

Family Business Response to the Pandemic

BanyanGlobal Survey Results

As COVID-19 has spread around the world, many of us are adapting to a new social and economic reality. We sent out a survey to family businesses in order to understand what the effect of the crisis has been in the sector and to glean advice for managing and owning a family business during these times.



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About BanyanGlobal

BanyanGlobal is an advisory firm that specializes in helping families transition their family enterprises from one generation to another. Our clients are owners of shared assets such as operating businesses, family offices, and family foundations. We partner with our clients to help them make difficult decisions that span their family, business, and ownership interests.

If you would like to sign up for our monthly newsletter, please click [here](#).

Thank you to everyone who participated in the survey. We appreciate you taking the time to respond and your willingness to share your experience.

Executive Summary

As COVID-19 has spread around the world, many of us are adapting to a new social and economic reality. We sent out a survey to family businesses in order to understand what the effect of the crisis has been in the sector and to glean advice for managing and owning a family business during these times. We had 190 respondents from six continents representing more than 25 industries. Here are the main takeaways, which are followed by the full report:

→ Impact of COVID-19: Few family businesses are immune from the crisis

One of our respondents said it well when he wrote, “This is uncharted territory.” The crisis has been tough on nearly every type of family business. **Almost 90% of respondents report that the crisis has had a negative impact on their businesses while just 5% reported a positive impact.** Over 40% of respondents reported significant negative impact, and 5% said they were at risk of failing.

COVID-19 has also affected family relationships. Different families, unsurprisingly, react differently. One family member declared, “Tension between family members has increased.” Another responded, “Family unity has been strengthened during this crisis.” More than half of respondents reported a change in family relationships since the crisis started with 26% experiencing a positive impact and 32% experiencing a negative impact.

→ Business response: Cash preservation is critical

“We did this in 2008 when our revenues fell 35% in one year. We know how to survive. We just need to execute,” is how one family business executive described their plan to manage through the crisis. Despite the negative impact, family businesses are doing what they need to do to survive – with a focus on cash preservation. Companies are using all available tools to keep cash in the business including cutting operating expenses, reducing dividends, and delaying capital investments. **Most respondents, about 90%, used at least one of those cash-preservation tools while 23% used all three.** One respondent stated, “Cash is king. Prepare for the worst and hope for the best.”

In addition to limiting cash expenditures, companies are also investing new capital into their businesses. More than a third of the respondents invested new equity or debt capital into their businesses. For some, investments are being used to fund working capital. Other companies are actively seeking acquisition opportunities in a distressed environment.

→ Family response: Involvement and communication have changed

Any crisis that puts the business at risk is likely to get the owners more involved. That proved true with our survey respondents. Nearly half reported that the owners are **more** involved than they were prior to the crisis. Only 4% say the owners are **less** involved. One family member described the change this way, “The crisis requires more command and control management style, resulting in ownership getting involved.”

Family businesses are also communicating differently during the crisis. **53% of respondents indicated that they are communicating more frequently with each other, employees, and customers.** Specific actions include daily continuity meetings, weekly updates, all-employee meetings, and more virtual communication.

→ **Response to community and employees: Family businesses provide support when possible**

Many family businesses expressed how important employees are to their business and are taking significant actions to improve the wellbeing of their employees. When possible, family businesses are leveraging remote work and helping employees adjust to this way of working. When remote work is not possible, businesses are distributing personal protection equipment to employees and accommodating social distancing in their facilities. For family businesses that have had to furlough or lay off employees, some have set up assistance programs. As one respondent said, "Employees earning close to minimum wages are given additional support."

Family businesses are often an integral part of their local communities and remain committed to supporting those communities with resources during this time. Respondents noted monetary donations as well as goods and services. One newspaper, for example, is "offering no-strings attached advertising to small businesses in our communities."

→ **Silver linings**

Winston Churchill reportedly said, "Never let a good crisis go to waste." **Many family businesses have found the positive in these difficult times.** One owner wrote that the COVID-19 crisis presents "an opportunity to step up, reinvent and innovate, and also show a stronger social impact." Here are some of the other responses we received when we asked respondents to share their views on long-term benefits from this crisis:

- "This is the second generation's first downturn while involved in the business. It will be a good learning experience for them."
- "We expect great mergers and acquisitions activity after the crisis."
- "Crises have always shown us our weaknesses, but they have also shown us our strengths."
- "We've had a business continuity project puttering along for years. Hopefully as we come out of this, people will better understand the importance and give that the attention it warrants."
- "We are modernizing work practices after being forced to work remotely."
- "We have more engaged employees, because we are taking care of them."

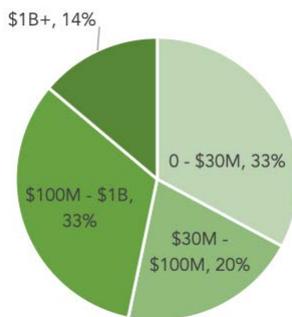
No one is certain as to the extent of the impact or how long the crisis will last. Many family businesses will likely continue to face difficulties. However, this crisis will pass. From many respondents, advice on how to **get through it echoed what we heard has worked in managing the crisis so far; plan for different downside scenarios, manage cash well, and communicate frequently and openly.** As one respondent said, "Define reality and give hope – to your employees and your family." Family businesses have unique strengths. We leave you with this perspective from a family business owner, "This is a great time to be in a family business so stay nimble, my friends!"

Full Report

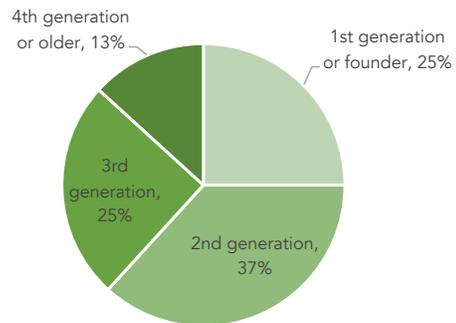
There were 190 responses to the survey from individuals in over 20 countries across six continents. Over half of the responses came from family businesses in the United States. Brazil and India had the next highest number of participants.



Revenue of family business in 2019



Generation of family business

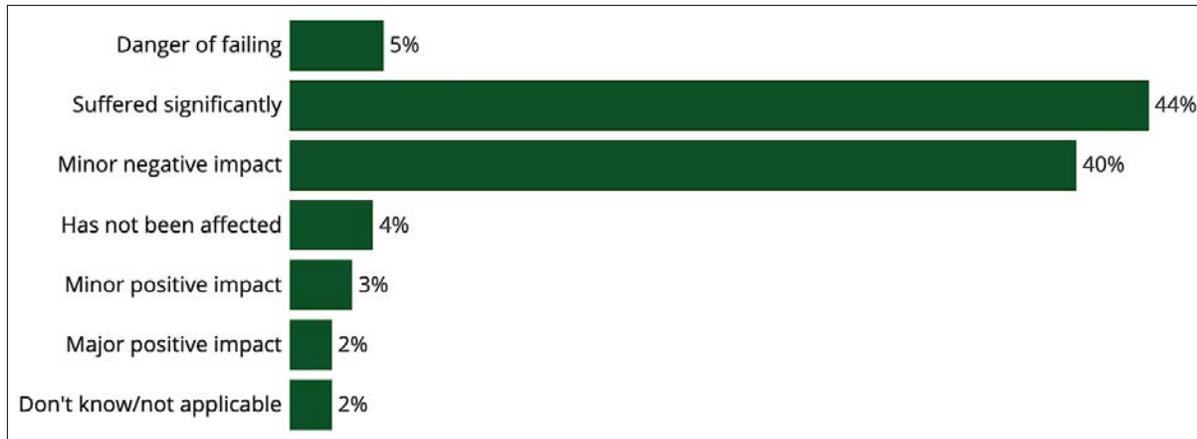


Family businesses from over 25 industries participated. Industries with the most respondents included manufacturing, construction, real estate, oil and gas, food and beverage manufacturing, and professional services.

Please note: the percentages in the graphs below may not total to 100 due to rounding. Rounding also accounts for any difference in the length of bars of the same percentage.

IMPACT OF COVID-19

The COVID-19 crisis has affected most businesses in a negative way. When we asked, "How would you describe the business impact of COVID-19 so far?" we received the following responses.



Selection of comments about a **major negative impact**:

- Business is off about 25% - 30%!
- Complete lockdown has meant no sales of consumer products (stationary business) while high fixed overheads remain.
- It is difficult being an events business that relies on bringing people together in the current climate! Not sure when things will return to anything resembling the way they were before.
- Initially, there was a minor impact as we saw a short-term jump in sales (beer distribution) when panic buying occurred, but we're now seeing material attrition in sales and are struggling with attendance for drivers.
- I am in the hotel business, and the impact was substantial. We can practically already consider the year as lost.
- We are allowed to be open and operate. Our business is suffering due to lack of demand for petroleum products. Stores have slowed down but are still operating.

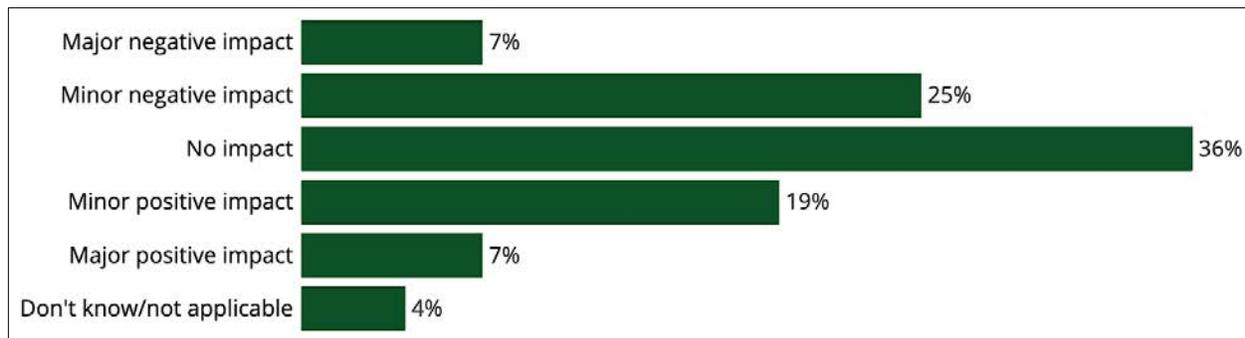
Selection of comments about a **minor negative impact**:

- We expect about a 10% drop in sales this year. We have a strong balance sheet and no debt, which provides us the liquidity to be able to weather the storm.
- We are maintaining employment and revenues for now. However, we are spending the majority of our time managing for COVID-19 when our time would be better spent building value for our customers.
- It's a little early to tell what the impact is. We've seen a drop off in some business areas, and it has challenged our normal way of working, but we haven't seen a major issue yet.
- The impact hasn't been substantial thus far, but it will be.

Selection of comments about a **positive or unknown impact**:

- It is a mixed bag for us. Some of our companies are feeling the pain, others are doing well. We are also trying to view the current climate as a buying opportunity.
- As an essential business in the food retail industry, we have seen unprecedented volumes over the past several weeks.

When we asked, “What impact, if any, has COVID-19 had on relationships among the family that owns the business?” here is how people responded.



Selection of comments about a **positive impact on relationships:**

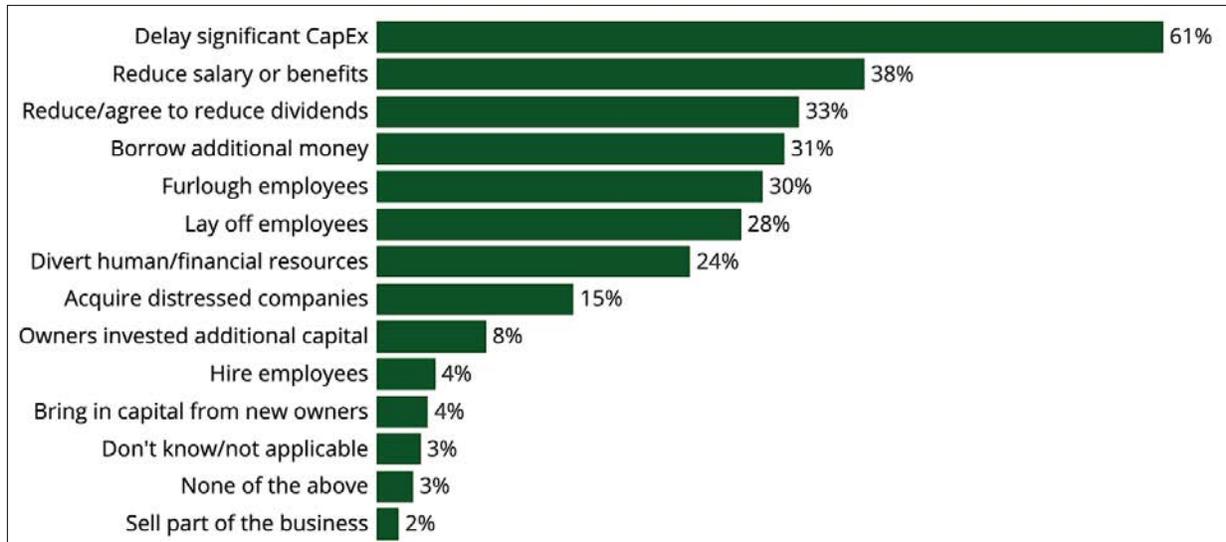
- We have had productive and heartfelt exchanges on how COVID-19 has impacted the business and all of us individually.
- We are stronger together.
- We are spending more time together as a family and doing things that we would not normally have the time to do.
- COVID-19 has brought us closer together for the time being, and we have put aside differences. It will make the family focus more on handing Family Council leadership to the next generation
- The fourth generation is stepping up to the grind of a crisis. It's good to see.
- We have seen greater family unity, with more concern for each other.

Selection of comments about a **negative impact on relationships:**

- Communication has been much more challenging in this environment. We are a very face-to-face family and Zoom is not a fair replacement.
- High levels of stress have resulted in sensitivities running high. But we are managing.
- Our annual in-person family assembly has been canceled and we are working on shifting to virtual programming.
- Not being able to see one another is a challenge for our governance efforts, which revolve around annual in-person meetings.
- Tensions are high.
- Tension between family members has increased.
- We have some disagreement on how serious the pandemic is and how we should handle cash at this point.

BUSINESS RESPONSE

Family businesses have responded in a myriad of ways. Below are the actions that family businesses have taken or expect to take in response to COVID-19. Individuals were able to check all actions that apply.



Selection of comments on **employees**:

- We will consider salary reductions for the senior management team only.
- We've had to furlough some of our sales reps who are not able to work in the retail stores that are closed.
- Owner pay is at zero until all employees are made whole.
- We are providing additional support to employees earning close to minimum wage to keep them with the organization.

Selection of comments on **government programs and credit**:

- US Government programs make it beneficial to furlough employees during turn down in business. This is very helpful.
- We were hoping that we would avoid having to furlough employees by obtaining an SBA loan through the government PPP program, but they ran out of money before we were able to get funds. We had to furlough some employees and cut salaries of the remaining employees by 30% across the board so far.
- We are taking advantage of the SBA Paycheck Protection Program and are establishing further lines of credit and utilizing them if necessary. Also, we will be approaching our Lenders to establish an interest-only period on our loans to further protect our cash flow.
- We have not borrowed more money but have expanded our credit facilities in the event we need more cash.

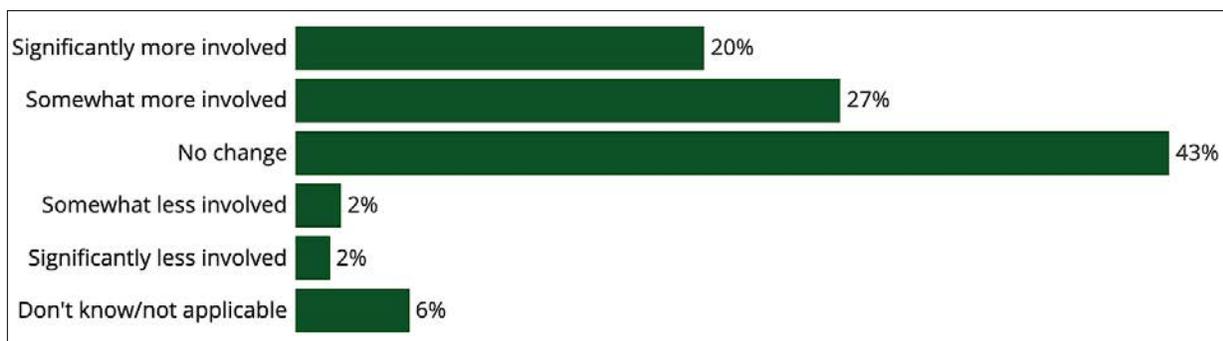
Selection of comments on **other actions taken**:

- Due to extremely high sales volume we have delayed several major capital projects until 2021. We simply cannot afford to disrupt stores with anything other than supporting immediate needs.
- We are renting our factory space.

- We renegotiated or tried to renegotiate with exemptions and discounts all contracts: rent, printers leasing, lawyers, accounting, IT, etc. ... we tried with everyone and we succeeded to lesser or greater extent with many of them.
- We're in survival mode at the moment, focusing more on cashflow. We will definitely see a lot of opportunity, but we will only do the deal if the price is right.
- We hired a consultancy to help us during this period.

OWNER ROLE, RELATIONSHIPS, AND COMMUNICATION

Many family businesses noted that owners are more involved when we asked how the role of the owners of the family business has changed as they have managed the impact of COVID-19.



Selection of comments about **no change**:

- There has been no change since the owners were already involved.
- The owners were involved in the day-to-day business decisions before the outbreak and that has not changed.
- Thank g-d no further involvement other than a question or two about keeping employees safe.
- The CEO/owner is very hands on to begin with and is while managing through the crisis as well.
- Third generation ownership is actively involved in the business to begin with, and we are working to keep the second generation apprised of decisions without slowing the process...

Selection of comments about **more involvement**:

- The increased free time with owners has resulted in higher involvement in routine decisions.
- This crisis requires more command and control management style, resulting in ownership getting involved.

We asked about the ways in which respondents are communicating differently within the family business as they respond to the crisis. Here is a selection of what we heard:

Selection of comments about **virtual communication**:

- Closed the office and everybody working remotely. Zero travel.
- Due to quarantine, we are only meeting and communicating virtually. Also, we have created committees to handle the situation and make decisions.

- Everything is remote, which makes it difficult because much of our institutional corporate culture is predicated on face time.
- Frequency of communication has increased and we're using phone as well as ZOOM more than before.
- We have more phone and conference calls - more group decision making.
- We use all available communications tools: Whatsapp, e-mails, phone, audio and video group calls. We implemented remote access to the company's data server for the entire team.

Selection of comments about the **frequency, content, and target audience of communication:**

- We are communicating with employees through email and postings. The leadership teams meet weekly and relay information.
- We are communicating with higher frequency, with weekly letters to employees.
- Communication remains unchanged.
- We have twice-daily leadership calls with our top 40 managers. There is weekly (or more frequent) email communication with the entire company on updates.
- We have daily meetings within management for COVID briefings. Up-to-date information is on our website for all employees.
- The executive team meets more often and provides more communication to employees and owners about the current situation than normal (less often) communications.
- There are frequent updates to employees on any changes to our business or business practices or cost cutting.
- There is less communication about general operations as this is an existential crisis.
- We have more communication about furloughs, cash flow, and COVID-19 impact. We are more in touch with our advisory board.
- We have more frequent communication from Management to the Family (weekly updates on the situation).
- We are communicating more regularly, with a weekly board call. Also, we are looping board members in on the company-wide employee communications.
- There is very deliberate and consistent messaging. Lots of fact reporting. No fluff. All substance.
- We are working on more transparency in communications for family members.

COMMUNITY AND EMPLOYEES

We asked, "What steps, if any, are being taken by the family business to address the broader societal impacts of COVID-19 or the wellbeing of employees, communities, suppliers, etc.?" Below are the responses we heard.

Selection of comments about **employees:**

- We are assuring furloughed employees that they will be rehired after the crisis.
- We have cut back hours, allowed many to work from home, and offered leave.
- We have implemented drastic safety measures to prevent contamination.
- Employees earning close to minimum wages are given additional support.
- We plan to keep the payroll of the employees, give information about COVID & protect workplaces, provide daily webinars, give health care material to hospitals, & offer the 3D printers.

- We're not laying off employees.
- Our first priority is the well-being and safety of our employees. As an essential business we continue to operate all of our manufacturing plants but are strictly adhering to the CDC [Centers for Disease Control and Prevention] guidelines for manufacturing operations.
- Our focus to date has largely been on employee health and safety. We have been communicating more. We have made clear policies. We provide abundant supplies where possible, additional compensation, and frequent lunches.
- We provide special PTO [Paid Time Off] for those that have kids that are out of school. No one is furloughed or let go.
- We are doing a lot here. The chaplaincy is expanded. We have weekly devotionals, virtual team building and connections. We provide care packages to teams still in the field, we're extending sick time, and we will have no layoffs or pay reductions for as long as we can do that.
- We have wellness checks and Teams meetings, including Happy Hours, family stories etc. We also invested significantly in-home computer/screen access i.e. double computer screens, upgrading older equipment, and paying for internet service for our employees, even if they are using a personal internet already in place.

Selection of comments about **communities**:

- We continue to serve the communities, are increasing donations, and collaborate with the medical authorities.
- We provide donations to communities that have suffered the effects of the economic downturn.
- We have made donations of food products. We're paying for medical services to our employees and their families by providing an on-site Micro Health Clinic staffed by a nurse and a physician.
- We're donating our N95 supply to local hospitals.
- Our business is supporting the various efforts to feed the nation, share positive news stories and support where we can.
- We are a newspaper, offering no-strings attached advertising to small businesses in our communities.
- We collaborated with the donation of 300,000 soaps and baskets of basics. We gave our employees all the necessary assistance, such as vaccines, masks, etc. and the presence of a doctor at all times.

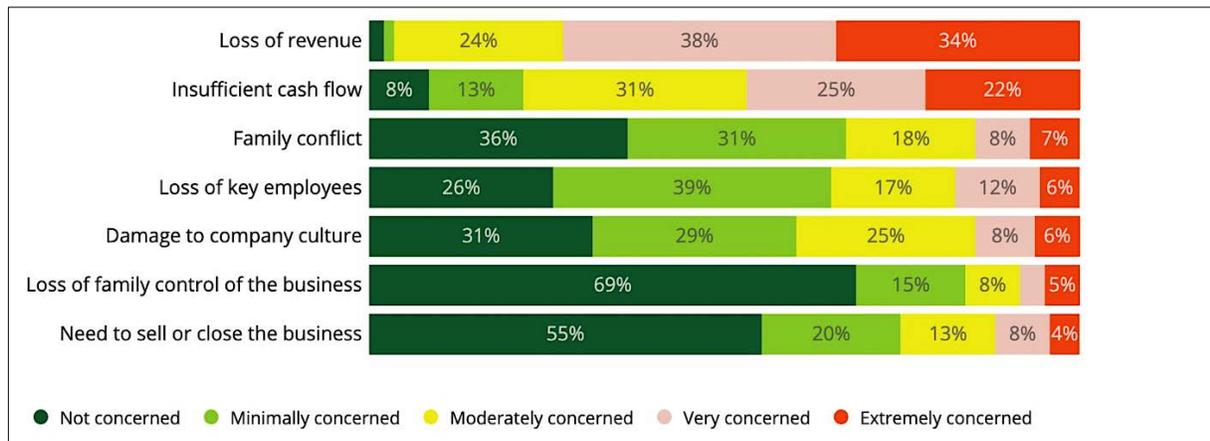
Selection of comments about **other steps**:

- We're an essential business, so we are continuing to clean and social distance where possible.
- The first thing is to take care of the business in order to provide for our employees. We are diverting all non-essential activities to provide liquidity for the operation of the business.
- We are following national, state and local guidelines.
- We have reduced tenant rents. We're buying food from tenants to feed first responders.
- We set up a project to make ventilators.

LOOKING FORWARD, SILVER LININGS, AND ADVICE

Respondents are feeling uncertainty and concern about continued negative impacts. However, for most, the crisis does not seem to threaten family control of the business. And, the majority of respondents are minimally or not concerned about family conflict, losing key employees, and damage to company culture over the next three months.

How concerned are respondents about the following potential impacts over the next three months?



The crisis has also presented some **opportunities**, for example:

- We have more engaged employees, because we are taking care of them.
- I believe the natural leaders will arise and the company will be stronger and more defined as a result of our response to the crisis.
- I think this is a great opportunity to implement lean operations practices we have been evaluating and accelerate digital technologies. Both of these have long term value for the business.
- If we are able to weather this with the team intact, it will increase loyalty and morale. I also think we are getting a lot more efficient on how we handle processes. It also brings our mission in full focus.
- It might force us to accelerate the speed of our decision-making process, as well as to push us towards new ventures, that probably in other circumstances we would not have considered.
- This is a reconfirmation of our business culture.
- We will be better prepared to capitalize on the misery of our competitors who didn't prepare or behave properly.

Many respondents' advice echoed the actions taken so far: preserve cash, communicate frequently and honestly, take care of employees, and give back to the community. Respondents shared **additional advice** based on their own response so far:

- Ask yourself why you are in business together and if you still want to be in a post crisis world.
- Be sensitive to your employees, especially their concerns about staying healthy. Remember, how you behave now will echo for years to come.
- People are your most important assets. Prioritize safety over short-term profits and use this opportunity to build trust and positive goodwill.
- Streamline decision making. Ownership should lead the way in wage reductions if passing them through to employees with materially less compensation.
- Create a crisis committee to discuss and take all necessary measures.

- Look for opportunities to expand or diversify; credit is cheap, and valuations have come down.
- It's an opportunity to step up, reinvent and innovate, and also show a stronger social impact.
- Take the opportunity to take a moral stand and have long lasting impact on stakeholders as a humane company, committed towards the communities it serves.
- This is the time to really live your values and prove the exceptional nature of family businesses.

Thank you again to those who participated in the survey. If you have any questions or would like to contact us, please email us at info@banyan.global.