INNOVATION AND CHANGE

WE ARE FAMILY

FAMILY BUSINESSES CAN TELL US A LOT ABOUT WHAT MAKES A COMPANY RESILIENT IN TIMES OF CRISIS

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The ability of a company or an organization to persist in the face of substantial changes in the external business and economic environment or the ability to withstand disruptions and catastrophic events – *resilience* – has become one of the most important factors to be able to manage the crisis caused by the COVID-19 pandemic. In this article, we will discuss how and why one of the most persistent and common forms of business organization in the world – *the family business* – is often characterized by strong resilience. What can companies and organizations learn from successful family businesses to improve their own resilience in tough times?

What is resilience and why is it important in the face of a crisis?

The COVID-19 pandemic has caused a severe crisis and extreme uncertainty for many businesses and organizations in a large number or sectors and industries. A few months after the outbreak of the pandemic, air & travel, real estate, fashion & luxury, automotive, transport, agriculture and food & beverage are sectors which are among the hardest hit. What perhaps stands out the most in this crisis is the way in which the COVID-19 virus, in a very short period of time and for the most parts unexpectedly, completely overturned the situation for doing business in these and other sectors in most parts of the world. In these hard times, the ability of companies and organizations to be resilient has been put forward as a key feature for both short-term and long-term survival.

To learn about resilience, we believe it is a good idea to look at long-lasting companies that have endured multiple crises before in their history. Many companies that have endured for several decades, perhaps even centuries, have experiences from dealing with recurrent recessions, natural disasters, wars, regime changes and in some cases even previous pandemics. Interestingly, on a global level many of these companies operate in the sectors mentioned above as being among the hardest hit by COVID-19.

Consider, for instance, the famous Italian wine company Antinori.

They diversified into the wine-making business in the late 14th century in Florence, Tuscany as a response to another pandemic. In the 1340s they were badly hit by the Great Plague which wiped out around 60 % of Florence's population. Commenting on how Antinori is responding to the present COVID-19 pandemic, the current president Albiera Antinori from the 26th generation of Antinori's family owners explains:

> *"Our family was 'forced' to abandon its trading activities of silk wool and banking, so we focused our energy in managing the country estates we had around Florence. In 1385 Giovanni di Piero Antinori inscribed himself in the Vintners Guild and made wine and vineyard growing our only activity. So, there is a good example of success after some terrible times (...) Our generation has never seen anything as rapid and threatening as this, my father's generation either, as he was born in 1938. He saw challenges in rebuilding an economy. My grandfather saw and lived two world wars, so he would have some very good advice... for sure 'resilience' would be a good word." (1)*

Accepting that organizational resilience is important for companies to be able to deal with unexpected turmoil and uncertainty, an appropriate way of thinking about resilience is that it deals with how an organization adapts, adjusts, and bounces back from a crisis or considerable tumult (2). Inspired by research from psychology on resilient individuals, Couto (3) suggests that resilient organizations have three important features: *steadfast acceptance of reality, a deep belief based on strong values that life is meaningful* (i.e. ability to make meaning of even difficult events), and *a stable ability to improvise.* Thanks to these three features many resilient organizations are better equipped to not only cope with and adjust to new challenging times, but some are even able to thrive in the adverse conditions caused by a crisis. "Good business is done in bad times", as the founding father of the so called Wallenberg sphere of companies, André Oscar Wallenberg, wrote in a letter in 1878 referring to the challenges that the Wallenberg companies faced during the Swedish depression of 1878-1879. Ever since, the Wallenberg sphere, like Antinori, has exhibited impressive resilience in tough times, including during the COVID-19 pandemic. Like Antinori, organizational resilience is an ability that the Wallenberg family has developed over time. Resilience is a result of experience, learning and history.

What is unique about resilience and the family business?

The Antinori wine company and the Wallenberg sphere of companies have in common that they are both family controlled. The family business has been characterized as both a business form from the past, and one for the future. Most languages have a version of the saying "from rags to riches, back to rags in three generations", popularized in Thomas Mann's Buddenbrooks, to convey the idea that few family businesses manage to survive business challenges and family strife for more than three generations.

However, while there are many great challenges for those who own and manage a family business, we also know from our research that the family business tends to be a particularly persistent and resilient form of business in difficult times – exactly as illustrated by the examples of Antinori and the Wallenbergs.

In short, our research suggests that what we can learn about resilience in times of crisis has to do with the ability to leverage *three specific advantages* common in long-standing family businesses. But also the ability to successfully deal with *three common disadvantages* of family businesses.

Advantages of family businesses for organizational resilience

Engaging with long-term orientation. Long-lasting family businesses do not only look at the financial result of the next quarter. Owners of enduring family businesses value their history and their future. A main reason for the long-term orientation of family businesses is that they often make decisions with a much longer horizon, sometimes even with the next generation in mind. As a result, they tend to seek sustainable solutions to current challenges and difficulties and accept that it may take time to reach the new normal after crises like the one triggered by COVID-19. Organizational resilience means persistence and patience, but also sustainability. This is, according to Marcus Wallenberg, one of the directors of the controlling family of the Wallenberg, key to be able to survive:

> *"I think it is about looking upon the business very long term. It is part of the sustainability concept. Moving with the times and being able to see what is about to come, (...) and being ready to make changes is key in the sustainable way of doing business long term. Sustainable means actually that it is sustainable and it's not only climate change." (4)*

Our research also shows that learning from their experiences means that long-lasting family businesses keep memories of prior crises alive within the family, making the business prepared and ready to act when a new crisis hits. Having a long-term orientation and the confidence and courage to look beyond the current situation, regardless of how difficult and uncertain it may be, is a key feature of resilience.

Committing with strength. Evidently, many family businesses strive for and prioritize financial success. But our research also suggests that many owners of family businesses admit that their purpose of being in business is related to the pursuit of non-financial goals. These family owners have a strong commitment to their business, a commitment that stretches beyond the instrumental relationship of being an employee or a shareholder who works in or has invested in the organization. The strong commitment often means that family owners identify with the business and they might even develop an emotional attachment to the company, which means that they see it almost as an extension of themselves or their family. It should therefore come as no surprise that they are willing to fiercely fight for the company when it is under threat. In doing so, they fight for their family legacy and for their core values, but also to take responsibility for stakeholders other than the family owners.

> *"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" (5).*

As an example of the strong commitment to both the family business and its stakeholders, research shows that family-owned businesses tend to keep their employees for longer in recessions compared to non-family businesses. Gnosjö Automatsvarvning is a subcontractor mostly serving the automotive sector. Being in an industrious part of the region of Småland in the south of Sweden, this family business is showing strong commitment during the COVID-19 pandemic. And this is not the first time they have taken this approach. Despite being severely affected by the financial crisis in 2007-2008, they purposefully did not make any employees redundant. They are following the same strategy to keep their employees during the crisis caused by COVID-19. The company's CEO says that they want to be ready when the crisis is over:

> *"We are a family enterprise and we have all our manufacturing in one place. We have control over our organization, and we think our employees are important. It is important to invest in them also during a recession. We keep them, and we let them engage in education" Linda Fransson, CEO Gnosjö Automatsvarvning (6)*

Strong commitment to core values, to family business legacy and to relationships with important internal and external stakeholders is another important feature of organizational resilience in family businesses.

Acting with independence. A third common advantage of long-standing family businesses that we would like to emphasize as key for organizational resilience is that they tend to act independently, which among other things leads to the ability to make quick decisions. Many family business owners tend to value their company's independence because they want to be in command of their own fate, and to be the one in charge when the going gets tough. Having the independence to be able to quickly adjust the organization and make speedy decisions with regards to what has to be done to address a sudden threat that might be perceived to threaten the survival of the business is a clear advantage.

In relation to organizational resilience this means that many family businesses, in particular those who have faced severe crises before, prefer to have strong and independent control over their own financial situation. This means secured access to liquid assets, reserve savings and a willingness to plough back profits into the business. In our research we have for instance found that many long-lasting family businesses do not want to be too dependent on external sources of financing when they face troubles. They see financial flexibility as a key to independence and resilience.

Further, independence of action is in many family businesses the result of a proximity between different levels in the organizational hierarchy. We often meet family businesses where the people serving on the board of directors and the top management team may be the same individuals, and they may also be the controlling owners. In this situation, decisions are speedy to make because coordinating and gathering the key people can be done quickly. As DeCiantis & Lansberg (2020) suggest:

> *"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". (5).*

Independence of action is also good for organizational resilience because it means an ability to control not only the long-term strategic agenda of the company, but also various parts of the operations including the chain of important supplies. This creates flexibility and less external pressure. Alibera Antinori gives an example of why this is important:

> *"One of the big benefits of being a family firm is that you can say no. Antinori is not seeking growth per se, it wants sustainable growth. For instance, it is important to grow while protecting Antinori's reputation. At times, the fact that Antinori is in favour of sustainable growth is hard to understand for non-family management". (7)*

Disadvantages of family business that threaten organizational resilience

Dealing with dominant powers. A key difficulty for the family business can be dealing with dominant powers, which may include confronting tendencies and attitudes such as tunnel vision, the need to stick with the recipe for success, and general conservatism. Indeed, in many family businesses the dominant power is embodied by a dominant leader – sometimes referred to as a patriarch or a matriarch – who is the central authority that virtually all decisions need to go through. In times of a crisis like COVID-19, this situation might increase resistance to change, but also create enormous vulnerability if the dominant power is the person who becomes infected by the virus and falls ill.

In addition, tunnel vision can occur when those in charge are set on driving the family business in a particular direction and are unwilling to listen to the perspectives of others, believing that their long-term view of where the business should be going is the right view and the only way forward. This might also be linked to the family feeling that there is a need to "stick to the recipe for success" and believing that because something has worked before in a similar situation, it will work again.

However, such dominant powers can work to hinder the family business during times of crisis, especially since such times often call for flexibility, being open to new ideas, engaging with others and being pro-active as opposed to reactive. Such dominant powers can distract from engaging with an emerging situation and threaten the survival of the family business. A common example of this is the resistance by the dominant powers to exit or close a poorly performing legacy business, e.g. the part of the business that constitutes the origin of the family business. In this case, too strong commitment becomes a liability.

Coping with conflicts. In all business forms, conflicts between individuals can arise. However, the very nature of the family business can make them more open to conflict and threaten their long-term survival. In part, this is because family businesses are often built on long-standing values and beliefs which have survived and developed through generations, but also because family firms often involve the engagement of individuals who may have diverse needs which do not necessarily fit with the rest of the family members or the core interests of the business. An increasing risk for conflict can be, for example, when the family and the business grow.

With more people desiring to be involved in the business, or looking to benefit from the value it generates, tensions tend to emerge. The reason why these tensions can lead to conflict is often related to different expectations from different people with regards to the role of the business in the family. A classic example is that some family owners may want to reinvest profits in the business, while other family owners prefer dividends. In the COVID-19 crisis we are faced with today, the need for the family firm to reinvest profits or sit tight rather than expand is more likely. At the same time, individuals engaged with the family firm but who earn their primary income through other types of employment may well experience greater hardship and be looking for dividend income. Such situations can result in conflict and tension and lead to the demise of the family firm.

While we generally talk of strong commitment as being an advantage, we recognize again that it might be a disadvantage. For family firms what often comes with strong commitment is a moral obligation, i.e. the need to be perceived to do the right thing and to be seen to do right by their employees and the wider community in which they are embedded. This can be the case especially when the family business is more exposed because of, for example, the nature of their activities, the size of their activities or the ways in which they serve communities, for instance being a large employer in a small community. In times of crisis, however, doing the right thing and delivering on moral obligations might not always work in the interests of the family firm. For instance, the need to downsize or retain employees when they are not necessarily needed may well stifle growth. This can leave the family generation at the helm with a dilemma; should they deliver on their moral obligations or take the business in a particular direction, knowing that while the decisions they make might serve the longevity of the firm, they are unlikely to deliver what others might see as being the moral duty and the right thing for the family firm to do?

Interacting with limits. Family firms are complex. They are often reliant on a key individual who works to serve the family firm over many years. However, dependency on one individual can be problematic. If, for example, a this individual dies during a crisis then the knock-on effect for the family firm and any potential successors can be traumatic. Hence, family firms should always have clear plans for succession. If not, a sudden external crisis like the one inflicted by COVID-19 may also trigger a difficult internal crisis if, for instance, the incumbent becomes ill and there is no successor prepared to take over.

Through family members, relationships are often formed both internally and externally and these complex sets of family and professional relationships often intertwine but are of a type that can work to serve the family firm through generations. The foundations on which such enduring ties are built and formed are usually trust, respect and social standing. What this can mean for the family firm is that because these ties are close and perceived to be trusted and reliable, they tend to be seen as dependable even in difficult times and regardless of their knowledge and experience. However, if a family business leans too much on this, there is a risk that navel-gazing and nepotism create a limited pool of people with whom family owners and their managers interact and promote in difficult times.

In times of crisis, however, it is likely that in addition to close ties, family firms are in much need to look for diverse expertise and the type of knowledge and views that are more likely to come from outside the firm's core and close circle of ties. This might include, for example, ties that can facilitate and provide input to consider new markets, new customers including looking for opportunities to internationalize the family firm or introduce new products. To instigate such entrepreneurial activities and renewal, research shows that new external influences are often key to ensure resilience in tough times.

Conclusions

COVID-19 has brought with it extreme and challenging times for all. With more than 59 million jobs under threat in Europe and a staggering 80% of workers in jobs which are now considered to be at risk[1], the impact of this pandemic will be felt for many years to come. The crisis caused by COVID-19 is an example of an unexpected situation that has brought about big change. No-one can predict how long the impacts of the pandemic will last. What we do know is that life as we knew it before this crisis has changed. What the world will look like for businesses and for those working in and with them, and how this crisis will shape their future, is still unclear.

Fortunately, there are lessons to learn from research on how companies are addressing this and previous crises. From this perspective, we feel that there are key messages to take-away from the research on resilience in family businesses. Whilst these messages are applicable to family businesses, they will also be useful for a variety of other forms of business. As a conclusion, we would like to re-emphasize the insight

[1]https://www.theguardian.com/business/2020/apr/20/uk-workers-without-degrees-face-deeper-job-insecurity-amid-coronavirus-pandemic

that resilient organizations need to have three important features: steadfast acceptance of reality, a deep belief based on strong values that life is meaningful, and a stable ability to improvise (2). These features make organizations more resilient and improve their ability to deal with a crisis and to increase the chances that they might even thrive in the adverse conditions caused by the crisis.

In addition, our research on long-lasting family businesses suggests that building organizational resilience hinges on the ability to leverage three specific advantages common in long-standing family businesses, as well as the ability to deal with three common disadvantages of family businesses. We have defined the advantages as follows: engaging with long-term orientation, committing with strength, and acting with independence. The disadvantages we refer to as: dealing with dominant powers, coping with conflicts, and interacting with limits. While leveraging these advantages and dealing with the disadvantages may be particularly relevant for family businesses with an intention to be in business for the long run, these insights are also relevant for other forms of businesses. There is no reason why a non-family business could not build a long-term orientation, develop strong commitment to organizational purpose and values, and act independently and with agility.

We have noted that many business owners are now starting to think more actively about the future of the business compared to when COVID-19 started to impact on our lives. However, this has only come about as a result of a worry about what the possible consequences of the COVID-19 pandemic might be. What is important for those engaged in conversations about the future of the business is that they keep in mind that their decisions bring not only consequences for the owners and managers, but also for many other stakeholders who are engaged with the business such as employees, suppliers, customers and the community.

So, what external events such as the COVID-19 pandemic offer to all type or organizations that are affected is an opportunity to start a conversation about resilience. How resilient are we as a company? Is our purpose and our values meaningful enough to fight for? Do we know what we want to accomplish in the long-term besides building a profitable and effective organization? Do we have any dominant powers limiting our vision? Are there any areas of conflicts threatening our ability to move into the future? These are only a few examples of questions that you may want to use for initiating a conversation around resilience in a time of crisis. However, in having this conversation it is also important to search for the light at the end of the tunnel, believe in one's products and services, and think proactively about the opportunities that just might be there to change things for a better future. In the words of Renzo Cotarella, Non-Family Director of Antinori:

> *"However, considering past crises we have got through such as the methanol scandal, the twin towers attack and the 2008 economic crisis, we have overcome these, and we will overcome COVID-19. I believe that wine has a big advantage. It is pleasurable and convivial and it will always be enjoyed by people who want to share an experience." (8).*

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