South China Morning Post

Innovation should always be rooted in the core DNA of owner-managers

Formosa Plastics, Siemens, Van Eeghen and Toyota are good examples of how founders passed on the diversification baton to the next generation

Morten Bennedsen and Brian Henry

PUBLISHED: Friday, 05 Aug 13:02


Innovation is an integral ingredient for the survival of family firms. Photo: Frank Cheng

When people talk about the Formosa Plastics Group (FPG), the first thoughts that spring to mind are its huge contributions to the growth of the Taiwanese economy over the last 50 years. FPG's advanced engineering know-how has provided Asian countries with some of the products that enabled them to build their factories and their housing on a scale and at a speed that remains unmatched half a century later.

Its legendary founder's rags-to-riches story is well known in Asia: a man working himself to the bone as he, along with his younger brother, created perhaps one of the largest industrial conglomerates in Asia. A man who started out in life as a poor rice farmer but died as the second richest tycoon in Taiwan. But what is often overlooked and yet is perhaps the most remarkable dimension of his life is the amount of innovative spirit that he transferred to his 10 children. Y C Wang died in October 2008 at the age of 91, having groomed his offspring for top positions.

Mastermind behind Pokemon Go has a history of innovation

All his children were driven by their father's determination to succeed. Consider just these four children: Eldest child Winston Wong founded Grace Semiconductor Manufacturing Corporation after being driven out of Formosa Plastics Group by his father ; second eldest daughter Charlene Wang founded First International Computer, one of the world's leading suppliers of motherboards and other computer peripherals; Susan Wang is currently vice chairwoman of Formosa Plastics Group; and Cher Wang founded HTC, the creator of the first Android smartphone.

As the example of Y C Wang shows, owner-managers are often in a better position than they think in building innovation at the core of their organisations, families and successors. Family firms that already have a strong focus on innovation can use their family assets, history and legacy, networks and values, to institutionalise innovation.

Man who created the mobile status update and sold it to Facebook is looking to new innovations

In so doing, members of the next generation who are drawn to the successful role models will want to prove themselves in joining the business. Innovation thus guarantees the survival of the family firm.

When Werner von Siemens invented a new telegraph system for sending messages, the short-term result was huge growth in sales and profits, but the long-term effect was innovation being deeply embodied in the spirit of Siemens. It is this spirit that shapes the culture of the German powerhouse.

The most well-known example of innovation together with next generation goes back to the founding of Toyota Motor Corporation. Photo: Simon Song

Even at the basic level of survival, family business leaders are less likely to sell their businesses in tough times and more likely to find innovative solutions to survive to the next generation. An example of a small family-owned company that stayed in business even though their profits had dramatically fallen in one of their markets is Van Eeghen.

Founded in 1662, Van Eeghen started life as a Dutch trading company shipping wool, wine, salt and sugar across the seven seas. In the late 1990s and early 2000s, its chief executive Willem Van Eeghen (15th generation) had to exit a niche market because it was slowly but surely turning into a commodity-like business where margins were squeezed dry. In response to the changing market conditions, he started looking for new markets with niche characteristics. Eventually, he hit on the distribution of vitamins and minerals to the infant formula industries and the sports and nutritional supplements business.

Visa's innovation drives shifting dynamics in electronic and mobile payments

Under the leadership of Willem's nephew Jeroen van Eeghen (16th generation), Van Eeghen launched a wholly owned subsidiary called Van Eeghen Functional Ingredients, which has grown quickly in the past 10 years. To ensure its survival, Jeroen has developed strong ties with top-ranked Wageningen University, which is the only university in the Netherlands to focus specifically on healthy food and living environment. Next generations like Jeroen van Eeghen can further enrich the innovative spirit of companies big and small, even in the most difficult of times.

But perhaps the most well-known example of innovation together with next generation goes back to the founding of Toyota Motor Corporation. It was the innovative idea of next generation Kiichiro Toyoda to start making cars in Japan during the 1930s. Although his father, who was the son of a poor carpenter, supported him, Sakichi Toyoda remained focused on his automatic power loom business, which eventually became Toyota Industries. Meanwhile Kiichiro traveled to the United States to learn from the Ford example of mass production. When he came back to Japan, Kiichiro founded the company that is now the largest automaker in the world by number of vehicles sold.

In sum, innovation should always be rooted in the core DNA of all family firms. This will enable owner-managers of small and large companies to pass the torch successfully to the next generation. Innovation combined with next generation makes for a potent mix to leverage the best of family-run businesses.

Morten Bennedsen is the André and Rosalie Hoffmann chaired professor of family enterprise and academic director of the INSEAD Wendel International Centre for Family Enterprise; Brian Henry is a research fellow at INSEAD