Family Enterprise Barometer

*curated by Business Families Foundation and Monthly Barometer

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- **Are family enterprises doing better in COVID-times?** It is too early to respond in a definitive manner. We are still in the early stage of the pandemic and academic research remains embryonic. For the moment, however, the answer seems to be a qualified "yes" for two key reasons: (1) **Family enterprises tend to be less indebted** than public companies or private companies loaded with debt by private equity (Neiman Marcus' bankruptcy epitomises this point). (2) In times of crisis, **family businesses tend to be (on average) more cohesive**, which in turn favours an alignment of vision and goals, and enables **more rapid and coherent decision-makin**g. When measured in stock return terms, the response is less clear. Research carried out by Mary Johnston-Louis and some of her colleagues at Saïd Business School (Oxford) shows that **family firms** (defined as those with an equity stake of the founding family or those with a member of the founding family on the board) **outperformed non-family firms during the market collapse** (late February – early March 2020) but **underperformed during the recovery** that took place from late March to early April.
- **Purpose versus profit:** The two notions of purpose and profit are non-exclusive from each other, but in today's environment (see below), demonstrating purpose is key for avoiding the societal backlash that is brewing against excessive financialization and the predatory nature that sometimes characterises the behaviour of some large companies. The reaction of family enterprises to the crisis points to three general characteristics showing that they are more **attuned to** their employees and communities more (on average) than a public company would.
- **Growing emphasis on ESG:** Various surveys and reports published over the past few weeks show conclusively that **ESG strategies benefitted from the pandemic**, and are most likely to benefit further. During the 1st quarter of this year, returns for more than 200 sustainability equity funds and ETFs performed better by one or two percentage points on a relative basis. A recent analysis from Blackrock concludes that the outperformance of companies with strong ESG ratings (compared to their peers) is due to their greater resilience and ability to have a broader understanding of risk management. As businesses move from a model dominated by "just-in-time" considerations to a "just-in-case" model, the ability to look at risks from a more holistic perspective becomes a key asset.
- **Social activism and family enterprise businesses:** The cohesiveness of families may occasionally be tested by the rising social activism of the younger generation. This issue was discussed in a session and a number of private conversations at last year's Families SOM in Charlevoix. Then, several participants observed that members of the next generation had taken a firm stance against certain aspects or even the entirety of the family business (like those in carbon-emitting industries). For reasons that we mention in the Monthly Barometer next page, **this phenomenon is now accelerating around the world.** COVID-19 has acted both as a catalyst and an accelerator of existing

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