Business

“Complete unpredictability”: family enterprises and the pandemic – a survey of owners and CEOs

by Family Capital 12th May 2020

Are family enterprises better able to meet the challenge of the corona pandemic than their non-family counterparts? What are the unique features family businesses have that make them more resilient to crises? How are family enterprises working with their stakeholders to meet their challenges of the pandemic? What are the opportunities for them during the crisis and post-crisis?

These and many other questions are examined in a major survey of business owners and CEOs on how family enterprises in Europe are coping with the pandemic.

Conducted by AvS – International Trusted Advisors, a global consultancy offering advice on executive and board search, succession and ownership to family enterprises across the world, the findings present the most detailed examination available on how these groups are dealing with the crisis. In April, AvS spoke directly to owners and chief executives across Europe on how the coronavirus pandemic has affected their businesses and portfolios.

This is the first instalment of a two-part survey, which looks at the challenges and how family enterprises are meeting these challenges. Next week, we look at AvS’s research specifically on the opportunities the crisis is likely to present for many family enterprises against the background of changing circumstances across the globe.

The Challenges – How the Crisis is Impacting Family Businesses

The research found the picture for family enterprises is very varied and nuanced, with wide disparities according to geography, industry sector, sales channel, and whether or not a company is designated by governments as “system-critical”. It is important to recognise also that the effects of the crisis are evolving over time.

As one CEO of an international FMCG company said: “In the beginning, the challenge was with the supply side. In the future, the challenge will be what happens with consumer demand and confidence”.

But these are the main issues AvS found are currently affecting family enterprises:

Uncertainty: Overhanging most of these businesses is a pervading air of volatility and “complete unpredictability”. While governments in many countries are now revealing their plans for a phased end to the national lockdowns, there is an alphabet soup of theories as to if, when and how normality will return (V-curve? U-curve? L?...). Forward planning in these times can feel like “guesswork” and many CEOs are plotting their actions versus multiple potential scenarios (“best case, base case, worst case”).

Physical Health & Safety: In terms of the direct impact on the health of employees, while some companies, e.g. in Switzerland and parts of Germany, have experienced only low infection rates and few hospitalisations, others headquartered in virus hotspots such as Northern Italy have seen large swathes of their workforce side-lined. One Italian business has had to cope with a situation in which 40% of employees at its main site contracted the virus; worse still, the local society, with a high age demographic, has witnessed a shocking death toll – “almost everyone” has lost family members or friends. In places of work, new safety measures and shift patterns have had to be rapidly conceived and introduced.

Mental Welfare: Closely linked to ensuring physical security, bolstering the mental health of employees has also become of critical importance. “There is a big need for handholding,” said one CEO. A (female) owner related how one of her biggest challenges is “keeping everyone happy... Domestic problems are bubbling up and people talk to me more now. I am encouraging men to open up and talk! Psychological needs and fears have to be addressed.”

Loss of Key Workers: Following on from the above two challenges, a notable trend among some family businesses has been a debilitating unavailability of “key workers”´ for weeks at a time. A number of company leaders said how the virus had highlighted an (over-) dependency on individuals who are – at least in the short-term – irreplaceable because they are the only ones who, for instance, possess specific technical knowledge or personally handle an important customer relationship.

While big corporates typically have detailed talent development policies and their top leaders have a number of deputies who can step in, mid-sized family businesses often have no "back-ups" in place. In many cases, this is because of both a lack of strength-in-depth talent, and also because the key workers are long-time and loyal employees expected to stay at the company until retirement.

Declining Sales: Estimates of the impact of the crisis on sales vary hugely according to sector and distribution channel. A number of family businesses operating, for instance, in the packaged food and medical technology segments, have actually benefited from a significant uplift in sales over the past two months driven by consumer panic buying or government healthcare purchasing.

Private banks have seen trading volumes increase thanks to increased stock-picking activities and more active portfolio management. However, the vast majority of companies in the industrial, consumer durables, automotive, transportation, leisure and hospitality sectors have seen drastic sales declines – sometimes on an unprecedented level in terms of the rapidity of the collapse in demand.

A CEO of an automotive supplier predicted his business would suffer a drop in sales of -80% in April and May, and a fall of -40% for 2020. Another CEO, this time in the consumer durables sector, highlighted how variable the impact was according to the distribution channel – a decline in sales of 40% via electrical retail chains in March and April being partially offset by an impressive +270% sales boost via the internet.

Liquidity: The research found for most family businesses in this period, as for corporates generally, cash management is a top priority. However, what is striking is how many family enterprises do not have cash flow issues, are unburdened by heavy debt and describe their overall financial standing as “solid”. In this dimension – and while several owners did complain about “very cautious” or “unhelpful” banks unwilling to extend loans, or late payments by customers (“some customers in Italy told us they want to delay payments by six months!”) – most family enterprises surveyed seem relatively well-positioned to survive this crisis.

Disruption of Supply: Many supply chains – often global, complex, operated on a just-in-time basis – have been seriously disrupted by numerous factors including plant shut-downs, cross- border workers not being able to commute, and see-sawing availability and price of commodities. Logistics companies dealing with the supply of critically important medical products to hospitals, or of consumer goods purchased online by suddenly house-bound consumers, have been overwhelmed by rocketing orders.

China: Linked to the above, but specifically an issue for many companies due to its outsized importance, is China. Almost all interviewees mentioned the country in one context or another, and almost all have faced problems during the first quarter either because they depend on supplies coming from China or because they depend on demand coming from China.

Adapting to Survive – The Measures Family Businesses are Putting in Place

Many family businesses were quick to react and entered into “crisis management mode”. A number of the interviewees with operations in the Asia-Pacific region stated they had closely monitored the situation in China and learned some early lessons from there, including putting safety protocols in place and changing shift patterns. Below, the research summarises a few of the critical adaptations that family enterprises have now put into place.

Communication, communication, communication: Strikingly, every single owner and CEO that the researchers spoke with cited increased communication with their workforce as one of their most important reactions. The research found both the timeliness and tone of the messaging is important: “you need to provide factual clarity about what is being done – combined with a lot of human empathy!”; “we have been open and honest with all the employees, stayed close, sent regular updates”; “the constant message has been ´we are all in this together ´”.

For some owners, the need to communicate more has taken them out of their comfort zone (one talked of people coming to him for personal advice, pushing him into a “paternalistic” role that he has never aspired to) or necessitated a break from tradition (“the family was historically very shy, they liked to maintain a low profile”). Almost all of the CEOs stated that they had made a particular point of increasing the frequency of their one-on-one communication with the business owner. In some cases, contact has gone from weekly/monthly to daily updates (often meaning 24/7 availability and responsiveness – “at nights, weekends, over Easter…”).

And it is not just the frequency of interactions which has changed. “Many CEOs have seen the tenor of their discussions with the owners become more emotionally charged. One CEO, whose elderly company owner has lost close friends to the virus, has noticed that this gentleman has become increasingly reliant on him for reassurance and solace. It has brought them closer together, although for the CEO there is also a cost in terms of being an additional drain on his own emotional energy.”

Information gathering: All interviewees, the research found, have tried to leverage their personal networks as well as gather relevant data from public news sources, government announcements and industry bodies. Some have also consulted private firms including strategy consultancies and consumer research agencies. However, despite this, and perhaps because of a situation which is both ambiguous and shifting rapidly, many CEOs and owners still feel under-informed about what other companies are really doing and what constitutes ´best practice´.

Labour costs: The research found almost no examples of mass sackings and, in contrast to US public companies which have laid off millions of workers in a few short weeks (over 30 million new unemployment claimants in the US by the end of April) most family businesses are actively seeking to avoid lay-offs.

Often, this aversion to firing people is because of a deep-rooted sense of responsibility to the local communities in which they operate, especially if the company is the major employer and the HQ is in a small-town location; sometimes, it is also due to a fear of reputational damage (“the family don’t want a bad press”).

Family enterprises have instead chosen to implement a range of more measured actions involving part-time work, furloughs, mandatory holiday taking, hiring freezes, wage cuts for blue-collar staff, and salary/bonus cuts for executives. Even so, it should be understood that for many shop-floor workers these measures, while preferable to being sacked, still impose significant economic hardship. And for the CEOs, having to tell their teams has necessitated many “difficult”, “tough”, “passionate” conversations.

“Running a tighter ship”: In addition to tackling labour costs, companies across the board are slashing discretionary spending and reducing capital expenditure, the research found. Some are taking advantage of the crisis to push through restructurings that would have been more difficult in normal times. “Cash is king” and many are managing their liquidity “aggressively”. Companies are also taking advantage of government-backed loans and other state aid programmes, in those countries where they exist. Companies have further acted by creating “crisis committees” and even “pandemic SWAT teams” to pilot the organisations through the storm.

Team spirit: At one family office in Germany, the founder and the other four family shareholders including his wife and children wrote personal letters to the management of all group portfolio companies assuring them of the family´s “unwavering support” in this time of crisis. An emergency fund was also created to help employees in need. This fund is partially bolstered by bonus payments and dividends foregone by the management, board and shareholders of the holding company.

Home work: Almost every company has, the research found, been forced to implement some form of virtual or home-office working arrangement for its executives in response to physical distancing regulations, bans on group meetings, border closures and airline fleet groundings. Many managers are still adjusting to this new style of working and will need to learn how to manage now-remote teams. Some leaders are doubtful that virtual conferences can fully replace physical meetings, particularly at the senior level and in terms of the type of strategic planning and brainstorming that typically used to take place in face-to-face group offsites.

Refocusing: In the teeth of the crisis, many CEOs have, unsurprisingly, had to set aside the strategic concepts they were nurturing and adopt a short-term focus with the emphasis on maintaining core operations and tackling immediate problems.

The research came across multiple examples of innovation projects that have had to be placed on hold due to an inability to bring in specialists or train workers. On the subject of M&A, most groups have put a hold on acquisitions, either because they need the cash to maintain existing businesses, because they expect valuations to drop, or simply because they prefer to adopt a “wait and see” approach in these volatile times.

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