Mastering a comeback

How family businesses are triumphing over COVID-19

Global family business report:
COVID-19 edition

March 2021

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KPMG Private Enterprise

STEP PROJECT FOR FAMILY ENTERPRISING

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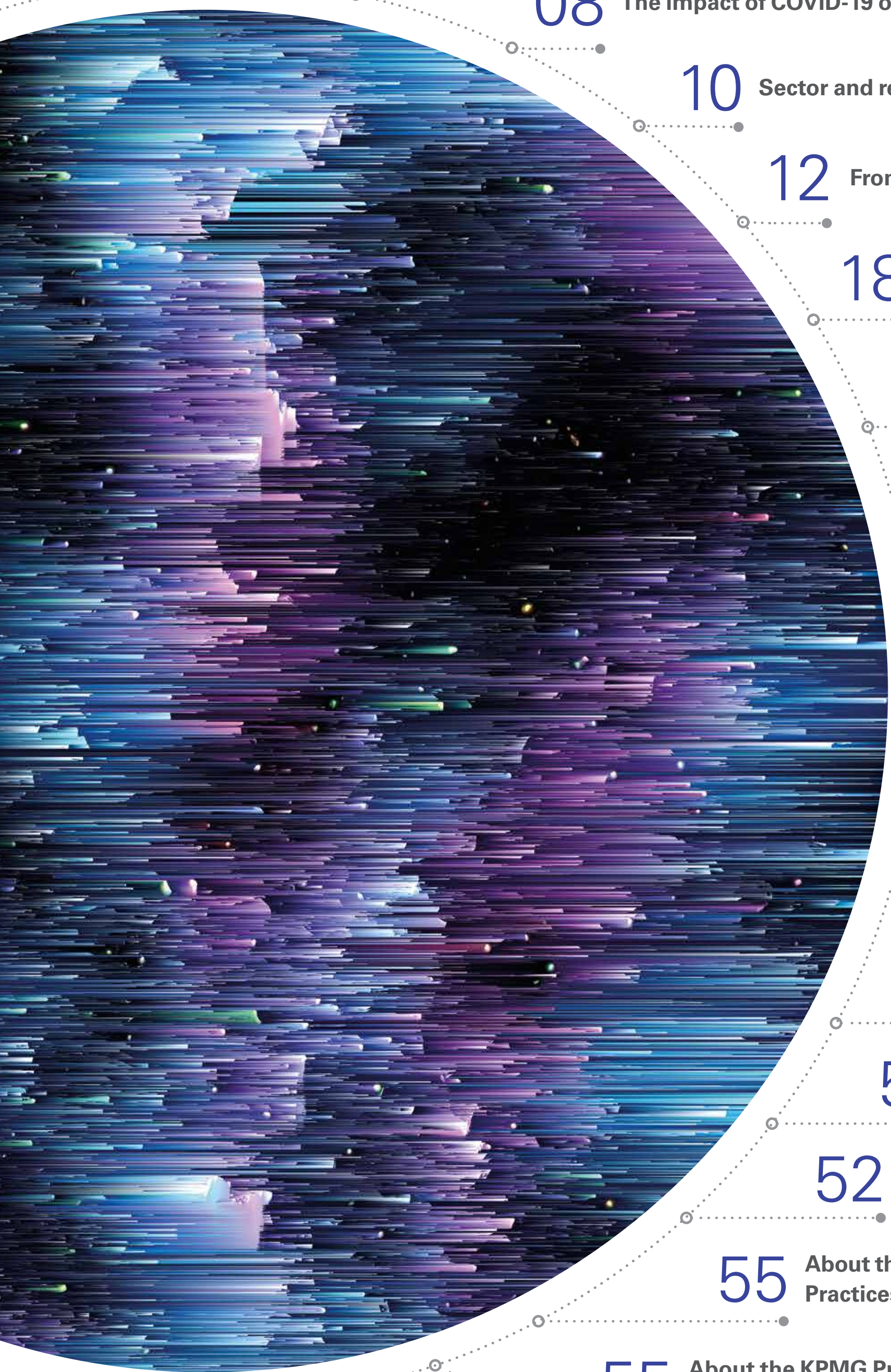

Mastering
a comeback

There is a widely accepted view that family businesses have mastered the art of resilience, agility and adaptability to overcome whatever challenges may come their way. With this in mind, and for the benefit of all family businesses, we wanted to capture the valuable insights and important lessons learned by family business leaders throughout the world in guiding their businesses through the uncertainties of COVID-19.

How has COVID-19 affected their businesses and their families? What actions have they taken to preserve, adapt and potentially even grow their businesses in such an uncertain environment? Does resilience and agility continue to be a unique family business advantage?

The Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium and KPMG Private Enterprise came together to find the answers to these questions – and many more – by conducting a special Global family business survey: COVID-19 edition. The survey data was collected between June 2020 and October 2020 and it captured the experiences and insights of family businesses of all sizes and from a vast range of industry sectors around the globe.

The strategic alliance between the STEP Project Global Consortium and KPMG Private Enterprise allows us to share valuable insights into the key issues and opportunities that are affecting family businesses. STEP has successfully bridged family business research and practice for the past 15 years and both organizations have deep experience in working with business families around the world. This has given us the opportunity to develop a deeper understanding of some of the most pressing questions that are on the minds of family business leaders. Understanding the impact of COVID-19 and the actions that family businesses have taken in response is just such an opportunity.

As expected, the insights that we have taken away are instructive for family firms of all sizes, sectors and operating models. We are pleased to have this opportunity to share with you the ways in which family businesses around the world are triumphing over one of the most significant and unexpected events in their families' histories.

Andrea Calabrò
STEP Global Academic Director,
Director,
IPAG Entrepreneurship &
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Tom McGinness
Global Leader,
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Throughout this document 'We/Us/Our' means KPMG and the Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium.

Executive summary

Resilience is in their DNA

Family businesses play a vital economic role in most countries worldwide. Not only do they make an important contribution to GDP, they also employ a substantial portion of the global workforce. With such important contributions to the world's major economies, it is no surprise that family businesses are primed to be the engine of the global economic recovery from COVID-19.

They are in the best possible position to assume this leadership role because of the unique attributes of family businesses, not the least of which is their well-known long-term orientation. It's common to hear remarks about family businesses thinking in terms of quarter centuries and not the short-term returns for the next quarter. They are focused on building a business that will be carried forward by each generation, which gives them the time and patience to think strategically about the business and to plan for the long term. This futuristic outlook is deeply embedded in the culture of family businesses and it's amplified by the family's strong values and clear sense of purpose.

These attributes are built into the DNA of family businesses and are often seen as unique and striking competitive advantages. They are the strengths behind the resilience that has made so many family businesses successful in dealing with the immediate impact of COVID-19, then swiftly turning their attention to longer-term strategies for steering their businesses and families forward.

From initial shock to the current reality

There have been numerous academic studies and opinion pieces in recent months regarding the impact of the pandemic on family businesses. When the STEP Project Global Consortium and KPMG Private Enterprise came together with the Global family business survey: COVID-19 edition, we had a clear purpose. Our goal was to uncover meaningful insights that would help family businesses learn from each other's experiences and provide guideposts for advancing their businesses into the future. We weren't disappointed. As one family business leader described, "One door closed, and 10 more opened up."

Without question, the global economy is in motion and, as family businesses continue their focus on building for the future, they will likely remain in the driver's seat of the economic recovery and provide important guideposts for others to follow. We expect that their insights will help to open up many more doors of opportunity for family businesses worldwide.

Actions in the short term

The impact of the pandemic came as an immediate shock to most businesses. Family and non-family businesses alike had to act quickly to protect their companies from a sudden drop in sales and supply chain disruptions. Non-essential costs were cut during the early and highly unpredictable months of the pandemic and employment reductions were necessary in some cases. The characteristic long-term view of family businesses took hold quickly, however, demonstrating once again how and why family businesses have managed to thrive during one of the most uncertain times in recent history.

Because business families have been so committed to sustaining entrepreneurship across the generations, a deeply resilient instinct has been embedded in their DNA. With the sudden arrival of COVID-19, those instincts triggered immediate financial actions, such as carefully managing their cash flow and liquidity requirements during a period of decreased customer demand and supply chain disruptions. Many renegotiated their vendor contracts or adjusted payment terms.

Family firms also took several non-financial actions such as family members making decisions to step back into the business to help solve problems that the company was encountering, maintaining vital relationships with employees, customers, suppliers and communities, and contributing to the company's longer-term plans.

Strategies for the long term

One of the key differentiators of family businesses is in how they define success. While profits and dividends are important financial measures, success in family businesses is defined by both financial and non-financial objectives, such as control, transgenerational succession, social capital, emotional connection to the firm and reputation. These non-financial (socio-emotional) objectives are important enough in family firms to have a direct impact on their decision making and how they measure success.

The family's legacy, honoring the traditions of previous generations and supporting the community in times of need all reinforce the socio-emotional characteristics of family businesses. It also explains why, after taking immediate actions to cushion the financial shock of COVID-19, families returned their attention to familiar territory: developing longer-term strategies and sustaining the purpose and non-economic value that the family derives from owning and managing the business. That deep sense of purpose was evident in the ways in which business families supported their communities and a wide range of stakeholders from their employees through to customers and suppliers.

For many family businesses, an unexpected and positive outcome of the pandemic was the gift of *time*. With a slowdown in their business operations, several family business leaders found they had the time and agility to diversify, to explore ideas for new products, new markets and extensions of their businesses that had been simmering in the background for years. In fact, family businesses were 42 percent more likely to deploy a business transformation strategy than non-family firms. Many also took the time to look seriously at ways to streamline their operations, including accelerating the implementation of new digital solutions, and to focus on important family issues, such as succession planning and their ownership structures.

This unexpected gift of time provided the opportunity to rethink, revamp and revitalize their strategies and their family dynamics for the long term. This is particularly the case as environmental, social and governance (ESG) factors are becoming key value drivers and underpin the need for NextGen family members to be involved in shaping the future of business. In assessing the need for new strategic thinking, family business leaders typically looked for answers to a few key questions:

- Do we have a strategy in place that addresses the current reality as well as the longer-term prospects for the business?
- Has our strategy been tested?
- Does our strategy need to be refined or completely overhauled?
- Does our strategy account for the changing dynamics of the *family*?
- Have we tapped into the knowledge and insights of all generations of family members?
- How well is our ESG strategy integrated with our business strategy? Does it support our family legacy and continue to build on it?

As family businesses considered these questions in the COVID-19 environment, their conclusions reflected three dominant strategic frameworks:

1. **Social responsibility:** addressing the impact of the pandemic on the welfare of employees, society as a whole and the needs of all their stakeholders, including customers, suppliers and local communities.

2. **Business transformation:** pivoting their businesses *reactively* to address the impact of COVID-19 and *proactively* to ensure that new business models included transformational ESG strategies and using resources responsibly, while also supporting the growth and adaptability of their business in a rapidly changing external environment.

3. **Exercising patience:** leveraging their patient capital to understand the full impact of COVID-19 on their business and others in their industry, observing the immediate actions that many of their competitors were required to take. This may give family businesses a future competitive advantage by being able to seize opportunities that others in the industry may not have the foresight or resources to capture.

Family business personas

There are several important factors that influence the strategies and specific actions that individual family businesses implement. However, two key features have been identified that are influencing their current strategic roadmaps. The first is whether or not the CEO is a family or non-family member. In family businesses led by a family member, for example, the family overall is generally more engaged in decision-making and in the development of long-term strategies.

The second factor is related to share ownership. If the family's shares are highly concentrated between a small number of family members, there is typically greater family involvement and influence on decisions versus situations in which the shares are widely dispersed among several generations who aren't typically as involved in the company's operations.

These two factors defined four types of family business firms and to help bring them to life, we have illustrated them in "personas" as family "Corporations", "Enterprises", "Consortiums" and "Ventures". Other characteristics, such as the age and size of the business and the number of generations who are involved in it, have helped us to describe what makes each persona unique.

The personas provide family business leaders with an opportunity to explore the strategies and actions taken by family businesses that have the same defining factors and also share characteristics similar to theirs. It is one way to help determine if now may be the time to explore alternative strategic options for achieving their own definition of success.

Now is the time to look forward … and to act

For family businesses, the first response to COVID-19 was to protect the family business and the business family. The second step was to re-evaluate and redesign their strategies in order to master a comeback. The third step will be to triumph as a leader of the global economic recovery.

Looking back over the past few months, there are family businesses that recognized they didn't have sufficient contingency plans in place to deal with a major, unexpected event. Others have realized that succession planning is becoming a more urgent priority to ensure the right leadership is being prepared to pick up the reins and guide a new strategic direction successfully.

Many now see that younger generations of the family have innovative ideas for the future of the business and they're examining the mechanisms that need to be in place to keep bringing fresh ideas to the surface. Those with multiple generations of the family involved in the business – in leadership or operating roles, as Board members or shareholders – were 45 percent more likely to deploy a business transformation strategy compared to single-generation firms.

Most have put their resilience to the test and emerged from the pandemic with a refreshed strategic direction and a long-term view for the future that is energizing the business as well as the family.

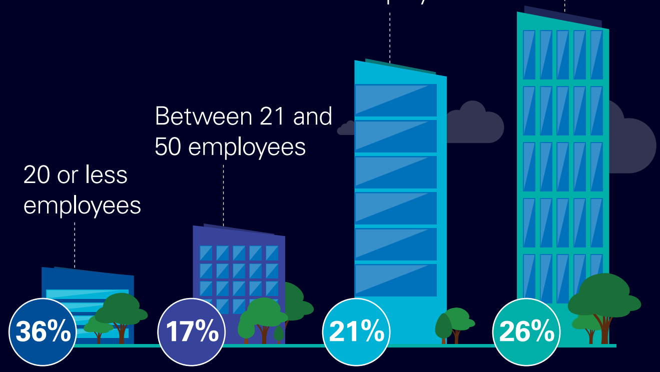
There are many lessons that can be learned from all of these experiences. Now is the time for every family business to apply these learnings in evaluating their own actions and to implement the changes that will be necessary to keep family businesses moving forward as the engine of the global economy.

Highlights from the Global family business survey: COVID-19 edition

Number of respondents

2,493	517	» 3,010
Family businesses	Non-family businesses	Total number of firms

Size and percentage of family businesses



Generations

% of family businesses

42% » First generation

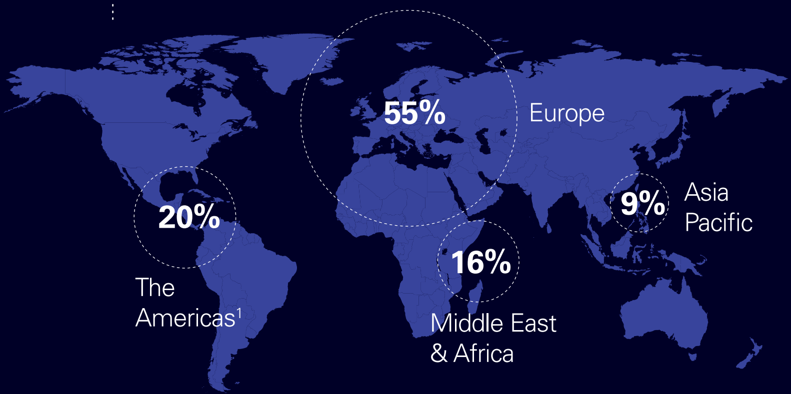
36% » Second generation

14% » Third generation

8% » Fourth or subsequent generations

Nationalities

Respondents from **75** countries distributed in **five** macro-regions: Europe; North America, South America & the Caribbean; Asia Pacific; and the Middle East & Africa.



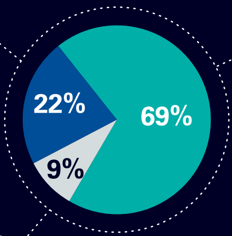
% of family firms

[1] North America, South America and the Caribbean

Revenue

Revenue stayed the same

Revenue decreased



Globally

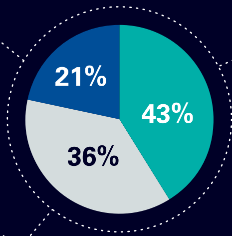
Revenue increased

Government support

76%
of firms globally accessed government support programs. Of those:

Received government subsidies

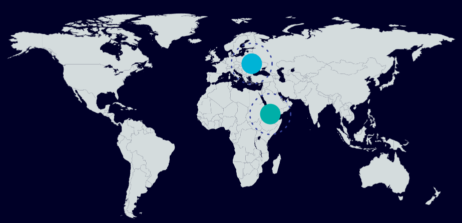
Acquired financial support



Made use of tax reduction and filing deferral opportunities

Employment

8.56%
Reduction in the family business workforce globally, compared to 10.24 percent in non-family businesses.



20.07 %
Highest employment reduction in the Middle East & Africa

4.31 %
Lowest employment reduction in Europe

Three primary strategies

Three primary strategies were adopted to address the impact of COVID-19:

- Social responsibility
- Business transformation
- Exercising patience

42%
of family businesses were more likely to deploy a business transformation strategy than non-family firms.

Actions taken by family businesses

41%
Cut costs and reduced or deferred their investments

36%
Reduced the number of employees, hours worked or pay

14%
Made changes to their business by restructuring or closing temporarily or permanently

9%
Reduced executive salaries or made adjustments to incentive compensation plans

The impact of **COVID-19** on family businesses globally

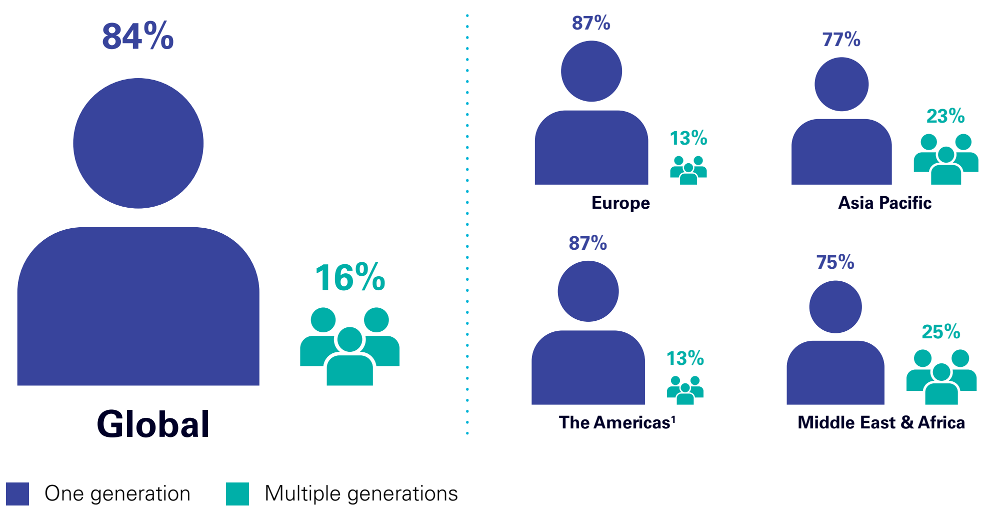
In total, 3,010 business leaders completed the Global family business survey: COVID-19 edition, with 2,493 from family businesses in the Americas, Asia Pacific, Europe and the Middle East & Africa and another 517 from non-family businesses, for comparison.

Since the survey was conducted during the early months of the pandemic, we believed that the first indicator of the impact of COVID-19 on family and non-family businesses would be reflected in their revenue. Uncertainty in the markets and the need for government restrictions on social interactions and business operations in most areas of the world did, in fact, have a striking impact on companies' revenues. Sixty-nine percent of family businesses reported that their revenues experienced an initial decline due to COVID-19.

Twenty-two percent of family businesses reported that their revenues remained the same, while 9 percent reported that their revenues were affected by a revenue boost in the wake of the pandemic. This included businesses that did not benefit from an increased demand in their products or services due to lockdown measures.

These findings encouraged us to find out more about the companies who have continued to thrive in such a highly uncertain environment and the actions that others are taking to sustain or rebuild their businesses for the future.

Generations that are currently active in the business



[1] North America, South America and the Caribbean

Source: STEP Project Global Consortium and KPMG Private Enterprise Global family business report: COVID-19 edition

Three levels of resilience

Family businesses in the United Arab Emirates (UAE) have experienced the shock of an economic slowdown that has lasted for several months and introduced high levels of uncertainty.

Because of the embeddedness of family firms in the UAE social and economic environment, the commitment to sustaining entrepreneurship across generations has triggered their resilient instincts. This resilience has been transferred into strategic actions that companies have taken to embrace all of their stakeholders during the pandemic.

First, at the *organization* level, some business families have reacted by incorporating a crisis cabinet to promote family and business resilience and formulate recovery plans that care for family and non-family members alike. Second, at the *strategic* level, business families have implemented entrepreneurial actions to sustain their business operations and preserve their long-term economic, social and emotional investments.

Finally, at a *societal* level, business families have been an important and active economic contributor to supporting government leadership and responding socially to the needs of local communities.

A crisis can provide one of the best opportunities from which to learn. I believe that the business families that adapted their family and business structures, implemented entrepreneurial actions and engaged with their communities have further developed their resilient instincts and reinforced the characteristic tenacity of transgenerational family firms.

Rodrigo Basco
Associate Professor and Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business, American University of Sharjah

> The most significant revenue *increases* were reported in companies that benefited from the acceleration of technology and the surge in e-commerce for many traditional retailers.

Sector and **regional impact**

We looked first at the initial impact in different regions of the world and across a variety of sectors.

We found that revenue declines varied widely among different industry sub-sectors, some of which experienced extremely sharp losses, while others have managed to weather the storm very well. Not surprisingly, the primary sectors reporting revenue declines were those that were affected immediately by social and travel restrictions. This included 88 percent of hotels and restaurants, 83 percent of education institutions, 71 percent of those in the transportation sector who saw a dramatic decrease due to heightened travel restrictions and another 71 percent in the arts, entertainment and recreation sectors.

Manufacturing and construction felt the impact as well. Seventy-one percent of family-owned manufacturing companies were confronted with major supply chain issues that disrupted their production and delivery capabilities. Sixty-one percent in the construction industry saw revenue losses due to cancelled projects, supply chain disruptions and staffing modifications that were required to protect the health and safety of on-site workers.

The most significant revenue *increases* were reported in companies that benefited from the acceleration of technology and the surge in e-commerce for many traditional retailers. With the pandemic causing people to stay in their homes and putting visits to the doctor at risk, the telemedicine market was accelerated. Other essential services that could be supported by technology saw a boost in their revenues as well, such as grocers and pharmacies that migrated to online ordering and home delivery.

The need for faster and better communications technology for remote work environments and inter-personal communications led many family businesses to accelerate the digitalization of their business models, which fuelled the growth of information technology developers and service providers.

As a result, revenue increases were experienced in 21 percent of companies in the human health and social work sector, 13 percent in information and communications and 11 percent in agriculture, forestry, fishing and in the wholesale and retail trade. Even 12.5 percent of those in the arts and entertainment sector reported revenue increases, even though the sector overall has experienced significant declines.

Regionally, we found important differences as well, with 84 percent of businesses in the Middle East and Africa, for example, reporting that their revenues had declined, compared to 69 percent globally. The strength and resilience of the economic structure in countries and regions is important for family businesses. It appears that the severity of the impact from the pandemic is related, in part, to the level of regional development and the capacity of the economic system to absorb the shock. It may be the case that developed economies were better prepared to weather the storm.

The sectors that were directly affected by social distancing policies and travel restrictions, such as hotels and entertainment venues, were among the first to experience a negative impact on their revenues, as well as those in the restaurant industry who were not able to adjust their operating model to accommodate food pick-up and delivery. On the other side of this issue, with more families working and staying at home, the preparation of family meals increased and the agriculture and food processing industries saw an appreciable rise.

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Alfredo Valentino
STEP Global Research Champion
Associate Professor
ESCE International Business School

Top industries affected by COVID-19

Revenue declines

- Hotels and restaurants
- Education institutions
- Arts, entertainment and recreation
- Manufacturing
- Construction
- Transportation

Revenue increases

- Human health and social work
- Information and communication
- Agriculture, forestry and fishing
- Wholesale and retail
- Selected arts, entertainment and recreation companies

84% of **Middle East & African family** businesses experienced a revenue decline

From impact to **action**

Eighty-seven percent of family firms that participated in the survey are led by family CEOs, which often reflects a high level of family involvement in decision-making as well. The family's involvement in the daily decisions of the business is a unique characteristic of the family business model, especially during times of dramatic change and upheaval. The family can be a source of unique and inimitable resources and capabilities that lead to the resilience and agility with which family businesses are often identified.[2] The shock of an unexpected global pandemic provided an opportunity to see firsthand if they really do have that "special resilience" in their DNA.

The family's involvement not only addresses the economic goals of the business, it also tackles family-oriented goals, such as sustaining the family legacy. We found that this combination of family-oriented and business-oriented goals has affected the ways in which families have reacted and responded to the impact of COVID-19.

From the survey responses, as well as direct experiences with family businesses, we identified several financial and non-financial actions that families have taken to stabilize their businesses during the initial shock caused by the pandemic. Their decisions are also laying the foundation for their companies' longer-term growth prospects. In some cases, these decisions have led to a complete transformation of their business operating models and product offerings, often with the intent of making them fit for purpose in the new digital age. In fact, family businesses were 42 percent more likely to deploy a business transformation strategy than non-family firms.

A high percentage of family members throughout the world have not only been involved in addressing the impact of COVID-19 on their businesses, they have also been looking out for the concerns of their communities. Most have relied on family members to become involved *inside* the business to overcome the impact of the pandemic. Others have also expanded their horizons *beyond* the family business to make use of the family's social capital to open up collaborative opportunities with their external stakeholders.

The most implemented actions per macro-category

	Global	Europe	Asia Pacific	The Americas[1]	Middle East & Africa
Employees	Moving all or some employees to remote status	Moving all or some employees to remote status	Freezing all hiring	Moving all or some employees to remote status	Reducing employee pay
Costs/Investments	Cutting office expenses	Cutting office expenses	Cutting office expenses	Cutting office expenses	Cutting office expenses
Business	Delaying payment for all or part of vendor bills and loan obligations	Renegotiating vendor contracts	Delaying payment for all or part of vendor bills and loan obligations	Delaying payment for all or part of vendor bills and loan obligations	Renegotiating vendor contracts
Executives	Deferring or reducing executive pay	Deferring or reducing executive pay	Deferring or reducing executive pay	Deferring or reducing executive pay	Deferring or reducing executive pay

[1] North America, South America and the Caribbean

Source: STEP Project Global Consortium and KPMG Private Enterprise Global family business report: COVID-19 edition

[2] Minichilli, A., Brogi, M., & Calabrò, A. (2016). Weathering the storm: Family ownership, governance and performance through the financial and economic crisis. *Corporate Governance: An International Review, 24*(6), 552-568.

Family impact

Family members were called upon to help the family's business through moral, physical and intellectual support in order to continue to serve their customers. This created new opportunities for family members to re-evaluate their relationship with their business. Some recognized the next generation's ability to take on the business. Others gained interest in participating more in the business or questioned the value of it continuing.

Albert James, *Associate Professor of Family Business and Entrepreneurship, Rowe School of Business, Dalhousie University, Canada*

During the pandemic, uncertainty promoted "what-if" discussions and demanded critical reviews of downside and upside scenarios for the future of many family businesses. In some cases, this included examining the family's ownership structure. Families-in-business can be agile in redesigning their structure, such as privatizing a listed company to give the family more flexibility to launch new initiatives. Privatization can also assist in managing the family assets as a portfolio, allowing them to exercise the calmness that's required to make sound business and investment decisions in the midst of uncertainty.

Kevin Au, *Professor at The Chinese University of Hong Kong (SAR), China*

COVID-19 has accelerated conversations within families on governance to enable faster decision-making and allow them to engage efficiently with their family members and shareholders. Especially among smaller family businesses, where governance might have been seen as a tick-box approach in the past, there is now a better understanding of how good governance practices can help to reduce risks and protect the business and the family.

Daniel Trimarchi, *Director, Family Business Global Network, KPMG Private Enterprise, Director, Family Enterprise Advisory, KPMG in Canada*

Challenges appeared from all fronts and family businesses had to adjust. A simple example was the impact of the mobility restrictions that were introduced in Guatemala. All citizens over 60 years of age were required to remain in their homes – and that included most family business CEOs. Approximately 85 percent of all companies in Guatemala are family businesses. With sales declining and employees being furloughed, the heads of these businesses were unable to be present in their companies precisely when they were needed the most.

Jaly Chea, *Associate Dean for Academics Universidad Francisco Marroquin, Guatemala*

Absorbing the financial shock of COVID-19

Because of the uniqueness of family businesses and how the family's involvement translates into a competitive advantage, it was our intention to explore, analyze and understand the actions that family businesses took in response to the pandemic. If there was an unexpected shock, what did family and non-family businesses do to absorb that shock?

Employee and executive actions

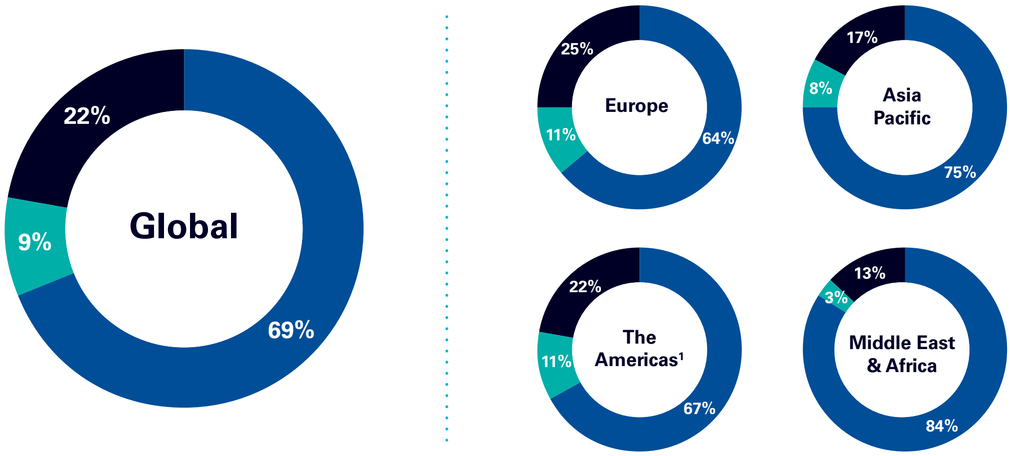
Management reactions to mitigate the impact of COVID-19 on their businesses was seen primarily in changes in companies' employment numbers. Globally, family business employment dropped by 8.56 percent from the start of the pandemic to the completion of the survey. By comparison, the employment change for non-family businesses was 10.24 percent.

- 46 percent of employees were moved to remote working status.
- 40 percent reduced employees' hours.
- 32 percent put employees on furlough and as many as 19 percent implemented employee layoffs.
- Hiring freezes were implemented by 38 percent of family businesses globally.

In some cases, adjustments were also made in companies' executive compensation arrangements, with 29 percent of family businesses globally reducing executive pay and 19 percent considering alternative forms of executive compensation. Notably, executive compensation changes were most prevalent among survey respondents from large, well-established businesses led by non-family CEOs. Thirty-six percent of those companies in the survey deferred or reduced executive pay and 29 percent have considered incentive compensation alternatives.

It is important to highlight, however, that the employment changes in family businesses varied widely across the regions. For example, while employee reductions in Europe were low at around 4 percent, the employment change in the Middle East & Africa was 20 percent. Because the location of the family business appears to be the most important factor when it comes to making employment reductions, it is likely that the wide variations may be related to each region's economy and the different employment law protections in many countries.

How the COVID-19 pandemic affected revenues of businesses



Revenue decreased Revenue increased Revenue stayed the same

[1] North America, South America and the Caribbean

Source: STEP Project Global Consortium and KPMG Private Enterprise Global family business report: COVID-19 edition

> Through the survey and experiences with family business leaders worldwide, we discovered that the initial impact of COVID-19 on family businesses was primarily focused on overall cost-cutting measures, including reducing the companies' employment expenses and business actions, such as renegotiating vendor contracts and payment arrangements with customers.
>
> This supports the widely accepted view that under severe threats to their business, family firms need to rebalance their economic and non-economic goals, putting greater focus on the economic priorities that will allow them to navigate successfully through an uncertain path ahead.

Andrea Calabrò
STEP Global Academic Director,
Director,
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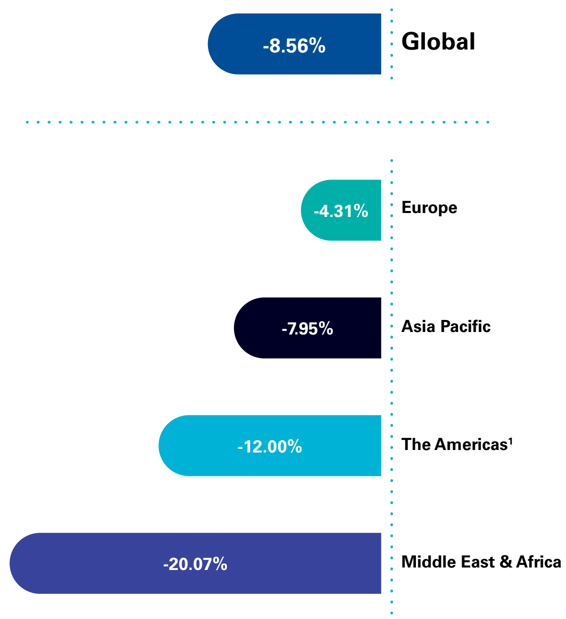
IPAG Business School

Difference in the number of employees in your business today, compared to pre-COVID-19



[1] North America, South America and the Caribbean

Source: STEP Project Global Consortium and KPMG Private Enterprise Global family business report: COVID-19 edition

While more than 80 percent of the actions that were taken to overcome the impact of COVID-19 focused on the companies' employees, cost-cutting measures and reducing or deferring investments, 12 percent of family businesses found it necessary to close their businesses either permanently or temporarily. While such consequential actions weren't required in most family businesses, other actions to support the business were necessary.

Alfredo Valentino
STEP Global Research Champion,
Associate Professor,
ESCE International Business School

Cost cutting measures

In addition to reducing employment costs, 41 percent of family businesses have also implemented wide-ranging cost-cutting measures, such as:

- 58 percent reduced their general office expenses,
- approximately half cut marketing spending, and
- 32 percent reduced their inventories to lower carrying costs.

Through the survey and experiences with family business leaders worldwide, we discovered that the initial impact of COVID-19 on family businesses was focused primarily on overall cost-cutting measures, including reducing the companies' employment expenses, and business actions, such as renegotiating vendor contracts and payment arrangements with customers.

Business reactions

Beyond the immediate actions to absorb the impact of COVID-19 by reducing costs, businesses quickly reorganized their internal operations to meet new levels of market demand. In some cases, this led to retooling their businesses for the development of new high-demand products. They also reinforced and renegotiated their relationships with suppliers, customers and financial institutions as the impact on their revenues led to changes in their economic and financial status.

- 30 percent renegotiated their vendor contracts,
- approximately one-third delayed vendor payments and loan repayments,
- 24 percent postponed or cancelled their R&D investments and product launches, and
- 26 percent took on additional debt to finance their operations to address revenue shortfalls and to obtain the capital that was required to retool their manufacturing facilities, develop new products or implement new technology solutions.

While more than 80 percent of the actions that were taken to overcome the impact of COVID-19 focused on the companies' employees, cost-cutting measures and reducing or deferring investments, 12 percent of family businesses found it necessary to close their businesses either permanently or temporarily. While such consequential actions weren't required in most family businesses, other actions to support the business were necessary.

Mitigating future risks

On March 16, 2020, the shutdown began in Mexico. Though some had a business continuity plan in place, many family businesses found themselves unprepared. Those who did have a plan had a good starting point for tackling the situation. They had already documented how they would interact with each other during a crisis and they triggered the committees that were designed to deal with suppliers and customers.

For those companies that hadn't planned for an unexpected event, however, work had to begin in earnest on enterprise assessments to identify the most significant risks to the businesses. In many cases, this required the shareholders and other family members to get involved in the business more than they had in the past. Some older generations who had left the day-to-day management returned to provide oversight and share the actions that had been successful in dealing with large challenges in the past.

The communication needs have now expanded as well in relation to the issues that are being addressed by the family. Where a board meeting may have been called once a quarter in the past, there are now bi-weekly meetings to keep the family informed and to make quick decisions that are important for the business.

Jesus Luna
National Private Enterprise Leader,
KPMG in Mexico

Accessing government support

Government support programs were introduced in many jurisdictions throughout the world and 76 percent of family businesses globally accessed some form of government subsidies or other forms of financial support. Approximately three-quarters of family and non-family businesses made use of the government schemes that were available in their countries. Family businesses primarily made use of financial support programs, such as low-cost loan arrangements, and less use of subsidies compared to non-family businesses.

- 76 percent of family firms globally accessed government support programs. Of those who accessed government support programs:
  - 43 percent acquired financial support,
  - 36 percent made use of tax reduction and tax filing deferral opportunities, and
  - only 21 percent received government subsidies to supplement salary losses and expenses related to changes in production capabilities or the resources required to enable a remote workforce.

Regional support from government

In September of 2020, a €100 billion recovery plan was introduced in France to sustain competitiveness, cohesion and the advancement of the green economy by targeting the development of green infrastructure and technologies such as hydrogen, biofuels and recycling.

Miruna Radu-Lefebvre, *Full Professor of Entrepreneurship, Head of the Chair Family Entrepreneurship and Society Audencia Business School, France*

The UAE government's Virtual Labor Market assists companies and employees affected by COVID-19-related precautionary measures. If it is necessary for a company to release workers, the online marketplace supports recruitment by other UAE-based companies, per market needs. The goal is to keep as many people as possible employed.

Anurag Bajpai, *Lower Gulf Leader, KPMG Private Enterprise, KPMG in the Lower Gulf*

The impetus for change has been boosted with the European Union's recent announcement of a €672.5 billion "Recovery and Resilience" facility to begin healing the economic scars of the coronavirus outbreak. Where early support programs were short-term actions and subsidies, this new fund has a longer 6-year timeframe to encourage longer-term thinking. This should give business families the opportunity to examine their current business focus and consider what kind of market they want to have for the future.

Miguel Angel Faura Borruey, *National Private Enterprise Leader, Partner, KPMG in Spain*

Some sectors have faced more challenges than others, including not-for-profits. While many for-profit businesses were supported through partial openings, government stimulus programs and payroll protection arrangements, many non-profits have not been able to open and have more limited government stimulus programs. As community-attentive as family members and family offices are, many focused their philanthropic priorities on pandemic relief projects versus traditional non-profits. Therefore, it will be interesting to see how government stimulus programs in the future might be structured to support the recovery of both the for-profit and, just as important, the non-profit sectors.

Brad Sprong, *National Tax Leader, KPMG Private Enterprise, KPMG in the US*

"76 percent of family businesses globally accessed some form of government subsidies or other forms of financial support."

Putting **purpose and values** to work

In responding to the impact of COVID-19, many family members have played critical roles as owners of the business to safeguard their financial and emotional investment and to preserve the legacy that has been built over multiple generations.

In some cases, their response to COVID-19 was to become more deeply involved in community support programs and making contributions to social causes. Some made use of their business expertise and resources to manufacture high-demand products, such as hand sanitizers and face masks. Others used the temporary downtime in their businesses to retool and prepare for the reopening of their business and its eventual comeback in the market.

Family involvement and response

When many family businesses started to grasp what the pandemic might mean for their companies, they realized that more involvement and input was needed from the family. It was important for the family to re-engage, especially in those situations in which management has been entrusted to non-family executives. In some cases, senior family members have come back into the business to bring a historical context, while also ensuring that the family purpose and values remain intact.

Because of their knowledge and exposure to many new technologies, younger generations of the family are increasingly being tasked with identifying digital solutions to transform the family's business operations or helping to develop new technology products or service offerings that can accelerate the business into the future.

In most family businesses, candid and frequent communications within the family have increased substantially in order to ensure that the family is well-informed about the performance of the business and is able to make quick decisions based on good information. Several family business leaders

Reinforcing vital commitments

Several Colombian family businesses have shown how the values of security, benevolence and universalism have enhanced their resilience as seen in their decisions and commitment towards their employees and clients.

In responding to the impact of COVID-19, many founders of Colombian family businesses focused on the continuity of their business as a duty to ensure that the families who depend on the business could continue to thrive. They reinforced their existing employee policies, paid salaries on time and provided bonuses to essential workers. In a firm that has over 700 employees, for example, it means that more than 5,000 people depend on them, and the family recognizes that this is their responsibility.

One board member of a Colombian family business described his family's commitment this way: "This family has a concept of the family as a clan, with a very profound sense of unity and cohesion. The family is unified in their support for each other through good times and bad."

Luis Díaz-Matajira
Assistant Professor,
Universidad de los Andes

“

There continues to be a need for an appropriate level of family involvement in family businesses. This is often the case when the business is managed by a non-family CEO and the distance between the family and the business has been widening over time. There have been many examples in the past several months where the family came “back into the business” to come to an agreement on highly consequential decisions, such as whether or not regular dividend payments should be issued, or if the time has come to appoint a new CEO with a different skill set to meet the challenges ahead. The involvement of several generations of family members contributed directly to their firms' ability to accelerate the transformation of their businesses. ”

Tom McGinness
Global Leader,
Family Business,
KPMG Private Enterprise,
Partner,
KPMG in the UK

pointed out that the frequency of communication has also increased dramatically, particularly in the first few months of the pandemic, with weekly or bi-weekly update meetings with family members in place of the regular family board meetings that had been held every 2 to 3 months.

There continues to be a need for an appropriate level of family involvement in family businesses. This is often the case when the business is managed by a non-family CEO and the distance between the family and the business has been widening over time. There have been many examples in the past several months where the family came “back into the business” to come to an agreement on highly consequential decisions, such as whether or not regular dividend payments should be issued, or if the time has come to appoint a new CEO with a different skill set to meet the challenges ahead.

Managing stakeholder relationships

Family members are also collaborating with other business leaders in their communities, customers, suppliers and other external stakeholders to diagnose underlying problems, develop solutions for the business and also address broader social concerns.

Different organizational responses to COVID-19 were reported across the regions. In Asia, the Middle East and Africa, family businesses reported that they worked collaboratively with external stakeholders (industry and sector groups, suppliers and customers) to deal with the pandemic, while in North America, there was more emphasis on sharing information openly and frequently with all of their companies' stakeholders.

It is interesting to see different organizational responses to COVID-19 across macro-regions. In Asia and the Middle East & Africa, family businesses have relied more on external stakeholders as collaborators in addressing the impact of the pandemic, while in Europe and the Americas, family businesses have placed more reliance on empowering family members and employees to make decisions and take action.

Mobilizing employees

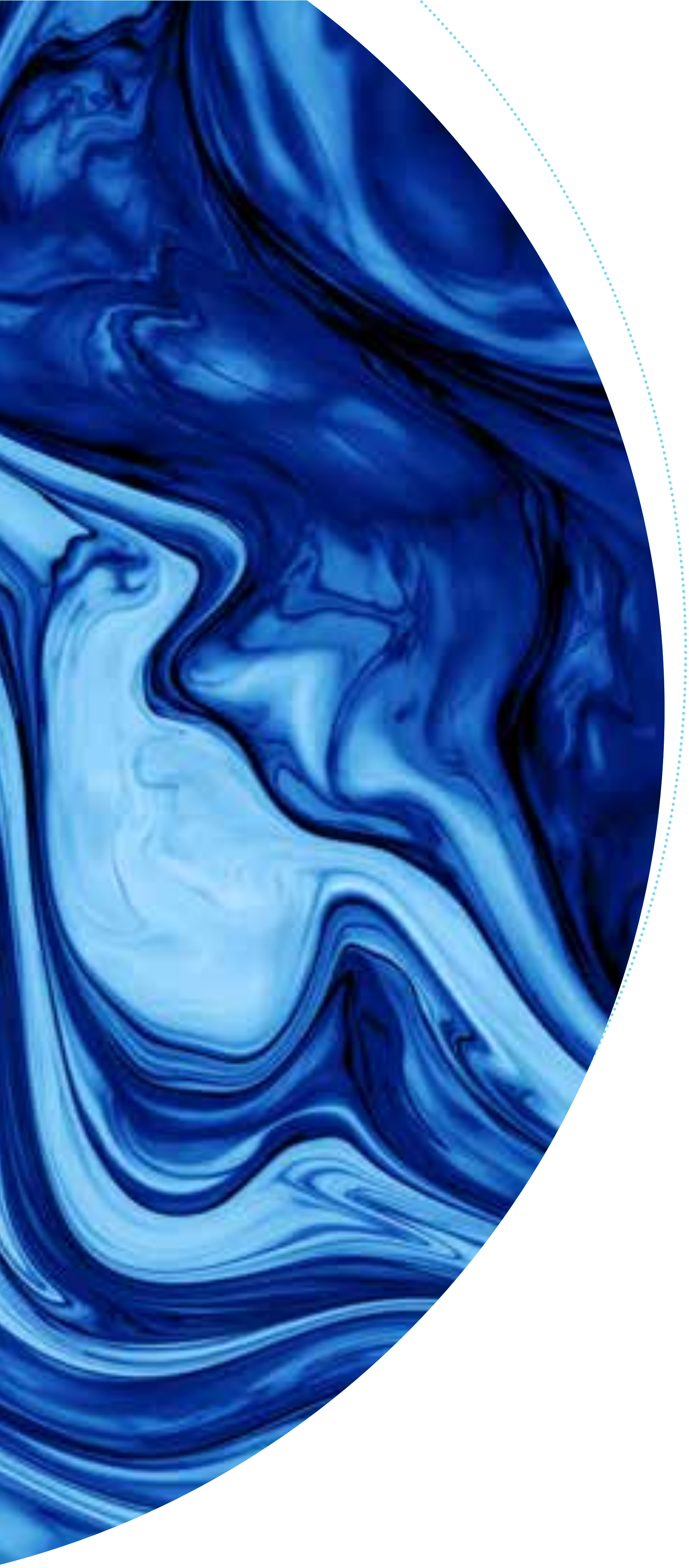
Small- and medium-sized family businesses in India were particularly hard-hit by COVID-19 as they faced two major challenges: making sure that they could continue to pay employees, while also carefully managing their ongoing costs. However, many family business leaders also recognized that a slowdown in their business opened up a new opportunity: the time and perspective for taking stock, reviewing their operations and developing a fresh vision of their business for the future.

As key stakeholders in the business, the owners and their employees worked together to brainstorm new ways to make the operations more effective and efficient. By doing this together, they were able to move swiftly to adapt to the unpredictable conditions that arose daily.

For the longer term, they uncovered opportunities that had not been considered in the past to digitize their operations and adopt new technologies.

They acted decisively. They invested in people and earned the loyalty of their employees. And they made smart strategic choices without panicking. They have survived and the owners and employees alike are looking to come out of the slowdown with renewed vigor and a refreshed vision of the future.

Dr. Nupur Pavan Bang
Associate Director,
Thomas Schmidheiny Centre for Family Enterprise,
Indian School of Business



Three key strategies: **Preparing for a comeback**

Family businesses have identified three core strategies to respond to the impact that COVID-19 has had on their business and family legacies:

1. **Social responsibility:** addressing the impact of the pandemic on the welfare of society as a whole and the needs of all their stakeholders including employees, customers, suppliers and local communities.

2. **Business transformation:** pivoting their businesses reactively to address the immediate impact of COVID-19, and proactively to ensure, that new business models are using resources responsibly, while also supporting the growth and adaptability of their business in a rapidly changing external environment.

3. **Exercising patience:** leveraging their patient capital to understand the full impact of COVID-19 on their businesses and others in their industry, and observing the immediate actions that many of their competitors were required to take.

We found it interesting to observe that in the Middle East and Africa, family businesses appeared to be more risk averse, with many preferring to remain patient until they had a better understanding of the situation in order to make a strategic decision.

Families' multi-generational impact

45%

more likely to deploy a business transformation strategy

Family businesses that have several generations of the family involved in the business – in leadership or operating roles, as Board members or shareholders – were 45 percent more likely to deploy a business transformation strategy compared to single-generation firms.

We saw a completely different pattern in some parts of the Americas, where family firms were more proactive in transforming their business or adopting a social responsibility strategy where they could contribute the family's financial and human resources to support local organizations and pandemic-relief programs. In Asia, all three strategies appeared to be equally important.

“In some instances, a single strategic approach has dominated throughout the months of the pandemic. For the majority of firms, however, more than one strategy has been followed as the months have progressed and its impact on their businesses has changed. In many of those cases, all three strategies – corporate social responsibility (CSR), pivoting and waiting – have been embraced as the circumstances of the business have continued to change.”

Andrea Calabrò
STEP Global Academic Director,
Director,
IPAG Entrepreneurship & Family Business Center,
IPAG Business School

Strategic acceleration

In many cases, I don't believe that the pandemic has *changed* family business strategies as much as it has *accelerated* the implementation of some strategies or amplified the family's position on changes that they were already considering. If the company was performing poorly, COVID-19 has made it worse. If the family was thinking about changing the CEO and potentially bringing in a new leader from outside the family, that discussion and decision is being accelerated.

One of the outcomes of COVID-19 that I have seen in family businesses is an increase in discussions about succession as well as the involvement of younger generations in the family business in general. I also see an acceleration in considering external CEOs because of the need for a different skill set and range of experience in the next 20 years compared to the previous 20.

With more companies looking at the technology infrastructure of their firms and the acceleration of the new digital economy, encouraging greater involvement of younger generation family members may be one of the most important short-term actions family businesses can take.

Dr. Knut Tonne
Partner,
KPMG Private Enterprise,
KPMG in Germany

Strategy 1: Social responsibility

The first of the strategic approaches is focused outside the family business itself with an emphasis on the business family's focus on the welfare of society as a whole, and the needs of all their stakeholders including employees, customers, suppliers and local communities. Family businesses are typically deeply embedded in their environmental, cultural and community initiatives. This strategy reflects the family's values and the important goal of maintaining their reputation as responsible owners in the communities where they live and conduct business, and upholding their societal and environmental responsibilities.

Families made substantial contributions to community relief programs when the initial impact of the pandemic was most shocking and government financial relief and other programs were not yet in place. Many of the larger, long-established family businesses used the slowdowns in their businesses to become involved in community projects and some contributed to special funds, such as those that were established to support other private businesses to help ensure that these smaller firms were able to weather the pandemic's financial storm.

With their long-term orientation and focus on sustaining the family legacy, along with their belief that all of the stakeholders around them are important, business families have made strides in addressing the concerns and needs of their employees, customers and suppliers (even the smallest suppliers) showing a superior ability to contribute their social capital when it is needed the most. In particular, some family businesses have highlighted the importance of every supplier and many prioritized making payments to their smallest suppliers to ensure that they could remain viable. As they look towards the future, they are also beginning to develop more challenging ESG goals, aligned with a renewed ambition to transform their business strategies.

Navigating a legacy during the storm of a pandemic

"We are in this together", is a mantra commonly used across the world as societies seek to respond to the greatest public health crisis in more than a century. In Ireland, a country dominated by family businesses and family farms, the call for action was duly answered.

We have witnessed alcohol manufacturers who pivoted their businesses to produce hand sanitizing products; engineering firms that began producing medical ventilators; technology providers delivering free mobile phones to vulnerable members of society; comedy clubs hosting virtual events for struggling charitable organizations; and airlines offering fleets for humanitarian missions.

The common thread that resonates across these stories is the creation of a legacy. As a leader of a prominent Irish family business commented, "Our family business is in its seventh generation. During the Great Famine (Ireland) of 1845, our business took on a role very similar to that of the Red Cross, distributing food to the sick and needy. We have been through world wars, civil war and times of immense economic hardship. The learnings from these experiences reflect the values we hold as a family, and I want my children to remember me and my team for what we did for our communities during a time of need".

Eric Clinton
Associate Professor of Entrepreneurship,
Director DCU National Centre for Family Business

Strategy 2: Business transformation

While continuing to sustain the family's purpose, values and community commitments they began turning their attention to new strategies for pivoting their business by reacting initially to the impact on their business (especially with regard to the impact on their revenue) in order to survive, followed by a proactive pivot to create new approaches for adapting and transforming their businesses in order to thrive in the future.

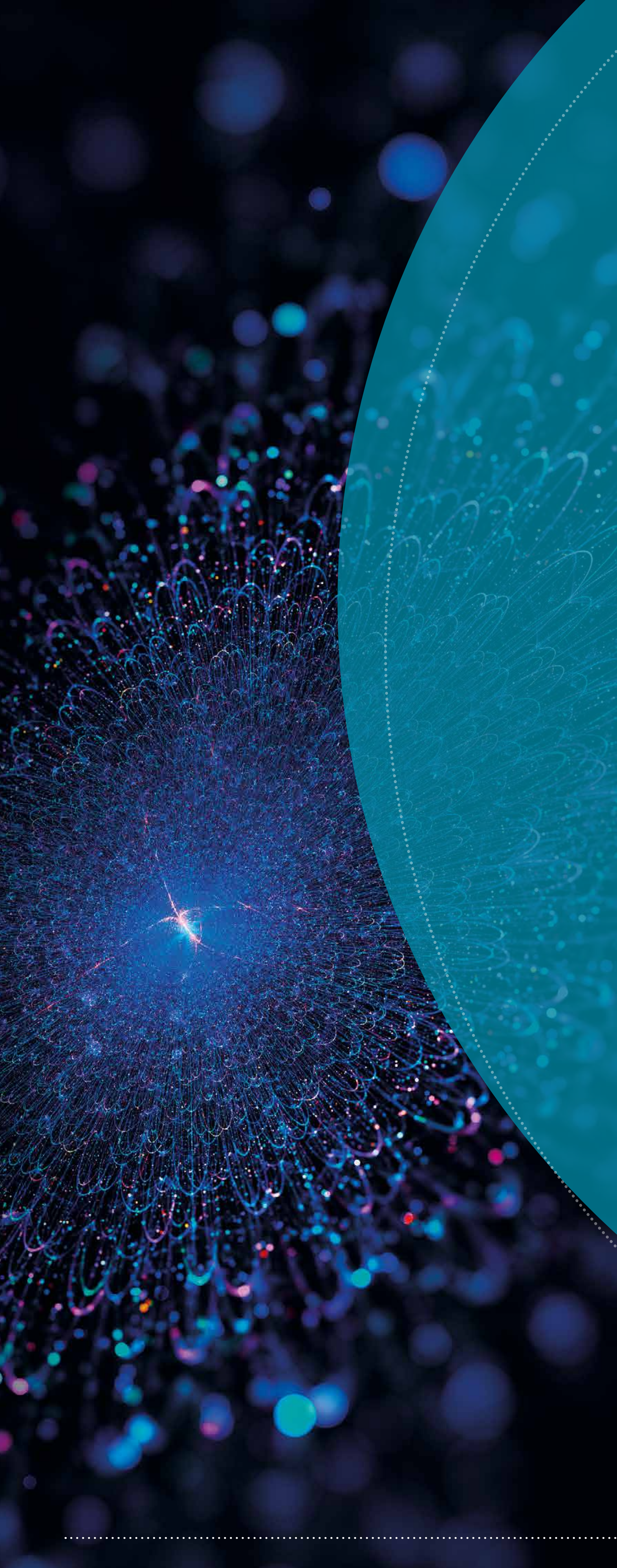
Business transformation is the second observed strategic response from family businesses. It embraces the concept of pivoting and the importance of encouraging a transgenerational entrepreneurship mindset so that the business can be passed successfully from one generation to another. Actions such as streamlining their operations and implementing new financial measures, and creating new products, exploring new markets or adopting new technology solutions were taken to transform their businesses. These may have been changes that the business had contemplated in the past, but in responding to the impact of COVID-19, the family may have determined that the time to pivot was right in front of them.

In some cases, a slowdown in the company's regular operations or the pressing need to find new sources of revenue has provided a window that was needed to open for the business to explore new ideas. Family members from multiple generations spent more time together due to necessary lockdowns which helped them nurture the transgenerational entrepreneurial mindset that is the fuel for innovation. Putting the knowledge and skills of several generations to work made them 45 percent more likely to accelerate opportunities to develop and implement well-planned new ideas as part of the immediate recovery plan and for the company's future growth prospects. This included, strengthening their commitment to, and expansion of, their firm's ESG goals, which is recognized as a particularly high priority among next-generation family members.

Many family businesses were quick to adopt new technology processes that completely transformed the efficiency of their operations. Others have tapped into their family's entrepreneurial mindset to diversify their businesses by creating a new catalog of digital products and technology services that opened up entirely new markets that weren't even imagined a few months earlier.

> "One forward-looking outcome of the pandemic is the stimulus that it has created for family businesses to understand the value of advanced digital technology for their operations *and* their growth. Many are now seeing the potential for utilizing managed services, for example, to make their operations more efficient and trim expenses.
>
> As a new business opportunity, the appetite for digital technology applications has advanced quickly. Many family businesses are already well underway with the introduction of innovative technologies to meet the needs of entirely new market segments that are only beginning to emerge."

Jonathan Lavender
Global Head,
KPMG Private Enterprise,
Partner,
KPMG in Israel



Diversifying the business and family assets

I have observed that family businesses are beginning to transform their businesses for what lies ahead. The focus that I see right now is one of diversification – not away from the core business, but into new areas that are no longer dependent on one or two sectors or income streams. They are exploring a wider range of markets and making sure that their products are relevant in the new reality.

Families have also recognized that they need to diversify their wealth while sustaining and growing the family business. I have seen several situations in which the family has made the decision not to pay dividends in order to retain their employees' jobs. However, many of those same family members have now realized that they rely on those dividends and that they also need to diversify their wealth in case an unexpected event arises again.

With the family's wealth residing in one family business basket, they recognize that they need to consider investing a portion of their money offshore or in alternative investments or in new businesses. The voices of younger generations are playing a larger role in identifying issues such as this and recommending solutions with far more open discussions and views than might have been encouraged in the past.

Alan Barr
National Private Enterprise Leader,
Partner,
KPMG in South Africa

Strategy 3: Exercising patience

The third strategy is one in which family businesses have not taken immediate action to address the impact of COVID-19.

This strategy was common in very large family businesses that have the financial resources to withstand major changes and challenges to their operations in the short term. We saw from the survey that a patient approach was taken at various stages in the pandemic life cycle as family businesses assessed the longer-term impact of COVID-19 and were able to take the time to project a realistic outlook for the future. They have been able to leverage their patient capital to observe the impact and actions of other companies in the same industry that don't have the family's unique set of resources, which may give family businesses a future competitive advantage in their industry.

There is an interesting aspect to this strategy among family businesses that were particularly concerned about retaining and taking care of their employees. In many of these companies, for example, a decision was made to defer dividend payments for up to 12 months in order to retain the capital for their workforce. This has generated tremendous goodwill among employees who recognized the level of concern and care that the shareholders have for their employees' welfare.

The need for speed

In my experience, the level of concentration of family ownership has a great deal of influence on the strategies and actions that are taken in the business.

In a listed company, for example, even if the CEO is a family member, he or she still has to take compliance matters into account and follow prescribed procedures for making decisions on behalf of both the family and non-family shareholders before taking a particular action.

For family business, whether the CEO is a family or non-family executive is less important. What matters in these cases is whether or not the family has to go through a lot of evaluation to determine if their decisions achieve the family's purpose. The more dispersed the family ownership, the more time it takes for thorough communications and open discussions before decisions can be made. As a result, the speedy decision-making that family businesses are generally known for may be lost in the process.

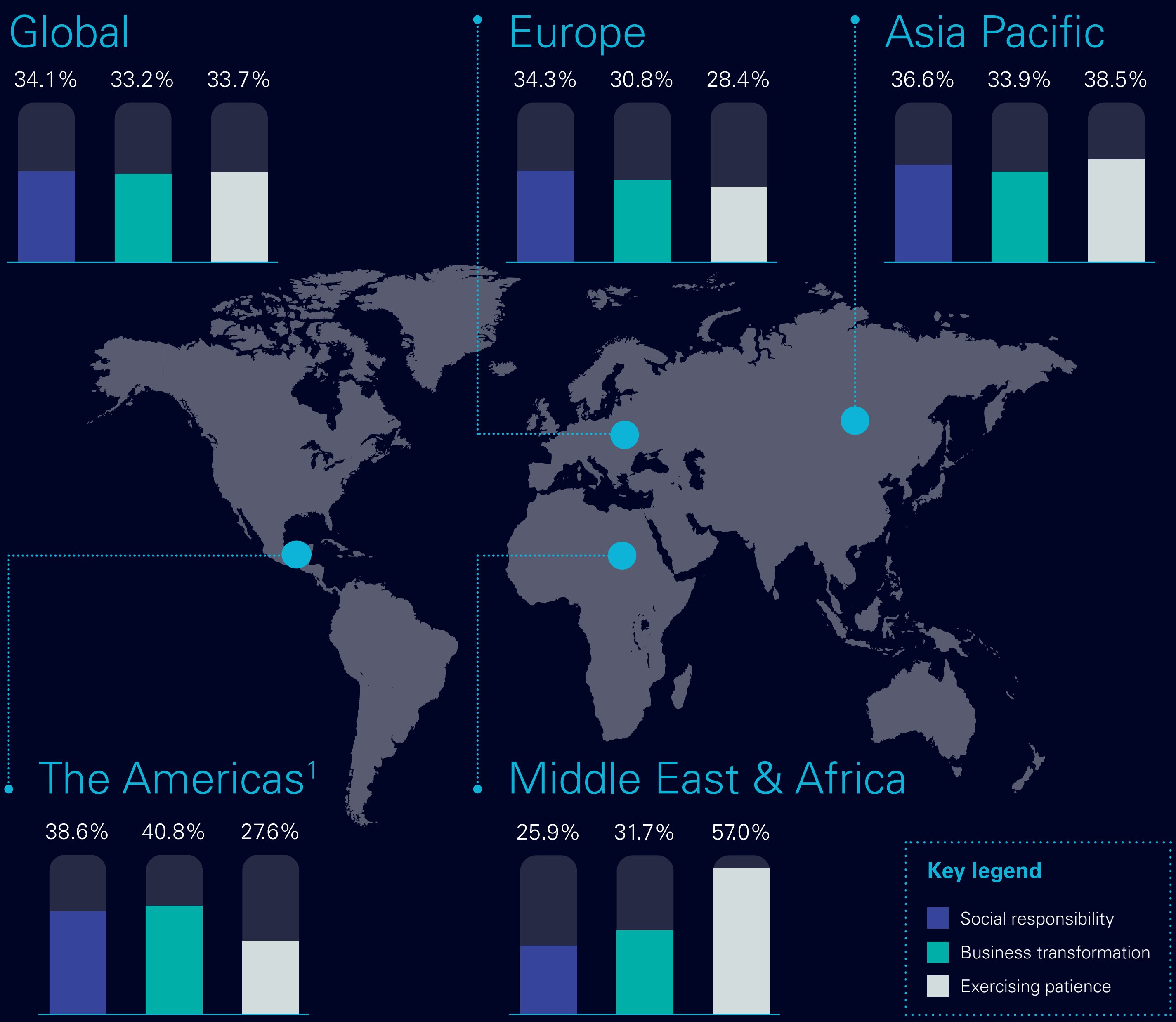
Karmen Yeung
National Private Enterprise Leader,
Partner,
KPMG China

Preferred regional strategies

We found interesting regional differences in the choice of one or more of these three strategies. In the Middle East & Africa, for example, we observed that some family firms appeared to be more risk-averse, preferring to "exercise patience" and develop a better understanding of the situation before making other strategic decisions.

We saw a very different pattern in Europe and the Americas, however, where family firms took steps to transform their businesses or implement a comprehensive social responsibility strategy (or both). We did not identify a clear pattern among family firms in Asia where the three strategies were adopted relatively equally.

Many family businesses employed different strategies as the duration of the pandemic progressed. We found, however, that some strategies were preferred more than others in different parts of the world.



[1] North America, South America and the Caribbean

Making the strategy choice: **Two key factors**

We observed a pattern in the strategies that were chosen among family businesses that reflected two key factors: the *leadership* and the *ownership composition* of the company.

"Is the business led by a family member or a non-family CEO?"

"Are the company's shares highly concentrated among a small number of shareholders or are they widely dispersed among multiple family (and potentially non-family) members?"

From a global perspective, family ownership was high among the survey respondents. On average, more than 90 percent of their companies' shares are owned by the family, keeping control of the business firmly in family hands. In addition to the family ownership, companies led by a family CEO are exercising the additional authority of the family to direct strategic decision-making while also controlling the assets of the business.

While the family/non-family CEO factor and the concentration of family ownership factors are key, we found other common characteristics among family businesses (such as the size and age of the business and the number of family generations who are actively engaged in it) that have also had some influence on their strategic choices and actions during the pandemic.

When we combined the family/non-family CEO and family ownership dimensions, we were able to cluster family businesses into four groups that share other common characteristics. We have described these four groups as four **family business personas** that we have named the "Family Corporation", "Family Enterprise", "Family Consortium" and "Family Venture".

"Two key factors emerged among the chosen family businesses: leadership and ownership composition."

Four family **business personas**

Four family business personas

1 Family Corporation

- **Non-family CEO**
- **Dispersed family ownership**
- Multiple generations involved in the business
- Among the oldest and largest firms

2 Family Consortium

- **Family CEO**
- **Dispersed family ownership**
- Multiple generations involved in the business
- Older, small and medium-sized firms

3 Family Enterprise

- **Non-family CEO**
- **Concentrated family ownership**
- A single generation involved in the business
- Young, small firms

4 Family Venture

- **Family CEO**
- **Concentrated family ownership**
- A single generation involved in the business
- Among the youngest and smallest firms

When we looked, for example, at businesses led by a family CEO, we saw a distinct pattern: the higher the family's involvement in the business, whether that was in leadership, managerial or ownership roles (or a combination of all three), the more likely it was that their initial response to the pandemic was to focus their attention on the welfare of their employees and the communities where the family lives and operates.

The lower the family's overall involvement, the greater the likelihood that the leader of the business (whether that was a family or non-family CEO) would make the difficult business decisions that might be necessary regarding the company's employees, overall cost reductions and the potential restructuring of the business itself.

Naturally, there are many subtle differences and "gray areas" between those two examples. And so, we believed that it would be helpful to bring each of the family business personas to life by creating fictional and illustrative examples of how family firms might have reacted to COVID-19 based, based on their family and business characteristics.

Bringing the personas to life

While the following stories of family businesses are purely fictional, their experiences and the actions they have taken are based on the data we collected in the Global family business survey: COVID-19 edition and the practical insights and experiences that have been shared openly by family business leaders across the globe.

We are pleased to be able to bring real-life experiences into these illustrative stories as a way to show, by example, the unique features of a family business like your own, and how their characteristics may influence the decisions and actions they take.

The Family **Corporation**

Common characteristics of the Family Corporation

Family businesses included in this persona are generally among the oldest and largest companies that contributed to the survey, having been in operation for an average of 58 years.

In addition to being among the most well-established family businesses, the other characteristics they share include the following:

- The company is led by a non-family CEO.
- The company's shares are widely dispersed among multiple family members.
- Multiple generations of the family are directly involved in the business.
- Many of these companies have more than 200 employees.

Primary COVID-19 response strategy: Social responsibility

A social responsibility strategy was the most widely adopted response to the impact of COVID-19 among businesses in Family Corporations. Considering that the companies in this group are older and larger than firms in the other personas, we can infer that they were more stable economically and better prepared financially to support an external shock. Sustaining the family's reputation, legacy and social commitments is a priority for these families, and they used their resources to support their local communities and their ESG objectives.

The story of a Family Corporation

To illustrate the "Family Corporation," we have created a story of a third-generation family business in Asia that has been operating in the wholesale and retail sectors for more than 67 years. Today, the company has more than 300 employees.

Three generations of the family are involved in the business, including a member of the founding generation who represents the shareholders' interests and three members of the second generation who oversee the strategic direction and are directly involved in the company's retail operations, logistics and sales. Two third-generation family members are in the process of learning the business by gaining experience in several departments of both the retail and wholesale operations.

The second generation family members are responsible for the strategic direction of the business. However, the third-generation family members are rapidly gaining experience in the business and their contributions became increasingly important in identifying the actions that needed to be taken in response to COVID-19.

A key consideration: How to protect the business and the family's legacy

As with many businesses in the retail sector, the family business example described in this persona had a sharp revenue shock due to COVID-19.

The non-family CEO took immediate action to reduce costs and cushion the fall in the company's revenue. Similar to many of the firms in the survey that reported a reduction in executive salaries, an alternative incentive compensation arrangement is being considered by the family. They have also made major cuts to their spending and inventories and renegotiated several vendor contracts.

While expense reductions were an immediate reaction to the impact of COVID-19 on their business results, the family's purpose and values are well-entrenched and the family members are committing their time and financial resources to support local community programs, such as food banks and donations of face masks and sanitizers to small retailers.

Because the company is well-established, we can infer that the family has adopted this community support strategy because their business has more organizational and economic stability to sustain it over the long term compared to firms that are smaller and younger. Consequently, they are better equipped to absorb the external shock of COVID-19. They are able to use their resources to integrate their ESG strategy with the family's values through a board governance framework that provides oversight on the company's core business activities and their impact on a broad range of stakeholders, including customers, employees, suppliers and their communities.

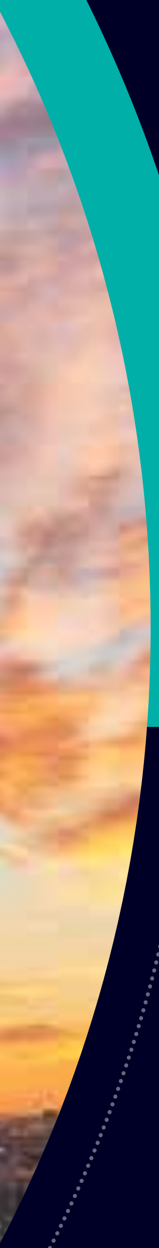
Sustaining and protecting the business

I have been inspired by the behavior of families in business throughout the pandemic. From the beginning, they have behaved in a way that we have come to expect. They understand that there is an urgent need to protect their business *and* their legacy. In many of my discussions with family business leaders, I have learned that the family has chosen to leave more money in the business than they would have under normal circumstances. That includes making the decision not to pay dividends in order preserve as much of their capital as possible to sustain the business.

As far as family relationships are concerned, COVID-19 has been an amplifier. If relationships were bad, they became worse. But if they were good, they've become even better and more constructive, and we are seeing many families coming closer together as they share a common focus to protect their business and their legacy.

Discussions about succession have been amplified as well. It was a shock to some older generation family leaders who realized that they didn't have a plan for the skills that were required to respond quickly to an unanticipated event. As a result, I have seen an increase in the delegation of responsibilities to younger family members, and although that may be helping to make them better-prepared to take on further roles in the business, the risk of delegating poorly or to the wrong person due to haste, should not be neglected.

Vangelis Apostolakis
Deputy Senior Partner,
Head of KPMG
Private Enterprise,
KPMG in Greece



As in other large, well-established firms with many generations of the family closely linked to the business, the family's values and business purpose are closely intertwined. Maintaining the family's legacy and reputation is a priority. While reducing expenses was an immediate action taken by the non-family CEO to protect the family's investment, the family itself has focused most of its attention on its community impact commitments, with the exception of the second-generation member of the family who is responsible for sorting through the supply-chain logistics resulting from the pandemic.

These two strategic choices between business actions and community actions are often consistent in businesses in which the family is less involved in the day-to-day the operations of the firm, but the family name and reputation remain paramount. It was important, therefore, for the family in this example to take action to leverage the family legacy while not becoming directly involved in the immediate operational decisions made by the CEO or his actions with suppliers, customers and industry groups. The family considers those activities to be the responsibility of the CEO. Maintaining the brand, reputation and legacy of the family name and the family business are the family's primary focus.

Changes within the organization have followed the firm's social responsibility strategy. As one of the largest and oldest family firms, in this Family Corporation example, the company is already managed in a highly professional way, as is found in most non-family corporations. Sharing knowledge and information is vitally important to the firm, and the non-family CEO plays an important role in participating in industry and sector groups to address the COVID-19 situation and manage external relationships with suppliers and customers.

In any complex corporation, candid and frequent communication with external stakeholders is critical. It is equally important in family businesses, where the family shareholders need to be kept well-informed of the steps that are being taken to preserve their investment.

Key success factors for the Family Corporation:

- maintaining a commitment to the community to reflect the family's values and sustain its legacy
- adjusting executive compensation arrangements as well as general cost-cutting measures
- respectfully managing relationships with suppliers and customers
- ensuring an open and accessible flow of information with all stakeholders.

The Family **Consortium**

Common characteristics of the Family Consortium

Family businesses included in this persona were among the older family businesses in the survey, however, they are represented primarily by small- to medium-sized firms, unlike the very large firms in the "Family Corporation" persona. As such, they have a relatively small number of employees.

The characteristics shared by companies represented in the Family Consortium persona include:

- The company is led by a family CEO.
- Ownership is widely dispersed across the family and multiple generations.
- Two or more generations of the family are involved in the business.
- The average age of the business is 46 years.
- It includes small to medium-sized businesses with approximately 45 percent employing fewer than 50 employees.

Primary COVID-19 response strategies: Social responsibility, business transformation

Companies included in the Family Consortium have made community support a priority, similar to the firms represented in the Family Corporation, in which the longevity of the business and the family's legacy are important. However, in the case of Family Consortiums, they were more likely to also adopt a business transformation strategy, which may reflect their added agility due to their relatively smaller size.

The story of a Family Consortium

Our fictional Family Consortium is a 45-year-old, third-generation firm in Germany that manufactures component parts for the transportation industry. The company has approximately 120 employees and the business is led by a family CEO.

As a family consortium, three generations of the family are involved in the business, including four second-generation family members who manage the day-to-day operations alongside the first-generation founder who continues to be involved by providing oversight on behalf of the shareholders. Most recently, four young members of the third generation have entered the business in production roles in the company's manufacturing plant.

The strategic direction of the business is the shared responsibility of the founding CEO and the family board, with the second and third generations having operational responsibilities and roles.

Perfecting the art of the pivot

With the family's extensive and direct involvement in the business, family members from all three generations have been actively involved in implementing solutions to address the impact of COVID-19 through some cost-cutting measures and by delaying a planned investment in a small company that supplies material used in the production of automobile airbags. There has been less attention, compared to other business personas, on business actions such as closing the business. The family is committed to keeping its employees actively employed.

Across the decades, the family members in this Family Consortium example have developed important skills to respond to a wide range of business challenges. The family members are creative, adaptive and have learned how to apply the knowledge they have gained in one area of the business to new opportunities.

They have adopted a combined social responsibility and business transformation strategy to use their available resources to protect the family's reputation in the community, while also pivoting their business. To help keep employees engaged, the company has organized a "volunteer bank" for family members and employees to contribute their time and experience to support community fundraising programs and participate in a volunteer-led transportation service that assists vulnerable members of the community who require transport to medical appointments and essential errands.

At the same time, family members have worked diligently to find solutions to soften the financial impact on the business caused by a slowdown in the production requirements of its regular customers. The family CEO established a small task team that includes the first-generation founder to represent all the shareholders' interests, the company's production manager, and two third-generation family members. The team's objective was to explore several options to build on the company's existing strengths and to transform that experience and expertise into an innovative business solution while continuing to uphold the firm's environmental and social welfare commitments.

While similar companies in the auto parts sector were changing their business models to manufacture personal protective equipment for healthcare workers, the Family Consortium in this example recognized that its engineering expertise would be best applied to alternative transport devices. This choice would also simplify any retooling requirements that might be necessary. The decision was made to revamp a section of the company's production facility to manufacture parts for the new high-demand patient transfer devices between hospitals and other healthcare facilities. The company applied for and received a government subsidy to retool a section of the plant for this purpose.

By pivoting their business in this way, the family was able to remain focused on its core strengths and capabilities while also transforming a segment of the business for an emerging new market. What was an initial revenue shock has ultimately resulted in a positive improvement in the company's short-term revenue outlook due to its ability to transform the business quickly.

We believe that a combined social responsibility and business transformation strategy, as illustrated in this example, is influenced directly by the number of family members who are participating in the business as shareholders, operators and stewards of the family's reputation and ESG commitments. Essentially, when there is a crisis, all family members are prepared to help to protect the business assets as well as those of the family, including its reputation in the community. Having a family CEO also encourages high family involvement in the firm with a family that is deeply embedded in the business and is encouraged to actively contribute to important decision-making.

Key success factors for the Family Consortium:

- using the family's available resources to sustain the family legacy and the business
- taking non-financial and financial actions to mitigate the impact of the pandemic
- a high level of involvement of family members in developing solutions to counter the impact of the pandemic
- the family's creativity, adaptability and skill in responding to challenges
- ability of the family to apply their knowledge in one area of the business to opportunities that arise in others
- strong leadership from senior management, including the family CEO.

The Family **Enterprise**

Common characteristics of the Family Enterprise

Family businesses included in this persona are relatively small, young firms. As such, they also generally employ a small number of employees. Interestingly, however, they are led by a non-family CEO, which might suggest that the complexity of the business requires external experience and expertise in the top management team.

The characteristics shared by family businesses of this type include:

- The company is led by a non-family CEO.
- The company's shares are highly concentrated among a small number of family members.
- These are primarily first- or second-generation firms.
- Only one generation of the family is involved in the business.
- Approximately one-half of these companies have fewer than have 50 employees.

Primary COVID-19 response strategies: Social responsibility, business transformation, exercising patience

A dominant strategy is not apparent in the Family Enterprise persona. All three strategies were adopted equally. We believe this reflects some of the challenges in governing and managing family businesses that have a non-family CEO and a small number of family shareholders who are also actively engaged in the business.

The story of a Family Enterprise

In this Family Enterprise example, we have created an illustrative 31-year-old second-generation company in Mexico that has 18 employees and provides technology solutions to small retailers.

The company's non-family CEO has general operational and financial expertise. One female family member is responsible for new technology developments and she owns the majority of the shares. One additional male family member has a minority interest but he is not directly involved in the business.

Seeking support from outside the business

As with many similar businesses that have a concentrated ownership structure and a small number of employees, employee reductions were not necessary during the early days of the pandemic. Even though revenues have fallen, the firm has been able to sustain its business by moving to a remote workforce, carefully managing the workload of the team and identifying opportunities to reduce some of the operating overhead. The business itself has benefited from some modifications with the development and introduction of new technology solutions to support the pivoting strategies of restaurants and small retailers in their own efforts to respond to the pandemic.

It is worth noting that this business does not have only one strategy to respond to COVID-19. In fact, elements of a social responsibility, business transformation and exercising patience strategies are all being applied in various ways. The primary owner has, for example, developed new technology solutions to assist community organizations in their fundraising efforts during the pandemic. In a limited number of cases, the non-family CEO has made decisions to defer payments to selected vendors and he has applied for a government subsidy to support the development of the company's new digital solutions and has secured a special government-backed small business loan.

With a high concentration of family ownership, non-family CEOs often have less control over organizational changes that may be required in times of crisis. Because more than one strategy is adopted to address the impact of COVID-19 in this family enterprise example, we can infer that the use of multiple strategies could be the result of an often-experienced difficulty in many family enterprises where it can be challenging for a non-family member to manage and govern a firm in which the family shareholders are acutely aware of the operations of the business and are often directly involved.

The CEO's role in this example involves identifying new suppliers and making connections into new markets. He has demonstrated strong leadership in taking decisive actions to protect the financial exposure of the business by accessing the low-cost loans provided in the government's COVID-19 relief program for business. And with the external contacts that were already

Learning from experience

Family businesses are known for their ability to use past experiences to face disruptions such as the pandemic. In the US, around 650,000 companies received small business loans as part of the federal government's Paycheck Protection Program (PPP). Even though there is no exact data, it is likely that a very large percentage of those loans were received by family businesses.

In the Midwest states, for example, many family business leaders have said that they applied for PPP loans because they knew what was on the horizon. They have lived through previous recessions and have learned from experience that being prepared is key.

One family business CEO described his decision this way, "In leading the business for more than 40 years, I've managed the impact of at least seven recessions and I've learned what I need to do. Cash is king. The loan program was a good resource for us."

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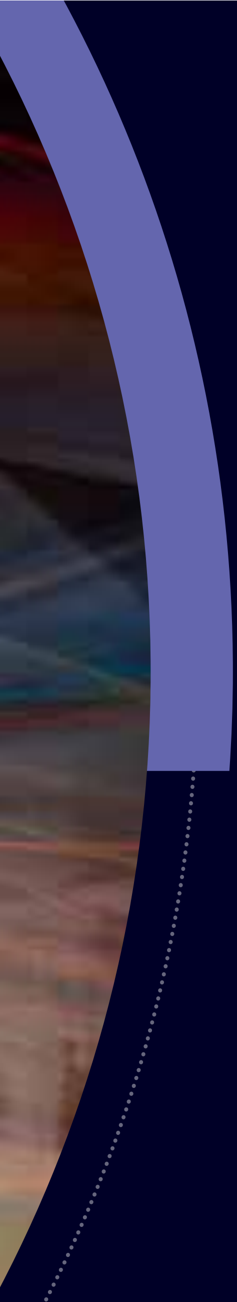

established within his network, he has successfully managed to open the doors for the sales and marketing team to pursue new markets among small retailers and restaurants that require technology support.

By implementing pivoting actions such as this, non-family CEOs often become the chief problem solvers, finding ways to manage and eventually overcome the impact of challenging and potentially threatening situations to the business. The family owner, who has the technology expertise in this case, has been developing innovative product and service ideas to introduce to new markets. In this regard, their roles have been clearly defined and potential conflicts have been minimized.

Key success factors for the Family Enterprise:

- finding ways to grow the business while also reducing expenses
- supporting the family with strong non-family leadership
- collaborations with external stakeholders
- identifying new suppliers
- using an established network to identify and open up new markets
- developing innovative products and services that are fit for purpose
- supporting local communities by leveraging the firm's expertise to help others.

The Family **Venture**

Common characteristics of the Family Venture

Family businesses included in this persona were among the smallest and youngest in the survey. Compared to the other family business personas, they also tended to have a more conservative response to the impact of COVID-19.

These companies generally have fewer financial and strategic resources to implement major changes. Because they are relatively small and young, they may not have a clear competitive model yet. They also may be more family oriented than business oriented. Their immediate reaction is to preserve their economic and emotional investment in the firm by remaining patient first before considering how they may need to transform the business.

The characteristics shared by companies represented in the Family Venture persona include:

- The company is led by a family CEO.
- The company's shares are highly concentrated among a small number of family members.
- These are typically first-generation businesses that are less than 30 years old.
- Only one generation of the family is involved in the business.
- There are less than 50 employees.

Primary COVID-19 response strategies: Exercising patience, business transformation

Because of its somewhat more conservative approach, the initial strategy adopted by family businesses in the Family Venture persona was one of exercising patience; to wait and see how the impact of the pandemic would evolve over a period of time. However, it is important to highlight that the second-most important strategy for this group was to begin transforming their businesses after they had taken sufficient time to assess the situation and their options.

The story of a Family Venture

The business represented in our example of the Family Venture persona is a 25-year-old construction company in the Middle East. It is a small, conservatively-managed operation that is overseen by the first-generation founder, with minority shares owned by his son and one of the founder's sisters.

The company has 16 full-time employees and the majority of the firm's work is performed by sub-contractors. With tight control on the management and ownership of the firm, the company took a cautious approach initially as it faced what it hoped would be temporary work delays (and an inconsistent revenue stream) as a consequence of the pandemic. The few short-term actions that were taken primarily affected the company's employees. Five were furloughed and the hours for the remainder were cut in half.

While the business is relatively small, the connections outside the family are expansive due to the number of sub-contractors and suppliers with whom the company works on an ongoing basis. For a small company such as this, maintaining those strong relationships and connections is vital.

While waiting patiently to determine what the longer-term impact of the pandemic might be, the family focused its energy on maintaining these crucial external connections. There were few additional areas where expense cuts could be made, and it soon began to appear that things might need to change to avoid difficult decisions. Recognizing this, the founder and CEO put the family's human capital resources to work to begin identifying ways to modify the business for a different future.

Because the business initially took a "wait and see" response to the pandemic, the family's early focus was on the importance of maintaining candid and frequent communication within the family and among employees, sub-contractors, customers and suppliers until the long-term outlook became clearer. When it appeared that a different path forward would be required for the survival of the business, tough decisions had to be made as the CEO and his family recognized that the time to revamp at least some parts of the family business had arrived.

By leveraging their patient capital in the early months of the pandemic, they were able to understand the full impact of COVID-19 on their industry and the immediate actions that many of their competitors were required to take. With their ability to weather the initial storm, they had the time and resources to uncover some untapped and emerging competitive opportunities and began to develop a longer-term strategy to take their business in a potential new direction.

Their pivoting strategy began to take shape through a collaborative effort to diagnose the problems associated with the construction industry during COVID-19 restrictions and the firm is now working on a new pre-fabricated construction model that will ease some of the immediate installation hurdles and potentially open up entirely new markets.

Sustaining a resilient future

The personas illustrate some of the many strategic choices that family businesses are pursuing as they master their comeback. In assessing the need for new strategic thinking, family business leaders typically looked for answers to a few key questions:

- Do we have a strategy in place that addresses the current reality as well as the longer-term prospects for the business?
- Has our strategy been tested?
- Does our strategy need to be refined or completely overhauled?
- Does our strategy account for the changing dynamics of the family?
- Have we tapped into the knowledge and insights of all generations of family members?
- How well is our ESG strategy integrated with our business strategy? Does it support our family legacy and continue to build on it?

Key success factors for the Family Venture:

- a family that is strongly embedded in the business
- remaining patient and recognizing when it is time to pivot
- making tough decisions quickly
- maintaining close relationships with customers, suppliers and other external resources for future collaborative efforts
- keeping the communication lines open with all stakeholders.

One size does not fit all

The four family business personas that have emerged from the survey confirmed our original conviction. Family businesses have an extraordinary competitive ability to act and adapt quickly and they do so in a variety of ways. They are often resilient and able to make a comeback than non-family businesses – even in the face of the most challenging of times. It was instructive to see the variety and combination of strategies that reflect the sectors and regions in which they operate, the generational composition and involvement of their families and their leadership choices.

If COVID-19 has taught us anything about business recovery and sustainability strategies, it's that one size clearly does not fit all. The respondents to the survey revealed excellent examples of how family business leaders are making a comeback through a host of different strategic decisions and actions, many of which are influenced by their family characteristics.

Not only are these leaders introducing innovations and taking action to secure the future of their businesses, they are also helping to preserve their families' values and legacies through the choices they make. The source of resilience, agility and adaptability that the world has come to recognize in the family business model is simple: the business family is the mainstay of its resilience and endurance.

Regardless of their sector or region, the experiences of family businesses across the world have provided an array of options for addressing both the immediate and longer-term impact of a global pandemic (and any other unexpected event, for that matter).

We would welcome your comments on the report and your personal experiences and insights on the actions that you have taken in your family business. Please contact us at **familybusiness@kpmg.com** or **andrea@thestepproject.org** to share your thoughts on the report and your experiences in triumphing over COVID-19 to make a successful comeback.

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Reflections on next steps

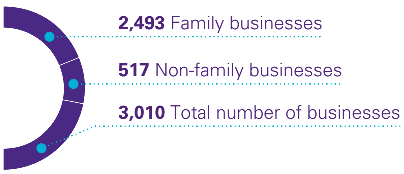
We sincerely hope that these insights have prompted some new considerations as you undertake the next important steps in your own family business. We encourage you to reflect on these questions as discussion starters with your business family and your management teams:

- How effective have the initial financial and non-financial actions been in mitigating the immediate impact of COVID-19 on your business? Did the company's processes and procedures help to support these efforts and reduce potential risks?
- What other actions might you consider now?
- How relevant are the three strategies (social responsibility, business transformation and exercising patience) for the short- and longer-term needs of your business?
- What is the longer-term outlook for your business? Is it time to recalibrate the business model and adopt new technology solutions? Is a remote workforce a viable, longer-term option?
- Are acquisitions, strategic alliances or other opportunities available to diversify your products and provide a potential entry into new markets.
- Should you consider diversifying your family wealth?
- Should the family begin to play a larger role in the operations of the company? Are good mechanisms in place to facilitate the family's decision-making?
- Is it important to engage younger generations of the family in contributing to the recalibration of the business? Is succession planning becoming more of a priority?

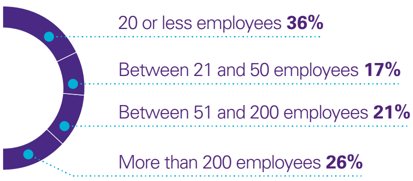
Methodology

The Global family business survey, COVID-19 edition relied on a convenient sampling strategy replicated across multiple countries, regions, and jurisdictions. Each affiliated team identified potential respondents eligible for the project considering the industry characteristics and the business structure of their own country. The survey was designed by a research team with more than 10 years of experience in conducting qualitative and quantitative research from the STEP Project Global Consortium, European Family Businesses (EFB) and KPMG Private Enterprise. Previously validated scales have been used in the questionnaire to define each question. The questionnaire was firstly generated in English and then translated in to 13 languages. The survey was launched in June 2020 and completed in October 2020. In total, 2,493 family businesses and 517 non-family businesses completed the questionnaire from 75 countries, regions, and jurisdictions in five world macro-regions: Europe, The Americas[1], Asia Pacific and the Middle East & Africa.

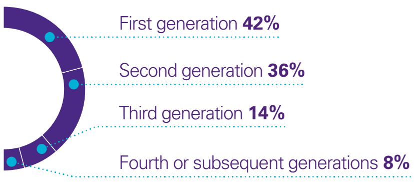
1. Number of respondents:



2. Size and percentage of family businesses:

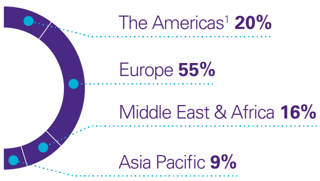


3. Generations (% of family businesses):



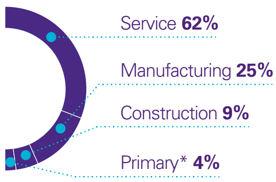
4. Nationalities (% of family businesses):

Respondents from 75 countries distributed in five macro-regions: Europe; The Americas[1]; Asia Pacific; and the Middle East & Africa.

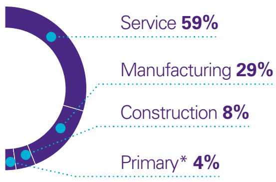


5. Main industry of the family businesses:

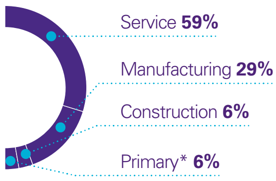
Global



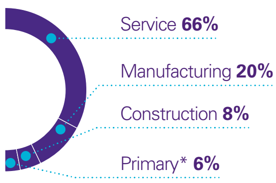
Europe



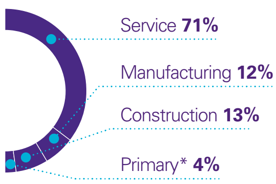
Asia Pacific



The Americas[1]



Middle East & Africa



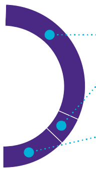
[1] North America, South America and the Caribbean

* Primary includes agriculture, forestry, fishing, mining and quarrying.

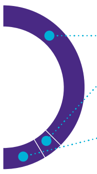
6. How the COVID-19 pandemic affected the revenues of family businesses:

Global

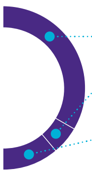
Europe



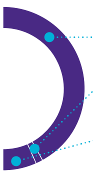
Asia Pacific



The Americas[1]



Middle East & Africa



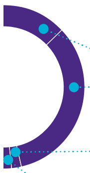
7. Immediate consequences on the family business of having a family member affected by COVID-19:

Global

Europe

Asia Pacific

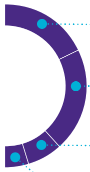
The Americas[1]



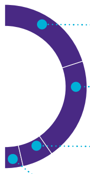
Middle East & Africa

8. Actions taken in response to the impact on the family business:

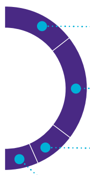
Global



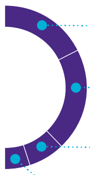
Europe



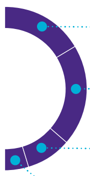
Asia Pacific



The Americas[1]



Middle East & Africa



Source: STEP Project Global Consortium and KPMG Private Enterprise Global family business report: COVID-19 edition

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About the Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium

The STEP Project Global Consortium is a global applied research initiative that explores familyand business practices within business families and generates solutions that have immediate application for family business leaders. The STEP Project Global Consortium aims to be a leading global family business research project with an international reputation. The research insights are specifically drawn to be of relevance to developing new theoretical insights that can offer novel and valuable best practices recommendations to the business stakeholders and the practice community at large. Having a global worldwide orientation, the STEP Project Global Consortium offers networking opportunities for researchers, family business owners and consultants coming from five continents.

Visit: **thestepproject.org**

About the KPMG Private Enterprise Global Center of Excellence for Family Business

As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Private Enterprise Family Business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed.

To support the unique needs of family businesses, KPMG Private Enterprise coordinates with a global network of member firms dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

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Passion, it's what drives entrepreneurs, it's also what inspires KPMG Private Enterprise advisers to help you maximize success. You know KPMG, you might not know KPMG Private Enterprise. KPMG Private Enterprise advisers in member firms around the world are dedicated to working with you and your business, no matter where you are in your growth journey — whether you're looking to reach new heights, embrace technology, plan for an exit, or manage the transition of wealth or your business to the next generation. Working with KPMG Private Enterprise, you'll gain access to a trusted advisor — a single point of contact who shares your entrepreneurial mindset. With access to KPMG's global resources and alliance network, we'll help you drive your business forward and meet your goals. Your success is our legacy.

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