Family Businesses

Summer 2023

The Backbone of the U.S. Economy

Harrison Co.
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For generations, family businesses have been the unsung heroes of the U.S. economy. While artificial intelligence and Elon Musk generate headlines, family businesses continue to be the underpinning of the U.S. economy, and the top generator of opportunity, innovation and new jobs.

Family businesses are leaders during both difficult and prosperous times, and earn employee loyalty and retention levels that far surpass non-family businesses.

Built on tradition and culture, they prioritize ethical standards and have been contributing to environmental, social and governance causes for decades, long before the ESG acronym became commonplace.

However, because many family businesses are also small businesses, too often their success stories go untold.

Engine for an Evolving Economy

The positive economic impact of family businesses garners far less coverage or recognition because they are privately owned and do not report financial information to the public, making it difficult to measure and fully appreciate their scale and influence. However, several research studies spotlight the extraordinary differences these businesses are making, and the critical and enduring role they play in the U.S. economy.

> *"There is no group more beneficial to the future of the U.S. economy, workforce and innovation than family businesses and the entrepreneurs behind them. Regardless of marketplace or societal conditions, they thrive and persevere. The dedication and vitality they bring to their businesses and communities are among the qualities that for generations have been motivating millions to achieve the American dream."*
>
> - Bill Harrison, Managing Partner, Harrison Co.

Key Contributions

Innovation

Workforce

Job Creation

Product Development

GDP

Workforce and GDP Standouts

Business-research experts Melissa Shanker and Joseph Astrachan conducted a series of in-depth studies of family businesses over the past 25 years. Contributions to the workforce and the number of family businesses were among the surveyed areas.

Shanker and Astrachan defined a family business as either:

- Being founder- or descendent-run with succession intentions
- Having family members in significant roles in management, board seats or firm leadership
- Having family members with economic or strategic control, although the business may also include outside investors

Family Enterprise USA followed up on the Shanker and Astrachan data using the same family-business definition. The results show how incredibly consistent family businesses have been through economic booms and downturns for two-and-a-half decades.

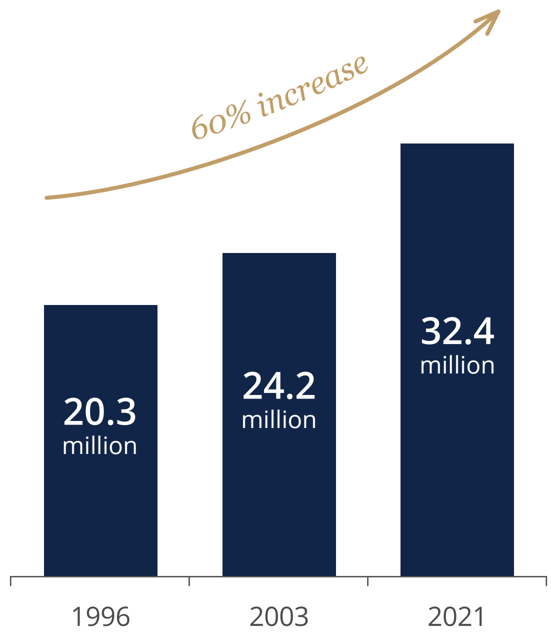
Per Shanker and Astrachan, in 1996, family businesses employed 59% of the total workforce[1] and in 2003, they employed 62%.[2]

In 2021, Family Enterprise USA, using only a slightly different methodology, reported that family businesses account for:[3]

- *59% of the private-sector workforce*
- *54% of private-sector GDP*

They also represent 87% of all business tax returns filed in the U.S.

Number of U.S. Family Businesses on the Rise



Sources: Family Business Review and Trusts & Estates

These three studies confirm a steady and striking rise in the number of family businesses. There were 20.3 million in the U.S. in 1996,[4] 24.2 million in 2003[5] and 32.4 million in 2021[6] – an eye-opening 60% hike in the past 25 years.

With strength in number has come the recognition that these businesses are the leading job creators in the U.S., producing nearly 80% of all new jobs and employing 60% of the workforce by 2023.[7]

Also by 2023, family businesses had asserted their place in the global economy when they were responsible for 70% of jobs and 40% of all capital.[8]

Family businesses are making their mark in ways that even go beyond workforce and economic contributions. According to Johns Hopkins Carey Business School Professor Phillip Phan, family businesses, whether local mom-and-pop retail shops or global enterprises, are also among the most successful businesses in any category.[9]

Reigniting Radical Growth

The combined effect of workforce and GDP contributions, and other performance metrics, has been phenomenal growth, which is prominently showcased in PwC's *11th Global Family Business Survey: Transform to Build Trust.*

Growth has reached, and in many cases exceeded, pre-pandemic levels, reflecting robust health for family businesses. Seventy-three percent experienced growth – the highest ever registered in the last 15 years of the survey's history – with 43% reporting double-digit jumps.[10]

Smittcamp Family Business

The Smittcamp family and the family's multiple businesses, which include former Harrison Co. client Wawona Packing Co., serve as models for family businesses in the U.S.

The Wawona Story

The origins of the Smittcamp family business date back to 1945, when founder Earl Smittcamp completed his service in the U.S. Navy during World War II.

A war hero, Earl earned four stars from four island invasions in the Pacific Theater. He was also honored with a Purple Heart, a Citation from the Secretary of the Navy and the rank of Major for his service.

Returning to the states, Earl looked to business as his next endeavor. With leadership experience in the military, Earl was well prepared to pilot a company. Earl and his wife, Muriel, bought a 200-acre farm in Clovis, located in California's Central Valley, and the dream was born.

On that small farm, which became known as Wawona Ranch, 40 acres were devoted to peaches. The fruit quickly became the staple of the family business, and Earl began a fresh-fruit-packing operation.

As sales soared, the business expanded to include other types of fruit farming as well as food processing and frozen-food production.

Earl's sons Bob and Bill, as well as his grandson Brent, joined the family business, helping manage two distinct companies: Wawona Packing Co. and Wawona Frozen Foods.

Wawona Packing Co. rose as a frontrunner in the organic stone-fruit market, while Wawona Frozen Foods became a pioneer in the frozen-fruits industry.

In 1971, the Smittcamp family acquired a third business, Lyons Magnus, a foodservice company founded in San Francisco.

A Model Family Business

The long-term success of the Smittcamp family business was driven by Earl's core values – hard work, integrity and innovation – and are described in his own words:

"*All our lives we have strived to make a difference through whatever challenges we took on – raising a family, creating an agriculture business, working with our fellow agribusiness entrepreneurs or pursuing our community and university interests. What success we have achieved has come because we sought to master the basics and worked hard building on that foundation.*"

These values set the culture and course of the Smittcamp family's many business ventures, and led to multi-generation accomplishments.

Community Conscious

Loyal to their Central Valley roots, members of the Smittcamp family have been contributing to local causes for decades, including Saint Agnes Hospital, Community Regional Medical Center, Stanford Cardiovascular Institute and Valley Children's Hospital, to name a few.

In 1998, Earl and Muriel made a donation to establish the Smittcamp Family Honors College at California State University, Fresno.

Recognized as one of the most respected programs of its kind in the Western United States, the honors college awards 50 scholarships to deserving students each year.

Looking ahead, growth is where a commanding majority of family businesses are headed in 2023 and beyond.

Eighty-six percent expect to grow in the coming two years[11] and for 14%, it is expected to be accomplished "quickly and aggressively."[12]

"There is no group more beneficial to the future of the U.S. economy, workforce and innovation than family businesses and the entrepreneurs behind them. Regardless of marketplace or societal conditions, they thrive and persevere," said Bill Harrison, Managing Partner, Harrison Co. "The dedication and vitality they bring to their businesses and communities are among the qualities that for generations have been motivating millions to achieve the American dream."

Leaders During Economic Downturns

Family businesses unquestionably prove their worth when the economy is on the fast track – and are also crucial contributors when it slows. These businesses, particularly those that are small to mid-size, generally benefit from leaner organizations and more efficient cost structures, and can maneuver through economic dips with greater finesse than their larger counterparts.

Strategic Steps for Staying Ahead

For instance, by and large, family businesses are less likely to downsize, with layoffs being a last resort. The Family Owned Business Institute found that 76% of family businesses are likely to reduce distributions to owners, and 58% to lower salaries, before considering layoffs when the economy falters. Family businesses' staying power can also be traced back to:

- *Balancing innovation, workplace culture and other non-economic goals with meeting financial targets*
- *Attending to employee satisfaction and overall welfare while maintaining the push for performance*
- *Placing a heavy concentration on corporate social responsibility*

Top Achievements

Growth

Financial Performance

Generation of Capital

Employee Loyalty and Retention

Community Contributions

Notably, a *Harvard Business Review* study, *Why Family Businesses Come Roaring Out of Recessions*, reveals that family businesses handily outperformed non-family companies through past recessions. The study also identifies three strategies that position family businesses to better cope during recessions:

1. Continuing to launch new products, averaging 12 per year, regardless of economic cycle, compared to non-family companies that dropped from 14 new products during boom years to eight during recessions
2. Maintaining nearly the same amount of ad-spend, while other companies decreased ad-spend by close to 20%
3. Carrying the emphasis on corporate social responsibility forward – from philanthropic contributions to employee health and safety programs

Recessionary periods also fail to damper family businesses' research and development commitment, which has a long and illustrious track record dating back more than 15 years.

During the 2007 to 2009 Great Recession, family businesses were more likely to up their research and development spending than non-family businesses, and emerged ahead of competitors that decided to slacken their investment to preserve cash.

These differentiators – from innovation to strategic investments – dramatically set family businesses apart in the marketplace and empower them to weather the deepest economic turmoil.

Persistence Despite the COVID-19 Pandemic

Before 2020, family businesses had already proven their innate skill to pivot, survive and even flourish. However, the COVID-19 pandemic unleashed economic and social disruption with a severity never thought possible.

Although many family businesses faced hardships, overall they persisted and adapted:[13]

80%
accommodated team members to work from home.

ONLY **20%**
needed access to extra capital.

80%
prioritized diversification and/or breaking into new markets or product categories over the next two years.

Following a grueling 2020, approximately 80% of family businesses increased their revenues in 2021, while 89% expected revenues to climb again in 2022 based on mid-year results.[14] In 2023, 51% earmarked reaching into new markets as their principal priority.[15]

Further, Family Enterprise USA reports that a mere 10% of family businesses reduced their workforce due to the pandemic,[16] compared to 28% – nearly three times as many – of Americans who have been laid off in the past two years.[17]

In fact, in 2021, 54% of family businesses added jobs, and as competition for talent intensified within a tight labor market, 90% provided salaries and benefits for their employees at or above the market average.[18]

Although family businesses are often perceived as basing financial decisions on long-term goals across generations rather than short-term gains, when financial performance is measured, family businesses excel within their industries.

While the pandemic raged, the percent of family business owners who believed their business performed better or much better in terms of key metrics compared to competitors is as follows:[19]

Family Business Performance Through the Pandemic

Generated market-share growth	66%
Generated profit growth	65%
Grew employee headcount	46%

Source: STEP Project Global Consortium and KPMG Private Enterprise

The pandemic posed the harshest of realities for family businesses in recent history. Yet, their resilience confirms the ability to not only continue to survive but also thrive.

Agility, efficiency and creative thinking, coupled with a steadfast commitment to tradition and culture, make family businesses – already the number-one source of private employment in the U.S. – essential employers, especially when economic times are at their most challenging.

Built on

Tradition & Culture

Family businesses are renowned for meaningful traditions and unique cultures. Their defining qualities start with the founder(s), who launches the company with a vision and values, which are safeguarded and adapted as the business evolves.

The vision and values, and the reputational and other intangible qualities they represent, are clear differentiators that attract and retain customers and clients, and the industry's best talent.

Family businesses are far less likely to have layoffs once economic setbacks hit – and more likely to promote from within and invest in their people – largely because relationships and community are top-of-mind.

It is then no surprise that they are champions in employee loyalty and retention. The *Harvard Business Review*, among others, have found that the average employee turnover for family businesses is lower than non-family businesses.

Purple Innovation

Purple Innovation, an entrepreneur-led business and former Harrison Co. client, is at the forefront of the strides being made in the comfort-technology industry.

Shared Commitment

When engineer brothers Tony and Terry Pearce founded Purple in 2015, they instilled an innovation-minded culture within the company.

Before launching Purple, Tony and Terry had already earned a reputation as premier cushion innovators, manufacturing advanced cushions for Serta, Nike, JanSport, Johnson & Johnson and other name brands.

Activating Innovation

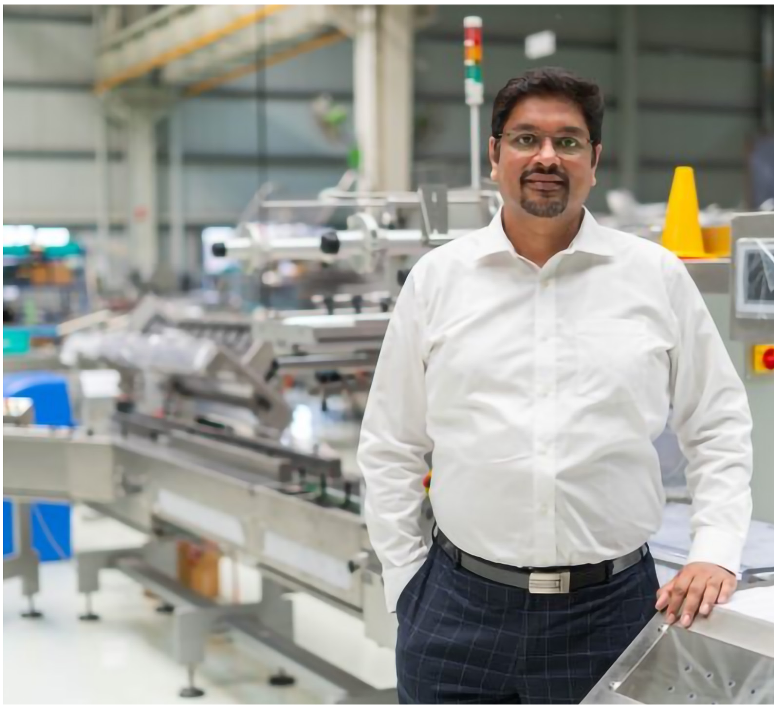
Quickly, Purple's culture of innovation yielded several technology breakthroughs that paved the way to the company becoming one of the fastest growing in the industry.

Purple developed a proprietary Hyper-Elastic Polymer™ for its mattresses, a gel-like material unlike anything seen before in the bedding industry.

On the production side, Purple invented and patented the Mattress Max, a multimillion-dollar machine that allows the company to make polymer large enough for a king-size mattress at an affordable price.

Apart from mattresses, Purple also created Purple Medical, a segment of its business that produces medically certified wheelchair cushions made with Hyper-Elastic Polymer™ technology.

Taking the Lead in Innovation



Family businesses are predominantly more attentive to their culture and values than non-family businesses. They also tend to emphasize long-term results - all leading to innovation's imprint within the company.

"A determined focus on culture, values and long-term results might lead to the misperception that family businesses are, on average, less innovative than their larger competitors," said Harrison. "However, the reality is that leadership is usually in the hands of a small number of owners who are free of the constraints often imposed by outside investors with a short-term mindset, and public-company shareholders who expect improving financial results every quarter."

Data from the Annual Business Survey shows that smaller businesses – typically family- or entrepreneur-led – are more likely to innovate and develop new products.

Among the more than 800,000 U.S. companies that introduced one or more product innovations in 2017, 84% had fewer than 50 employees.[20]

Also, Deloitte's *Long-Term Goals, Meet Short-Term Drive – Global Family Business Survey* uncovers the depth to which family businesses have driven their innovation stake into the ground.

According to nearly 40% of survey respondents, innovation capabilities are essential to sustaining their business. Innovation capabilities rank second on the list of priorities, only behind agility (61%). They track even higher than financial standing (32%).[21]

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- Bill Harrison
  Managing Partner
  Harrison Co.

Family businesses leave no stage of the innovation cycle untended, including implementation. Since there is typically no need to convince layers of management when and how to innovate, once the leader(s) decides to pursue an opportunity to innovate, the lack of bureaucracy allows for rapid and efficient rollout.

Patent Power

The commitment family businesses make to innovation is also reflected in the number and success of the patents they obtain.

The Small Business Administration, Office of Advocacy surveyed all "high-patenting firms" (firms with 15 or more patents in a five-year period) in the U.S. and the findings are staggering. Per the report, titled *Analysis of Small Business Innovation in Green Technologies*, small innovative firms produced 16 times more patents per employee compared to large innovative firms.

Among R&D-performing businesses, accomplishments are equally impressive – the smallest businesses that apply for patents are issued over 50% more per employee than any category of large businesses.[22]

Also remarkable is that research dating back more than a decade shows that small businesses' patents outperform those acquired by larger businesses based on three impact metrics:

- *Citation Impact:* Frequency of a patent being cited in papers and in future patents
- *Patent Originality:* Breadth of technologies cited by an organization's patents
- *Patent Generality:* Relevance of a patent to later inventions across different technology areas

From product development to game-changing patents, family businesses continue to account for the lion's share of innovation in the U.S. They also stand as examples for businesses, regardless of industry, of how innovation can be achieved while remaining true to culture, values and long-term results.

Guided by

Ethical Standards

The premium that family businesses place on employee relationships and values flows naturally toward a greater emphasis on ethical standards than is found with larger competitors.

An EY and Kennesaw State University survey of the world's largest family businesses – *Staying Power: How Do Family Businesses Create Lasting Success* – found that 85% have a code of ethics, compared with 57% of the world's largest companies overall.

Meetings with staff – from junior team members to senior executives – as well as board meetings are prime opportunities to reinforce the company's mandate for the highest ethical behavior across departments and functions.

Ethics are not only discussed at meetings or talked about more informally – they carry over into day-to-day operations, strategy and company outcomes.

Whether a family business has, or is planning to have, a written code of ethics, internal practices, such as employee orientations and performance evaluations, can be used as management checkpoints. These communications opportunities keep integrity ingrained in the business's familial culture and interpersonal relationships.

Upside of Doing Good

Family businesses' adherence to ethical standards measurably benefits employee satisfaction.

For example, in *What You Can Learn From Family Business,* the *Harvard Business Review* explains that among the family businesses studied, retention was better, on average, than at comparison companies.

A culture of commitment and purpose, achievement of communal goals, familiarity with co-workers, motivation to perform well, and a feeling of being treated fairly by management are among the benefits extolled by employees.

Ethical standards have as strong an influence externally as they do internally, specifically to the degree that they instill trust and improve business outcomes.

The *2023 Edelman Trust Barometer: Navigating a Polarized World* confirms that family businesses are trusted more than other businesses: their trust score has remained higher than that of businesses in general for more than a decade.[23]

With a proliferation of trust among consumers comes better performance, as demonstrated by PwC research pointing to powerful analytical evidence of a positive correlation between consumer trust and company performance.[24]

ClipperCreek
RELIABLE. POWERFUL. MADE IN AMERICA.

ClipperCreek

Jason France, the entrepreneur founder of former Harrison Co. client ClipperCreek, is a pioneer in the electric vehicle (EV) charging market.

Company Genesis

In the early 1990s, Jason had a life-changing experience – he drove a General Motors EV1 electric car and realized that EVs were the future of the automobile industry.

In his first EV ride, he became convinced that once consumers experienced the quiet, smooth drive and power of EVs, they would be as hooked as he was.

Jason pursued his conviction and founded Electric Vehicle Infrastructure (EVI) in 1993 and built his first charging station in 1994 – more than 10 years before the market attracted hundreds of millions of investment dollars.

Determination, Persistence and Market Leadership

Jason continued to perfect the technology, even as the market for EVs faltered following the reversal of California's Low-Emission Vehicle Program in 1996.

Then, on the heels of Tesla's 2006 announcement that it was launching its Roadster model capable of driving over 200 miles on a single charge, Jason founded ClipperCreek, knowing that all those Tesla vehicles would need chargers.

Although the EV market did not prove its promise until after 2015, research analysts began projecting huge demand for electric cars by 2010. By that point, ClipperCreek was the market leader, with an installed base of 100,000 charging stations. The company had also achieved trailblazer status in what was becoming an essential part of the infrastructure that would make EVs a reality.

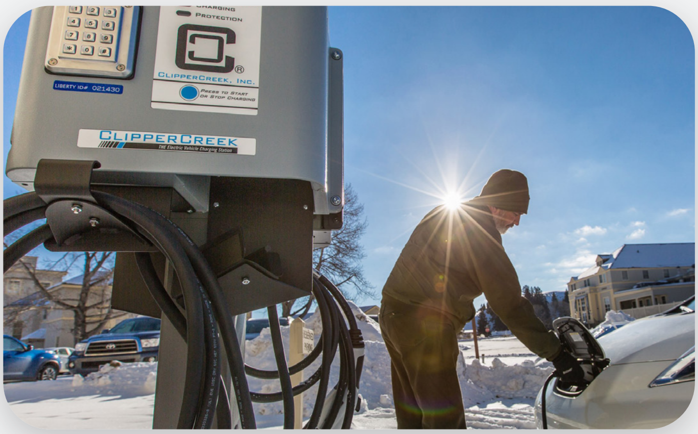
By 2021, ClipperCreek had become the largest commercial and residential EV charging company by total install volume, with more than 110,000 Level 2 AC charging-station sales since the company was started.

Lesson in Entrepreneurial Boldness

ClipperCreek's market position attracted attention from larger alternative-energy companies that are always interested in opportunities to help customers save, use and sell their own power supply.

In 2021, Harrison Co. advised ClipperCreek on its sale to Enphase Energy, a global energy-technology company, and the world's leading supplier of microinverter-based solar and battery systems.

By maximizing the capabilities of ClipperCreek's charging infrastructure, Enphase devised a roadmap to bi-directional charging for vehicle-to-home and vehicle-to-grid applications.



Giving Back and

Making a Difference

Long before impact investing became mainstream, family businesses focused on ESG issues, and they continue to support these causes.

PwC's *Family Business Survey: An Approach for Lasting Family Business Success*[25] reveals that the majority of family businesses in the U.S. (63% compared to 42% globally) participates in traditional philanthropy and grant-based giving. The survey also found that:

89%

are engaged in some form of social responsibility activities (80% globally).

77%

contribute to their local community (62% globally).

Although most family businesses are privately held and not subject to the same regulations as public companies, they uphold an established, uncompromised commitment to sustainability, with progress reporting being no exception.

Case in point: 78% of companies listed in the *EY and University of St. Gallen Family Business Index* report their sustainability progress.[26] In fact, for family businesses, sustainability is a defining quality of their reputation and legacy.

Core Values

Tradition

Trust

Ethical Behavior

Culture

Social Responsibility

An Enduring Legacy

Despite economic fluctuations, market disruptions, the COVID-19 pandemic and other unpredictable events, family businesses have been a source of stability, optimism and innovation.

Even during the most uncertain times, their economic contributions – significant shares of GDP, total employment, new jobs and product development – hold strong. Family business owners are overachievers and creatives, introducing proportionately higher levels of innovation than other businesses, while maintaining ethical standards. They were early adopters of corporate social responsibility and continue to embrace ESG causes.

As the business environment transforms in the 21st century, we should take a moment to offer family businesses a sincere thank you for all they have done and continue to do. They are truly the unsung heroes of the U.S. economic engine.

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About
Harrison Co.

We are unwavering champions of founder- and family-led companies.

We have a deep respect for founder- and family-led companies, and the intense focus required to grow and sustain a company in today's ever-changing consumer environment.

We believe they deserve an equally focused advisor when selling their business or raising capital to help them through the most critical time of their life-changing financial journeys.

We never work for private-equity firms, have no competing interests, and we combine an intense industry focus with a consultative, data-driven approach.

We are focused exclusively on advising founder- and family-led companies so that they can make the best decisions for themselves and their business, with confidence, because the best journey leads to the best outcomes.

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