

Developing Next Generation Members in the Family Business and Family Enterprise

Honoring the Past While Preparing for the Future

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In today's rapidly evolving world, family enterprises face an unprecedented challenge: developing the next generation of leaders while navigating change that moves faster than ever before. This perfect storm demands more than traditional approaches—it requires both fresh thinking and wisdom about what has worked, knowing when to lean into time-tested methods and when to innovate boldly.

Earlier this year, in a [white paper for Family Enterprise USA](#), our colleague Megan Helzner wrote about engaging the next-generation in the family business and enterprise, and, more specifically, discussed what Merrill Lynch has coined “The Great Wealth Transfer,” explaining that over the next 20 years, more than \$80 trillion in assets will shift from Boomers to subsequent generations. Given the unprecedented amount of assets that will shift, engagement during this transition requires a systemic approach to effectively transferring family culture and values, ownership, control, and management of the enterprise while leveraging both family members (in and outside of the enterprise), non-family leaders, and external advisors to promote the health and longevity of the enterprise.

FEUSA’s 2025 Family Business Survey found that “70.9% of family businesses had majority ownership from first and second generations of family members, and 30.8% have passed ‘Full or Controlling Ownership’ on to the next generation. In addition, 81% of family businesses have been in operation for 20 years or more, results showed.”¹

STREAM 1: Engagement

STREAM 2: Development

STREAM 3: Deployment



So, if **engagement** is the starting point, what comes next? The key to sustainability lies in mastering both **engagement** and **development** to achieve effective **deployment** of the rising generation.

The Three Streams of Next Generation Development

Although this paper focuses primarily on development, it is important to add context to the three overlapping and essential workstreams that complete this important puzzle:

- **Stream One: Engagement** – As our colleague, Megan, discussed, planful engagement is foundational to this work, creating meaningful connections between generations, establishing trust, and opening authentic channels of communication. Most critically, it ensures the next generation actually wants to be involved.

¹ “2025 FEUSA Family Business Survey Executive Summary.” by John Gugliada. 2025. Family Enterprise USA https://familyenterpriseusa.com/wp-content/uploads/2025/04/2025.FEUSA-Survey.-Executive-Summary.Final_.v.2.1.pdf

- **Stream Two: Development** – Here, we cultivate the specific skills and capabilities the enterprise needs—whether as family members, owners, managers, or some combination of these roles. This isn't just about teaching what worked in the past; it's about identifying which competencies are most relevant for this particular moment in time for the enterprise and the individual and balancing what we call "exploit" mode (leveraging proven strengths) with "explore" mode (discovering new approaches).
- **Stream Three: Deployment** – Once development is well underway, you must strategically place next gens in roles where they can contribute meaningfully while continuing to grow. This involves creating governance structures that support the family and enterprise by fostering accountability and promoting a healthy flow of feedback and communication. This will enable the delicate transition of authority and responsibility over time.

At CFAR, we've spent nearly 40 years helping family enterprises develop their next generation of leaders. We've discovered something fundamental: The families that succeed are those who invest in this work, have honest conversations across generations, and remain adaptable as the world around them changes.

Consider two actual but “blinded” case examples contrasting approaches to next-generation development—each reflecting different philosophies about when and how to engage the rising generation.

1. Sterling Manufacturing: Intentional Development

Sterling's second-generation leadership, who grew up on the factory floor watching their father build the company, created a deliberate development pathway for the rising generation (G3) through the following ways:

- High school: Summer "exploration days"—exposure without pressure
- College years: Formal internships with department rotations
- Post-graduation: Required external experience before full-time roles
- Ongoing: Regular family meetings on business and development

Rising Generation Questions: "How do I establish credibility?" "How can I make my parents proud while being my own person?"

Leading Generation Questions: "What experiences are important to the business and will allow children to prove themselves to employees and themselves?"

2. Precision Parts: Protected from Development

Precision's second-generation leadership, remembering the pressure they felt to join the business, chose to "protect" the rising generation (G3) by keeping them completely separate from the company:

- No internships or job shadowing offered
- Business discussions are avoided at family gatherings

- G3 built careers entirely outside the family enterprise
- No succession planning or skill transfer occurred in any realm: family, owner, or management

Rising Gen Questions (when finally approached): "How can I learn this business quickly enough?" "Am I giving up my career for something I don't understand?"

Leading Gen Questions (when the leading generation now faces retirement): "Who will take over?" "How did we get here with no prepared successor?"

Both families aimed to act in their enterprise's best interest, yet one prepared for inevitable succession challenges while the other will struggle to transfer ownership and preserve their legacy. Successful families understand and prepare for these natural life-cycle transitions. The following outlines typical patterns we see in our work with family enterprises:

- In **founder-stage companies**, the focus is on strategic adaptation and succession. Leadership development and managing family relationships are crucial, sometimes leading to the creation of habits such as holding regular family meetings to help the first group of next-gen leaders understand the role of the enterprise within the family and how they can be involved. These habits lay the foundation for strengthening the family "glue" and often precede the later formation of a formal family council with a family council charter.
- As **second-generation** leaders assume more responsibility, new challenges emerge. How can we help the next generation understand the business as an institution and its role within the family? Culture shifts from implicit to explicit—you must clearly articulate "how we do things." Building effective teams that include both family and non-family members also requires specific skills. Additionally, fostering cohesion among siblings, cousins, spouses, and differing values is crucial to maintaining a shared purpose.
- The **second-generation transition**, ushering in the **third**, can often be the most challenging; families must frequently decide whether to keep or sell the business, and if they choose to keep it, whether it needs to be reinvented. They also consider the purpose of staying together, creating foundations or family offices to preserve legacy, involve newer members, or invest collectively. The key question becomes how to create meaningful opportunities for an expanding family group of stakeholders, along with a wide variety of engagement opportunities, to foster connection and development.
- For **later-generation** businesses, these questions become even more complex as the family tree expands, and the number of stakeholders multiplies.

These life-cycle challenges are further complicated by a rapidly evolving business landscape that will require new skills and capabilities for next-generation leaders.

Skills and Capabilities Required to Lead in the Future

Next-generation leaders will have to do several things simultaneously, and these things can feel contradictory.

- They need to **understand the historical elements** of your business. Where did you come from? What are the founding values? What made you successful in the past? What changes has the enterprise managed through in the past? This historical understanding provides crucial context.

- But they also need **to adapt to new** business, political, and regulatory systems. The rules of the game are changing constantly. What was once legal or accepted may not be tomorrow. What was impossible yesterday might be standard practice tomorrow.
- They need to lead and **develop a changing workforce across generations**. Currently, many organizations have employees from multiple generations working together, from Gen Z to Boomers. Each has different expectations, communication styles, and values around how they work.
- They need to **incorporate emerging technologies**. Artificial intelligence, automation, data analytics—these aren't future concerns anymore. They're present realities that are transforming how businesses operate.
- And they need to **navigate new global trade** policies and other economic shifts. In our increasingly interconnected world, a policy change in one country can ripple through global supply chains in days.

Further, along with understanding the skills listed above, the next generation must possess capabilities inherent to the enterprise, such as:

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| <ul style="list-style-type: none"> ▪ P&L responsibility ▪ board and governance experience ▪ Experience with crisis management or difficult decisions ▪ a network of industry and professional relationships ▪ Professional experience outside of the family business | <ul style="list-style-type: none"> ▪ Technical expertise in a resource-constrained environment ▪ The art of negotiation ▪ Other critical competencies (e.g., risk management, financial acumen, and people management) ▪ |
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In the face of these demands, several approaches can be taken to advance next-generation development. Recognizing that learning and absorption occur differently for individuals, we may need to employ multiple approaches to teaching and learning. We turn to developmental psychology for tools to navigate the complex work of development. The following are two frameworks that families can integrate to develop the next generation for ultimate deployment. These frameworks offer a helpful approach to activating the next generation and honoring the wisdom that has come before them.

Frameworks for approaching the overwhelming work of development

“Kind and Wicked” Learning Environments

When we are confronted with the overwhelming task of “skilling up” a member of the next generation, we remind ourselves of a framework we first learned about while reading David Epstein's book, *“Range.”* This framework is based on Robin Hogarth's research on “kind” and “wicked” learning environments.

A kind learning environment is one where you get better through repetition. Feedback is quick and reliable, and the rules are stable and unchanging, allowing learning to occur predictably. Think of chess or playing an instrument: something where the 10,000 hours rule would definitely apply. The rules don't change; the context doesn't really change. The feedback is predictable.

Wicked learning environments, by contrast, are characterized by incomplete or unreliable feedback and the absence of clear rules or guidelines. Other classic examples of wicked learning environments are predicting stock market trends and managing human behavior. With so many variables involved, predictable feedback is a challenge, and the guidelines can be unstable.

Few environments are strictly "kind" or "wicked." You can easily confuse a "wicked" environment for a "kind" one. For example, managing people, networking, or anything involving understanding human behavior can be easily mistaken for something that falls in the "kind" category, especially if you're good at it. It can help to ask some important questions: Is the feedback I'm getting reliable? Is there context that I'm missing or feedback that's irrelevant? In a "wicked" learning environment, you can't rely on repetition, but instead you have to develop comfort with experimentation and reflection. Each attempt at the task gives you more data about how to approach the same or similar tasks in the future. Because wicked skills require experimentation and reflection, you want people teaching those skills who have the patience to do so.

You can also mistake "kind" learning environments for "wicked" ones when there are bigger risks, whether financial or reputational. How many times have you been in a situation where you're afraid to teach someone something new, or they're afraid to learn, and you have convinced yourself that the task is more complicated than it is? We've all been there.

If we look back to the case of Precision Parts, G2 family members feared putting too much pressure on G3 and decided to "protect" them from development. Now, G3 is facing a steep learning curve to maintain the family's legacy due to G2's lack of engagement and preparation. One way Precision Parts might approach next-gen development now is by considering what parts of the business are "kind" and which are "wicked," and start letting G3 take practice reps or experiment and reflect as appropriate.

Let's look at one more framework we like to apply to development.

The Explore/Exploit Tradeoff

This is another concept from the field of developmental psychology. It's a behavioral dilemma that occurs anytime our need for reward (external feedback) is at odds with our desire for information. When we're in exploit mode, we're using what we already know and do well and drilling down. Exploit mode thrives on anticipating rewards, which can lead to quick learning and reduce uncertainty, but can also be risk-averse. Think of playing with an infant: when they discover something delights them, for example, when playing peekaboo, you are going to keep doing that thing over and over to entertain them. If you stop, you risk displeasing the baby.

When we're in exploration mode, on the other hand, we are seeking new knowledge and experiences, driven by curiosity or intrinsic motivation. This mode appears when guidance and certainty are scarce, and learning can take longer.

A perfect example of how this plays out in real life is related to our morning coffee: For many of us in CFAR's Philadelphia office, if we're in a rush in the morning and don't have time to make coffee at home, we get off the train and head straight to the coffee shop that's across from our office. We don't think, "Should I try something new today?" We don't pull up a map. We want

coffee, we need coffee, and we go to where we know we can reliably get a quick, good cup of coffee. This is exploit mode.

However, when our reliable coffee shop was undergoing a remodel, we had to go into explore mode to search for alternatives. After a few tries, we each found a new go-to—and several of us discovered even better options than our original favorite, but only because we were forced to move from exploit mode into explore mode.

So how does this apply to next-generation development? Let us give you some examples of what "exploit" approaches look like in this context.

- **Deepening existing knowledge about the current state of the business.** Teaching the next generation how things work now, why specific processes exist, and what the current competitive advantages are. What does our company do better than anyone else? Why do customers choose us? What would be dangerous to change?
- **Leveraging existing relationships,** introducing the next generation to longstanding partners, customers, and suppliers. Passing on those relationship networks that took decades to build.
- **Creating and teaching from manuals for standard operating procedures.** Documenting what excellence looks like so it can be replicated and scaled.
- **Creating apprenticeship programs** where the next generation works alongside experienced leaders, learning by doing in a structured way.
- **Developing a curriculum with clear performance metrics** so you can track whether someone is learning what they need to know.

These approaches are all valuable. They transfer knowledge efficiently. They reduce risk. They ensure continuity. You need these exploit approaches.

But you also need "explore" approaches. That might look like:

- **Trying novel approaches to training and learning.** Instead of traditional classroom learning, you engage in action learning projects. Maybe instead of individual development, you develop cohorts. Perhaps you incorporate simulation, gaming, or completely different pedagogical approaches.
- Setting up **"mini experiments"** to test these ideas with minimal risk. You don't bet the whole program on an unproven approach. Try it with a small group, learn what works, iterate, and then scale it up.
- **Bringing new voices and ideas into the mix, broadening networks.** Instead of only learning from family members, the next generation can learn from industry experts, academic partners, and peer networks of other family businesses.
- **Enlisting independent board directors and non-family leaders to lead education efforts or offer coaching.** Sometimes, the most powerful learning comes from people outside the family system, who can offer different perspectives.
- **Encouraging innovation labs** where the next generation can experiment with new ideas without threatening the core business.

- Offering **external rotations** where next-generation leaders spend time working in other organizations, other industries, and other contexts. They come back with completely new frameworks and ideas.
- **Trying reverse mentoring programs where younger family members mentor senior leaders** on new technologies, new market trends, and new ways of thinking about stakeholder engagement.
- **Increasing use of AI** and other emerging technologies in how you develop leaders. Maybe AI can help identify skill gaps, personalize learning paths, or provide simulation environments.
- **Refreshing the curriculum that was previously developed.** Just because it worked five years ago doesn't mean it works now. Explore mode means being willing to tear up the playbook and start fresh.

Now here's where it gets tricky. In business, we tend to put a premium on "knowing" and gravitate toward leaders who project "certainty" and confidence. That bias pushes us toward exploit mode.

We've also been trained or conditioned to ignore our instinct to explore. While animals naturally explore as part of their survival, we develop habits and routines that can inadvertently become ruts. We reward people for having answers, not for having good questions. We value decisive action over thoughtful exploration.

But moving into explore mode is necessary to ensure information about our environment doesn't become stale. Businesses, like ecosystems, are constantly evolving. Leadership and the development of leaders must adapt to stay competitive.

If you recall the case of Sterling Manufacturing, they used exploit approaches, including formal internships with department rotations and regular family meetings on business development. They balanced this with explore tactics: casual high school exposure without pressure and requiring external work experience before stepping into full-time family business roles.

If you stay only where you're comfortable and do only what you know, you won't get far. Sterling Manufacturing recognized that.

We can easily get "stuck" in exploit mode and continue doing things the way we've always done them, even when we start receiving feedback that it's no longer effective.

Precision Parts did something we often see in our work with families: they protected their G3s from the pressure of development. They knew the way they were developed would not work for G3. The problem is, this non-development approach to development isn't working for them either, so they need to explore new approaches while identifying what parts of their current approach are worth keeping. For example, requiring next-generation family members to work outside the family business might be something they decide serves them well. Finding an onramp into the business after that, or exposure to it beforehand, will serve them well going forward.

Conclusion

Developing next-generation leaders in family enterprises demands more than good intentions. It demands intentional strategy, honest conversation, and the courage to balance proven methods with bold innovation. As Sterling Manufacturing and Precision Parts illustrate, deliberate investment in development creates ready leaders, while avoidance creates a crisis.

The frameworks we've discussed—kind versus wicked learning environments and the explore/exploit tradeoff—offer practical guidance for this overwhelming work. They remind us to match our development approaches to the actual challenges our next generation will face. Some skills require repetition in stable environments; others demand experimentation in uncertain territory. Some situations call for deepening existing knowledge; others require discovering entirely new approaches.

As you consider your own family enterprise, without intentional development, there is potential loss or preservation of family legacies, the continuation or dissolution of enterprises that have served communities for generations, and the empowerment or unpreparedness of young leaders who will inherit unprecedented challenges.

The most successful families recognize that next-generation development sits at the intersection of three essential streams: engagement that builds genuine connection and commitment, development that cultivates relevant capabilities, and deployment that strategically positions leaders where they can contribute and grow. These streams don't happen sequentially—they overlap, inform each other, and require ongoing attention as both the enterprise and family evolve.

The families that will thrive in the coming decades are those who start this work today. They engage their next generation early and meaningfully. They invest in development that honors the past while preparing for an uncertain future. And they do all of this with both humility about what they don't know and confidence in what they've built together.

Your family's legacy deserves this investment. The question is not whether to begin, but how—and that journey starts now.

About CFAR

[CFAR](#) (the Center for Applied Research) is a management consulting firm with nearly 40 years of supporting family businesses in succession, governance, next generation engagement, leadership development, and strategy. CFAR was one of the founding voices in the field of family business study. Today, CFAR proudly helps some of the nation's most notable family businesses, family foundations, and family offices.

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