FOLLOW-UP STUDY: FAMILY BUSINESS AND THE CORONAVIRUS CRISIS

Family business more optimistic about coronavirus crisis impact: big differences between situation in April and July.

Many family businesses emerge from the coronavirus crisis stronger than they thought they would be at the beginning of the crisis. A comparison of the research results of the same family businesses of the RSM-Nyenrode Family Businesses research panel shows that more than 65% of the businesses are more optimistic about their business's survival compared to the situation in April. Family businesses feared an average loss of revenue of 36% in April, now it appears that in June 2020, the loss of revenue is 3% compared to June 2019.

In April 2020, the directors expected the number of employees in the business to decrease by an average of 8.2% compared to the previous year, while it now appears that the number of employees at the same family businesses has decreased on average by 0.5% compared to last year. The same goes for the business's general profitability: in April, the family businesses expected the annual profit for 2020 to decrease by 42%, while in July that expectation was adjusted to a decrease of 5%. In fact, 35% of family businesses now even expect an annual profit growth compared to 2019.

Family businesses are characterized, among other things, by flexibility, financial independence, and rapid decision-making, so they often emerge from crises better than non-family businesses. Winston Churchill's quote "Never waste a good crisis," is certainly not lost on Dutch family businesses. For example, 61% of family businesses indicate that the coronavirus crisis has led to lasting innovations within the business.

Government measures at the time of the coronavirus crisis are considered sufficient by the majority of family businesses. But the severity of the crisis is evident because 13% of the directors consider the measures to be insufficient to be able to support their business through the coronavirus crisis.

Exactly half of the participating family businesses have made use of the Temporary Emergency Bridging Measure for Sustained Employment (in Dutch: Tijdelijke Noodmaatregel Overbrugging voor Werkbehoud, NOW) 1.0 scheme, of which 48% indicate that the actual realized revenue is higher than the estimate previously made when applying for the NOW. A fourth of the family businesses expect to apply for the NOW 2.0 scheme. A vast majority of the family businesses support the NOW 2.0 scheme conditions that bonuses and dividends are not to be paid.

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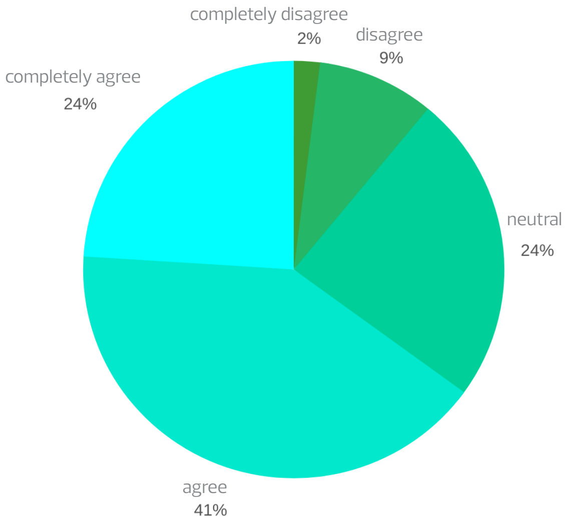
Economic impact of crisis for family businesses

In the first week of April 2020, when the first economic impact of the coronavirus crisis became visible, we conducted a survey among the RSM-Nyenrode Family Businesses research panel members into the impact of the coronavirus crisis for their business. Three months later, in the first week of July 2020, we repeated the survey to compare the expectations of the panel members in April with the actual situation in July. A large part of the businesses in the RSM-Nyenrode Family Businesses research panel have participated in both the coronavirus survey in April 2020 as well as the second coronavirus survey in July 2020; therefore, it is possible to do this comparison.

The results show that the family businesses are significantly more positive about the economic situation of their business than three months ago (see Figure 1). More than 65% say that they are more optimistic about their business's chances of survival in July compared to the situation in April. Nearly 11% are less optimistic about their chances of survival.

Figure 1: More optimistic about family business survivability compared to situation in April 2020



Despite the more optimistic attitude of family business directors, 17% of them still say they lay awake at night thinking of the impact the crisis on their business. However, this is a drop compared to April when 28% of these directors were still very concerned about this.

In order to provide a better insight into the economic differences of the coronavirus crisis for the family businesses in our panel between April and July 2020, we will discuss the following four indicators below:

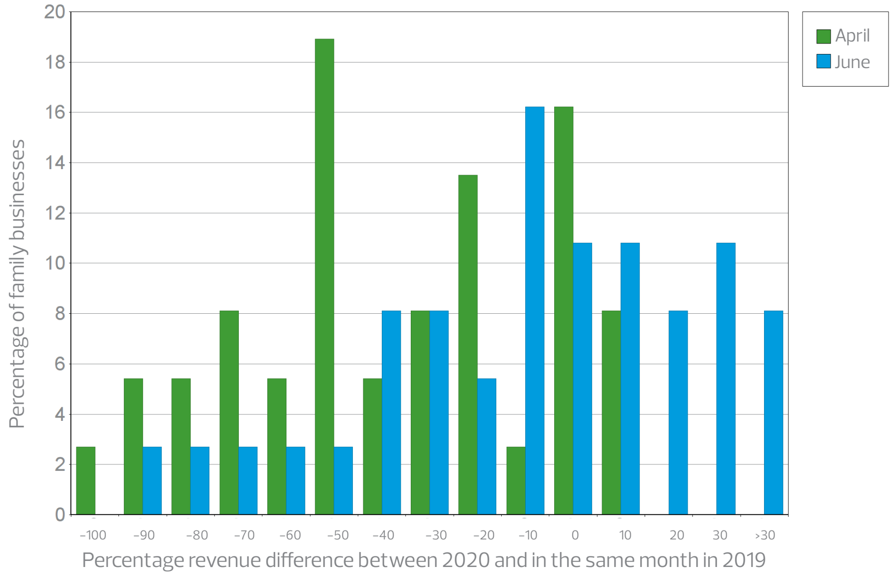
- revenue
- employment opportunities
- profitability
- survival time

In April 2020, we asked about the differences in expected revenue and employment compared to April 2019, and in July 2020, we asked about the realized revenue in June 2020 compared to June 2019. Regarding the profitability and survival time, we asked about the directors' expectations in April and July 2020.

1a. Revenue

In April 2020, the directors of the family businesses expected an average loss of revenue of 36% compared to April 2019. Those same directors now indicate that the realized loss of revenue is 3% in June 2020 compared to June 2019. Obviously, there are major differences between the family businesses. In Figure 2, these research results are further broken down. This shows that 46% of family businesses in April 2020 expected this revenue would at least have halve compared to April 2019, while in June 2020 it was found that for only 14% of the family businesses the revenue was marginally halved compared to June 2019. In fact, for 38% of family businesses the revenue in June 2020 are even higher than in the previous year.

Figure 2. The difference in revenue for family businesses expected in April 2020 and realized in June 2020 compared to April 2019 and June 2019



1b. Employment opportunities

Regarding the number of employees family businesses expect to be able to employ at the time of the coronavirus crisis, there are also major differences between April 2020 and July 2020. In April 2020, the directors expected from the participating family businesses that the number of employees in the business would decrease by an average of 8.2% compared to April 2019. The latest results from the panel survey show that the number of employees in the second quarter of 2020 in the same family businesses have decreased by an average of 0.5% compared to the second quarter in 2019. It is clear from Figure 3 that in April 2020 the directors of family businesses were much more pessimistic about the impact of the coronavirus crisis on employment in their business. Then 43% of them expected the number of employees in their business would decline compared to the same period in 2019. The July 2020 survey results show that this percentage eventually dropped to 22%, while 14% say they now have more employees than in the same period in 2019.

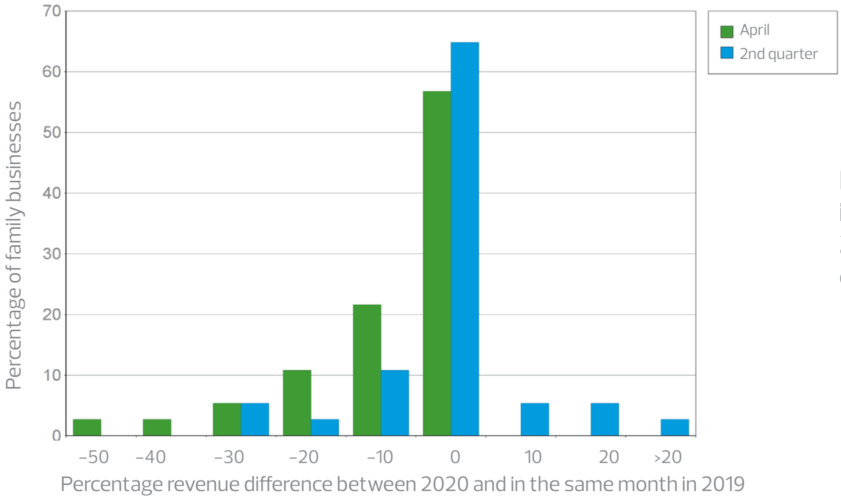
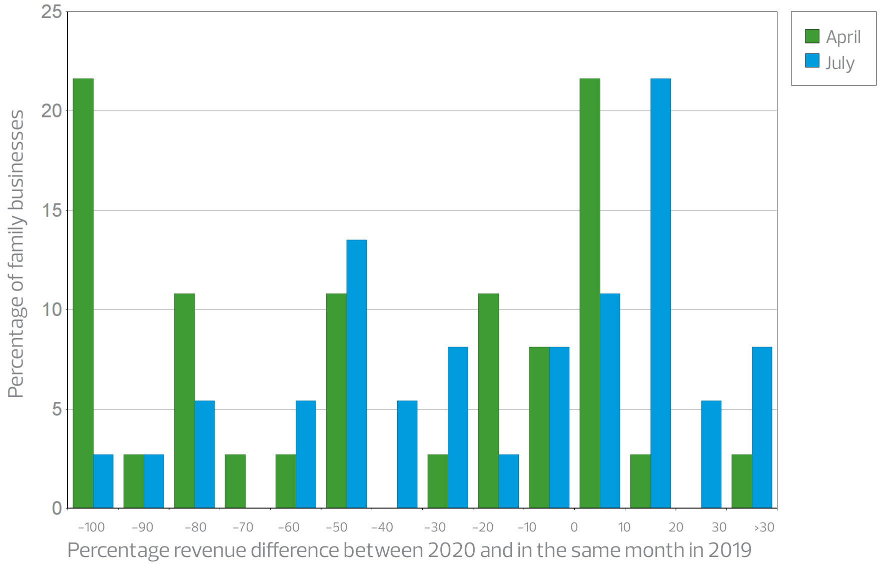


Figure 3. Percentage employment decline realized in the second quarter of 2020 and expected in April 2020 of family businesses compared to second quarter 2019 and April 2019

1c. Profitability

In both April and July, we asked the directors by what percentage they expect their business' profitability to change in 2020 compared to 2019. Also relating to the profitability, the research results show the same ascending line. In April 2020, the directors of family businesses still expected their profitability to decrease in 2020 by 42%. In July, this expectation changed to a decrease in profitability in 2020 by 5%. Figure 4 shows that 73% of the directors of family businesses expected that the profitability of the business in 2020 would be lower than in 2019, while 22% did not expect any profitability at all in 2020. Our recent research results show that the same directors are also a lot more positive with regards to the expected profitability in 2020. Now merely 3% believe they will not make any profit at all, and 54% of those directors expect a lower profit in 2020 compared to 2019. In addition, 35% of the family businesses in 2020 expect to gain more revenue in 2020 than in 2019.

Figure 4. Expected percentage change in profitability 2020 compared to 2019 due to coronavirus crisis measured in April and July 2020



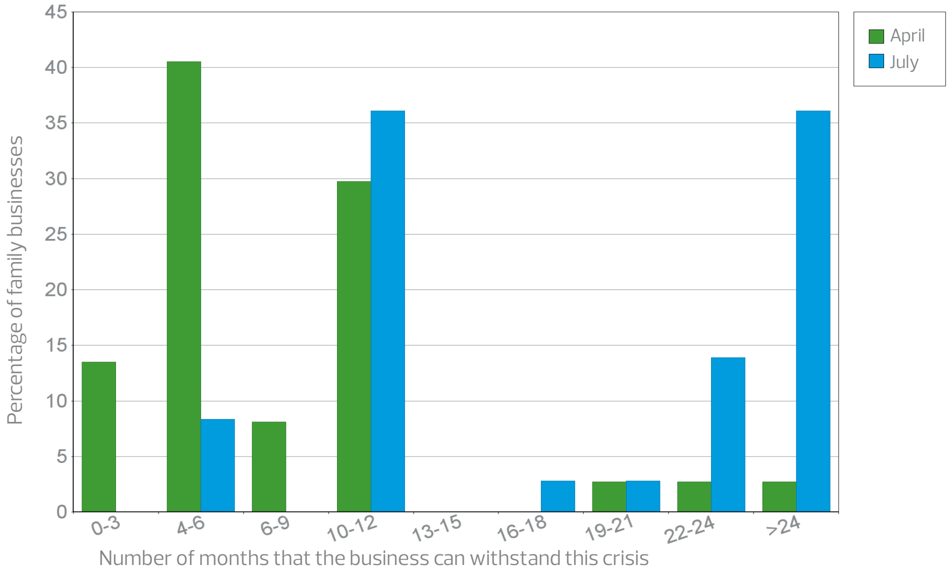
Note: Family businesses that lose 100% or more of their profitability in 2020 compared to 2019 (s — 100) means that they either break even or end the year 2020 with a loss.

1d. Survival time

A final economic indicator with which we can compare the impact of the coronavirus crisis for family businesses for the months April and July 2020 is an estimate of the number of months the director of the family business expects the business can persevere. In April 2020, directors estimated that their family businesses could sustain dealing with the coronavirus crisis for an average of 9 months, while the same directors now estimate this will take an average of 77 months. This average increased drastically due to the large number of participating businesses that are not affected by the coronavirus crisis (anymore).

The results are explained in more detail in Figure 5. This shows that in April 2020 many directors felt despondent about their family business' chance of survival. Fifty-four percent thought that the family business could handle this coronavirus crisis for up to 6 months while 97% said 24 months was the maximum. In July 2020, only 8% state that their business can sustain for no more than another 6 months, while 64% now believe that 24 months is the maximum. More than one third of the family businesses say the impact of the coronavirus crisis does not have any impact on the survival of the business (anymore).

Figure 5. Expected number of months the family businesses can survive the coronavirus crisis, measured in April and July 2020



1e. Conclusion economic indicators

There is still a real threat due to the coronavirus crisis to the survival of Dutch family businesses. However, the directors of the Dutch family businesses that participate in the RSM–Nyenrode Family Businesses research panel are more optimistic in July 2020 than they were in April 2020. Table 1 summarizes the averages of the four economic indicators discussed above.

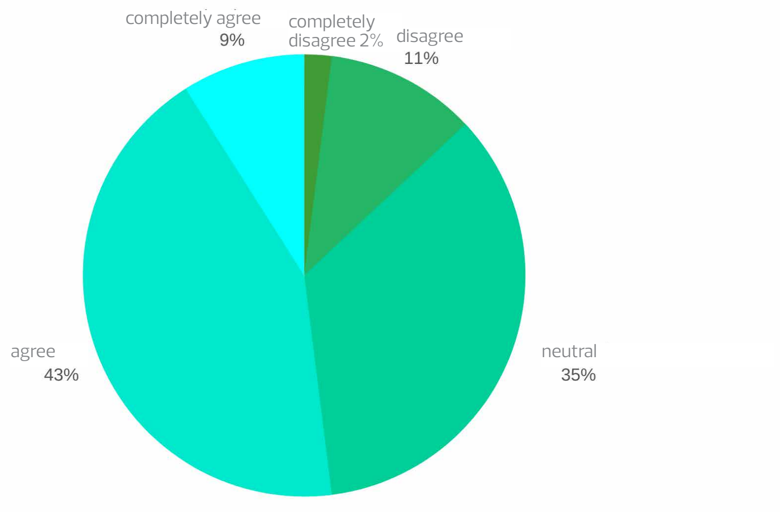
Table 1. Averages of economic indicators under Dutch family businesses in April and July 2020

Economic indicator	April 2020	July 2020
Decrease in percentage of revenue 2020 and the same period 2019.	36,3%	2,9%
Expected decrease in percentage of employment 2020 versus 2019.	8,2%	0,5%
Expected decrease in percentage of profitability 2020 versus 2019.	41,8%	4,9%
Expected number of months the business can persevere.	9%	77,2%

Government measures during the coronavirus crisis

The government intervened quickly during the coronavirus crisis. Measures had been taken to stop the COVID19 virus from negatively affecting the business operations of many businesses. The government also took action to mitigate the economic impact of these measures. More than half of the directors of the family businesses believe that the measures taken by the government so far are adequate for their business (see Figure 6). However, for 13% of the directors, the measures are insufficient to support their business during the coronavirus crisis.

Figure 6. The measures taken so far by the government are sufficient to support our business through the coronavirus crisis



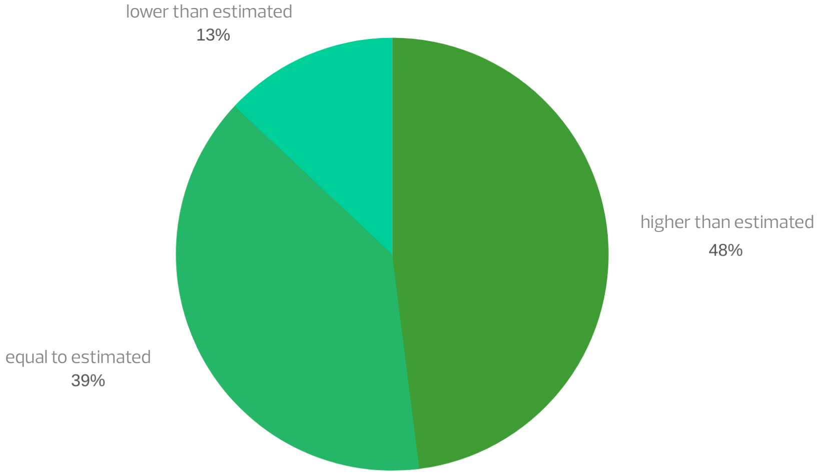
In our research, we discussed the NOW schemes and the tax deferral possibility. Below we will discuss the following three research results:

- NOW schemes
- tax deferral
- reimbursement of the coronavirus crisis costs

2a. NOW schemes

Exactly half of the businesses participating in the RSM-Nyenrode Family Businesses research panel used the NOW 1.0 scheme. Of the family businesses that have made use of this scheme, 48% indicate that the actual realized revenue is higher than the earlier estimation of the revenue decline at the time of the application for the NOW 1.0 scheme (see Figure 7). Revenue was lower for 13% of family businesses than when the NOW 1.0 scheme was applied for. Here too it appears that for most family businesses, the final impact of the coronavirus crisis is less negative than had been estimated in April.

Figure 7. Ratio between the realized revenue versus earlier estimation of revenue decline at the time of the application for the NOW 1.0 scheme



As of July 6, it is possible to apply for the NOW 2.0 scheme. Of those participating in the family businesses panel, 26% expect to apply for this scheme. It is striking that an overwhelming majority of family business directors support the conditions imposed on the entitlement to the NOW 2.0 scheme. For example, 83% of the directors feel that it is justified that in that case no bonuses should be granted, and even 85% agree that no dividend may be paid over 2020 when entitled to the NOW 2.0 scheme (see Table 2).

By no means all directors of family businesses believe that the NOW scheme takes sufficient account of the conditions of their businesses. A third of all directors say that this is not the case. A director phrases it as follows: "Our business has 30% less revenue, but because we are a seasonal business, we are not eligible for the NOW scheme. Now we have to pay back 5 hundred thousand [received from NOW]. That's a very bad development of the NOW."

Table 2. Statements regarding NOW schemes and staff retention

Statement	(Strongly) agree	(Strongly) disagree
The NOW scheme takes insufficient account of the circumstances of our business.	33%	24%
The applicability of the NOW scheme is important for our decision-making to fire, retain and/or hire people.	28%	35%
It is justifiable that a business should not pay **bonuses** to the board and members of the Executive Board if they wish to make claim to the NOW 2.0 scheme or extend the deferral of tax.	83%	7%
It is justifiable that a business should not pay a dividend over 2020 if it wants to make claim to the NOW 2.0 scheme or receive a extend the deferral of tax.	85%	7%
It is a viable option for our business to ask from the staff to make wage concessions to avoid layoffs.	15%	63%
Our staff's temporary contracts are not renewed.	26%	50%

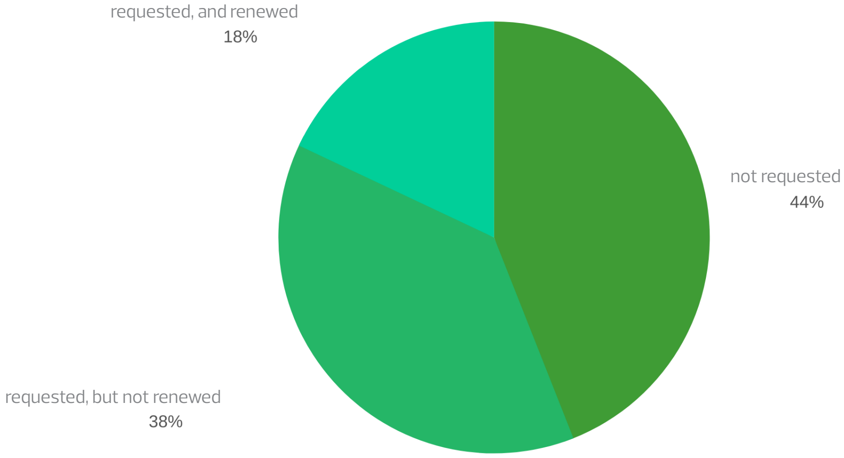
The applicability of the NOW scheme is important to 28% of the directors of family businesses decision-making to fire, retain and/or hire people. In addition, 26% of the directors indicate that temporary contracts are not renewed during the coronavirus crisis, and to 15% of family businesses it is a viable option to request wage concessions from staff to avoid layoffs.

2b. Tax deferral

In addition to the NOW scheme, it is also possible for businesses to request deferral of tax. This can be in the form of deferred for payroll tax, VAT, or corporate income tax. A majority (56%) has actually requested for a tax deferral. However, as a director points out, "you shouldn't lose sight of that what you put off now eventually has to be paid."

It is also possible to extend the business' deferral of tax payments. Of family businesses that have filed for tax deferral in the first place, 68% do not intend to extend that deferral (see Figure 8). In total, 18% of all family businesses will prolong the deferral. It should be noted that only 56% of family businesses that initially filed for tax deferral say they are aware of the additional terms and conditions in relation to prolonging this deferral.

Figure 8. Tax deferral whether or not requested, and intention to renew this application



2c. Reimbursement of the coronavirus crisis costs

Now that everyone in the Netherlands is still in the midst of the coronavirus crisis, it may be premature to think of how the extra government expenditure for businesses should be repaid. At the moment, public debt is rising faster than we are used to, and it is almost inevitable that the current crisis is financed by raising taxes in the future. With this in mind, we presented the directors of the RSM-Nyenrode Family Businesses research panel a number of possibilities (see Table 3).

Table 3. Which taxes should be raised to finance the current crisis?

Taxes	Percentage
Payroll tax or income tax on labor	16%
VAT	31%
Corporation tax	22%
Income tax on assets	20%
Sustainable interest in the levy	11%

The research results show how difficult it will be to ultimately choose which tax or taxes should be raised to finance the costs of the current crisis. The directors of family businesses are in any case divided over the issue; almost a third say it will have to go through VAT, but all other possibilities are also chosen frequently.

The family business and the entrepreneur

In the previous report on the family businesses and the coronavirus crisis, we paid particular attention to the way in which the family business and the entrepreneur respond to the coronavirus crisis. Interesting results are presented in the second study in the areas of financing, innovation, the vulnerability of the entrepreneur, and changes in insights.

As can be read in Table 4, only 15% of family businesses state that they have to raise additional external funding because of the coronavirus crisis. If the family business does need extra funding, half of the family businesses intend to solve this by means of contributions through economic contributions from the shareholders or by means of their personal resources.

Table 4. Statements regarding the family business and the entrepreneur during the coronavirus crisis

Statement	(Strongly) agree	(Strongly) disagree
Due to the coronavirus crisis, we will need additional external funding.	15%	72%
If we need extra funding due to the coronavirus crisis, we will solve this through economic contributions from our shareholders or using our own money.	50%	24%
The coronavirus crisis has led to **lasting** innovation within our business.	61%	9%
The current coronavirus crisis is a personal reason for me to think about my succession sooner.	24%	61%
The current coronavirus crisis is a personal reason for me to think about what will happen to our business when I'm gone sooner.	30%	46%

Winston Churchill's quote "Never waste a good crisis," is certainly not lost on Dutch family businesses. Earlier research done by Nyenrode have already shown that family businesses have emerged from the financial crisis stronger than before. Now 61% of the family businesses indicate that the coronavirus crisis has led to lasting innovation within the business.

In addition, the coronavirus crisis can be a good reason for the director's self-reflection; this actually turns out to be the case. Almost a fourth of the family business directors indicate that the current coronavirus crisis is reason to think about their succession sooner. And 30% also indicate that the crisis is reason to think more about what will happen to the business when they are no longer there themselves.

Finally, we asked the entrepreneurs to indicate what insights the coronavirus crisis has brought them. Table 5 lists some of these insights.

Table 5. Insights the entrepreneurs acquired during the coronavirus crisis

- That there are always circumstances no one can predict. That you have to be prepared for that, and that you have to have the will-power and assets and capabilities to take action.
- That there is a lot possible online, but that you do the real things "face-to-face".
- That as a business, you are more dependent on external factors than you always thought you were.
- That this crisis is not just threatening but offers a lot of opportunities too.
- That you have to take good care of the staff during difficult times. That you need to reassure them and give them confidence.
- That you should also try to continue doing business in difficult times.
- That working from home is possible more often than was previously assumed.
- Headache.
- That good planning is a great thing, but you have to be very flexible to be prepared for something like that.
- That during the crisis, you focus on the short term and on liquidity.
- That you get the feeling that together you can deal with this crisis. The willingness to cooperate and collaborate has increased. Staff realize that they are fortunate to be able to work.
- That we cannot rest on past results. Risk diversification is more important.

About RSM:
RSM is one of the leading consultancy firms and a full-service provider in the field of fiscal and accountancy questions, financial processes and (up-to-date) laws and regulations for SMEs and family businesses. With 11 locations and over 550 professionals across the Netherlands, RSM offers both regional and national services.

Thanks to intensive cooperation within the worldwide RSM network, RSM also a wide range of financial services to international clients. RSM supports the growth and development of (larger) (international) family businesses within the SME segment.

For more information about RSM, please call 072-541 11 11 or send an email to info@rsmnl.nl.

About Nyenrode Business Universiteit:
Nyenrode Business Universiteit is the only private university in the Netherlands, founded in 1946 for and by the business. Nyenrode is a household name in the field of family businesses and has been researching this since 1992. The connection with business is still its lifeline, with the research results that are benefiting to both the business as well as the students.

About the RSM-Nyenrode Family Businesses research panel:
In 2019, RSM and Nyenrode Business Universiteit started a research panel aimed specifically at family businesses. As many as 70 larger family businesses are taking part in the panel, and this number is growing steadily. Eighty-six percent of the respondents are themselves owners of family businesses, while 9% of the participants are related to the owner. The general data for the RSM-Nyenrode Family Business Research Panel were collected in April and May of 2019; the data for the second coronavirus survey were collected from 2 to 13 July 2020. The data for the first coronavirus survey are collected between March 30 until April 3, 2020. In total, 55 of the 70 family businesses participated in the coronavirus surveys, with 37 family businesses participating in both coronavirus surveys. The researchers are very grateful to these families and businesses in this difficult period to have given up their time and energy to participate in the study. Without them we could not have written this report.

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