KEEPING THE FOUNDERS' SPIRIT ALIVE

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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.

For instance, when an entrepreneur spots an unsatisfied demand, she assembles a company that can respond to this market requirement. Case in point: Estee Lauder wanted to find a way to counter the sun's damaging effects on skin, and so launched a line of cosmetics that offered sun protection.

Can such a spirit be kept alive from generation to generation, beyond the company founder's vision? IESE professors Pedro Nueno, the Bertran Foundation Chair of Entrepreneurship, and Josep Tapies, 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 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
At least three mechanisms ensure that entrepreneurship management survives the passing generations: educating future generations; having competent nonfamily employees; and nurturing that spirit through good corporate governance and executive or supervisory boards.

If management is a skill 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 entrepreneurship programs that teach and further explore these values.

Another way to keep the entrepreneurial spirit alive is by bringing in outside talent. Take the Haniel Group, for example. An international trading company that has stayed in the family since its founding in the 18th century, the Haniel Group hasn't had a family member in an executive post in any of the group's companies since 1917. Outside professionals handle the company's day-to-day administration, while 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 good protection 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, an organization's governing bodies should foster entrepreneurship.

One productive practice at a number of family companies is an annual brainstorming session for the family council and the top company executives, who 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. Afterward, some proposals are earmarked as pilot projects or designated for further study, while others are tossed out completely.

The counsi, (monitors the results of those projects, and each year the brainstorming session begins with a report on the previous meeting's outcomes. This stimulates entrepreneurship and employee participation 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.