deep understanding of these values. Through education, a young family member can learn to see for themselves the validity of their family’s values.

   **iii. Codification.** The family may want to codify its entrepreneurship values before passing them on, sharing written documents that conserve memories of the past. The very process of drawing up a code of values helps raise awareness of these values, and can serve as the first step on the path to embracing them.

Spoken and written methods are useful for communicating these values, but they need to be backed up by actions. Young people are often quick to pick up on inconsistencies between the words and actions of the older generation and will reject those who fail to act on their words.

**Firm-related conditions: financial and organizational factors**

There are several ways in which family businesses can encourage entrepreneurialism across the generations, including by making the right financial decisions and establishing a culture of merit.

**Financial support**

There are certain financial choices that family businesses can make to encourage multigenerational entrepreneurial growth, including:

- **High investment.** To secure growth, companies must be prepared to invest. The bigger the entrepreneurial endeavor, the higher the required investments in fixed tangible assets and in financial assets.

- **Low debt.** At the outset of the growth process, firms tend to have little debt. Most entrepreneurs say that they never put all the family resources at risk. So they are more likely to embark on entrepreneurial initiatives when their debt is low or when they are reasonably confident they can quickly trim it down.

- **Low dividends.** Entrepreneurial firms tend to distribute a low level of dividends to shareholders. The owner family can be remunerated in other ways; but among many entrepreneurial family firms, rising profits do not necessarily also mean a rise in dividends.

**The culture of merit**

Continuity in family firms is only possible if a culture based on merit forms the foundations of generational change. As we all know, meritocracy is a system that promotes excellence, regardless of a person’s family, ethnic or cultural background. It is about recognizing the best people and rewarding them with the best positions. It is based on defining goals, accurately verifying the reaching of milestones...
along the way, doing a variety of evaluations, and sharing these evaluations and self-assessments with peers. The importance of a culture of merit is something people begin to learn when they are very young.

Without meritocracy, nepotism will thrive, bringing unsuitable or incompetent people into positions of responsibility. We would be hard pressed to find an entrepreneur, or an entrepreneurial family, who is against a culture of merit. But, in practice, when it comes to our own children, we are always tempted to believe that even the competent son or daughter can successfully lead the company, perhaps with the support of a non-family manager.

The situation gets more complicated when favoritism or guilt play a part in a parent's relationship with their children. The bigger the family, the more likely these factors will arise. Overcoming these family-related factors outlined above is necessary, but not sufficient for entrepreneurship to flourish across generations. Once firms start walking along a path of sustained entrepreneurship, they must act according to a strict strategic discipline. For family businesses, this warrants special attention. It is not uncommon to find that once entrepreneurs have overcome their fear of innovation, they get caught up in growth difficulties.

Well-run family businesses are careful to avoid this trap. Specifically, they know how to control the growth process by rejecting strategic plans based only on the whim of one family member or of a group of family members. Here are some guidelines on how to achieve the optimal entrepreneurial path:

- Strategic plans should be consistent with the business's core expertise.
- New ventures should not involve the business risking more than it can afford to lose—and the business should steer clear of using debt to finance investments that would be better backed with equity.
- New initiatives must contribute to the development of managerial competencies.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

The positive outcomes of entrepreneurship to the firm and to the controlling family

There are many advantages of a strong entrepreneurial culture to business that possess it, such as strategic renewal, growth and internationalization. And for the family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

The positive outcomes of entrepreneurship to the firm and to the controlling family

There are many advantages of a strong entrepreneurial culture to business that possess it, such as strategic renewal, growth and internationalization. And for the family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.

A final lesson for entrepreneurs

In the late 1990s, the Italian industrialist Alberto Falck wrote a letter to his children about entrepreneurship. Falck was the third-generation heir to a family business set up in the early 1900s. He tragically died in a road accident in 2003, but his letter still resonates for his family, entrepreneurial growth has a number of advantages too:

- As the value of the business increases, so does the family's legacy.
- Family members have the freedom to choose between acting only as owners, or as managers as well.
- More family members can take on managerial roles, while reserving a certain number of positions for non-family managers.
- A wider range of strategic options becomes available, such as selling all or part of the share capital. In small companies, it is harder to attract third-party investors as minority shareholders.