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ARTICLE

FAMILY BUSINESSES: TURNING POINT AND WAY OUT OF THE COVID-19 CRISIS

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Family businesses are an essential part of the economy; not only because they account for more than 90% of all companies worldwide and provide 70% of all jobs in the private sector, but also because they represent a highly significant portion of the wealth produced in such diverse areas as industry, tourism, agriculture, banking, shoemaking, construction, energy, engineering, healthcare, technology, textiles and transport. However, their importance stretches beyond these numbers and company size is irrelevant because they range from micro-enterprises to large multinational businesses. Another huge factor to be considered lies in **their long-term dedication and loyalty to stakeholders**.

Whether these stakeholders are customers, suppliers or employees, family businesses are a driving force for social development, and they make a decisive contribution to fostering a culture of entrepreneurship, responsibility, sustainability and, increasingly so, equality in business. Nonetheless, they exist within a paradox: **their culture of communication and the attention given to this issue generally fall short of playing the role needed in the life of Europeans on the whole**.

The COVID-19 crisis has dragged society into a time of extreme uncertainty with a view to the future. This is a period that lacks answers and certainties, in which **legacy leadership** will be decisive in dealing with the major changes we doubtlessly face.

FINDING A PURPOSE AND SHARING IT: FROM LEADERSHIP TO NARRATIVE

The digital transformation has brought with it a number of permanent changes to the world of communication: the media, the channels and the formats have all been transformed; a new paradigm is defining the rules of the game. It is crucial for companies to use their voice and lead the conversation about themselves and about the strategic issues for their businesses. If they don't do it, others will do it in their place.

Within a context characterized by **infoxication** or information overload (where people have difficulty distinguishing the information that is useful from that which is not), **personalization**

(an enormous power of the individual and a relevant ability to have influence) and **hyper-transparency** (the power of individual company forces to conduct themselves ethically, openly and transparently), their role in society to create discourse - to communicate - is essential for building confidence, protecting company reputation and remaining competitive.

Leaders also have a huge role to play in this paradigm shift: it is important for each organization to reflect on its legacy and the ultimate purpose lying behind the company. **Many companies say what they do, some explain how they do it but very few explain WHY they do it.**

The way in which this explanation is provided, the story they tell, is also extremely important. **The narrative of a company is not designed to sell a product or conduct an annual campaign, regardless of how powerful or important that company might be.** It is based on the purpose and shared beliefs of the company and is inextricably linked to its long-term strategy.

“Many companies say what they do, some explain how they do it but very few explain WHY they do it”

Family businesses can be a voice for humanist capitalism, conscious capitalism or any evolution of the capitalism concept capable of implementing that essential **paradigm shift** that stems from the same heart of the business system. An **honest movement** from companies, business leaders and executives that highlights the value of more modern, efficient, profitable, responsible and sustainable management and that seeks to respond to a society that is calling for a new form of social leadership.

Family businesses have a past but that does not mean they remain anchored to it: a long-term commitment makes them innovative by definition, but this message does not always come across. Startups and certain large corporations have monopolized the innovation story. New businesses - the startups - have earned themselves a place in the collective imagination based on the epic tales of entrepreneurs. However, family businesses also have a lot to say in this conversation. **Who better than family businesses to convey the epic tale of entrepreneurship?** And now, their audience - society - will be more willing than ever to listen.

“Business families must claim the value creation and long-term legacy model for themselves as a way to exit the COVID-19 crisis”



RESPONSE TO THE INTERNAL CHALLENGES

Communication is another decisive factor in **managing the major internal challenges** faced by family businesses; from the exercise of leadership to the succession process, which begins with the participation and preparation of future generations or professionalization with external managers.

Family businesses do not always have clear official organizational charts, but they do have leaderships: these must be exercised with transparency and communicated with suitable tools.

Focusing on the company and developing a unique strategy to enhance its values and its purpose is one way of distancing the risks that so often concern a family business when personal protagonism is involved, especially in those cases where the family surname is also the corporate brand. **Good communication is the best shield against possible risks and threats of crisis.**

Here, the managing director plays a fundamental role: their ultimate goal is for all stakeholders to associate themselves with the purpose, as well as understand the narrative, and for both the governing bodies and managing bodies to have the same roadmap and walk at the same pace to reach the goal.

A company **owner is responsible for defining and transmitting the business model** they want and that will be implemented. As the representative of stakeholder interests, the board of directors must accept that and be capable of ensuring that day-to-day management of the company can respect it and communicate it to all groups that the family business needs to operate.

Having **stakeholder management** systems, in which the owner should know how to transmit the business model, legacy and purpose as a model that brings the interests of everyone together, is absolutely essential. It is therefore important for the business family that usually lies behind a family business to share a single vision of that business.

Difficulties at family businesses usually stem from **differences of opinion about the WHAT FOR and WHY the company exists** and discrepancies between the purpose in life for members of the family and the purpose of the family business.

“Use this situation to review the business family strategic plan and the implications that the changes might have on the family business”

Aligning personal interests with family interests and family interests with business interests is a major challenge, and this difficulty is multiplied when the family business passes to a second or subsequent generation and family “politics” begins to enter the ecosystem.

One of the keys to minimizing this risk is **maintaining the legacy vision** and investing time and money in shaping and encouraging a business spirit and entrepreneurial culture among family members.

There are numerous cases in which the focus adopted by the generation leading a family business lies on training the upcoming generations in management skills and running a business, while forgetting those related to business family governance and leadership.



Reality has shown us time and time again that good managers - better than the potential of any member of the business family - abound in the labor market and can be successfully brought into the day-to-day management of the company for excellent results. However, we have also seen that managing the family itself, training its members to be leaders of the family businesses that emerge from the family and fostering business and entrepreneurial spirit in family members are roles that cannot be delegated or outsourced from a family business.

This is the final frontier, it is the difference between people, and **belonging to a business family gives back, shapes you and forces you to coexist with the principles of the legacy, the company business and the creation of value in society above and beyond merely earning money for yourself.** This is not something learned as well as we would like at business schools, which are historically focused on management skills. Business families represent this school of business leaders and are their major competitive advantage over other business development models.

Creating schools of business leaders within the heart of business families would help in two ways: it would continue creating new companies;

and it would prevent the power struggle over the companies that already exist. **Training people to be business leaders and not company managers is the big difference, and this focus can only be achieved in a business family.**

“Aligning the interests of different generations of a business family right now is key to preventing dissent and gaining strength ahead of what is to come”

LEADING THE MANAGEMENT TEAM

A new challenge emerges once we have successfully aligned the owners and their representatives on the board of directors: **how do we surround ourselves with professionals who share the family business vision and how do we get them to convey it to the organization?**

The professionalization of management teams is a logical technique to successfully **prevent business family endogamy, enrich focus and acquire new skills and knowledge**, but there is an associated challenge of integrating professionals into the family business culture.

This is not a simple challenge because these professionals have usually developed a career in business paradigms based on performance and the production of short-term value, rather than the creation of long-term value and much less on **creating and managing legacy**.

This is why an essential step for successful integration into the family business model is dedicating time to explaining the differences in the model and ensuring a humble acceptance of the need to begin an unlearning process; a period in which the manager must set their beliefs against those of the family business and manage the necessary change that entails.

Many of the failures by excellent senior managers from listed companies and multinationals who go on to join family businesses stem from differences between the two models and the shift in priorities and ways of doing things that this leads to.

Change management becomes a key part of these integration processes. You need to know where you're coming from, where you want to go and draw up a roadmap for getting there. This is not simple. Unlearning is always a painful and complicated process, but it must be considered if the aim is to facilitate the integration of such professionals into the family business.

“Assessing management teams during these times of crisis will help family businesses know if they have the right teams for the new period ahead and to prepare for the relaunch”





SOCIALIZING THE CONCEPT OF LEGACY

To underline the characteristic attributes of a family business, such as the purpose, the mission and their reflection on the internal culture, encouraging employee participation and building participation with them can help **generate a sense - and pride - of belonging**, leading to a positive impact on the ability to attract and retain talent regardless of the size of the business. Logic should be applied to relations with all stakeholders.

A family business aspires to run a perfect operation in order to demonstrate its excellence. However, it is often forgotten that building a reputation requires more than just doing things well: things also need to be explained. In this regard, credibility requires that narrative, the context and opinion leaders: building the story enables you to lead the conversation.

The crisis caused by COVID-19 will force us to reconsider such matters as the **location, sustainability and safety of production and the products we consume**.

In this new context, the confidence provided by the legacy of a family business will also be a decisive factor for consumers. Highlighting it, exercising it and also explaining it will give us a **competitive edge in the market**, which needs sound, approachable and trustworthy values and products.

“Transmitting a strong concept to the whole company, customers, suppliers, financiers, authorities and everyone that helps a family business develop its business model will help get through this stage with the success we seek”

FOCUS ON THE DAY-TO-DAY

Once **the business family governance challenges** have been resolved and we have answered the key questions about the family strategy and aligned its members, we will be ready to take the next steps.

Once the **governing body of the family business has reviewed the strategy**, the business model and the teams needed to develop it, we will be able to then spend time on management.

When we get down **to management, some tough decisions will need to be taken**. We recently experienced the latest major economic crisis and it helped us refine value proposals and organizations to be more efficient, competitive and agile.

We are better prepared for this new period of upheaval than we were in 2008. Generally speaking, this surprise has caught us with less debt, increased diversification in terms of products, sales channels and markets, better adjusted teams and with a more developed culture of ongoing challenge.

Even so, it would be a good idea to **remember the fundamentals** and pay attention to **cash flow** to avoid treasury problems, to try to strengthen our financing in order to get through the desert ahead of us, and to analyze the entire value chain of our business model in order to **eliminate everything that does not bring added value** but rather drags on day-to-day business. Some tough decisions will need to be taken in the short term in order to earn ourselves a future, but that has always been one of the characteristics of family businesses; **looking to the future and fighting for it**.



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