



WIFU_compact_11: Digital Transformation

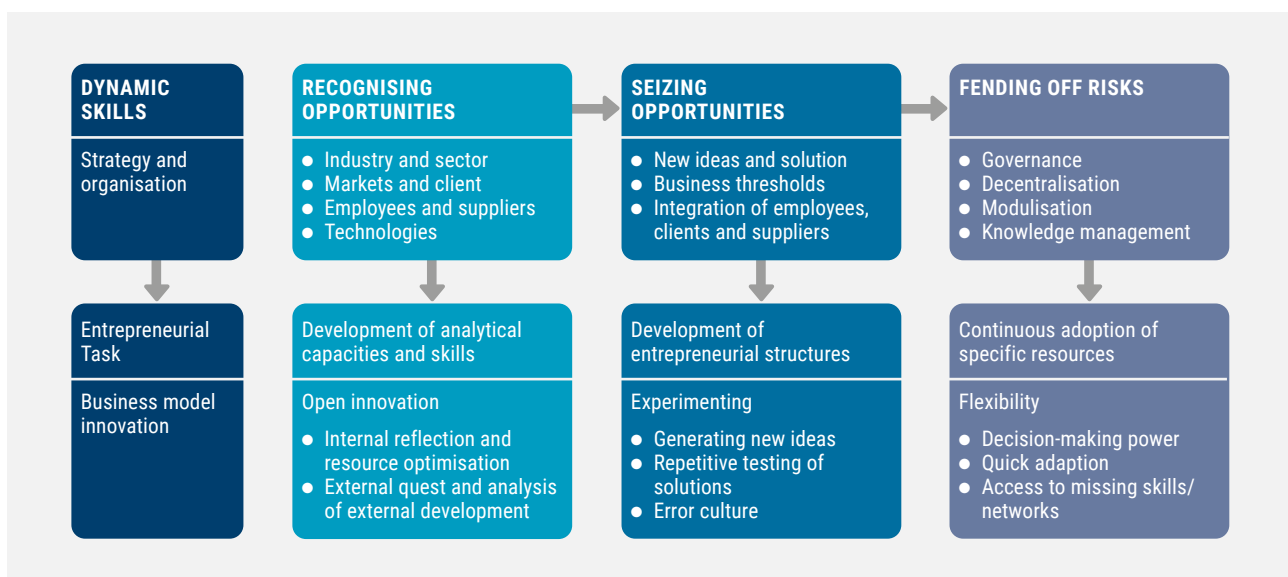
Digitalisation is often understood solely as a technology-based alteration but this is a misunderstanding; it entails a far more profound change – the transition from an industrial society to a society of knowledge. In industrial societies, the main concern was the *governance of scarcity* – regarding capital and labour. Controlling these production factors allowed family businesses to emerge, grow and become successful. However, knowledge is a completely different production factor. Unlike scarce goods, knowledge concerns the *governance of superfluity*. Success stories from industrial societies cannot be continued in the same way in a digitalised business world.

What complicates the treatment of knowledge economics for family businesses?

- Family businesses usually have a long and ingrained tradition of confidentiality and control over knowledge advantages. They have profound and valuable knowledge *specific to their business* but they lack digital knowledge, which cannot be established quickly, and the more the business unfolds and allows for fluctuations, the more likely it is that they will risk losing knowledge.
- The value chains of family businesses rely on long-standing cultivated networks. However, the crises of the 21st century have already shown how unstable this security can be. Not even highly regarded values resist transformation; even a value such as “trust” may be replaced by blockchain technology.
- In times of innovation and disruption, established models of capital acquisition are no longer sufficient. “Patient” capital from the family or house bank cannot and/or are unwilling to finance knowledge products that are tied to higher risk.
- The fact that the business family identifies strongly with its business and associated traditions can become a hurdle. Innovation of the business model requires owners to be open-minded about the challenges and allow a *mental transformation*.
- Rapid, centralised decisions and flat hierarchies give family businesses their special character. However, these advantages may be hampered in the absence of expertise. The debasement of established wisdom on markets and products, as well as the shift of decision-making power to employed managers and experts, is hard to accept for many family businesses.

Family businesses will manage to adjust somehow ...

Could be. However, such structural change encompasses not only technology and production methods but also “soft” factors such as attitude and behaviour – in short, the mindset of individuals and society. As the world is in the early stages of transition, no one needs to change overnight, and a systematic approach is certainly advisable. The “concept of dynamic skills” (see figure) has proven to be particularly useful for family businesses. Dynamic skills affect the entire governance of a family business, its decision paths, incentive structures and communication.





How are “dynamic skills” developed and utilised?

- To be able to recognise **opportunities for innovation**, technological development and new knowledge, it is essential to be open to new networks and untapped sources of knowledge. Established structures are mostly too narrowly defined and slow for true innovation. Family businesses need to learn how to move forward in an organised manner and ask themselves how and from whom they will learn about future developments. Who has the knowledge, who knows the networks? How centralised can the continuous exploration of the business environment be, or to what extent must it be decentralised?
- It is crucial to **seize opportunities**. However, any attempt to introduce a new product, service or profound change in the business model will face strong opposition. Digitalisation may lead to revolution rather than evolution. In this respect, it is important to address fears of losing occupation or rank and to develop a new error culture, which may be seen as moving away from the quest for perfectionism often found in German medium-sized companies. How can leading figures and their employees be motivated to see the purpose of the business as anything other than gradual improvement? Will creativity be valued at all? Why are the business's competitors bolder and more full of ideas than it is itself? How do we organise knowledge management?
- Lastly, the business must be governed in a way that **champions the emergence of novel digitalised products, services and processes**. It is hard to secure advanced knowledge without the agility to move quickly. Thus, family businesses need to be clear on where and by whom decentralised decisions will be taken. How do we ensure that the expertise of the whole organisation is used, not just that of a selected few? Will the organisation be able to adapt quickly enough? Is it willing to accept that decisions be taken by those who have the greatest expertise?

Can this not wait until the subsequent generation has taken over?

The pressure to change in line with digital transformation is high and does not allow businesses to wait until a successor has finished their studies or returns from abroad. Change is happening now. “Digital natives” can be found across all business environments, regardless of sector. This gives us the chance to enable, use and systematise a *generation-wide* transfer of knowledge. The younger generation can and should be allowed to introduce their knowledge of new management methods, digitalised processes and innovation strategies. Even if the next generation would rather start work in a start-up business, they see that their engagement with digital transformation brings them valuable new networks and management competencies

Recent publications in the WIFU_compact series: Identifying and Shaping Digital Business Models /// Digital Family Management /// Megatrends in Business Families **WIFU Practical Guide:** Digitalisation strategies in family businesses **WIFU Studies:** Collaboration between Start-Ups and Family Businesses – Motives, Expectations and Success Factors in Collaborations between Established Companies and New Businesses /// Sustainability in Family Businesses – Cost Factor, Driver of Innovation or Entrepreneurial Responsibility? **Please download our WIFU publications free of charge: QR-Code or wifu.de/en/wifu-library/**

