COVID-19: A Five-Point Plan to Help Family Firms

by

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COVID-19 has rekindled the values-based leadership model of many longstanding family firms as their owner-managers navigate through the world's worst public health crisis. All over the world there are examples of enterprising families that have diverted production towards resources that are most in need.

One powerful example is the French luxury group Hermès (the subject of our last column in February 2020), which donated €20 million to public hospitals in Paris region and diverted some of its production at its facilities to masks and hand sanitizer, all with the aim of aiding those in the community who are most at risk. Hermès is taking these costly measures against a backdrop of declining sales because of the pandemic. Indeed, Bain & Company predicts that the global personal luxury goods market will contract between 20% and 35% in 2020.

Nearly 4.4 million cases of COVID-19 have been reported in the world and more than a 302,468 people have died from the disease thus far (as of 15 May 2020). To slow its spread, many countries have gone into lockdown, shuttering most economic activity except for the most essential. As the reopening of global economy takes place, the speed at which business returns to normal will depend on the effectiveness of governments to cope with the pandemic and their policy responses to offset the economic damage caused by the public health crisis.

It is well recognized throughout the world that Taiwan has been very successful in its response to the crisis. The government banned travel from China from the beginning of the pandemic, prevented cruise ships from docking and put in place strict stay-at-home measures that were enforceable by hefty fines. Taiwan also diverted production into mask making and launched a nationwide testing programme. The European response has been slower and focused on 1) enforcing health guidelines among the general population and screening or isolating people arriving at the borders; and 2) bailing out organizations and aiding unemployed people. Many governments have adopted four types of measures: a) covering a significant amount of employee salaries, b) providing guarantees for loans; c) paying for fixed costs; and d) postponing taxes.

For CEOs looking to get to grips with the pandemic, they have been well advised to consider the many crisis management frameworks that share five fundamentals (Rs): Resolve: Face up to the challenges of the crisis; Resilience: Deal with liquidity issues; Return: Create a detailed plan to restart business; Reimagination: Understand how the markets have changed post-crisis; and Reform: Keep a step ahead of the new regulatory environment post-crisis.

Moreover, CEOs of family firms that have been around for one, two or many generations have additional strategic assets to cope with the crisis. These additional set of tools may put them in a better position to emerge stronger after the crisis compared to other non-family firms. However, these owner-managers require a different framework that is tailored to their unique situation. To help leaders of family firms emerge from the crisis, we have developed the following five-point approach:

First, family firms are on "average" less leveraged, as they are generally conservative and dislike risk taking. It should come as no surprise that Fratelli Piacenza, a family-owned supplier of fine fabrics in northern Italy, has learned from nearly three centuries of experience to keep enough cash in its treasury to stay afloat for a limited period. CEO Ettore Piacenza estimates that the luxury woollen supply chain will not return to normal until 2021. Take the family-owned UK clothes maker, John Smedley, the oldest continuously operated factory in England, founded in 1784 at Lea Mills in Derbyshire at the beginning of the industrial revolution. Before the coronavirus struck, the company had more cash on its balance sheet than ever before. But with the forced closure of its stores and factory, revenues have fallen to zero and the eighth-generation family leader Ian Maclean estimates that his war chest of £5.3 million will last for four or five months if sales do not pick up again. Our research has shown that family firms performed better than non-family firms during the 2008-2009 global financial crisis and the reason was that they were less leveraged and had taken less financial risk before the crisis. That is why we expect family firms to do relatively better during the current crisis.

Second, family firms have on "average" better labour relationships since they tend to be more loyal towards long term employees. This loyalty often comes with a lower salary: Family-owned Walmart, for example, pays its workers an average of $14.26 an hour, compared to its competitors like Amazon and Costco which pay workers at least $15 an hour. However, Walmart has taken a number of measures to help its employees stay safe and healthy during the COVID-19 crisis, while Amazon has had to close its warehouses in France after unions representing employees alleged that it was not doing enough to protect them.

Third, family firms have on "average" a more flexible leadership style. Take the example of the family-owned Japanese carmaker Toyota. Contrary to many non-family owned auto companies, Toyota has a plan to emerge from a crisis that has wrecked more havoc on the auto industry than the 2008-2009 global economic crisis. CEO Akio Toyoda, said, "The decline in vehicle sales will be bigger than during the Lehman crisis, but because we will be able to remain profitable, we can continue to make investments for the future" in areas including self-driving technology and smart cities. Akio Toyoda knows what he is talking about. Ten years ago, he was called upon to deal with a crisis involving massive recalls of Toyota vehicles. His timely appearance on the scene was only made possible because the Toyota board decided to install the young heir as CEO in the thick of the recall scandal. Prior to that, Toyota had been led by salarymen. Despite his age, Akio Toyoda handled the fallout well and took the company forward step by step. By being flexible in its leadership style 10 years ago, the Toyota and its board now have probably the most experienced CEO in the industry and one who can be expected to lead the company through the pandemic.

Fourth, family firms have crisis experience that in some cases stretches across centuries. The Maclean family, which owns and manages John Smedley, have the benefit of nearly 250 years of experience. They have survived WW1, WW2 and the Great Depression by designing innovative sweaters that became very popular post-crisis. Their brand ambassadors read like a A-list from the past, including King George VI, Emperor Hirohito, Marilyn Monroe, Audrey Hepburn, and the Beatles. Nevertheless, the current crisis is nothing like the firm has ever faced before. Said current CEO Ian Maclean, "Closing down was the easy part. Opening up again could be 10 times as hard."

Fifth, family firms see opportunities in the post-crisis environment and are quick to adapt. John Smedley, for example, has recognized that millennials are now more concerned than ever about ecological and sustainable fashion. To survive post-crisis, the company has embarked on a plan to reduce CO2 emissions at its factory in Lea Mills by 2030. It has also adhered to the 17 Sustainable Development Goals (SDGs) formulated by the UN Framework Convention on Climate Change (UNFCCC). In addition, John Smedley's suppliers of merino wool are all based on New Zealand's South Island. Not only is the NZ wool considered of exceptional quality, but the suppliers also take an ethical, sustainable approach to farming. By taking the lead on climate change and social responsibility, John Smedley will make its products more relevant to eco-conscious communities as the company emerges from the COVID pandemic.

Hermès is also preparing for the future post-crisis but has more resources than most of its competitors. In fact, it has refused to accept government money to cover the salaries of its 15,500 employees and instead will draw down from its ample cash reserves to maintain their wages. While Hermès has pledged to remain true to its commitments as a responsible employer, the artisans who work for the luxury firm will in turn do whatever is necessary to help the company emerge from the pandemic.

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