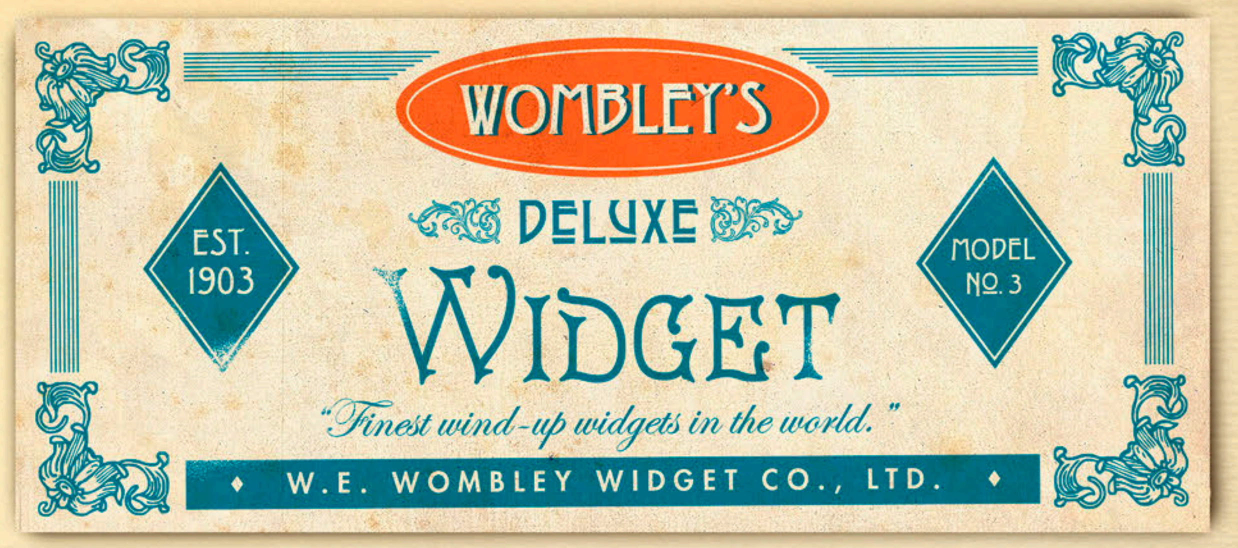
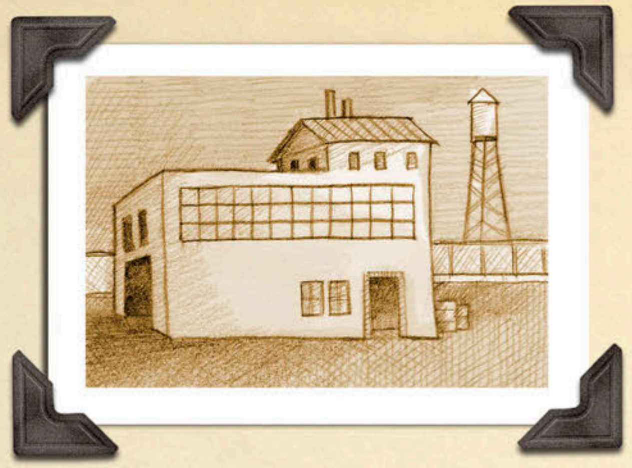


Widget box top c. 1918

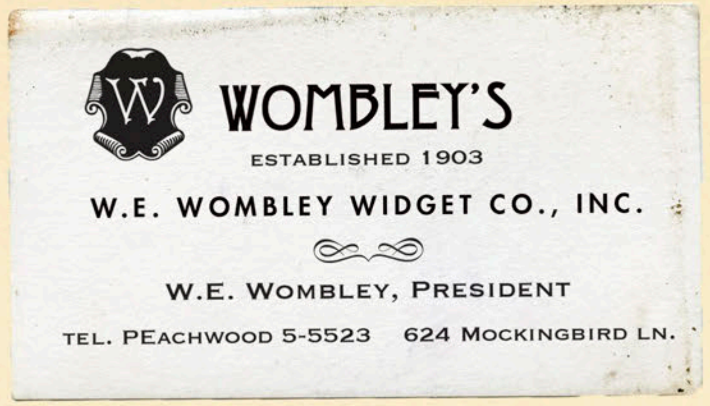
Our founder – "Grampa" Wombley

"Nanny" Wombley holding 1st patent

Factory badge c. 1932



New factory, 1935



The 21st Century Family Business Paradox

The need for innovation has never been greater within the traditional engines of U.S. economic growth

BY / ERIC KRELL

Forget blockchain, never mind FinTech and scratch artificial intelligence off your list. U.S. family businesses, rather than Silicon Valley startups, are ideally positioned to foster a wave of innovation at the intersection of organizational culture and values, business processes and technology.

These powerful engines of the U.S. economy are naturally suited to thrive in a competitive environment where success is determined by authentic customer experiences, organizational purpose and trusting relationships. "The biggest opportunity is that many family businesses are highly trusted organizations," notes PwC US Family Business Services Leader Jonathan Flack. "In an extremely fast-changing business environment, some family businesses have done extremely well in leveraging the value of their trusted brands."

That said, many family businesses are also hungry for innovative solutions to fundamental challenges--rampant market and organizational disruptions, accelerating technology advancements and stiff competition for talent--that they are intrinsically ill-equipped to address. The breakneck pace of technological change in recent years "has made navigating today's business ecosystem increasingly complex, demanding even more agility, collaboration and digital innovation than before," notes Jason Downing, vice chairman and US Deloitte Private leader, Deloitte LLP. "As a result, many family businesses are looking to partner with other organizations to develop new products or services to enhance their own ability to innovate and stay ahead of the competition."

Welcome to the 21st century family business paradox, one that is inspiring current and incoming owners and executives to develop new ways to optimize their inherent strengths while mitigating their structural shortcomings.

We Are Family (Businesses)

Family businesses represent a major portion of all global companies as well as a crucial driver of the U.S. economy. According to EY research, 139 of the world's 500 largest family businesses--including Wal-Mart, Berkshire Hathaway, Ford, Cargill and Koch Industries--are based in North America.

The "family" designation varies slightly depending on who is applying it, but it typically reflects a measure of ownership (e.g., shareholding or voting rights in a publicly listed company). By The Family Business Institute's count, there are between 5 million and 6 million family businesses with employees in the U.S. Of those, 50,000 to 100,000 post $20 million or more in annual sales in a given year.

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This combined activity packs an economic wallop. Family businesses create 64 percent of U.S. gross domestic product and account for 78 percent of all new job creation in the U.S., Downing reports. If this valuable job creation engine is to continue firing on all cylinders, some imposing challenges and inherent disadvantages must be addressed.

W.E. Wombley Jr. - president 1943-1971 with daughter Margaret

3 Challenges Ripe for Creative Solutions

Downing also notes that family businesses "have to deal with issues many traditional businesses don't, from the importance of family legacy and succession to family chemistry and alignment." Respondents to Deloitte's recent family business survey identified "changing family relationships" as the issue that is most likely to cause business disruptions. Three other issues--two that affect all companies and one that has traditionally vexed family businesses--arise most frequently when family business experts discuss how family businesses are evolving:

1. People

Describing access to talent as the top challenge currently facing family businesses, The Family Business Institute Co-founder and President Wayne Rivers reports that some family companies are paying employees up to a $10,000 bonus for referrals that result in a hire. "As an employee earning $40,000 a year," he says, "you can pick up 25 percent of your base comp [sic] by successfully nominating a new employee. That's quite an incentive, and it shows you how hungry companies are." As technology and data analysis skills become a requirement for more job roles, the collection of companies competing for this talent expands. The family farmer is not just competing against other local farms for talent, but also against regional factories and technology firms. In addition to sharpening their recruiting and onboarding capabilities, family businesses are increasing their access to talent through mergers & acquisitions activity and revamping their training capabilities in ways that let them expand their recruiting nets. "More [family businesses] are in that old NFL draft mode," Rivers says. "They want to get good athletes in the door and then they will train them."

Margaret Wombley Smith - president 1971-1999

2. Technology

"The family business community has traditionally been 10 to 15 years behind when it comes to investing in bleeding-edge technology," Rivers says. Family businesses, he adds, tend to wait to invest in a new technology until it has been proven to deliver value and has been adopted as an industry standard or best practice. This approach proved wise for decades (it was savvy to pass on a Second Life storefront a decade ago), but it has become problematic as the pace of technology advancement has accelerated. In PwC's survey of 2,900 family businesses, 80 percent of global respondents identified digital disruption as their company's No. 1 challenge. Only 25 percent of the Deloitte survey respondents indicated that their company has completed a strategy for the use of digital technologies. One way to keep pace with technology's march, Downing says, is by partnering with other organizations to develop new products and services. Business consolidation can also help; mergers not only give family businesses access to new products or services, but can also deliver new talent and cutting-edge technology. Family business leaders also might consider a less cautious approach to investing in relatively low-cost new technologies, such as cloud-based software and services and robotic process automation (RPA).

Margaret Wombley Smith and
Tim Jones (nephew) VP, sales

3. Continuity

Aging leadership marks a perennial challenge and one that family businesses have made strides in addressing; still, much more progress is needed. Until recently, a disturbingly high number of companies did not have a "drop-dead plan" in place that laid out how to address a founder's unexpected death. Now, as more family businesses invest in formal succession planning capabilities, savvy leaders realize that these plans should extend beyond ownership and well into the management ranks. "If the owner of your family business is 65 years old, there's a good chance that the COO and CFO are also in their 60s," Rivers says, "and most of the executives at the senior vice president level are probably in their late 50s." For this reason, Flack prefers to use the term "continuity planning" when describing the leadership development and succession planning capabilities his team is helping family businesses get in place.

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As they work to upgrade their terminology and capabilities, family business owners and executives appear well-aware of the unique opportunity they have to out-perform competitors based on a comprehensive set of factors that extend beyond process and technology. Seventy-five percent of the respondents to PwC's family business survey indicated that having a clear set of values creates a competitive advantage.

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