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Identifying, developing family talent: Key to long-term growth

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"Investing in your family business' human and intellectual capital is probably your biggest investment that will far outweigh all investments in your lifetime."

Most families whose cultural views are based on modern interpretation believe that wealth preservation means successful management of their individual financial wealth. In part, they are correct. But that emphasis leaves out the growth of their family's human and intellectual capital. They forget that what is critical to success are the individual and collective acts of family members and not what they own.

Families who want to stay in business for another generation must encourage entrepreneurship in and out of their companies. You need good family owners to support your company and good family board members to guide the company. You also need one or more members per generation who are wealth creators—who know how to make winning bets that produce the financial returns you need.

First, successful families see important changes in their industry and adapt by diversifying into new activities that can grow. Simply put, successful families are entrepreneurial.

Second, families succeed because they invest in productive activities (including the development of the next generation), emphasize growing assets, and consume relatively little of their wealth. These families maintain a culture that encourages family members to create things of lasting value. It's not surprising that these families encourage entrepreneurs.

One of the best family wealth creators is Alexandre Birman who showed an interest in business between the ages of 8-14 and was strongly supported by his dad in the early years. He is the second-generation successor of Arezzo, a Brazilian luxury women's shoes and accessories company; founder of the couture brand, Alexandre Birman, and the footwear company, Schutz, which was purchased by his family business after its remarkable success in the Brazilian and international markets.

"I never, ever, stopped once to ask, 'Am I on the right track?'" the designer said in an interview. He has also never had to look outside the family for encouragement. His father backed him, with both funding and encouragement, when he came up with the idea for Schutz . "My father and the firm really supported me when I wanted to launch my own label."

In one interview, Birman was asked: "As a company, Arezzo & Co. experienced significant growth for 2011, and you have an expected 30 percent revenue growth for 2012. To what do you attribute this success?"

His reply: "It's a combination of factors. First, I would say that we are very hard workers. My father is a 50-something-year-old man who works 12 hours a day and who loves the shoes. We are also very humble people. We never let success kind of contaminate our brains. We've never taken long vacations, we never spend too much money. We also have an integrated process,

from designing to retail. We set up the brands as independent business units. We have three sample factories that can create more than 500 new styles a week. Our longest lead time today is six weeks from order to production, and this is part of what really makes us a success."

How should you train the next generation of family leaders?

Develop your wealth generators by providing the right opportunities to learn about business, in your core business or outside. These wealth creators need to be stretched beyond their comfort zones in their understandings and capabilities. Give them real projects and don't protect them from failure.

A family of wealth needs to educate the next generation of wealth owners as early as possible. There has to be a plan around what they can expect, what role they will play, and what they need to know to manage the family wealth. Some of that may be technical skills, on investing or budgeting, while others may be values-driven.

To teach the technical skills, education is necessary around accounting, legal, tax or investing, to make sure the next generation of enterprise owners make the right decisions. The earlier they start honing these skills, the easier it will be for them when they get older. It is like learning a new language.

Remember, investing in family entrepreneurs has to be done objectively based on the feasibility of their business plans, and also fairly within the family. Even if some entrepreneurial projects don't succeed, these investments will help you spot talent to keep your business growing. And you are sending an important message: this family is committed to creating value.

Managers inside your core business who think like entrepreneurs (we call them intrapreneurs) can identify opportunities that can move your family company into new lines of business, rejuvenate the founder's legacy, and put the enterprise on a new growth path. Entrepreneurs (typically family members) working outside the business but with family financial support can keep talented kin inside a broader "family enterprise," diversify business activities, and build assets.

A business would never squander say, thirty years of the useful life of an asset. Failure to educate younger family members to a level at which they can contribute to the family balance sheet is as much a waste of family assets as misjudging the still useful lives of the oldest members of the family.

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