



Institute for  
Family Business

# Family Business Challenges

**Fostering Entrepreneurship**



## The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

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## The publisher

### About the IFB Research Foundation

The IFB Research Foundation is a charity (no. 1134085) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- ***Family Business Sector Report*** – benchmarking the size and importance of the sector.
- ***Family Business Research and White Papers*** – thought leadership on key family business characteristics and issues.
- ***Family Business Case Studies*** – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities.

### About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family-owned business sector. The IFB supports and promotes the family business sector through events, networking and representation, while the Foundation, whose board includes independent directors not affiliated to the IFB, focuses on educational research in accordance with its charitable objectives. The IFB is a member of FBN International, the global network for family businesses.

[www.ifb.org.uk](http://www.ifb.org.uk)

# Fostering Entrepreneurship

## 1 Defining the challenge

**Staying competitive.** Well-established family companies can sometimes become too comfortable with the status quo and resistant to change. This risk can increase where the same leaders, however capable, have been in situ for many years.

**Entitlement syndrome.** Wealthy families are at risk of growing up shielded from the real world and may not have a hunger for achieving success (see Exhibit 1). Family members may also have a false sense of their talents and abilities. The second generation can face special challenges, often feeling overshadowed by a strong founding personality.

### Exhibit 1: Entrepreneurial spirit can dissipate in the younger generations

“Although one might like to think that the character traits that fuel the desire to start one’s own business are innate, they can be dulled by the lack of urgent financial need or of the desire to improve one’s standard of living. It is ironic that, if the original entrepreneur succeeds in his or her quest to found a long-lasting enterprise, their children may, through lack of financial worries, be pushed in the opposite direction. They often do not have the hunger for success, or the enthusiasm for a product, that their father or mother had.”

Source: Joachim Schwass, Håkan Hillerström, Holger Kück and Colleen Lief, *Wise Wealth*, published by Palgrave Macmillan, London, 2011, p.110.

**Renewing the business.** Families need to foster an entrepreneurial risk-taking culture in every generation. Good governance is essential, but leaders with entrepreneurial drive, perseverance and independent thinking can help business families stay competitive in rapidly changing markets.

**Succession provides opportunities (and challenges).** Succession can offer a chance to re-establish an innovative approach and to modernise the culture in the organisation. However, entrepreneurial drive and direction can sometimes be lost during badly planned and lengthy inter-generational transitions.

**Adaptability is key to driving innovation and change.** Businesses that have a flexible and adaptive culture tend to be more nimble and are better at innovating to meet customer needs. And family companies enjoy advantages when it comes to broadening their product and service offerings (see Exhibit 2).

### Exhibit 2: Family business diversification



Source: Adapted from *Sustaining Growth and Profitability*, published by Ernst & Young Family Business Center of Excellence.

**Balancing past and future.** While taking pride in their heritage, successful business families seek out ways to sustain their legacy by fostering an entrepreneurial spirit and measured risk-taking (see Exhibits 3 and 4).

**Entrepreneurial orientation.** A recent IFB Research Foundation study (see “3 Resources”) concludes that the family’s history and its own collective mindset can have a strong influence

on the management team, helping to foster risk-taking and innovation. Family businesses must carefully align their goals, structure and governance to support entrepreneurship.

### Exhibit 3: Creating an entrepreneurial culture in the family

“The families that are the most successful at developing an entrepreneurial or enterprising culture are those that recognise that their culture is dynamic. The family’s history, the legacy of its founder, and the lessons of its founding business can all fade with time, changing the very culture of the family in the process. Families that wish to preserve an entrepreneurial culture over time actively focus attention on exploration of risk-oriented opportunities within each succeeding generation, and encourage younger owners to experiment with new ventures. They openly discuss their successes and failures and they learn from the mistakes that were made to improve outcomes for new initiatives.”

Source: Mark Haynes Daniell and Sara S. Hamilton, *Family Legacy and Leadership: Preserving True Family Wealth in Challenging Times*, published by Wiley, Singapore, 2011, p.223.

### Exhibit 4: Practical recommendations

- **Discuss risk-taking ventures.** Debate both past and prospective successes and failures. It keeps the issue under regular analysis and near the top of the family’s agenda.
- **Support next-generation entrepreneurship.** Encouraging younger family to learn about risk-taking and to experience and experiment developing new ventures.
- **Define how entrepreneurship relates to your family business culture and values.** Discuss this openly, creating written policies in your family constitution.
- **Put management in the hands of creative, informed risk-takers.** Empower exceptional family or non-family managers as appropriate.
- **Give family and non-family managers freedom.** Provide them with space in which to operate without interference from past leaders and the senior generation.
- **Consider partitioning your interests.** Ring-fence assets to preserve the core of what exists, while earmarking resources to invest in new business ventures.

## 2 Actions to consider

### Outlook

- Does our family have an enterprising and innovative business philosophy?
- Are we getting the balance right between stewardship and entrepreneurship?

### Governance

- Do we have non-family directors on our board helping to increase entrepreneurial activity?
- Have we considered forming an operations board to generate ideas and proposals on innovation?
- Is our ownership structure effective for supporting entrepreneurship initiatives while protecting stable family ownership?

### Employees

- Do we promote communication about innovation throughout our company?
- Are employees recruited, developed and incentivised to promote entrepreneurship and innovation?

### Next-generation family members

- Do we involve the next generation in the business, and encourage them to foster entrepreneurial developments?
- In our succession planning, are we considering family candidates for company CEO or business leadership positions?

## Case study: Timpsons

“Family businesses are uniquely placed to be entrepreneurial,” argues James Timpson, Chief Executive of the Timpson Group. “Family firms tend not to borrow,” he explains, “so it’s their own money to be bold with, and they can back this up with a culture that favours long-term entrepreneurial decision-making.”



John Timpson



James Timpson

Timpson are providers of a range of high-street and business services, from key-cutting, shoe repairs, photo labs and house signs to jewellery engraving and watch repairs. James represents the fifth generation and runs the business (£225m turnover) alongside his father, group Chairman, John Timpson.

The business, which is 100% family-owned, began life in 1865 as a shoe retailer. The founder was the innovator, while the second generation provided real entrepreneurial muscle to get the business going. The leader in the third generation was more of a caretaker – which was just as well as a lot of family politics had to be sorted out at this time – and then came John and James, who have both been very entrepreneurial.

Neither father nor son see the issue as a trade-off between business stewardship versus risk-taking. They both believe there’s no option

but to be entrepreneurial, otherwise the family risks being overtaken by change. In 1987 John took the hardest decision of his life when he sold the group’s shoe shops, but this represented the sort of reinvention sometimes needed to revitalise a family firm and make it sustainable: “When my father took over, Timpson’s was basically a shoe retailing business,” explains James, “and now we take £500,000 a week on watch repairs.”

This ability to innovate is backed up by management focus on nurturing home-grown talent, developing their workforce and spreading the entrepreneurial culture across the group. Their business model is known as Upside Down Management, and it promotes the idea that it’s the people who serve Timpson customers who should run the business. These “colleagues”, as they are called, have complete authority to operate their shops however they wish.

It’s a winning formula and, looking ahead, the company has many plans for staying agile and seeking out new expansion opportunities. On family involvement and ownership, James sums up the policy very clearly: “We are determined to keep all the company shares together and this means finding an entrepreneurial owner/manager in each successive generation.”

**TIMPSON**

## 3 Resources

### Articles and reports

#### **Family Business Entrepreneurship**

Mike Wright, Alfredo De Massis, Louise Scholes, Mat Hughes and Josip Kotlar. London: The IFB Research Foundation (2016).

Research findings on the depth and nature of UK family business entrepreneurship. The report highlights good practices to help family firms ensure their business constantly adapts to changing market needs, and offers insights on how to maintain a strong culture of entrepreneurship and innovation.

#### **Family-Driven Innovation: Resolving the Paradox in Family Firms**

Alfredo De Massis, Alberto Di Minin and Federico Frattini, *California Management Review*, Vol. 58(1), pp.5–19 (2015).

While family businesses are often perceived as more conservative and path-dependent than other firms, paradoxically these firms actually have an inherent ability to innovate more than their competitors.

#### **Managing Paradox: Entrepreneurial Stewardship is the Key to Perpetuating Family Wealth Through Multiple Generations**

Stuart E. Lucas and David Lansky, *Family Business Magazine*, Spring 2010.

The apparent contradictions of entrepreneurial stewardship and how it nevertheless represents the challenge that each generation must face.

#### **Growing the Family Business: Special Challenges and Best Practices**

John L. Ward, *Family Business Review*, Vol.10, No.4, 323–337 (December 1997).

Ward's typically readable and perceptive analysis of the challenges of expanding family-owned businesses.

#### **Staying Entrepreneurial During the Transition Process: A Case Study of the Transition From Controlling Owners to Sibling Partnership**

Barbara Murray, Family Business Solutions.

A case study and learning points on maintaining an entrepreneurial outlook during ownership and leadership transitions.

### Books

#### **Family Legacy and Leadership: Preserving True Family Wealth in Challenging Times**

Mark Haynes Daniell and Sara S. Hamilton, published by John Wiley & Sons (2010).

Includes a useful checklist of *Strategies for Creating an Entrepreneurial Culture* in Appendix C.

#### **Entrepreneurial Family Firms**

Frank Hoy and Pramodita Sharma, published by Pearson (2009).

A case study-based examination of entrepreneurialism. The final chapter, *Secret Recipes of Entrepreneurial Family Firms*, gives a useful summary.

# Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

## Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

## Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:  
Owners and the Board

## Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers
- Branding the Family Business

## Family business succession

- Engaging the Next Generation
- Planning Succession

## Family business wealth

- Selling the Family Business

Growing successful enterprises  
for generations to come

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