CRISIS MANAGEMENT

What Family Businesses Need to Adapt to a Crisis

by Devin DeCiantis and Ivan Lansberg

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As the long-term implications of the Covid-19 pandemic continue to evolve and impact citizens, policymakers, and businesses around the world, we have been in regular contact with the leaders of enterprising families who oversee complex multi-generational institutions. Some are struggling with existential issues of continuity, while others are struggling to keep up with demand, and many are managing both conditions simultaneously across a broad operating portfolio.

One striking similarity among those family businesses that are effectively managing the crisis so far is the extent to which their leaders are prioritizing governance as an "essential service." Many of these organizations have endured multiple crises before — from recessions and regime change to natural disasters and even war — and their leaders understand that sustaining the unity and commitment of family owners via *crisis governance* is as essential to enterprise continuity as effective crisis *leadership* and proactive crisis *management*.

By "crisis governance," we mean adapting oversight of the enterprise under conditions of extreme uncertainty to ensure that family owners, board members, and executives remain aligned around long-term vision, core values, financial expectations, and risk management processes. Effective coordination and communication are obvious priorities under normal operating conditions, but during a crisis they become essential as leaders are forced to make difficult trade-offs with scarce resources, competing agendas, and limited time.

This shift toward crisis governance is remarkably consistent with what we've observed in our multi-year research project on family enterprise resilience in emerging and frontier markets, where elevated risk and uncertainty is the rule rather than the exception. In these environments, resilience often springs from a set of common operational coping strategies

– redundancy and modularity to name a few – as well as a deep commitment to family legacy and core values, and an active and nimble governance architecture. Without this clarity and structure, how else can C-suites, boards, and family councils manage the complex trade-offs that emerge under these conditions?

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How can they honor prior commitments to banks, suppliers, and customers — upon which the family's reputation depends — when cash is a vital resource? How do they determine whether to cut jobs and shut down struggling legacy businesses? How do they determine when to cut back salaries and benefits or eliminate dividends on which family members depend? How do they deploy their financial, physical, and social capital to alleviate suffering in their local communities? How do they make the short-term sacrifices the crisis demands without compromising the longer-term viability of the enterprise?

Unlike businesses in which shareholders are an anonymous mass of investors, engaged family enterprise owners certainly care about the economics of their investment, but they are also keenly focused on the many internal and external stakeholders who have enabled their success. "Ownership" in these families is a deeply psychological experience — an identity that links this success to the fate of their customers, employees, and the communities in which they live and serve. Their sense of ownership results from years of investment in governance — including the design of effective structures, policies, and processes, as well as the systematic development of future owners and leaders. And it's guided and energized by a clear commitment to sustaining the family's entrepreneurial legacy over generations.

As we have been documenting on our Crisis Portal, many of the families we've been in touch with since the initial outbreak of Covid-19 report that, if anything, this pandemic has forced their key organs of governance much closer — typically holding company boards, operating boards, executive committees, and family councils. The families that tend to fare best under these conditions are those in which leaders across the various forums — typically the Chairs and Chiefs — increase the frequency of their contact and the scope of their coordination while also following a "noses in, fingers out" philosophy, meaning that they acknowledge their responsibility to pay close attention to what's happening in the business and call out issues and risks when they see them, while ultimately allowing management to run the company. While it certainly is helpful to have the full attention of various leadership teams, it is also critical to track the degree to which these entities are effectively coordinating their crisis response. At times, this higher level of engagement can yield confusion about who is ultimately responsible for fundamental decisions that impact the family, the shareholders, and the business alike. Owners can get understandably anxious when they don't have sufficient visibility into the board's process and management's response, or if they receive mixed messages from different parts of the system.

To that end, key stakeholders need a common narrative to help contextualize the various strategic decisions that are being made throughout the enterprise — especially when tough choices or transformational changes need to be made that will affect them both individually and collectively. This is often when we see families turn to seasoned leaders throughout the system for guidance on how to adapt to these challenging conditions. The narrative about how the business is coping should be framed by senior executives, while the narrative around expectations for dividends, liquidity, and valuations should be driven by the board, and stories about individual and group resilience as well as opportunities for collective philanthropic action are often conceived and disseminated by family councils and family foundations.

Multigenerational families also benefit from a long institutional memory of surviving past crises, sending a powerful signal of hope to the family that "this too shall pass." In these situations, even if the organization that emerges is fundamentally different in structure and strategy, its core values are often intact and even credited for supporting organizational resilience — providing stability and direction in a sea of volatility. How boards, executives, family councils, and family foundations respond to the challenges at hand will leave a deep imprint in the minds of all who depend on them not just to "do things right" but to "do the right things" — as the motto of one of our client families commands.

Similarly, on one of our recent video calls, the Chair of a prominent family enterprise in the fourth generation, with more than 60 family shareholders — all descendants from their common founders — summarized the dilemma beautifully:

> *"Our priorities right now are principled and clear: the health of our people comes first; we need to hope for the best, but plan for the worst. We must ensure that our cash reserves are adequate; we must support the most vulnerable internally and externally; we must be agile in our decision-making; we can't take anything for granted; and we mustn't forget that crises also bring opportunities..."*

The fact that he could say this with conviction and, especially, with the unequivocal support of his entire family, demonstrates the deep reservoirs of trust that the family has built through their active engagement with governance activities over many years, and their timely and transparent communication with the family — and all key stakeholders — over the past several months.

Trust is an essential currency in the realm of governance, and this is particularly true during uncertain times. Family owners need to trust that their representatives on boards and on the family council have been carefully vetted, and that they have the skills to govern effectively. They need to trust that leaders have the interest of *all* stakeholders in mind when making tough decisions about the allocation of scarce capital and organizational changes. They also need to trust that executives and employees are effectively managing their crisis response, and that all efforts are being made to coordinate effectively within their entrepreneurial ecosystem.

This commitment to systems-wide, intergenerational accountability often guides how leaders prioritize and respond to the avalanche of tragic choices that crises such as the Covid-19 pandemic impose on them. The degree to which they expand or reduce the time, attention, and resources invested in governance is a great litmus test. All too frequently, we come across families that feel that governance architecture is cumbersome, expensive, and distracting. For them, the “real action” is at the level of the operating business where “the money is made.” This is especially so when a crisis hits and most attention gets understandably drawn to cash flow and valuation. However, it is precisely at times like these when the structures and processes that families put in place to govern themselves yield the highest returns — if engaged, empowered, and utilized effectively, they can best position the enterprise to endure the next long phase in this crisis and, eventually, to make the most of better days ahead.

Devin DeCiantis is a Managing Partner at Lansberg Gersick & Associates (LGA), a global family enterprise advisory firm, and an Adjunct Lecturer at Harvard University and Kellogg. His research, teaching, and consulting is focused on continuity planning, enterprise risk, governance design, and shareholder education and development.

Ivan Lansberg is a Managing Partner at Lansberg Gersick & Associates (LGA) and an Adjunct Professor of Family Enterprise at Kellogg. He has consulted with complex enterprising families around the world, co-founded the Family Firm Institute (FFI), was the first editor of its professional journal, the *Family Business Review*, and authored the book *Succeeding Generations* published by Harvard Business Review Press.

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