Keeping the founders' spirit alive

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Many family companies are engendered with the entrepreneurial spirit of their founders, but how can that spirit be kept alive?

According to the economist Joseph Schumpeter, the entrepreneurial spirit is a process of constant reinvention through innovation. Entrepreneurship has also been described as the art of creating new companies.

The entrepreneur spots an unsatisfied demand and assembles a company that can respond to this market requirement. Estée Lauder, for instance, was interested in finding a way to counter the damaging effects of the sun on people?s skin, and so launched a line of cosmetics offering sun protection.

Can such a spirit be kept alive from generation to generation, beyond the vision of the company founder? IESE professors Pedro Nueno, the Bertrán Foundation Chair of Entrepreneurship, and Josep Tàpies, the Chair of Family-Owned Business, believe it is possible.

The entrepreneurial spirit can be nurtured by sticking to a particular method, and steered by good practices in corporate governance. In their white paper, published by Credit Suisse, the authors examine the relationship between entrepreneurial spirit, business management and family-owned business.

Training, human capital and corporate governance

There are at least three mechanisms for ensuring that entrepreneurship management survives the passing generations: educating future generations; having competent non-family employees; and nurturing that spirit through good corporate governance and executive or supervisory boards.

If management is something that can be taught and learned, then so, too, is entrepreneurship. There is a list of attitudes and practices that are common to all entrepreneurial companies and can be learned, such as facilitating leadership, teamwork, self-discipline, creativity, career path development, flexibility and good governance. In fact, nearly all business schools offer programs on entrepreneurship to teach these values and explore these aspects further.

Another way to keep the entrepreneurial spirit alive is by bringing in outside talent. The Haniel Group is a good example. This international trading company has stayed in the family since it was founded in the 18th century. However, since 1917, no family member has held an executive post in any of the group's companies. The company's day-to-day administration is handled by outside professionals, and the owning family exercises its control through the supervisory board, which focuses on managing the family assets and supervising the group.

Thanks to a combination of commitment, pressure and long-term perspective, family companies avoid speculation and have a good shield to protect themselves when crisis hits. At the same time, though, that can also create an ecosystem that stifles any creative or innovative efforts. To prevent this from occurring, entrepreneurship should be fostered by the organization's governing bodies.

One practice currently seeing excellent results at a number of family companies consists of organizing an annual brainstorming session for the family council and the top company executives, who come and propose ideas about innovation, acquisitions and diversification that are considered feasible and potential generators of growth for the firm.

Moderated by an outside professional, these sessions examine the various proposals and rank them according to risk and potential. Afterwards, some proposals are earmarked as pilot projects and some are designated for further study, while others are tossed out completely.

The council monitors the results of those projects, and each year the brainstorming session begins with a report on the activities and outcomes of the previous meeting. This stimulates entrepreneurship and the participation of both family and non-family employees in shaping the company's future.

Diversification creates value

Back in the 1960s, business schools taught that good management required successfully dealing with diversification; two decades later, the idea of focusing on one's key competencies was practically a law at many publicly traded companies. So, what is the best strategy for a family company these days?

The authors consider diversification as a resource used by family businesses to deal with risk. Every enterprise needs its own strategy and structure, although the success stories analyzed show that diversification constitutes an asset. This does not mean a company must rule out having various business units, each with its own core competencies.

The family company Swarovski found a way to get maximum value from its main competency -- manufacturing crystal -- while at the same time creating a diversified portfolio, with figurines, a signature jewelry line and even an optical products division.

The authors cite another form of diversification: creating a family office to administrate the portfolio dividends that do not get split among family shareholders, or disinvestments in the portfolio firms.