

# BRIDGING THE ENTREPRENEURIAL DIVIDE

How does a business-owning family renew a sense of ambition and drive in successive generations? **Francois deVisscher** looks at how entrepreneurs can instil a confidence and taste for risk-taking by introducing the next generation to philanthropic activities



**M**ore than ever, family businesses face major challenges that may threaten their survival beyond this century. Globalisation of our economies has reduced the relative size of many of the largest family companies to mid-market at best. At the same time, some of the competitive characteristics – entrepreneurship and a spirit of innovation – that made

family companies so successful in the past are being depleted by the passage of generations, many of whom are more removed from the business as they assume a diminishing management role.

Those two traits – entrepreneurship and innovation – happen to be the theme of the Families in Business Conference to be held on 12-13 October at the Metropolitan Club in New

York City. The conference will explore approaches to renewing entrepreneurship and innovation in the family business starting with their family owners, by developing and managing effective family governance structures and measuring their effectiveness, professionalising family and non-family management, and harnessing the benefits of philanthropy for both family and business.

These conference topics are critical for family companies of all sizes and ages, especially for more mature enterprises that need to renew the first generation's risk-taking and entrepreneurial spirit if they are to survive. In early generations, training and grooming of family members for management includes the entrepreneurial skills needed for continuity. In later generations, the role of the family increasingly evolves from risk-taking managers to responsible shareholders. Concurrently in those later-generation businesses, an increasing pool of shareholders exerts more and more pressure on managers for liquidity, competing with capital to fuel business growth. However, the global economy requires operating companies to grow in size, scope and geographically. Such efforts require the investment of more, not less, capital. These issues, and the role of family members, become even murkier as the company transi-

tions from a business-owning family to an asset-owning family.

The notion of a successful family business legacy often assumes that the next generation must take the reins of the family business. However, more important than transferring leadership of the business to the next generation is transferring the entrepreneurial spirit. This spirit sadly often dissipates over time in wealthy families, particularly when the family is no longer involved in management and its role is one of responsible family shareholder. After all, entrepreneurs are born out of financial necessity or passion about an idea or innovation. But the very wealth and success some entrepreneurs acquire can cause the next generation to languish.

Effective family governance structures, such as family offices, are playing an increasingly important role in providing a spirit of entrepreneurship that helps build a bridge between family companies in need of capital for expansion and a growing population of

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## PHILANTHROPY IS A WONDERFUL WAY FOR A BUSINESS-OWNING FAMILY TO DEVELOP THE NEXT GENERATION'S MANAGEMENT SKILLS

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family members in need of wealth diversification and stability. Family offices can also help define constructive and comfortable roles

for family members, both active and inactive. Because later generations are not as close or attached to the business as previous generations, they tend to be averse to risk – just at a time when the business needs to assume greater risk.

These challenges are even greater for companies in Europe and Asia than for businesses in the US, where each generation wants to do better than the previous generation. That US pioneering mentality does not exist in most developed countries, where younger generations simply hope to maintain the same living standards as their parents. But even that seemingly unambitious goal becomes harder and harder to achieve in successive generations, as the family's wealth becomes diluted among the growing extended family.

Lakshmi Mittal bucked these trends when he led his India-based steel company's \$32 billion hostile takeover earlier this summer of Luxembourg-based Arcelor, the world's second-largest steel company. Lakshmi's big risk was more than financial; he had to sacrifice the sacrosanct Indian family-business principles of maintaining full control of its business ventures. (Mittal conceded some management control and family voting rights to Arcelor in order to push through the deal.) ▶



*Taking the challenge: Warren Buffett (left) and Bill Gates have both chosen to contribute their fortunes to philanthropic causes rather than their children*

Unlike great managers or bureaucrats, great entrepreneurs pursue their own ideas, whether within the family business or some other organisation or endeavour. They generally have three main qualities: creativity and imagination, willingness to take risks, and the ability to follow through and implement those ideas. These qualities can be developed in the next generation through education, family banks and philanthropy.

Education of family members is an obvious tool to renew the family's entrepreneurial spirit. The expectation is not for the next generation to create the next Microsoft, but to foster the qualities of entrepreneurship in the next generation so that whatever career paths they pursue, they will have the skills, drive and savvy to assume the responsibilities that come with wealth.

We know of many family companies that have developed internal training seminars for their next generation family owners. Our own family business, Belgium-based NV Bekaert, has recently initiated the Bekaert Academy to educate and train our fifth generation on basic business skills. Universities such as Harvard in the US and Insead in Paris have developed specific educational programmes for next generation family owners.

Another tool to inculcate entrepreneurial spirit at more and more family companies is the establishment of a family bank. A family bank acts as a mini venture capital fund to support or invest in entrepreneurial endeavours of family members. Those family banks tend to be professionally structured with outside investment committees and specific investment limits.

Philanthropy is a wonderful way for the business-owning family to 'give back' as well as to develop the next generation's management and finance skills. One of the main benefits of philanthropy is that it can instill passion, drive and ambition in their children, who have less economic incentive to nurture and apply their talents and passions into any productive endeavor.

Perhaps no one appreciates this challenge more than multi-billionaire/entrepreneur Warren E. Buffett, who announced in late

June he would leave 85% of his \$44 billion fortune to the Bill & Melinda Gates Foundation and four other charities. Buffett still had \$6 billion left over, which he has earmarked for foundations run by each of his three children and his late wife, Susan, supporting causes near and dear to their hearts.

Buffett, the second wealthiest person in the world (after Bill Gates), is practicing what he has long preached – that "parents should leave children enough so they can do anything, but not so much that they could do nothing."

His three children each have careers outside Buffett's conglomerate Berkshire Hathaway. Eldest son Howard Buffett, an avid photographer, philanthropist and author of several books about conservation and wildlife, serves on the boards of his Berkshire Hathaway and other companies. His foundation focuses on environmental causes. Daughter Susan A. Buffett's foundation supports educational opportunities for low-income children. She also serves on the board of Girls Inc. Peter Buffett, a musician and composer, has a foundation that focuses on education and human rights.

By nurturing the next generation's passions, encouraging them to take risks and to follow through with their creative ideas, family business owners enhance the business' and the family's legacies. The younger generation will acquire the 'taste' and confidence for risk-taking and be more likely to appreciate and support the business' need to grow through sometimes risky investments. Children of wealthy entrepreneurs will also be more likely to realise the incredible opportunity they have of not just investing and growing their wealth, but more importantly, passing on the values developed by so many generations before them. ■

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He will be chairing Campdén's Families in Business Conference in New York on 12-13 October.