CORPORATE GOVERNANCE

A Crisis Playbook for Family Businesses

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Almost every family business that we have spoken to in recent weeks is being disrupted by the COVID-19 pandemic. The preliminary results of a survey we launched indicate that nearly 90% have seen some negative impact on their business. Some are fighting to stay alive or deal with a major decline in revenue. Others are dealing with greater demand and stressed supply chains. Most are feeling isolated as they make decisions that will shape their future.

There are many great resources for businesses already available to manage the impact of the coronavirus. But family businesses differ from other companies in that their form of ownership gives them the ability to take critical actions that could help them through these difficult times.

Family owners, who may or may not have executive roles in the company, have power that is often hidden or unappreciated. They have the right to change almost every aspect of how the company works: what it owns, how decisions are made, how success is measured, what information is shared, and how leadership is passed from one generation to the next. Through exercising their rights, family owners have the ability to position the company for long-term success or doom it to failure. Under normal circumstances these are powerful rights, which owners need to exercise thoughtfully.

But in a business crisis, the power of owners is magnified. Unlike public companies, which typically focus on maximizing shareholder value, family owners value objectives that usually go well beyond financial returns (e.g., family legacy, reputation). This crisis is forcing family businesses to make trade-offs among objectives that would have previously been unimaginable—all while dealing with the complex dynamics of a family. The stress, anxiety, and fear that come out in a crisis can amplify already challenging dynamics, paralyzing decision making throughout the enterprise or causing conflict to spiral out of control. On the other hand, the crisis can be a call to action, causing family owners to "rally around the flag," put aside their differences, and take actions that allow the business to survive.

Our survey shows a split between those reactions: 29% have seen some negative impact on family relationships, while 24% have seen a positive impact (the rest have seen no change).

The ultimate impact of the crisis on your family business will be substantially shaped by how you, as owners, respond. Through the choices you make, or fail to make, the owners of a family business will affect how the crisis is managed by company leaders and what kind of company, if any, emerges on the other side. We will highlight five specific actions that owners need to take in order to ensure that company leaders – especially executives and boards – have the proper guidance and tools to respond to the crisis:

1. Define what type of family business you want to preserve.

- Which assets in the family enterprise must be maintained and where is there flexibility to sell or starve some parts to save the whole?
- Under what circumstances would you consider opening up ownership to employees, in-laws, or outside investors to bring in new forms of capital?
- Should you consider changing your model of family business ownership?

At the heart of your family business are choices you have made about what you own together, who can be an owner, and how owners exercise control. Together they determine what it means to have a family business. You need to clarify whether any of these choices can be revisited or whether company leaders need to work within those constraints.2

2. Review your governance structures and processes.

- Do you have the forums you need across the "four rooms" of family, owner, board, and management? If you're missing an important party during the crisis, how will you fill the gap?

- How will you make the major decisions you will be face? Are there certain decisions that the owners should be more or less involved in? Are you clear about who has authority to make key decisions?
- Do you need to revisit any policies you have set (e.g., dividend, family employment)? Or do you need to set new policies to deal with these unique circumstances?

Managing through a crisis requires the ability to make major decisions faster than ever. Actions that might have seemed drastic several months ago can quickly become insufficient to meet the challenges faced by the company. Embedded in your family business is a way of working that may need to change. It's up to you as the owners to "decide how you will decide" during trying times.

3. Revisit your "owner strategy" for the company.

- What values will inform your actions during the crisis?
- How will you make tradeoffs among your stakeholders? For example, how do you prioritize the needs of employees (wages, benefits), customers (staying open, extending credit), and suppliers (paying bills)? Are there certain objectives for which you are willing to lose money (e.g., retaining employees, supporting the community)? Two-thirds of survey respondents say they have reduced or shifted operating expenses to preserve cash.
- Are you open to changing the company's capital structure? Will you raise your borrowing limits if the company needs additional debt? Are you willing to recapitalize the company? Over 40% of the survey respondents are raising cash through new debt or equity.
- Will you reduce dividends? Around a third of survey respondents have cut them, or plan to.

Owners have the right, and responsibility, to define what success means for the business. That involves making trade-offs among different objectives, financial and non-financial. Company leaders need to know what matters most to you so they can do their best to achieve it.

4. Use communication to sustain trusted relationships.

- How will you stay connected with each other, as well as the rest of the family?
- How will you remain informed about what's happening at the company, as well as share your questions and concerns?
- What should be shared with employees about the state of the business and your commitment to it?
- How will you manage communication with the public and press, especially if tough decisions need to be made?

One of the most valuable assets of a family business is the trusted relationships that are built over time with family members, employees, customers, suppliers, and the community. Trust requires transparency. Especially in a private company, the owners of a business control the spigot for how much information can be provided to stakeholders. Help company leaders determine what can be shared with each of your main constituencies.

5. Consider the implications for the transition to the next generation.

- Do current family leaders need to remain longer than planned to steward the family business? Or do they need to make way for fresh ideas and untapped energy?
- Should you accelerate current estate plans due to lower valuations? Or should you put them on hold because of the cost or distraction?
- How can you use this opportunity to teach future generations about your core values and principles?

Family businesses that want to last for generations keep one eye on the present and the other on the future. In general, a crisis is a time to narrow the gaze. But it might also be the window in which to make changes that have been a long time coming. Company leaders will be looking to the owners to see to what extent transition plans need to be put in motion or on the shelf.

There are no right or wrong ways to answer these questions. What's important is that the owners, collectively, review each of these five areas and address the most important actions to take in each one to help the company leaders navigate the current crisis and prepare for the long term. Alignment is vital – companies with a unified ownership group can act decisively, while a house divided will not stand.

We suggest you start by organizing yourselves as owners to get the work done and stay aligned. How often will you meet? In what venue (in-person, conference call, video)? Who is in charge of setting the agenda and facilitating the meeting? Who else should be in the "room" when you meet (e.g., company CEO or CFO, board chair, family office director)? In a crisis, the facts on the ground change rapidly. Owners need to find the right cadence that allows them to stay on top of the situation without overburdening the management team.

On that note, 42% of respondents in our survey said they are more involved in decisions than they were before (less than 5% said they are less involved). Owners need to help business leaders by finding the most constructive level of involvement, which will likely be a balance of stepping in ("all hands on deck") and backing off ("give us space to work"). Look for the places you should step up or back off.

As you do your work, acknowledge the emotions and help each other through the ups and downs. Focus on your common purpose in getting the company through the other side intact. Staying together during the current crisis is essential to sustaining what you have already built.

Families businesses possess financial and non-financial characteristics that allow them to out-compete other kinds of companies in normal and crisis environments. They are great employers, positive contributors to their communities, financially disciplined, and have committed owners. Productively harnessing the power of family ownership will help these vital companies to weather the current storm.

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