



PRACTICAL GUIDE

**DIGITALISATION
STRATEGIES IN
FAMILY BUSINESSES**

**ON SPECIFIC DIGITALISATION
APPROACHES FOR BUSINESS FAMILIES
AND FAMILY BUSINESSES**

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Where this practical guide includes references to persons in the masculine, these apply equally to persons of any gender.

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INTRODUCTION

Digital technologies offer significant opportunities for companies; they help to structure processes more efficiently, as well as making products and services more customer-friendly, and may fundamentally change the business model of the company. The use of digital technologies is usually accompanied by major changes in the company – generally referred to as “digital transformation”. The transfer of value-creation processes, products and services to autonomous, computer-controlled procedures and formats, or the performance of entire process steps through mainframe computers and defined algorithms can effect significant changes in the methods of operating, process sequences, purchasing or distribution channels and cooperation models that have previously been used in an organisation. In order to meet the challenges of the resulting digitalisation of processes, products and services on the one hand, and to accomplish the accompanying transformation in the company on the other, companies pursue specific digitalisation strategies.

The same challenge applies in family businesses. However, this company type is distinguished by certain characteristics that differ from those of publicly owned firms, for example, due to the existence of the controlling family and its role in the governance of the family business. Against this background, a need arises for family businesses to develop specific digitalisation strategies that accommodate the specific family factor in this business type.

This practical guide examines the special attributes of family businesses and, taking these special attributes into account, suggests specific digitalisation strategies. It offers family businesses that are faced with the challenge of digitalisation



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valuable tips and information for the systematic, successful digitalisation of their processes, products and services, as well as for the accompanying task of digital transformation. Companies in the initial stages of understanding the potentials and challenges of digitalisation will find useful ideas and be able to discover the advantages, benefits and requirements it brings.

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1 | DIGITAL TRANSFORMATION IN COMPANIES

Today, the term “digital transformation” is ubiquitous in business: at conferences and conventions, in practical pamphlets and scientific publications, as well as on the internet, everyone agrees that digital transformation will bring considerable change to companies while, at the same time, offering huge potential. Yet, what exactly is going to change? What potential does digital transformation bring companies? And, above all, what actually initiates digital transformation? The aim of the following guide is to address these questions in order to give readers a thorough understanding of the concept.

1.1 | DIGITAL TECHNOLOGIES AND TRENDS

Digital technologies and trends play an important role in the phenomenon of digital transformation. **Digital technologies** encompass hardware and network structures on the one hand and applications on the other.

Due to their inherent potential, digital technologies are able to give birth to **digital trends**. The term “digital trend” refers, for instance, to the concept “Industry 4.0”, which denotes a largely self-organised production system. Here, a combination of intelligently networked digital technologies and skilled workers collaborate in the manufacture of products and, to that end, the digital technologies communicate not only among themselves but also with the skilled workers. This socio-technical system, i.e. the combination of digital technologies and social actors, constitutes the nature of digital trends.

Another example of a digital trend is “crowd-sourcing”. This refers to a process whereby companies outsource minor, well-defined tasks to an undefined number of people – i.e. the crowd (companies and the public as social players) – via the internet (network structure), with the help of a special internet platform (application). In this sense, concepts such as “big data” or “cloud computing” may also be referred to as digital trends.

Hardware:

This term describes access and terminal devices, such as desktop computers, tablets and smartphones, laptops or 3D printers. However, also included in hardware are the so-called “embedded systems” in certain objects, for example, multimedia systems in modern cars, smart controls within the home, control units in planes, or certain technical units, such as sensors.

Applications:

Applications are programs (also called “application software”, “software” or “apps”) that offer and fulfil certain functions and services on the hardware; for example, Windows as an operating system on a desktop computer, the WhatsApp Messenger for exchanging short messages on a smartphone, or the Facebook platform on a mobile terminal device or a desktop computer.

Network structures:

This term describes wireless or wireline networks, such as the internet, cable TV channels, virtual private networks (VPN), local area networks (LAN), and mobile phone networks, with their associated protocols.

Application hardware combinations:

Certain digital technologies can also be understood as application hardware systems, such as virtual reality (VR) systems. Thus, in creating VR environments, both specialised software and hardware are necessary, such as VR glasses and 360-degree cameras.

1.2 | DIGITALISING PROCESSES AND PRODUCTS

Companies take advantage of digital technologies and trends in a wide variety of ways to support the value-creation process. There are two ways in which digital technologies and trends enter the corporate value-creation chain. Firstly, they are used to support **processes**, or operational sequences, in companies. These may be core processes, such as the central production process in a classic industrial enterprise, or various support processes in the company. The goal of digitalising processes is to make them more efficient in terms of time, quality and/or cost. In implementing such processes, companies can generate still greater efficiency benefits if core processes relevant to corporate value creation or related company-wide process landscapes are digitalised.

Secondly, digital technologies and trends are used to digitalise existing **products and services**, i. e. to retrofit them with digital technologies and trends, or to create completely new products and services. The aim of digitalisation in this context is to generate a greater customer benefit and/or an enhanced product and service experience. Increasingly, this leads to the development of completely new value-creation processes or corresponding business models that either radically change the existing product-market combinations or make them obsolete.

1.3 | CAUSAL RELATIONSHIPS IN THE DIGITAL TRANSFORMATION PROCESS

Like every transformation process, digital transformation in companies can also be understood as a cause-effect relationship, in which a certain catalyst triggers a corresponding effect. The catalysts in the cause and effect relationship of digital transformation are the digitalised processes described above and/or digitalised products or services. These trigger the process of digital transformation which, in turn, manifests itself in the company in very diverse ways and has an impact on a wide variety of corporate divisions and on different hierarchical levels in the company. If, for instance, the central production process in an industrial firm is enhanced with digital technologies such as artificial intelligence or augmented reality, this will help to establish an automated, and thus more efficient, production process. In the same way, the digital trend of cloud computing, for example, leads in many companies to a reassessment of the internal procedures for managing and storing company data, as well as for using application systems. One example of the above process might be a publishing house that is adding e-books to its product portfolio. This digitalised product brings about digital transformation in that not only is a completely new distribution channel created for the product, but also completely new production logistics come into being for this product.

The cause-effect relationship of digital transformation in companies described here is shown in Fig. 1.

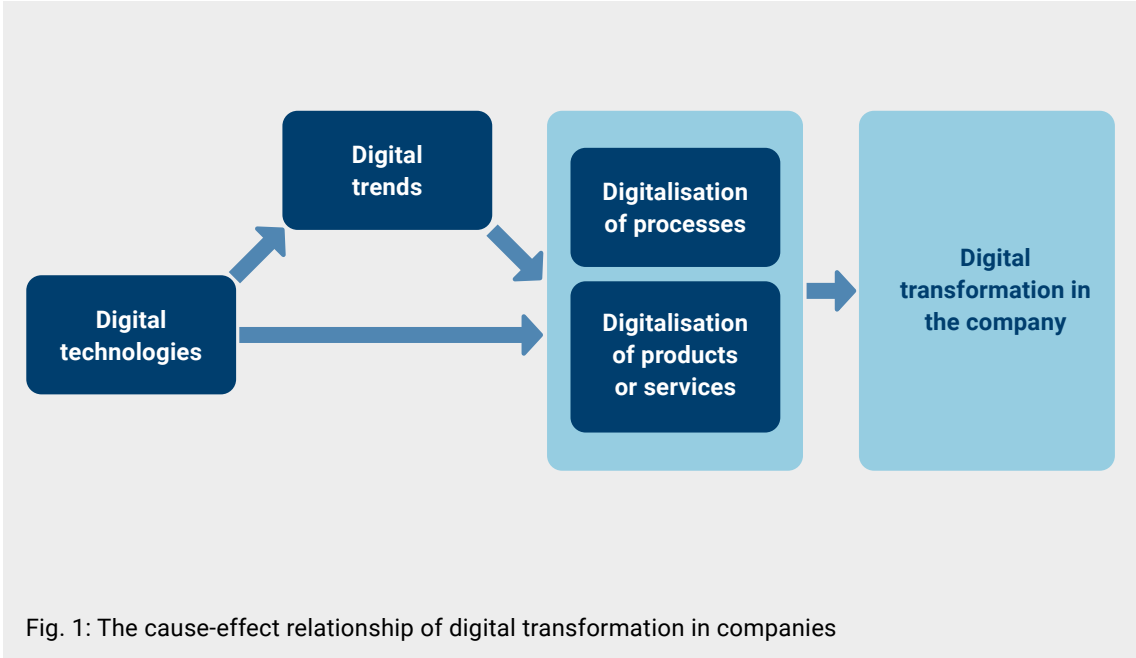


Fig. 1: The cause-effect relationship of digital transformation in companies

2 | MENTAL MODELS OF FAMILY BUSINESSES

Family businesses of any size display different entrepreneurial and organisational features from non-family businesses. Even when directly comparing family businesses with one another, it becomes clear that a “one size fits all” approach is not appropriate. The business governance, i.e. the manner in which the family business is controlled, depends on both the size and complexity of the company and the size and complexity of the business family. Here, we differentiate between four fundamentally different types of family business by their “mental models”:¹ patriarchal logic, the logic of the managing family, the logic of the controlling family and the logic of the investment family. The second and third of these mental models are directly related to digitalisation in family businesses and are therefore described in greater detail below.

The model of the **managing family** is often found in medium-sized to highly complex companies, as well as in small and medium-sized families.² The families occupy the top management positions and run the operational business, while the next generation and relatives may hold further managerial positions. Here, the strong cohesion and short decision paths within the circle of managers and owners are the key success factors.

The governance structure of the **controlling family** is predominantly found in complex and highly complex companies and in medium-sized to very large shareholder families. Here, the family withdraws and controls the company from positions on supervisory and advisory boards, leaving the operational management of the company to a professional management team from outside the family. The model of the controlling family does not necessarily mean that the supervisory or advisory board must be exclusively composed of members of the business family: frequently, non-family members are also represented on these committees. However, the controlling family is characterised by the fact that the members of the business family represented on such committees consistently represent the family values and viewpoints regarding the family business vis-à-vis the non-family committee members, and particularly vis-à-vis the non-family management team, thus preserving the business family’s active influence over the family business.



¹ For further details on this point, see the WIFU’s practical guide on “Mental Models of Family Businesses. How business families see themselves and their connection to the family business” (Rüsen, T. et al., 2019, and Rüsen, T. et al., 2012).

² Cf. *ibid.* The following statements are based on this theoretical approach.

3 | THE BUSINESS FAMILY AND DIGITAL TRANSFORMATION IN THE FAMILY BUSINESS

The business family has a decisive influence on the digital transformation in the family business, as it contains within itself all the key players – such as the owners, the members of regulatory bodies and/or the representatives of top management – who shape the destiny of the family business through their aims, wishes and preferences.³ Wimmer describes the business family as an “identity-generating characteristic” of family businesses, since the existence of a business family “has a decisive influence on the policies of the company”.⁴

Business families exhibit a particular mindset and skillset in relation to digitalisation. Therefore, if the aim is to develop strategies for digitalisation in family businesses, the business family must be considered separately in terms of these different characteristics. Depending on the type of basic attitude and the existing competencies within the business family, specific digitalisation strategies present themselves.

3.1 | MINDSET: THE BUSINESS FAMILY AND THE DEGREE OF “DIGITAL OPENNESS”

The degree of openness of the business family towards the issue of digitalisation is a fundamental factor in the success of digital transformation in the family business.⁵ It can be observed that, wherever the owners vehemently demand, actively promote and are very clearly committed to digitalisation, the digitalisation processes in the company progress significantly faster and more extensively. However, if the business family’s view of digitalisation is instead coloured by feelings of threat or fear of loss, and if digitalisation is addressed sceptically and from a perspective of risk, then it will be impossible to implement good digitalisation concepts in the family business to an adequate extent. The reasons for this correlation

lie in the business family’s influence over the governance, management and development of the family business, as described above. The degree of understanding, conviction and openness regarding digitalisation that the business family as a whole brings to the issue may be termed “**digital openness**”.

As a rule, the degree of digital openness depends on the opinion leaders in the business family. If the majority of these are senior members of the business family who have already reached an advanced age, the degree of digital openness is often low. The views and perspectives of these older business family members regarding market and competitive dynamics, as well as adequate organisational concepts and business model designs, have been significantly shaped by past contexts in which the opportunities and risks of digitalisation did not yet exist. In contrast to the “digital native” generation – i. e. those who have grown up with the digital world – these older members often lack an understanding of the degree of dynamic potential involved and the ability to take appropriate measures to seize opportunities and manage risks. This generation tends to be less open to the issue of digitalisation and even views it rather sceptically, particularly if major business successes have been achieved in the pre-digital era.⁶ This observable correlation agrees with the empirical findings of a study conducted by the PricewaterhouseCoopers management consultancy in 2017, which included a survey of the senior generation in business families. Although 83% felt that the issue of digitalisation was relevant, only 27% wanted to introduce digitalisation into their company; the remainder of those surveyed saw no need for action.⁷

In such situations, therefore, differences of opinion about how to ensure the viability of the company for the future often arise between the seniors and the next generation (or “NextGen”) which generally recognises the potential and the relevance of digitalisation.

³ Cf. Sieger, P. & Zellweger, T. (2012); Schlippe, A. v. et al. (2017); Wimmer, R. et al. (2011).

⁴ Cf. Wimmer, R. et al. (2011), p. 19.

⁵ See also Rösen, T. & Heider, A. (2018): the following statements are based on the thoughts set out in this work.

⁶ Cf. Palfrey, J. & Gasser, U. (2008).

⁷ Cf. Wills, D. (2017).

These may be seen as conflicts induced by the dynamics of digitalisation. The existence of this conflict potential is confirmed by the aforementioned study: thus, 40% of NextGen family members from 31 countries say they feel frustrated because they cannot communicate their ideas on digitalisation to the senior family members. The figures from a study by Spitzley and Prügel (2017) are similar: here, only 28% of NextGen representatives were satisfied with the state of digitalisation

in their company. The remainder of those surveyed tended to be dissatisfied and wanted the senior generation to be more open towards digitalisation in their own company.⁸ A further study by Schlaadt (2017) paints a similar picture: here, in 64% of the cases studied, conflicts arose related to digital transformation in the subjects' own family businesses. In the survey, business families' openness towards digitalisation in their own company was cited as a major cause of conflict.⁹

➔ Strategy: Handing the reins to the NextGen

The specific dynamics of conflict exhibited within the business family have their origin in different degrees of digital openness, which run along generational lines. Evidently, the issue of the strategic orientation of the family business is prone to create classic conflicts between the generations and cause them to escalate in the future. However, as the degree of digital openness is key in ensuring the ability of the family business to survive, it is advisable to devote special attention to the issue of digitalisation in the course of planning the handover to the next generation within the business family. In the cross-generational dialogue that is necessary here, it is important to develop specific strategies and measures that give this generation, who are more positively disposed towards digitalisation, greater responsibility and the opportunity for active participation in this area. The traditional argument in the succession context – that the senior generation has greater experience and, therefore, an advantage over their progeny – becomes a disadvantage here. In fact, if the NextGen members are effectively integrated into the relevant digital transformation processes of the company, their experiences and perspectives can become a key resource in shaping its future. Accordingly, provided they have the appropriate skills and aptitude, the NextGen representatives should be systematically integrated in whatever role that the business family plays in the family business: if the business family manages the family business operationally as the top management team, the NextGen should be integrated into the project management for digital transformation and equipped with appropriate top management competences. If the business family limits itself to controlling the family business through supervisory and advisory positions, representatives of the NextGen should be systematically integrated into the family's opinion leadership. The results of a study conducted by Schlaadt (2017) indicate that such a strategy, which is admittedly not an easy decision for the family as a whole, is usually successful: in the overwhelming majority of cases studied where the younger generation has taken over the reins – i. e. the responsibility – for digitalisation, extremely positive developments can be seen regarding digital transformation in the family business.

⁸ Cf. Spitzley, D. & Prügel, R. (2017).

⁹ Cf. Schlaadt, C. (2017).

A PRACTICAL EXAMPLE:

At the beginning of 2018, 29-year-old Maximilian Viessmann took over the operational management of the traditional company, Viessmann, which was founded over 100 years ago and now has over 12,000 members of staff, from his father Martin Viessmann. Under the management of Martin Viessmann senior, the issue of digitalisation in the company was not given top priority. Since the handover to the next generation, the heating company has undergone a radical change: under the management of Maximilian Viessmann, the company has invested in digital technologies, such as artificial intelligence, augmented and virtual reality, robotics and energy technology, to usher in a digital transformation in the company. In this example, the senior generation realised in time that it was necessary to hand over the management of the family business to the NextGen, in order to lead the digitalisation of the family business.

(Source: Molitor 2018)

➔ Strategy: Embedding digitalisation in the family value system

As discussed above, the degree of digital openness in the business family is decisive for a successful digital transformation within the family business. Consequently, the business family should actively tackle the task of clarifying its value concepts and integrating digitalisation into the future orientation of the company, particularly if little digital openness prevails.¹⁰ Particularly in family businesses, basic strategic decisions, such as those concerning digitalisation, are based less on business requirements than on the values and conceptions of the business family.¹¹

The process of developing a common family understanding of the implementation of digitalisation in the family business – i. e. of creating openness towards this issue – is both the prerequisite and the first step in a successful digital transformation.

¹⁰ Cf. Gausemeier, J. & Plass, C. (2014).

¹¹ Cf. Hülsbeck, M. et al. (2016).

3.2 | SKILLSET: THE BUSINESS FAMILY AND THE DEGREE OF “DIGITAL READINESS”

As explained, business families are involved to varying degrees in the governance structures of the family business (cf. Section 2 “Mental Models in Family Businesses”) and the degree of digitalisation expertise within business families can vary just as much. Rösen and Heider (2018) call this indicator “**digital readiness**”. If digital readiness is low, no member of the business family has the competence and experience acknowledged

to be necessary for digitalisation. Digital unreadiness is, as indicated above, more prevalent among representatives of the senior generations in business families.

If we place the governance structures and digital readiness in family businesses in relation to one another in a four-field matrix, four typical situations emerge and, for each of these situations, a specific strategy can be identified for realising digitalisation. These four situations, and the specific strategies applicable to them, are explained in the following pages.

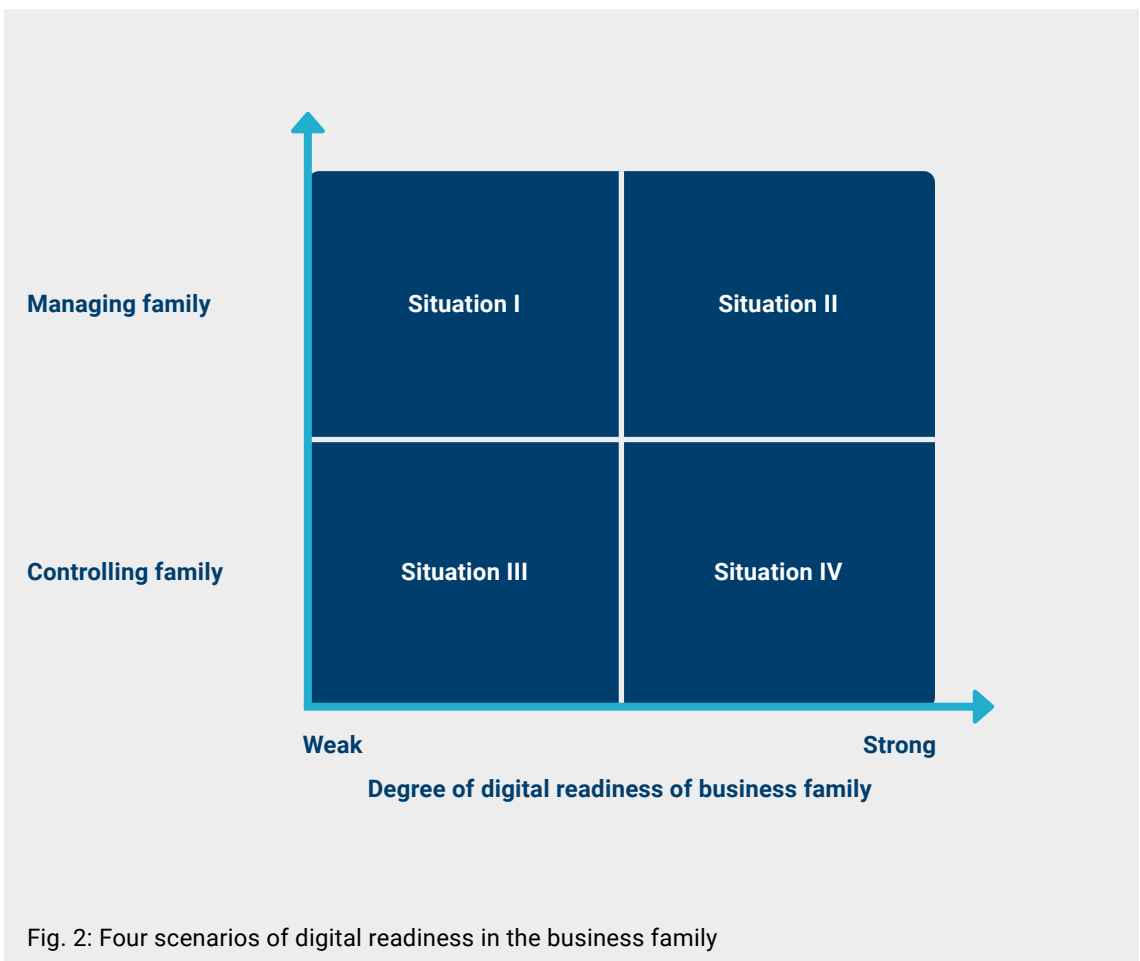


Fig. 2: Four scenarios of digital readiness in the business family

3.2.1 Situation I

In the first situation, the business family manages the business operationally as the top management team but displays a low degree of digital readiness.

In this situation, “digital unreadiness” must be rated as a critical problem for the strategic future viability of the company. Strategies should, therefore, be aimed at increasing the degree of digital readiness, as set out below:

➤ Strategy: Hire an external CDO

One obvious strategy is to advise the business family to bring a non-family expert in the field of digitalisation into the currently family-led management team as Chief Digital Officer (CDO) to increase the degree of digital readiness. However, in practice as in the literature, the managing family’s fear of outside influences is repeatedly shown to be one of its primary characteristics.¹² Thus, there is a fear of a certain loss of control over the company if non-family managers “worm their way into” the circle of the family-led management team.¹³ In this situation, the non-family CDO could be given discretionary powers which that person could, under certain circumstances, exploit opportunistically due to the business family’s greater distance from the operational business. For instance, the CDO could make business decisions that further their own career at the expense of the company’s family-oriented values. It is therefore conceivable that they could, for example, purchase high-risk digital start-ups or completely replace all permanent staff.

In light of this, the business family must weigh up the situation: if the pressure or wish for digitalisation in its own company is greater than the fear of possible outside influence in the family management team, then it is advisable to appoint an external CDO. However, in this case, the managing family then faces the decisive challenge of carrying out a still more careful selection, development and monitoring of the CDO.

➤ Strategy: Set up a support department for digitalisation

The strategy which offers the best solution to the managing family’s fear of external managers described above is establishing a staff section for digitalisation. Generally, in the management literature, a “staff section” refers to a specialised management support unit, to which a well-defined range of technical tasks is allocated, but which has not been accorded any decision-making or managerial powers.¹⁴ Staff sections employ highly qualified experts and are primarily intended to support the management level to which they are allocated in an advisory capacity. Implementing a staff section for digitalisation would provide external expert support for the family, without the latter having to fear losing control of the management of their own company. At the same time, this strategy would, in time, increase the degree of digital readiness in the business family, which would naturally learn from the advice of the staff section expert in the medium to long term, thus increasing its own digitalisation skills and experience.

¹² Cf. Wimmer, R. (2011), p. 59f.

¹³ Ibid.

¹⁴ Cf. Schmidt, G. (2000).

➔ Strategy: Make the NextGen digitalisation fit

In order to bring digitalisation competence into the managing family, it is also important to prepare the NextGen for operational succession in a fundamentally different way in the future. Instead of gathering management experience in outside organisations over a period of years (the traditional path), founding or working in a digital start-up can constitute good preparation for the managerial tasks of the future.¹⁵ Membership of and network development in the digital community are essential success factors in gaining practical digital experience and, thus, fostering the “digital readiness” of the NextGen and thereby of the managing family. Such a strategy is decisively shaped by the agile thinking of start-ups and ultimately has the power to disrupt the family business of the preceding generations.

3.2.2 Situation II

In the second situation, at least one family member in the circle of the managing family has substantial digital competence and/or experience of

digitalisation (digital readiness). If there are only a few digitally ready family members, or even one, that digital readiness stands representatively for the entire business family. In this situation, the following strategy is indicated:

➔ Strategy: Make the digital champion of the family the CDO

In this comfortable situation for the business family, it is advisable to appoint the digital champion in the intrafamily top management team as CDO, i.e. the person primarily responsible for digitalisation. Due to that person's technical expertise at the highest management level, the overall responsibility for all digitalisation endeavours in the family business is transferred to them, in order to be able to strategically plan and coordinate from a central point with a correspondingly comprehensive overview. It is thereby advisable that, besides their technical competence, those family members who are appointed to CDO position should also bring to the job the skills set out below in order to be able to successfully manage digital transformation in their own family business.¹⁶

¹⁵ Cf. Rüsen, T. & Heider, A. (2018).

¹⁶ Based on the findings of Singh, A. & Hess, T. (2017); Tumbas, S. et al. (2018).

ENTREPRENEURIAL WORLDVIEW AND COORDINATION SKILLS:

Whoever holds the position of CDO should, above all, have an entrepreneurial mindset and be able to maintain an overview of all the internal areas and functions of the family business, as well as adopting a strong customer focus. The former is important for digitalising the internal operational sequences and processes, the latter for digitalising products and services. Due to this multidimensionality and complexity, the CDO should also have good coordinating skills, in order to be able to control digitalisation at company level, from one central department. On that basis, the CDO can design and implement efficient digitalisation approaches in the family business, in accordance with customer requirements.

COMPETENCES AS A “DIGITALISATION EVANGELIST”:

The CDO should display and share their enthusiasm for digital transformation. Part of their task is to generate enthusiasm among members of the managing family and other staff in the family business for digitalisation and the corresponding further development of the company.

RESILIENCE:

As described, digital transformation often goes hand in hand with radical innovation and change. For this reason in particular, opposition at staff level can be expected when implementing digitalisation, and resilience is, therefore, particularly relevant to family businesses. The CDO in the family business should be able to handle opposition and act consistently in their role as a digitalisation evangelist.

A PRACTICAL EXAMPLE:

Founded in 1933, today, the family business Westaflex is managed by the three family members, Coralie, Peter and Jan Westerbarkey. Jan Westerbarkey, a graduate business data-processing specialist, has a great affinity for and solid competence in digitalisation, as a result of which overall responsibility for all digitalisation endeavours in Westaflex was transferred to him. He can thus strategically plan and coordinate different digitalisation projects at Westaflex from one central office, with a correspondingly com-

prehensive overview. In 2017, for example, he introduced the digitalisation of production processes. Since then, different processes in the logistics and purchasing departments have also been fully automated, and thus streamlined, using appropriate digital technologies, and the IT processes at Westaflex are digitalised through the digital trend of cloud computing.

(Source: Interview conducted by the authors with Jan Westerbarkey on 19.02.2019)

3.2.3 Situation III

This situation is characterised by the fact that, as a controlling family, the business family limits itself solely to supervisory and advisory positions, leaving the operational control of the company to

a professional management team from outside the family. The business family, however, displays a low degree of digital readiness in its advisory and controlling function. In this situation, the following digitalisation strategies are particularly helpful:

➔ Strategy: Develop digitalisation competence

It is important that the business family should acquire digital competence. Having at least one digitally ready member of the business family working on the supervisory board is particularly relevant for two reasons.

- Firstly, from this position the business family can give an important impetus to the external management team for digitalisation in the family business. If the business family has a great deal of knowledge about digital technologies, trends and their potentials, it is in a position to apply that knowledge in the context of its own family business. It is thus competent to make a reasonably reliable estimate as to where in the company a specific digital technology could be deployed and what advantages or disadvantages this would bring. In view of the fact that the business family certainly knows its own company well, any such impetus generated by the business family could potentially make a significant impact.
- Secondly, a business family with a high degree of digital readiness is able to assess, at an objective, logical level, the decisions and activities of the external management team or of non-family members of the supervisory and advisory board relating to digitalisation in the family business. The supervisory and monitoring activities of the business family are thus based on a sound knowledge of digital technologies and trends, as well as their contexts.

A high degree of digital readiness on the part of the business family can thus help the business family both to give impetus to the digitalisation endeavours in the family business and to supervise the activities relevant to digitalisation among the external management team or the non-family members of the supervisory and advisory board.

➔ Strategy: Set up a digital advisory board

If the business family has a low degree of digital readiness in its role on the supervisory or advisory board, it is also a good idea to set up a digital advisory board. In general, such boards function as a monitoring and advisory authority, just like the supervisory or advisory board, but focus their activities (parallel to those of the supervisory or advisory board) exclusively on the digitalisation of the company. Increasingly, large companies, such as the Thomas Cook travel group or Messe Frankfurt, are establishing such advisory boards.

A digital advisory board in the family business should be set up in parallel to the supervisory or advisory board, composed of both experienced experts from the digital economy (external members) and digitalisation-competent decision-makers from the family business (internal members). The digital advisory board has the task of anticipating and reflecting on digital trends in a monitoring and advisory capacity, of recognising digital opportunities and hazards and of contributing outside perspectives and monitoring internal activities.

In time, the work of the digital advisory board will lead to an increase in the business family's digital readiness, as the business family will naturally learn from the activities of the digital advisory board in the medium to long term, thereby augmenting its own digitalisation competence and experience.

3.2.4 Situation IV

As explained above, in this situation the business family fulfils the role of the advisory and monitoring authority in its own company – i.e. through

positions on the supervisory and advisory boards – and has at least one member who possesses substantial digitalisation competence and/or experience (digital readiness). The following strategy should therefore be pursued:

➔ **Strategy: Use the advisory and monitoring mandate to support digitalisation**

Against this background, the family members with high levels of digital readiness should, with the agreement of the other members of the business family, exert their influence on the external top management team within the framework of their advisory and monitoring role. It is important to continue to proactively highlight the relevance of digitalisation to the top management team while, at the same time, influencing the conceptual planning and implementation of digitalisation measures in the company.

It is likewise important that the competent family members proactively present their own suggestions for possible digitalisation measures and, thus, act as a source of inspiration, in the sense described above (cf. subsection 3.2.3). In addition, decisions made by the external management team regarding digitalisation in the family business should be critically scrutinised at an objective, logical level in the context of the supervisory and monitoring duty of the business family. A still more careful supervision and monitoring process play a particularly important role in light of the challenge described below. In this situation, due to the fact that the business family is far removed from the operational business, the non-family management has discretionary powers which it could, in certain cases, exploit opportunistically, as outlined in 3.2.1. above in relation to appointing an external CDO. For example, it could make decisions about the digitalisation projects that further the managers' own careers at the expense of the family-oriented company values, purchase high-risk digitalisation start-ups or replace all permanent staff.

A PRACTICAL EXAMPLE:

Founded in 1931, the family business AL-KO Kober SE is today under the operational management of non-family managers. The company employs approximately 1,500 staff worldwide and, in 2017, generated a total turnover of over 300 million euros. Various members of the Kober business family hold positions on the supervisory board in order to maintain control of the company. Stefan Kober is the chairman of the supervisory board and has proven competence and experience in the field of digitalisation. For example, as long as 25 years ago, he started up the cloud computing service and consulting company, Cancom SE, and for many years ran it as the managing director. Today, he

uses the digitalisation competence and experience acquired there to influence the conceptual planning and implementation of digitalisation measures at AL-KO Kober SE. Under his decisive influence, it was decided that, in future, a large portion of the company investments would be made in digital technologies and trends. He was also the driving force behind the digitalisation of products in the company's gardening tool division, for example, the robot lawnmower, which is now one of the company's most successful products.

(Source: Molitor 2018, press release AL-KO 2018)

4 | DIGITALISING PRODUCTS AND PROCESSES IN FAMILY BUSINESSES

4.1 | DIGITALISING PRODUCTS AND SERVICES

As stated above, one of the two approaches to digitalisation in the company is that of the product and/or service range. The term “product and/or service digitalisation” refers to companies’ retro-fitting existing products and services with digital technologies or even applying their innovation skills to create completely new digital products and services.¹⁷ However, this approach runs

counter to an essential characteristic of family businesses: that family businesses often feel a sense of commitment towards their well-established, proven range of products and services, as these once made the company strong.¹⁸ In many cases, an emotional bond even develops with products or services which have matured over generations and often constitute the identity of the family business.¹⁹ Against this background, family businesses often find it difficult to make any substantial changes to their traditional product and service range.

➔ Strategy: The gentle digitalisation of products and services

While it is understandable that family businesses wish to protect their traditional products and services as, in many cases, these have given the family business or brand its unique identity,²⁰ it is of course also advisable for family businesses to digitalise their product ranges, in order to establish a more competitive position or, at least, keep pace with the competition. Here, the strategy of “gentle digitalisation of products and services” lends itself as a useful option for family businesses. This process can be achieved as follows:

• Augment, don’t reinvent:

Rather than completely re-inventing existing products and services and radically digitalising them, it often suffices to make small changes by carrying out minor enhancements of existing products and services to include digital technologies. The toy manufacturer LEGO, for example, has managed to retrofit many of its toys with digital technology without destroying the identity of these products: LEGO model trains have been equipped with digital remote controls and LEGO model cars with digital sensors and robot technology. This has made it possible to augment the operation purpose and product benefit, and also increase customers’ enjoyment of the toys.

• Digital additional services:

Parallel to the existing product and service range, it may also be possible to offer additional, digital products. For example, over recent years, the toy manufacturer LEGO has been very successful in marketing cinema films and video games in which certain Lego figures have adventures in an animated “LEGO World”. This digital additional product range enables LEGO to enhance the customer experience as well as product benefit.

Such “gentle” digitalisation measures enable the essential identity of the products and services to be preserved, yet offer the advantages discussed above.

¹⁷ Cf. Stief, S. et al. (2016).

¹⁸ König, A. et al. (2013); Kammerlander, N. & Ganter, M. (2015).

¹⁹ Cf. Wimmer, R. (2011).

²⁰ Cf. Wimmer, R. (2011).

➔ Strategy: Market radically digitalised product innovations under a new label

For companies, digital technologies can bring radical product and service innovations and, of course, in family businesses too, completely new product innovations may result from the research and development work. These innovations can display such a radical degree of innovation, compared to the traditional product range, that family businesses often see them as a threat to the identity and character of their traditional products or brands.²¹ Therefore, in the case of radical product innovations that differ from the traditional product range so much as to endanger their unique identity, family businesses would be well advised to follow the strategy of putting them on the market under a separate new brand. This creates a separation between the radical product innovation and the traditional product range in the perception of customers and, thus, removes the fear, described above, of detracting from the identity of the traditional products. This strategy has, for example, been pursued by the family firm, Ravensburger: the puzzle and boardgame manufacturer expanded its traditional product range to include video games, but markets these under a new brand, “Ravensburger Digital”, whose logo differs considerably from the traditional logo, both in colour and shape.

4.2 | DIGITALISING PROCESSES

As stated at the outset, a second way of bringing digital innovation to a company is the digitalisation of processes, particularly core processes, such as the central value-creation process. However, a frequent characteristic of family businesses often hinders this digitalisation option: analogous to the attachment to traditional product and service ranges, family businesses often focus on entrenched business and value-creation processes.²² For as long as this traditional orientation of the company yields sufficient revenue potential, such companies are extremely successful. However, it is often said of family businesses that they work to build up one successful revenue model for too long and thereby fail to perceive the warning signs of a changing environment (keyword: digitalisation), thus missing the chance to adapt their business practices to those changes.²³ The fate of the traditional mail-order company, Quelle, is an eloquent example of this lack of adaptation dynamics. In Quelle’s case, years of pursuing a classic catalogue business resulted in the company missing the opportunity to exploit the first digital technologies and trends, in this case characterised

by the rise of the use of digital technologies in online shop systems. Eventually, that path led to bankruptcy, with the loss of thousands of jobs. This stubborn clinging to supposedly well-proven processes is inward-looking and thus prevents a company from seeing the bigger picture beyond its own boundaries.²⁴ This is why family businesses often fail to recognise promising new digital technologies and digital trends as opportunities at an early stage and to implement them in innovative processes and business models for their own company.

In addition, the digitalisation of processes in companies – no matter whether family or non-family business – is typically hindered by another characteristic: the resentment it arouses, particularly in the core processes in the company, among the staff who are part of those processes. Here, there is a fear of the new and unfamiliar, either because the staff do not know how to operate the new technologies, or because they are connected to changes in the well-established organisation of their work or, in the worst case, because the new technologies could make the workforce redundant.²⁵ This fear among staff is usually stronger in family businesses than in non-family businesses, as confirmed by the results of a study conducted

^{21, 22, 23} Cf. Wimmer, R. (2011).

²⁴ Cf. Deshpandé, R. & Farley, J. (2004).

²⁵ Cf. Wimmer, R. (2011).

by Spitzley und Prügl (2017), according to which, gaining staff acceptance of digitalisation is the second greatest challenge in the process of digital transformation in the family business. The reason for the greater prevalence of this phenomenon in family businesses is the business family's special

relationship with the workforce – an aspect highlighted in the literature time and again. This relationship is often shaped by values like “a common bond” and “a sense of family”; in the culture of family businesses, members of staff frequently even belong to the extended family.

➔ Strategy: Bring about a culture change

The lack of acceptance of new technology and the focus on entrenched business processes require a process of rethinking at the cultural level of the family business – i. e. at the level of the corporate system of values and standards. If digitalisation is anchored as a value in the corporate culture of a family business, that has a positive effect on the degree of acceptance of digitalisation and the rethinking of outdated processes. As already indicated, family businesses frequently follow a traditional culture of consensus, characterised by concrete values such as a common bond and a sense of family, loyalty and tradition.²⁶ Family businesses that want to successfully accomplish the process of digitalisation must therefore manage to effect a change of culture from a more consensus-oriented model to a flexible culture of innovation, characterised by creativity, adaptability, flexibility and a willingness to take risks.²⁷ It is not necessary for one culture to be completely replaced by the other; it is often sufficient simply to move closer to a flexible culture of innovation.

Such cultural adaptation affects the way that all staff in the company think and provides a framework for basic modes of behaviour, which the staff then learn and adopt as a guiding principle.²⁸ The following are concrete examples of such codes of behaviour in relation to digitalisation:

- “Openness to digitalisation in my own company”
- “Recognising digitalisation as an opportunity for the family business, not a threat”
- “Identifying the potentials of digitalisation for the operational sequences and processes in my area”
- “Identifying the potentials of digitalisation for our existing and new products and services”
- “Providing a creative space for each member of staff to actively contribute their own ideas and solutions to the digitalisation process”

In this way, the digitalisation of processes is given greater importance and the habit of stubbornly pursuing supposedly long-proven processes is broken. This form of corporate culture can guide and move the activities of all staff efficiently and innovatively to support the digitalisation efforts. In addition, once embedded in the corporate culture in this way, this approach is able to allay potential fears and resentments relating to digitalisation and foster an appropriate acceptance of that process.

This process of acculturation in the family business should go through three phases:²⁹

Phase 1: As discussed above, the business family plays a dominant role in establishing the culture in the family business, no matter what role it plays in the company. In both roles, the family signals its support for a certain culture and enacts it in its everyday decisions and actions. The business

²⁶ Cf. Deshpandé, R. & Farley, J. (2004); Wimmer, R. (2011).

^{27,28} Cf. Heider, A. (2017).

²⁹ Based on the work of Hülsbeck, M. et al. (2016).

family must therefore actively understand and review its current value system (see above). In order to accomplish the digitalisation of company processes, that value system must undergo critical scrutiny, followed by an adjustment, as described above.

Phase 2: The new value system should then be discussed with the company staff in particular. This makes it possible not only to gain the allegiance of key people and multipliers in process digitalisation to the new culture, but also to gather important feedback from them for any adaptations that may be necessary.

Phase 3: In this final phase, the new value system is communicated to the staff by the business family. Here, it is particularly important to not simply communicate results and issue directives for new modes of behaviour. Rather, this phase must take the form of an open dialogue. It must be made clear to each member of staff how the new value system has come about, why it is important and binding, and how it will affect personal working areas. In the course of communicating the new value system, the business family must clearly signal its support for it and identify completely with the change. The credibility of the digitalisation-centred corporate culture does not depend on announcing policies, but primarily on setting an example. Whether, and to what extent, it is accepted and internalised by the staff ultimately depends on the behaviour of the company management and the business family.

➔ **Strategy: Make the staff co-creators of digitalisation**

As described, staff fears of the potentially negative consequences of digitalisation are usually more marked in family businesses than in non-family businesses. Thus, there are fears among the workforce that digital technologies and trends will devalue their own work or even render it completely obsolete.³⁰ The reason for the greater fear among staff in family businesses is the business family's special relationship with the workforce, which is often imbued with values like "a common bond" and "a sense of family".³¹

As described, this fear among staff can be allayed through an appropriate change of culture. In addition, it is advisable to include the staff as active co-creators of process digitalisation. Asking staff to actively examine the extent to which digital technologies and trends could simplify or accelerate the processes in their everyday working life, and furthermore to submit suggestions for optimising organisational processes with the aid of digital technologies and trends, not only shows appreciation for staff but also prevents the development of fears and resentments.

Here, it is important to give staff the creative freedom for such active participation, for example, by allowing them time off from work to develop ideas. In addition, appropriate incentives should be created, for example, through a staff suggestion scheme. The practical example of the family-owned company BPW KG, described in Chapter 5, illustrates that staff participation in digitalisation can work successfully.

³⁰ Cf. Spitzley, D. & Prügel, R. (2017).

³¹ Cf. Wimmer, R. (2011); Bretschneider, U. & Heider A. K. (2018).

5 | A CASE STUDY: DIGITALISATION AT BPW KG

Author: Marcus Sassenrath, Manager of IT and Digital Strategy at BPW KG

Having elaborated on possible strategies for product and process digitalisation in family businesses in the previous chapter, this concluding chapter describes the successful implementation and application of such digitalisation strategies, based on the example of the family business BPW Bergische Achsen KG.

Founded in 1898 in Wiehl in the Bergisch region in the west of Germany, BPW Bergische Achsen KG (hereinafter BPW) has grown into an international family business, owned and managed by the fifth generation of the Kotz family. Today, with over 1,600 staff, the family business develops and produces complete chassis systems for truck trailers and truck semitrailers at its headquarters in Wiehl. BPW's product portfolio includes, among others, axle systems, brake technologies, suspensions and bearings. Millions of BPW trailer axles and chassis systems are used all over the world.

5.1 | DIGITALISING PRODUCTS AT BPW KG

In the course of digitalising its core product – the chassis systems – BPW primarily uses digital technologies, such as sensors and telematic systems. These technologies are built into the chassis systems in order to warn of the overheating of the brake system, for instance, or to monitor the wear and tear of individual parts of the chassis or to help consumption optimisation.

Furthermore, since 2018, BPW has equipped its chassis with digital QR codes. Using a smartphone or a tablet, customers and workshop staff can obtain additional information on every individual component of the chassis, including lists of replacement parts, maintenance manuals or servicing documents, digitally displayed to facilitate the search for the correct replacement part.

The latest digital innovation from BPW is a reasonably priced and robust sensor unit (a “tracker”), which is attached to the load carrier of the product. At BPW, the digital tracker supports

the delivery of the finished chassis to the customer by continuously gathering information on the state and position of the load and transmitting it to BPW. This solution not only creates transparency throughout BPW's supply chain, and contributes to the automation of sub-process steps which have been carried out manually up to now, but also gives information as to the precise whereabouts of the expensive carriers, which are sent back after making the delivery to BPW.

As an additional digital service, BPW offers a “mobile spare-part storeroom” to truck repair shops and large hauliers with their own repair shops, set up directly on the customers' business premises. The “upBox” is a robust 40-ft. sea container, fully equipped with shelves, air conditioning, video surveillance and digital radio and security systems. This mobile spare-part storeroom is equipped with an individualised assortment of 1,300 to 2,000 replacement parts, which are available around the clock. Each replacement part has an RFID tag attached and its removal by a customer is registered in an automatic, contactless procedure. In less than a second, the system records all ingoing and outgoing parts and updates the inventory data in real time. Meanwhile, a list of part numbers appears on a computer screen for the user, which are checked and confirmed on the touchscreen. The invoicing, reordering and restocking procedures are fully automatic and regulated by BPW.

These four measures embody the strategy described above of “gentle product digitalisation” (cf. Chapter 4.1) at BPW. In this way, the company is intentionally avoiding a radical overhaul – through digitalisation – of the vehicles which, since its founding in 1898, have grown to be the product that embodies BPW's identity. Making only minor alterations to the core product (fitting it with sensors and QR codes) preserves the product's identity. Nor do the additional digital services offered (the mobile spare-part store and the tracker) threaten that product identity. Rather, these additional services have the opposite effect: they have the potential to increase the customer benefit of the core product still further and, thus, to increase customer satisfaction and loyalty in the long term.

5.2 | DIGITALISING PROCESSES AT BPW KG

5.2.1 DIGITALISING PROCESSES IN AXLE ASSEMBLY

Since 2017, BPW has relied on the digital trend “Industry 4.0” in its axle assembly. Specifically, this digitalisation of the core assembly process takes the form of assistance systems and robots which support the staff in assembly and automate the processes. Using digital assembly terminals, scanners and touchscreens, the staff can see information relevant to the customer order, monitor the assembly process and, if necessary, intervene. The digitalisation of this process at BPW also envisages digital networking and integration with or of adjoining departments, such as the store. Every component required for the assembly process is given a digital chip for identification, which makes it possible for the component to be collected from the store, automatically, at the right moment in the assembly process.

In introducing and implementing the Industry 4.0 concept in the assembly department, BPW is pursuing a strategy which Marcus Sassenrath, Manager of IT and Digital Strategy, describes as follows, “Digitalisation at BPW is bringing with it a change in culture, which includes the involvement of staff in a new way of thinking and new methodical concepts.” Specifically, this takes the form of staff being actively included in the “Industry 4.0” concept, both in the conceptual planning and the later implementation: the staff have not simply been informed of the accomplished facts, but quite consciously included in the planning processes; their requests and opinions are listened to and taken into account, and they are even allowed to develop their own ideas and plans for digitalising “their” department. In this way, BPW has managed to allay the initial fears and resentments of the staff in relation to the digitalisation of the assembly process, that is, it has built up an appropriate acceptance of that process (see the strategy “Make the staff co-creators of digitalisation” in Chapter 3.2), well in advance, and has indeed

managed to convert the staff in the assembly department into co-creators of the process digitalisation. The fact that this strategy achieved its desired effect is verified by independent staff surveys, as well as numerous awards, including “The fairest company”, one of the “Top 100 Employers”, “Digital Champion” and one of Germany’s best training companies.

5.2.2 CREATE A PRO-DIGITALISATION MINDSET THROUGHOUT THE COMPANY

For several years, BPW has been trying to establish a company-wide “pro-digitalisation mindset”, requiring a strategy to “Bring about culture change”, described above (cf. Chapter 4.2). At the beginning of this systematic transformation process, BPW conducted an analysis of its degree of digital readiness with a consulting firm, which examined and assessed where BPW’s staff stood regarding the issue of digitalisation; the process included a survey of staff acceptance regarding the speed of change, internal collaboration and communication, and staff fears.

One of the most important recommendations for action was the creation of a shared understanding of digitalisation and its challenges for the company. This was subsequently developed by the Manager of IT and Digital Strategy and agreed with the executive management. Based on this concept, known as “Digitalisierung@BPW”, workshops were then held with all business units, in which the BPW digitalisation concept was explained. Taking this as a starting point, digital areas of activity for the business units were devised and prioritised for a medium-term perspective (2 to 5 years).

In this way, it was possible to realign the attitude to digitalisation across all BPW staff, through a systematic change of culture over the last few years. This was achieved not only because the digitalisation of processes was prioritised in the company as a whole, but also because the habit of stubbornly clinging to supposedly long-proven processes at BPW could be broken (cf. strategy of “Bring about a culture change” in Chapter 4.2).

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THE WIFU FOUNDATION

The non-profit WIFU Foundation, founded in 2009, is committed to promoting not only research and teaching, but in particular practice transfer in the field of family entrepreneurship. Our most important supporters include around 80 family businesses from German-speaking countries. The focus of our activities is the acquisition, communication and dissemination of high-quality and current issue-related knowledge on family businesses and business families.

Our funds are primarily used to establish and maintain chairs, to support research projects and to award scholarships to young scientists. One focus of our funding is to support the work of the Witten Institute for Family Business (WIFU), based at Witten/Herdecke University, with its three research and teaching areas of business administration, law and psychology/sociology. The WIFU has been making a significant contribution to the cross-generational sustainability of family businesses in the field of research and teaching for more than 25 years.

Another focus of our work is the organisation and execution of congresses and other events on family entrepreneurship-related topics. Practice-oriented knowledge and skills to promote succession in the management of family businesses within the business family are conveyed in working groups, training courses and other formats. Our events are characterised by a protected framework which provides room for an intimate and open exchange. A comprehensive and active public relations work for research results in the field of family entrepreneurship completes the range of tasks of the WIFU Foundation.

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