Taking the long view

Lessons in endurance from European family businesses

European family business report: COVID-19 edition

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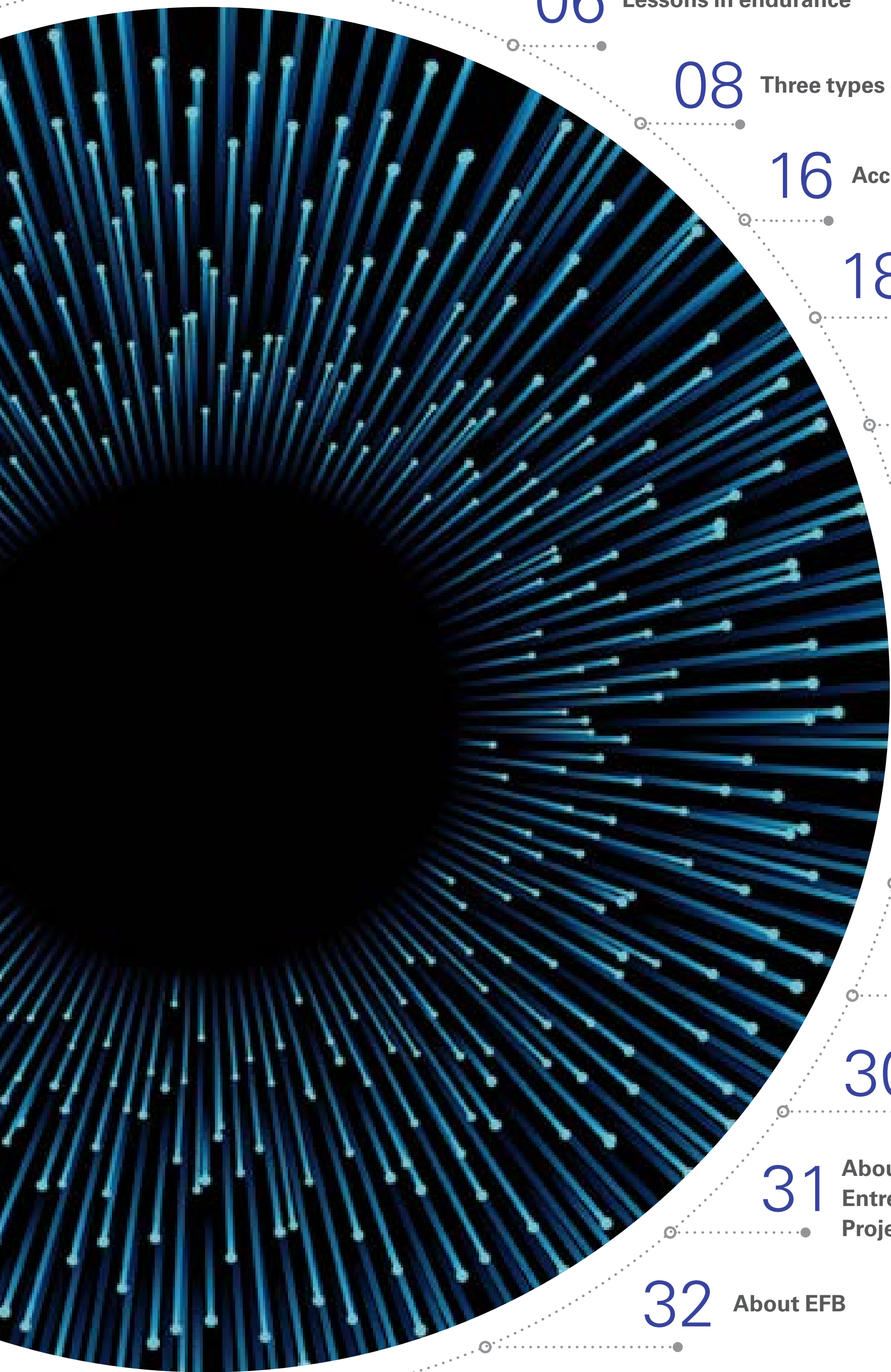

Taking the long view

Lessons in endurance from European family businesses

It is widely recognized that family businesses think in terms of quarter centuries, not the next quarter's financial results. The importance of taking the long view is embedded from generation to generation and it is one of many distinctive characteristics of family businesses. It has also proven to be a source of their endurance.

As businesses of all types across the globe responded to the impact of COVID-19, an extraordinary opportunity presented itself: to witness — in real time — how family businesses were tackling the immediate impact of the pandemic on their businesses while sustaining their focus on the future and helping to restart the economic engines in their countries. There were many lessons to be learned.

With this in mind, European Family Businesses (EFB), the Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium and KPMG Private Enterprise came together to discover how family businesses around the world were responding to the impact of COVID-19. What actions have they taken to stabilize their business in the short term? What strategies have they adopted to sustain success for generations to come?

To answer these questions, the first step was to collect data in a family business survey, which was conducted by the STEP Project Global Consortium between June and October of 2020. In total, 2,493 family businesses and 510 non-family businesses (for comparison purposes) across the globe responded to the survey. In Europe alone, a total of 1,332 family business leaders (and 215 non-family) from 23 European countries responded to the survey. European family businesses made important contributions to the analysis of the global results, which is why we have chosen to produce this special report focused specifically on family businesses in Europe.

The global view was presented in a report entitled **"Mastering a comeback: How family businesses are triumphing over COVID-19"**, providing a detailed picture of the impact of a global crisis on family businesses around the world and how they have responded. It also gave us an opportunity to take a closer look at the experiences and successes of family businesses in 23 European countries, how they have navigated through the pandemic and to compare their actions and outlook for the future with business families in other major regions of the world.

These are our key takeaways:

- Family businesses are making a vital contribution restarting the economic engine across Europe.
- They successfully stabilized their businesses in the short term in response to the direct impact of COVID-19, while leveraging their entrepreneurial mindset to sustain a sharp focus on longer-term prospects.
- They succeeded in opening up opportunities to adopt innovative technologies, develop new products and tap into emerging new markets.
- They prioritized the concerns of all their stakeholders.
- The knowledge and skills of multiple generations of family members were rallied in order to reimagine the strategic direction of the business and to increase awareness of the need to address environmental, social and governance (ESG) issues as strategic priorities.

In other words, family businesses have been a strong, stabilizing influence in the majority of European countries and they are making an important contribution to the restart of Europe's economic engine.

These takeaways — and many other practical insights that you will find in this report — are a roadmap, not only for family businesses, but for businesses of all types and sizes across the region. We are pleased to have this opportunity to share their lessons and outlook for the path ahead in a post-pandemic world. It is our hope that through this report, you will uncover your own fresh insights and strategies for securing the long-term sustainability of your family business as you continue to contribute to the economic recovery in your country.

Global family business survey: COVID-19 edition

Data was collected between June and October of 2020

1,332 family business leaders and 215 non-family business leaders across 23 European countries completed the survey

2,493 family businesses globally and 510 non-family businesses (for comparison) responded to the survey

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Executive summary

How European family businesses have responded to COVID-19

COVID-19 has had an impact on businesses of every size and type and in every region of the world. Family businesses are no exception and we wanted to find out if their characteristic resilience, agility and entrepreneurial spirit have helped them navigate a more successful route through the unpredictability of the global crisis.

The STEP Project Global Consortium, KPMG Private Enterprise and European Family Businesses (EFB) came together to find out how family businesses have been affected and responded in the Global family business survey: COVID-19 edition, and a close examination of European family businesses specifically. Together, we have examined the initial impact on family businesses, the actions they have taken, and their longer-term outlook for the future.

The initial shock

Not surprisingly, the first commercial shock of the pandemic was felt on companies' revenues worldwide and family businesses in Europe were no exception. As many as 64 percent of European family businesses reported a decline in their revenue, though they fared better than the global average of 69 percent. Eleven percent of European family businesses actually experienced a revenue boost.

The aftershock

Business families responded immediately to address the impact on their businesses, then turned their attention quickly to the longer-term outlook and value of their businesses.

Their responses were seen in three primary activities: stabilizing their business, accessing external support (particularly through government programs) and by taking a long-term view and potentially reimagining the future for their companies.

Stabilizing the business

To stabilize their business in the short term and keep it on a steady course for the long term, many family businesses took cost-reduction measures to address the immediate drop in their income and the impact it had on their cash flow.

In some cases, these measures included **employment-related changes**, such as moving employees to remote working status, which suggests they were able to adapt and adopt digital solutions quickly to transform their business operations. It was notable that European family businesses were less likely to reduce their employees' pay compared with those in other world regions. The actions taken to maintain employment as much as possible reflect the business families' characteristic commitment and loyalty to their employees.

With revenues in decline, however, it was also necessary for many companies to **reduce their general office expenses**, cut back marketing, reduce inventories and, in some cases, **defer the launches of new products or R&D investments.**

Unlike family businesses in other macro-regions of the world, Europe's entrepreneurs were more likely to **raise additional capital** and **take on more debt** to maintain their independence and control.

Compared to others globally, European family businesses reported **fewer business closures**, with 15 percent closing their businesses temporarily (compared to 16 percent globally) and less than 1 percent who closed their businesses permanently.

Family businesses in Europe were also less likely to make **adjustments to executive compensation,** such as reducing their pay levels, deferring payments or considering alternative compensation arrangements.

Breaking new ground

Charting a path to Europe's economic renewal

Future

Business transformation: exploring ways to pivot the business to proactively adopt new business models and evolve

33% of European family businesses adopted a business transformation strategy

Leveraging patient capital: drawing on a long-term value creation mindset and taking the time to undertake special projects and consider new opportunities

42% of European business families adopted a strategy to leverage their patient capital

Long term

Social responsibility: aligning the business with the family's purpose and values to protect all stakeholders

25% of European family businesses adopted a social responsibility strategy

Once stable, family businesses adopted strategies to focus on the long term, including:

- social responsibility
- business transformation
- leveraging patient capital

Over **70%** obtained government support

22.56% reported deferring or canceling their R&D investments, particularly in the short term, compared to **17.09%** of non-family European businesses

To stabilize their businesses in the short term and keep them on a steady course for the long term, family businesses implemented:

- employment actions
- cost/investment actions
- executive compensation actions
- changes to business operations

There was a **4.1%** reduction in the workforce compared to an **8.56%** reduction globally

The majority saw their revenues decline in the short term, however **11%** had revenue increases

Short term

Accessing government support

Governments across Europe introduced a broad range of support programs to shore up the economy and the businesses that contribute to it. From financial guarantees to wage subsidies, special loan programs and tax deferrals, public financial measures provided a safety net to businesses of all sizes.

Over 70 percent of European family businesses reported that they received some form of government support as the result of rapidly decreasing revenues and shifts in demand for their products and services. Financial support programs, in the form of targeted loan programs, repayment plans and loan guarantees were the most popular, with 48 percent of European family businesses reporting that they accessed this type of support.

Taking the long view

Having achieved a level of stability in their businesses, it did not take long for business families in Europe to turn their attention to familiar territory: the long-term outlook and future prospects for their companies.

We identified three main strategies that family businesses in Europe adopted to respond to the impact of COVID-19 on their business and their families. In most cases, all three strategies were employed by family businesses as the impact of COVID-19 on their business operations changed over time:

1. **Social responsibility:** This strategy addresses the impact of the pandemic on the welfare of society and the needs of all of the family's stakeholders. This strategy closely aligns the business with the family's purpose and values to protect the welfare of their employees and their relationships with customers, suppliers and local communities.

   With their long-term orientation and focus on sustaining the family legacy and their belief that all stakeholders are important, business families have made strides in addressing the concerns and needs of their employees, customers and suppliers by showing a superior ability to contribute their social capital when it is needed the most.

   Twenty-five percent of European family businesses adopted a social responsibility strategy.

2. **Business transformation:** Business families explored ways to pivot their businesses to first *react* to the immediate impact of COVID-19 and then to *proactively* adopt new business models and evolve their businesses in a rapidly changing external environment.

   Actions such as streamlining operations and implementing new financial measures, creating new products, exploring new markets or adopting new technology solutions were taken to transform their businesses.

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

   Thirty-three percent of European family businesses adopted a business transformation strategy.

3. **Leveraging their patient capital:** Patient capital is at the heart of an entrepreneurial/long-term value mindset. Their response to COVID-19 provided opportunities to recalibrate their business processes, to take the time to undertake special projects and to consider new opportunities for the business that can generate a new source of value over the long term.

   This strategy was common in European 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 responses that families took the time throughout the pandemic life cycle to assess the longer-term impact of COVID-19 and develop realistic plans for the future.

   Forty-two percent of European business families adopted a strategy to leverage their patient capital in support of the long-term value creation of their businesses.

The power behind the business

Through the survey and the direct input of family business leaders, we have reconfirmed the view that European family businesses are, indeed, uniquely resilient and adaptable. They have successfully navigated through generations of economic, health and political crises long before the onset of COVID-19. They have applied these historical experiences to mitigate the disruptions to their businesses, while also looking ahead at their prospects for the future.

We have also confirmed our belief that a unique source of power behind family businesses is the involvement of the family itself, with multiple generations contributing to decision-making and strategy development. This close attention and involvement gives family businesses the ability to respond quickly and to agree on a course of action that is good for the business and for the family over the long term.

Because of their knowledge and exposure to new technologies, we have also seen how younger generations of the family have been increasingly relied upon to respond to the impact of COVID-19 by revealing digital solutions to transform their family's business operations or in developing new technology products or service offerings that are accelerating their businesses into a new future.

Our conclusion is that there are two essential sources of power and endurance behind family businesses: the ability to take the long view and the foresight to tap into the diverse skills, knowledge and insights that are embedded in multi-generational families.

This has provided us with an even greater appreciation for the source of resilience and ingenuity in family businesses and the important influence that family businesses have on both a societal and economic scale.

Lessons in **endurance**

The initial shock

The initial impact of the pandemic was felt on companies' revenues almost immediately. In Europe, while 64 percent of family businesses reported revenue declines, a full one-quarter of the businesses successfully managed to maintain their revenue streams and another 11 percent actually experienced a rise.

Several industries, especially those affected by travel and social gathering restrictions, were affected negatively, virtually immediately. This first shock was felt on the revenues of family and non-family businesses alike. Some in high-demand industries, and those family businesses that put their agility and entrepreneurial spirit into overdrive, were able to diversify and pivot their businesses in new directions. Others, in industries less affected by lockdowns, were able to maintain their revenues and made careful expense management decisions. In the short term, the growth plans of some family businesses were temporarily deferred or replaced by a refreshed strategy as a new set of long-term prospects emerged. Overall, family businesses in Europe fared somewhat better than other regions of the world, with 64 percent of those in Europe reporting revenue decreases, compared to 69 percent globally. There were noteworthy exceptions in some European countries, however, with 44 percent of firms in the Netherlands, for example, reporting that their revenues were *maintained* and 81 percent of family businesses in Italy reporting *declines*.

Patterns across the macro-regions were similar to those in Europe, with the exception of Asia Pacific and the Middle East & Africa, where those family businesses reported significantly higher decreases in their revenues. Perhaps surprisingly, fewer *non-family* businesses in Europe (56 percent) reported revenue decreases and 33 percent were able to maintain their previous revenue level.

Revenue impact[1]

Impact	European family businesses	European non-family businesses	Global	Asia Pacific	The Americas[2]	The Middle East & Africa
Revenue decreased	64%	56%	69%	75%	67%	84%
Revenue increased	11%	11%	9%	8%	11%	3%
Revenue stayed the same	25%	33%	22%	17%	22%	13%

[1] Global, Asia Pacific, the Americas and the Middle East & Africa represent family business revenue impact only

[2] North America, South America and the Caribbean

Three types of **responses**

Family businesses reacted to the initial shock of COVID-19, then quickly turned their attention to the longer-term consequences for their business. Their actions can be observed in a mix of three responses:

- stabilizing the business
- accessing external support
- taking the long view to reimagine the future.

Stabilizing the business

Families addressed the immediate shocks to their business and the need to maintain a steady course. A sudden drop in income had a negative impact on the cash flow and liquidity for many family businesses. Not surprisingly, their first reaction was to implement immediate cost-cutting and other business actions to stabilize the businesses in the short term.

As their revenue flows began to recede, family businesses took several measures to reduce their cash outflow in four key areas: employment-related expenses, operating costs, business operations and executive compensation.

> "While there was a higher percentage of employee-related actions taken by European family businesses, the overall 4.1 percent reduction in the workforce in European countries was significantly lower than the 8.56 percent reduction in the workforce reported globally."

Percentage of actions taken by family businesses to stabilize the business

Action type	Europe	Global	Asia Pacific	The Americas[1]	The Middle East & Africa
Employment actions	40%	36%	29%	35%	33%
Cost/investment actions	41%	41%	42%	41%	40%
Executive compensation actions	7%	9%	13%	10%	9%
Actions affecting business operations	12%	14%	16%	14%	18%

[1] North America, South America and the Caribbean

Employment actions

For many family businesses, the family's loyalty and commitment to their employees is paramount and they will do whatever is necessary to protect those relationships and retain their people. In the midst of an unpredictable global crisis, this has required a careful balancing act for family businesses to do the right thing to protect their employee relationships while also stabilizing the business and steering the ship forward.

Compared to other world regions and non-family businesses in Europe, there was a greater likelihood of European family businesses taking actions related to their employees, especially actions that were temporary in nature. Importantly, however, European family business were less likely to reduce their employees' pay compared to other world regions. To varying degrees in each country, some companies temporarily reduced their employees' hours and hiring freezes were understandably very common. The country-by-country variations were influenced primarily by three factors: 1) the economic impact of the pandemic in each country and within industry sectors, and the effect of that on labor requirements; 2) the amount of flexibility available to companies to make adjustments in the labor force; and 3) the special regulations introduced by governments to support businesses and employees.

The two most frequent actions taken across Europe were moving employees to remote work environments and implementing short-term furloughs. This suggests that European family businesses were able to adapt and adopt digital solutions quickly, often transforming their business operations and demonstrating, once again, that their decision-making is generally nimbler than in other business models.

As **Mr. Byron Nicolaides, Founder and Chairman of PeopleCert in Greece** said, **"Our motto is: 'One team, one dream, one family'. During tough times, you are given the opportunity to show if you mean what you say. So, our first decision was: no employee layoffs. With government support, we were able to put a very small number of people on furlough and everyone else (including all of management) reduced their work and pay by 50 percent.**

"The highest workforce reductions in Europe were experienced in Ireland at 14.74 percent and the UK at 12.44 percent. The lowest reductions were seen in the Netherlands, 0.17 percent and Cyprus, 0.16 percent."

“We set up a solidarity fund for those who couldn’t afford the salary cuts and, from the beginning, we made it clear that we would work together to get out of the crisis as quickly as possible. By September, we had managed to get back to regular operations by adopting new digital solutions that streamlined our operations for the better. We didn’t cut our investments and there was no disruption to our customers.”

Actions such as these reflect the characteristic long-term perspective of family businesses and the values of the business family. Through their experiences with various financial crises and economic instability over the years, they understand the importance of retaining relationships with their staff and other important stakeholders.

Employment actions implemented by family businesses

Actions	Europe	Global
Reducing employee hours	40%	40%
Reducing employee pay	11%	20%
Laying off employees	16%	19%
Putting employees on furlough	39%	32%
Moving employees to remote status	51%	46%
Freezing hiring	36%	38%

Cost and investment actions

With revenue on the decline, it was necessary for many companies to begin cutting costs to address the restrictions in their cash flow and reduce the outflow of money from the business. Most frequently, reductions were made in general office expenses, cutbacks in marketing, inventory reductions and by deferring the launch of new products that were in development. Across all the macro-regions, approximately 40 percent of family businesses reported similar cost-cutting measures.

Unlike those in other regions, however, family business entrepreneurs in Europe were more likely to determine that the timing was opportunistic for raising additional capital. They were also more likely to take on more debt to maintain their independence and control. This was particularly the case where attractive government loan opportunities were introduced for supporting the continued growth of their businesses by diversifying their product and service offerings, digitizing their operations, or expanding into untapped new markets.

Among family businesses in Europe, 22.56 percent reported deferring or canceling their research and development (R&D) investments, particularly in the short term, compared to 17.09 percent of non-family European businesses.

Mr. Philip Aminoff, Chairman of Finland's Helvar Merca, described how his company's customers postponed decisions on large, *new* investments during the pandemic. Despite the drop in orders, Helvar Merca maintained its strong commitment to R&D investments. He observed that family businesses are typically well capitalized and better able to survive an economic crisis. He stated, **"I was surprised to see that so many other companies cut back on their R&D. We are in business for the long haul and it does not make sense to sacrifice the future based only on what is happening today."**

As **Petra Moog, Siegen University, Germany** explained: **"The impact and length of the pandemic has been unpredictable. Some family businesses likely made short-term decisions to preserve some of their capital by pausing or deferring planned investments and to reallocate their financial resources to retain and support their employees. That doesn't necessarily suggest that these family businesses are abandoning their long-term plans. It is more likely that they have prioritized the need to stabilize their businesses and keep their employees engaged in order to ensure that they are in a strong position for the future."**

Cost and investment actions implemented by family businesses

Actions	Europe	Global
Reduce marketing	44%	46%
Cut office expenses	48%	58%
Defer lease payments	12%	16%
Early termination of lease	5%	6%
Reduce inventory	15%	32%
Postpone R&D investments	23%	24%
Raise additional capital	11%	11%
Take on additional debt	31%	26%

Business actions

With Europe's relatively stricter lockdown measures compared to other world regions, European family businesses had a low rate of temporary business closures, with 15 percent reporting that it was necessary to close their businesses as a short-term measure, compared to 16 percent globally. Less than 1 percent of family businesses indicated that they had to close permanently.

Many discovered that changes in their businesses resulting from the impact of the pandemic opened up new opportunities for families to make important operational changes that had not been addressed previously.

As described by **Mr. Alexander Bargum, CEO of Algol in Finland, "When the COVID-19 situation arose last year, the management of our subsidiaries saw that it created the momentum to make some overdue structural changes in our businesses to make them more efficient. We have now taken several important measures to improve our operations. While some of these actions have led to reductions in our headcount in certain areas, they are not related to COVID-19, but are the result of changes that we needed to make for some time. The pandemic simply gave us the impetus to move forward."**

Families in business often place a priority on maintaining strong relationships with *all* external stakeholders as well as employees. As the impact on their revenues led to significant short-term changes in financial status, many family businesses leveraged their long-standing relationships with suppliers, customers and financial institutions to renegotiate contracts and repayment options.
In Europe, a full 23 percent of family businesses reported renegotiating their vendor contracts and working together with their suppliers to minimize supply chain disruptions compared to slightly more than 22 percent of non-family businesses.

As **Mr. Udo J. Vetter, Chairman of Vetter Pharma in Germany** explained, **"Our supply chain is comprised primarily of other family companies and all the family owners came together to make sure the supply chain wasn't interrupted. Non-family businesses generally don't maintain such close relationships and by business families coming together in the supply chain, we were able, collectively, to keep our businesses running and make arrangements for employees to be able to come to work."**

Wherever possible, European family businesses maintained their commitment to their suppliers with approximately 20 percent reporting that it was necessary to delay payments to their vendors compared to 25 percent of non-family businesses in Europe and 29 percent of family businesses globally.

Business actions implemented by family businesses

Actions	Europe	Global
Temporary closure	15%	16%
Permanent closure	1%	1%
Renegotiate vendor contracts	23%	30%
Delay vendor bill payments and loans	20%	29%

> The strengths of a business family are especially visible in difficult times. In some cases, in addition to reducing the executive pay of family members who were working in the business, families also reconsidered their dividend policies. Retaining a portion of the family wealth within the business signals that non-economic objectives are given more weight than economic ones, especially when there is a strong call for support coming from employees, the local community and other important stakeholders.

Alejandro Escribá-Esteve
Cátedra de Empresa Familiar,
University of València, Spain

Executive actions

Compared to other global regions, family businesses in Europe were less likely to make adjustments to executive compensation, such as reducing their pay levels, deferring payments or considering alternative compensation arrangements.

Among family businesses in Europe, 23 percent reported deferring or reducing executive pay, compared to 29 percent globally, and 13 percent considered alternative compensation arrangements for their executives. The countries most likely to reduce or defer top management pay during the pandemic included Austria, where 26 percent of companies reported adjustments, and 44 percent of family businesses in France. Conversely, the lowest percentage was reported by family firms in Ireland at 13 percent.

This may be explained, in part, by the underlying family values that influence the decisions of family businesses. In times of crisis and economic challenges, the short-term financial motivations within family businesses are typically secondary to the long-term viability of the company and maintaining employment for its people.

During the pandemic, reducing executive pay was often seen as a social responsibility, however, especially as many governments stepped in to provide aid through payroll support measures and special loans and grants for businesses. In turn, top management was expected to do their part by taking pay reductions to reflect the current economic reality. As family businesses continue to maintain a delicate balance between the economic goals of their business and the non-economic/socio-emotional wealth objectives of the family, it appears that many of these firms in Europe have taken on this social responsibility to a greater degree than non-family businesses.

However, not all family businesses agree with the view that executive pay reductions should be made during times of crisis. As some families pointed out, it is not always reasonable to pay top management less when they are required to step up to meet the serious challenges facing the business while still achieving their expected performance criteria.

It is worth noting, however, that when general employee salary reductions *were* necessary, most family businesses ensured that they demonstrated solidarity and reductions have been felt across the board by family members in managerial and operating roles, as well as those sitting on holding boards.

In many cases, it means that the family has chosen to leave more money in the business than they might have done under normal circumstances. This includes making the decision not to pay dividends to the family in order preserve as much of their capital as possible to sustain the business and retain employees. The message that "we are all in this together" has also earned them tremendous goodwill among all their stakeholders.

On the subject of dividends, the message of solidarity was described in a unique way by **Mr. Philippe Haspeslagh, Chairman of Ardo in Belgium: "Dividend decisions were put on the table by many family companies. In some family-controlled listed companies where dividends have to be maintained, the family was asked to donate part of their dividends to philanthropic endeavors that support the community. This was a critical step that communicated solidarity in the business from top to bottom."**

Executive actions implemented by family businesses

Actions	Europe	Global
Considering incentive compensation alternatives	13%	19%
Deferring or reducing executive pay	23%	29%

Accessing external support

> EU Member States have made a concerted effort to support family businesses throughout this crisis. It is essential that governments continue to recognize the important stabilizing role that family firms play in times of crisis. They will continue to operate sustainably and for the long term if framework conditions empower their business models.

Darius Movaghar
Senior Advisor,
European Family Businesses (EFB)

Over 70 percent of European family businesses reported that they received some form of government support. This put a clear focus on the structure of the pandemic, as rapidly decreasing revenues and shifts in demand led businesses to seek support from public financial measures.

As the pandemic progressed across the world and a larger picture of the business impact of COVID-19 began to be revealed, governments across most European countries began to introduce policies and special programs to help shore up the economy and the businesses that underpin it.[1]

Several countries stepped in with various forms of tax reductions, payment deferrals, early payment of tax refunds and social security contributions. The second response from family businesses, therefore, was to access the appropriate government programs that were made available to them.

Financial guarantees: New schemes were introduced broadly across the region, allowing companies in financial difficulty to continue to access financing. Many of the support mechanisms have either been designed to support small and medium-sized enterprises (SMEs) or larger companies and there were instances in various countries where medium-sized businesses, most of which are family owned, reported difficulty accessing support.

While these financial guarantees are welcomed, there is some concern that risk-averse banks will not provide loans to some SMEs despite the state guarantees.

Wage subsidies: Subsidizing employee wages continues to be one of the most popular measures, particularly for companies whose employees work part-time hours. Businesses in most countries applied for subsidies and it was one of the most immediately popular measures among family businesses, especially those that introduced temporary layoffs or reductions in employees' working hours.

Direct loans: New loan schemes have been set up in most countries or by working with banks to facilitate new loans, most of which are aimed at ensuring the cash flow of family businesses. For small businesses, however, that are unable to predict their revenue for the remainder of the year, repayable loans can be a difficult choice. In response, at least 18 countries have announced additional measures that postpone the repayment of existing loans and others that offer new loans with generous repayment terms.

Targeted regional support

In response to the particular circumstances in their countries, selected European countries have implemented more targeted support measures, as described below.

Setting up a fund for direct equity participation by public authorities in affected businesses: Variations of this measure were adopted in Germany and Spain to ensure that businesses of strategic importance to the overall economy would not be subject to hostile takeovers from foreign firms due to decreased stock market values.

[1] Examples of government programs were compiled by the European Commission via the network of Small and Medium-sized Enterprises (SME) Envoys.

Relaxing of extra-income limits for employees benefiting from wage subsidies: This measure was adopted in Germany so that workers required to work reduced hours in their normal profession received an incentive to work in a profession in which their skills were urgently needed, such as those in the health care sector.

Support for credit terms renegotiation: This measure was adopted in France and Germany to provide credit mediation to family businesses that were looking to renegotiate credit terms. In Sweden, a similar measure has been adopted for rents. In certain sectors, family businesses are able to renegotiate their commercial rents, with government support, for the period between April and June of 2021.

Easier administration for delivery services: Lockdowns made it necessary for many restaurants to make up for lost revenue by offering delivery services. In Hungary, grocery stores and HORECA (hotels, restaurants and catering) businesses are now allowed to implement home delivery services without prior registration or authorization.

Ensuring that public authorities pay their suppliers promptly: The Slovenian government has established an 8-day payment deadline for all payments by public authorities to their private sector suppliers and is helping to support the continued liquidity of family businesses.

Ease of access

While all of these measures have been welcomed, it has also become increasingly important for them to be accessible through an easy administrative process.

For some family businesses, loans, grants and guarantees that require elaborate applications can be a deterrent and, in response, many countries have adopted a new approach that provides immediate and unbureaucratic help to SMEs.

Government support accessed by family businesses

Action type	Europe	Global	Asia Pacific	The Americas[1]	The Middle East & Africa
Subsidies	21%	21%	25%	26%	21%
Tax support	29%	36%	23%	37%	58%
Financial support	48%	40%	46%	33%	18%
Technical support	2%	3%	6%	4%	3%

[1] North America, South America and the Caribbean

Taking the long view to **reimagine the future**

“It is widely recognized that families in business define success in many different ways. Passing a legacy to future generations, the family’s social capital, reputation and emotional connection to the firm are as important to business families as financial results. It is no surprise to me that all of these factors played an important role in their decision-making as they implemented a combination of the three strategies to address the immediate and long-term impact of COVID-19 on their business, employees, customers, suppliers and the wider community.”

Kirsi Adamsson
National Private Enterprise Leader,
Partner,
KPMG in Finland

In true family business fashion, the third response from business families has been to turn their attention to the long-term sustainability of their businesses and the potential strategic opportunities ahead. Having achieved a level of stability in their business and with the support of government programs, families were ready to use their entrepreneurial and strategic capabilities to reimagine the path forward for the family and the business and to ensure that it continued to reflect the family’s purpose and values.

For family businesses such as Italy’s Lavazza, taking the long view is a fundamental part of the company and of the family’s DNA. As described by **Mr. Giuseppe Lavazza, Vice Chair of Luigi Lavazza S.p.A., “We have extremely ambitious plans and the pandemic merely slowed that down. Staying on track and maintaining the group’s identity is relatively easy when the sea is calm; the difficulty is in weathering the storm. We have already proven we can do it. In the last century, we withstood two world wars, global economic crises and now, we are facing a pandemic. Our recipe for overcoming every difficulty is to never stop looking toward the future.”**

Key strategies

In the global edition of the report entitled “Mastering a comeback: How family businesses are triumphing over COVID-19”, we identified three main strategies that family businesses have adopted to respond to the impact of COVID-19 on their business and their families. Not surprisingly, these same three strategies dominated the actions of family businesses across Europe.

One strategy put **social responsibility** at the forefront of families’ strategic choices. The intent behind this strategic approach addresses the impact of the pandemic on the welfare of society and the needs of all of the family’s stakeholders. This strategy closely aligns the business with the family’s purpose and values to protect the welfare of their employees and their relationships with customers, suppliers and local communities.

A second strategic approach was one of **business transformation,** as family firms explored ways for pivoting their businesses to first *react* to the immediate impact of COVID-19 and then to *proactively* adopt new business models and evolve their business in a rapidly changing external environment.

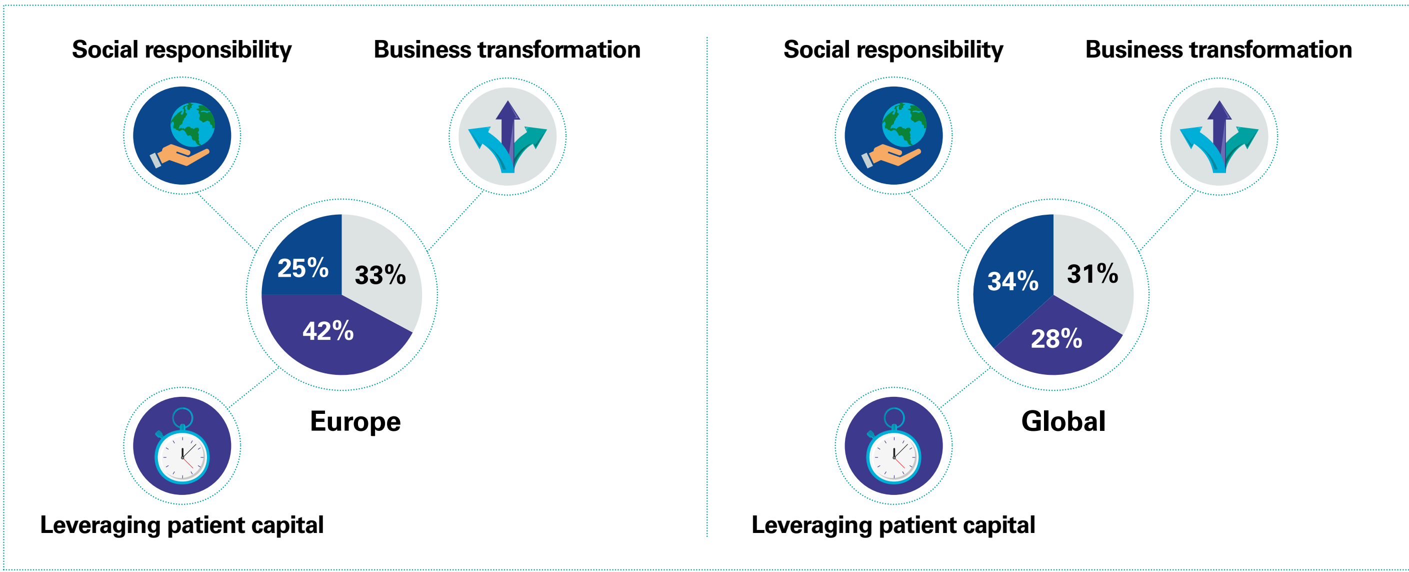
We initially identified the third strategy as *"exercising patience"*, whereby families were able to use their patient capital to wait and understand the full impact of COVID-19 on their businesses (and others in their industry) before taking important actions that would have long-term consequences. In conversations with family business leaders across Europe, however, many were quick to point out that "patience" is not part of the vocabulary of most entrepreneurs. "Patient capital", however, is at the heart of an entrepreneurial/long-term value mindset. For this reason, family business leaders told us that their response to the pandemic has elevated their entrepreneurial energy. It has provided them with opportunities to recalibrate their business processes, to take the time to undertake special projects that had been lingering in the background and to consider new opportunities for the business that can generate a new source of value over the long term.

Their input has helped to evolve our thinking. We continue to believe that "patient capital" is a key competitive advantage of family businesses as they are able to balance current returns in their business with its long-term value and legacy. For these reasons, we have redefined the third strategy as **leveraging patient capital**.

Making a strategic choice

By analyzing the make-up of the family businesses that responded to the survey, we found consistent patterns that influenced the likelihood of a family adopting a particular strategy at different points in time. These included the age and size of the business, the number of generations represented in the business, how involved family members are in decision-making and governance practices and whether the business is led by a family or non-family CEO.

Strategies of choice among family businesses



> The likelihood of a European family business led by multiple generations adopting a business transformation strategy is approximately 44.5 percent higher than that of a business led by a single generation.

All three strategies were well represented in family businesses across Europe, as described below. As the impact on their business and circumstances changed, many adopted more than one strategy at different stages throughout the pandemic.

1. Social responsibility strategy: focusing on the family's purpose and values to support all stakeholders

The social responsibility strategy emphasizes the family's focus on the welfare of society 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 across Europe 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 business to become involved in community projects and to contribute to special relief funds.

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 by 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 toward the future, families in business are also beginning to develop more challenging envrionmental, social and governance (ESG) goals, aligned with a renewed ambition to transform their business strategies.

> "Italy's Luigi Lavazza S.p.A., was one of the first companies to step up and promote acts of solidarity. In addition to providing support by donating products to families and communities in areas where it operates, the company also accrued €12 million for projects to support the health system, schools and high-risk groups during the pandemic."

Family business patterns reflected in the social responsibility strategy

- They generally experienced the lowest impact on their revenues compared to those that adopted alternate strategies.
- Support from government materialized primarily through financing programs and these firms also received more technical support than others.
- They are generally medium or large in size and have multiple family shareholders. They also are more inclined to have a non-family CEO at the top of the management team.
- The highest percentage of firms are led by a single-, second- or third-generation family member.
- The importance of sharing information, empowerment and decision-making and the leadership of the top management team are emphasized throughout the family and the business.
- The family is involved in matters inside the business more than those related to external stakeholders and the family's involvement is an important element in leading ESG actions.

Family business patterns reflected in the business transformation strategy

- These family businesses were found primarily in service industries (60.6 percent), though 34 percent were represented by manufacturing businesses — the highest representation of manufacturing firms across all three strategies.
- Regardless of the size of the business, the agility and fast decision-making that are characteristic of family businesses are a key factor in their ability to adopt this strategy successfully.
- These companies had the highest representation of multiple generations involved in the business and with external stakeholders, but with only a small number of family shareholders, giving them the agility to pivot their business quickly.
- Importantly, they typically have a strong top management team and exceptional learning and problem-solving abilities.

> The likelihood for family businesses in Europe to implement a business transformation strategy was 41.8 percent higher than that of non-family businesses.

2. Business transformation strategy: pivoting, restructuring and creating new business opportunities

Business transformation is another important strategic response that we observed among European 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.

While continuing to sustain the family's purpose, values and community commitments, family businesses also began turning their attention to new pivoting strategies 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.

Actions such as streamlining operations and implementing new financial measures, 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 determined that the timing was right to take bold actions.

In some cases, structural changes are being made to make businesses more efficient, including potential reductions in headcount which are not related to COVID-19, but are the right thing to do for the efficiency of the business. Some family business leaders have suggested that the impetus for change that was introduced by a global crisis gave them the momentum to make changes that needed to be made, regardless of the pandemic.

In other cases, a slowdown in the company's regular operations or the pressing need to find new sources of revenue provided a window that 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 multiple generations to work made them 44.5 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 are opening up entirely new markets that weren't even imagined a few months earlier.

Fitzers Catering in Ireland, is a good example of the different layers of business transformation. As **CEO Ms. Sharon Fitzpatrick** explained, **"Our company has been a culinary innovator and leader in the Irish hospitality industry since 1986. We only knew one way of operating — for everything to be open so that we could cater to special occasions and events. For sheer survival, we had to make a 180-degree turn and develop an e-commerce business from the ground up. Only that way could we bring our expertise to people's doors with food boxes that are easy to order, prepare and serve at home. We will actually come out of the pandemic stronger than before, with two entirely new businesses as well as a cookbook that I didn't have the time to write in the past."**

I have seen the value of patient capital in many large family businesses that have the financial resources to withstand short-term operating challenges. Patient capital is a powerful asset in family businesses because it reflects two distinguishing and competitive traits: a commitment to creating value over decades, not the next quarter, combined with an entrepreneurial mindset that makes their businesses flexible and adaptable. The importance of this combination should not be underestimated. It is the power behind the resilience of family businesses and a competitive advantage that the majority of non-family businesses are unable to match.

Patrick De Schutter
Head of Family Business,
Partner,
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Family business patterns reflected in the patient capital strategy

- These European family businesses were represented primarily in the service industries (55 percent), followed by manufacturing (28.6 percent), as well as having the highest representation of construction companies (10.6 percent). It appears that because of the nature of the sector for these businesses, they have fewer alternatives for reacting because of the business models for the industries in which they are embedded. This could also be the case for those in the tourism or hospitality sectors.
- A single generation of the family is dominant, primarily those in the second or third generation and the number of family shareholders is generally small, which often makes it easier to reach agreement on important decisions.
- As in all three strategy options, the strength of the top management team is paramount, along with the empowerment and extensive sharing of information within the business and the family.

3. Leveraging patient capital: exploring future opportunities

The family's patient capital, entrepreneurial mindset and focus on long-term value enables them to take their time to fully assess a situation before taking actions that have long-term consequences.

Pursuing economic return and building a long-term legacy is the continuous balance that family businesses aim to achieve. They can do so by leveraging their patient capital, which equips them with a long-term horizon and the need to perpetuate family influence across generations, making them more agile and resilient when it is needed most.

This strategy was common in very large European 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 responses that families took the time throughout the pandemic life cycle to assess the longer-term impact of COVID-19 and develop realistic plans for the future.

In the interest of taking care of their employees, many of these companies made decisions to defer dividend payments for up to 12 months to retain their financial 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 power of the family and the **family business**

Throughout Europe, there has been a strong push for collective responsibility, with large companies being asked to take responsibility for tackling the safety problems and risks of the pandemic. At the same time, they are being asked to contribute to the economic recovery by promoting innovation and a return to normal social relationships.

As the pandemic has progressed, we have found that more and more senior family members have come back into their family businesses to bring a historical context — or what is often referred to as "historical memory" — to address the immediate impact of the pandemic and the decisions that needed to be made to keep the business moving forward.

Family businesses are uniquely resilient and adaptable and they have successfully outperformed other types of business in navigating through generations of economic, health and political crises long before COVID-19.

Similarly, because of their knowledge and exposure to many new technologies, younger generations of the family are increasingly being relied upon to suggest digital solutions to transform their family's business operations or to develop new technology products or service offerings that can accelerate the business into the future.

The power of family involvement across all generations of the family who are contributing to decision-making and strategy development can't be overstated. It creates the ability to respond quickly and to agree on a course of action that's good for the business and for the family over the long term.

Taking the long view and tapping into the diverse skills, knowledge and insights embedded in multi-generational families have proven to be two of the essential keys to their endurance.

> "Thanks to the generational nature of many family businesses, they have been able to leverage the experience and know-how of 'older' generations to navigate this unprecedented crisis. At the same time, they have been able to utilize the knowledge of the 'upcoming' generation to transform and adapt their business models by utilizing new technological resources and digital tools. This is the power of the family business: they are experts in dealing with paradoxes and, in this particular case, in combining a fresh mindset with the practical experience of dealing successfully with crises in the past, and having both working in harmony together."

Jesús Casado Navarro-Rubio
Secretary General,
European Family Businesses (EFB)

Lessons learned, lessons shared

As you consider the strengths and opportunities ahead for your family business, we encourage you to consider how the power of these key ingredients is contributing to your success. We hope the insights from the report will help you consider these and many other important questions in continuing to fulfill your family's purpose and values and in answering the call to help restart the economic engine in your country.

- How effective have the initial financial and non-financial actions been in mitigating the impact of COVID-19 on your business?
- What other actions might you consider now?
- How are younger generations of the family contributing to the long-term view for the business? Is succession planning becoming more of a priority?
- What is the long-term outlook for your business? Is it time to recalibrate the business model and adopt new technology solutions?
- How relevant are the three strategies (social responsibility, business transformation and leveraging patient capital) for the short- and long-term needs of your business?
- Are acquisitions, strategic alliances or other opportunities available to diversify your products and provide a potential entry into new markets?

Through the research that underpins this report and many meaningful conversations with family business leaders across Europe, we have gained an even greater appreciation for the source of resilience and ingenuity in family businesses and the important influence you have on both a societal and economic scale. We would welcome your comments on the report and insights from your experiences in responding to the impact of COVID-19 and in contributing to the restart of the economy across Europe.

Please contact us at **familybusiness@kpmg.com**, **andrea@thestepproject.org** or **info@europeanfamilybusinesses.eu** to share your feedback.

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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 first generated in English and then translated into 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, Asia Pacific and the Middle East & Africa. The European family business report: COVID-19 edition focuses on the completed questionnaires from 1,332 family businesses and 215 non-family businesses in Europe.

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

The Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium is a global applied research initiative that explores family and 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 EFB

European Family Businesses (EFB) is the EU federation of national associations representing long-term, family-owned enterprises, including small, medium-sized and larger companies. The organization was created in 1997 and represents EUR1 trillion in aggregated turnover, 9 percent of European gross domestic product. EFB's mission is to press for policies that recognize the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

Visit: **europeanfamilybusinesses.eu**

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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