

KEY POINTS

What is the issue?

The COVID-19 pandemic reshaped family businesses on different levels, necessitating a review of key aspects that matter in this context.

What does it mean for me?

Changes imposed by COVID-19 regulations have affected operations, reduced or deferred investment strategies and impacted the education of younger generations.

What can I take away?

Resilient operations; strategic agility; environmental, social and governance adaptivity; smart working; and continued education have all been critical for family businesses in ameliorating the uncertainties of COVID-19.



Build back smarter

DR RODERIK J P STROBL DESCRIBES THE IMPACT OF COVID-19 ON FAMILY BUSINESSES

The COVID-19 pandemic has had a profound impact on family businesses, especially with respect to operations, investments, digital money and the coaching of the next generation. The aim of this article is to discuss these topics and to review useful insights for practitioners dealing with family businesses.

OPERATIONAL AND ORGANISATIONAL ASPECTS

COVID-19 amplified many trends, such as health and safety, the rise of remote communications and service propositions, but also the safeguarding of portfolio investments for family businesses. In a 2021 global family business survey of 3,010 family and non-family businesses,¹ revenue predominantly decreased globally and actions to reduce top management team compensation were only at 9 per cent, compared to actions aimed at reducing labour costs (36 per cent). Some senior family business leaders will have passed away because of COVID-19, leaving significant lacunae in management, a situation that had to be

addressed without suitable preparation.² The working world has changed so that independent, autonomous work and new forms of collaboration are gaining in importance.

The gap in valuations between what buyers were willing to buy and what sellers expected weighted on activity. Physical distance challenges arose and were mitigated by way of accelerated digitisation, including restructuring of existing business flows. Trusted advisors became even more important to family businesses as a safe haven and reliable reference. Non-family-related directors became more prominent, particularly in bringing critical insights such as questioning existing structures of family businesses.³ Team development, creative solutions and staff flexibility grew out of COVID-19's impressive footprint of over 539 million worldwide cases,⁴ with 6.3 million deaths and 11.6 billion administered vaccinations as of June 2022.⁵ Many small- to mid-sized family businesses are appreciating the importance of best-practice governance and introducing these practices in their daily business processes. Larger family businesses have restructured by having



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a main office in the key jurisdiction with satellite offices where family members or assets are located.⁶

Transformative trends also include smart working,⁷ work redefinition processes, automation, the implementation of artificial intelligence and outsourcing in nearshored setups. The need for an organisational culture increasingly oriented towards agile working practices and organisational support and training grew in importance. The adoption of a mixed approach, smart working or remote work has become essential, leading to increased discussions on 'techno-stress' caused by technological tools and the potential consequences for wellbeing.⁸

The smart-working model promotes the corporate strategy of rethinking office space usage toward downsizing. The pandemic had an immediate impact on the use of office space,⁹ the most implemented strategic action being to cut office expenses.¹⁰ In Switzerland, there is no general entitlement for an employee to work in a home office. According to art.327a of the Swiss *Code of Obligations*, reimbursement of expenses is compulsory, subject to such expenses being necessary for exercising the respective professional activity. Client-facing family business models reliant on high customer volumes, such as restaurants and hotels, were badly hit, which resulted in cost cuts and layoffs. In this context, social responsibility for the welfare of employees, society and stakeholders played a dominant part in the family business strategic framework.¹¹

The pandemic further highlighted a reliance on global supply chains and the disruption risk inherent therein. Although mainly known for its gaming applications,¹² the metaverse will likely enhance smart manufacturing, healthcare, education, virtual spaces and cities, including public services and digital money. The current internet infrastructure is not ready for building a content-streaming metaverse environment. For instance, the low latency of data signals still needs improvement to build a more realistic user experience.¹³

Advisors should verify the flexibility of family business structures by discussing various scenarios. Complexity often leads to conflict. New family constructs and dynamics are driving demand. Communication and early planning are essential. Multi-jurisdictional families are growing, which implies that advisors need to understand cultural and legal differences among jurisdictions, especially regarding the nature of a family.¹⁴ COVID-19 clearly highlighted the importance of early estate and succession planning within a family business context, often leading to a review of business

continuity practices, such as dealing with loss and the timely replacement of key managers. In this respect, reducing excessive controls is crucial.¹⁵

INVESTMENTS AND INCLUSION OF DIGITAL MONEY

Private wealth is driven by technology and data analytics. Private capital funds are popular because they allow wealthy clients to invest flexibly in a constantly changing regulated financial environment. Resilient, high-margin assets with growth potential remain high in demand. Environmental, social and governance (ESG) practices were also amplified by COVID-19. Today, ESG is a clear driver of value creation and central for the overall investment strategy.¹⁶ Modern ESG solutions capture investors' sustainability preferences based on principal adverse impacts. However, certainty in selecting the right criteria for ESG investments remains a challenge because of the numerous different standards in the market. Impact investment is the social bond with the future.

Where private debt is concerned, the COVID-19 sell-off during mid-2020 represents the sharpest market correction in history and even outpaced the correction in February 2009.¹⁷ Augmenting overall account liquidity, limiting illiquid assets and actual portfolio risk were key considerations when dealing with investments during the pandemic. The concept of there being no alternative to shares describes the imperfection in portfolio allocation that family businesses still encounter to this day.¹⁸ Recently, however, this mantra has been tested, with money being placed with exchange-traded funds that track short-term treasury bills, due to concerns over inflation and central banks hiking interest rates.¹⁹ Continuous diversification of the family business and assets is paramount for continued asset protection. The inclusion of digital money was accelerated during the pandemic due to governmental actions such as lockdowns and other restrictive economic measures. The use of cash in day-to-day payments decreased markedly in the EU.

COACHING THE NEXT GENERATION

The pandemic kickstarted the education of the next generation of family stakeholders, as this generation requires know-how in topics such as leadership, finance, negotiation skills, communication, impact investment, cybersecurity, philanthropy and best practices regarding estate and succession planning. Family businesses are resorting to internal, external (outsourcing) and alliance programmes to provide additional

practical insights to this generation.²⁰ A focus on planning collaboratively across generations and the impact of using wealth is key in this context.²¹ Many next-generation cohorts know what they want and, in such scenarios, an experienced mentor or coach can help accelerate and sustain the achievement of their goals.

CONCLUSION

Strategic agility and resilience are essential qualities for COVID-19-inflicted businesses. Operations were streamlined by reviewing existing processes and smart working has become a standard option for family businesses. ESG, the metaverse and impact investing are themes of interest to the next generation because they have a bigger desire to share and care for the less fortunate around them.

#BUSINESS PRACTICE

#FAMILY BUSINESS

SAVE THE DATE

This article has been written following a panel discussion held at the Swiss and Liechtenstein STEP Federation 5th Alpine Conference in May 2022. The author moderated the panel, titled 'The impact of the COVID-19 crisis on the private client industry'.

Dates for the Swiss and Liechtenstein STEP Federation Alpine Conference 2023 have been confirmed. The event will be held at Congress Centre Kursaal Interlaken, Switzerland, on 3–4 May 2023. More information will be available in the coming months.

¹ KPMG and STEP Project Global Consortium, *Mastering a Comeback* (2021), bit.ly/3l0R48p ² A. De Massis and E. Rondi, 'Covid-19 and the future of family business research', *Journal of Management Studies*, 57:8 (2020), pp.1,727–1,731 ³ PwC, 'Family offices are taking stock after COVID-19', *Family Office Global Trends* (2022) ⁴ R. J. P. Strobl, J. Day, D. Goodman and R. Houdrouge, 'Impact of the COVID-19 crisis on the private client industry', panel discussion, STEP Alpine Conference 2022 ⁵ Johns Hopkins University, COVID-19 dashboard, Coronavirus Resource Center, bit.ly/3ydrnxM, accessed 5 June 2022 ⁶ Above, note 3. ⁷ Work characterised by the absence of time or space restrictions. ⁸ L. Marino and V. Capone, 'Smart working and well-being before and during the Covid-19 pandemic: A scoping review', *European Journal of Investigation in Health, Psychology and Education*, 11:4 (2021), pp.1,516–1,536 ⁹ T. Jessop and C. Rees (Partners Group), *Private Markets Navigator: Outlook 2021* (2020) ¹⁰ Above, note 1. ¹¹ Above, note 1. ¹² The metaverse is a virtual-reality space in which users can interact with a computer-generated environment and other users (Oxford, 2022). ¹³ R. Ghose, N. Surendran, S. Bantanidis, K. Master, R. S. Shah and P. Singhvi, *Metaverse and Money: Decrypting the Future* (New York, 2022). ¹⁴ STEP and TMF Group, *Meeting the Needs of Modern Families* (London, 2021). ¹⁵ Above, note 4. ¹⁶ Above, note 9. ¹⁷ Above, note 9. ¹⁸ Above, note 4. ¹⁹ A. Fertoli and L. Vargas, *WSJ What's News*, podcast, 13 May 2022, on.wsj.com/3OCHOZQ ²⁰ Above, note 3. ²¹ Above, note 4.