



FAMILY BUSINESSES ARE SUFFERING FROM THE CORONA CRISIS, BUT THEY ARE RETAINING PERSONNEL AND FEELING OPTIMISTIC ABOUT THE FUTURE

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The 270,000 family businesses in the Netherlands are being severely affected by the corona crisis, just like all other enterprises. The family businesses in this study anticipate an average revenue loss of 40% in April 2020 compared to April 2019. In addition, 22% of the family businesses that were profitable last year already expect to make a loss for the whole of 2020. The family businesses surveyed think they will be able to withstand the corona crisis for 10.3 months on average, but 12% believe they will make it no more than three months. However, previous Nyenrode research during the financial crisis revealed that family businesses deal with a crisis differently from other companies. This is why we asked the RSM-Nyenrode Family Businesses Research Panel how they are handling the corona crisis.

According to the Research Panel, despite the fact that family businesses are being heavily impacted by the measures surrounding the corona crisis, they would rather eat into their own capital than lay off their personnel. Nearly 60% of the family businesses surveyed do not expect a decrease in their employee numbers compared to the same period in 2019. In 36% of these businesses, temporary contracts will not be extended for the period ahead. In total, the family businesses expect employment to be 8.2% lower than in the second quarter of 2019.

The strength of family businesses' long-term perspective is clearly evidenced by their retention of staff in times of crisis. The family businesses in this study are largely willing to eat into their own capital (64%) and forgo dividends (92%) because they anticipate that things will improve again after the corona crisis, at which time they will desperately need the employees whom they worked so hard to recruit.

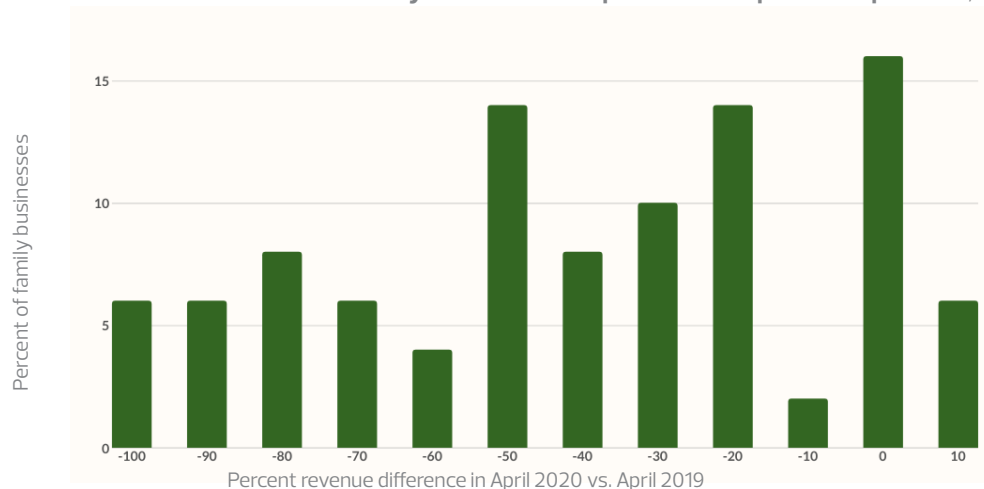
The directors of family businesses are relatively satisfied with the actions of the government and the banks during the corona crisis. Only 22% of the family business directors surveyed are not satisfied with the government measures. However, 54% of the directors state that the Dutch Tax and Customs Administration should now automatically grant a tax deferral instead of requiring businesses to submit an application.

Most of the family businesses are optimistic about the future. Only 12% are pessimistic about the future of their family business after the corona crisis. A number of directors will use the crisis period to develop innovations and adjust company policies, while several others have viewed this crisis as cause for reflection on how to make their business less dependent on them in the future.

Economic effects of the crisis on family businesses

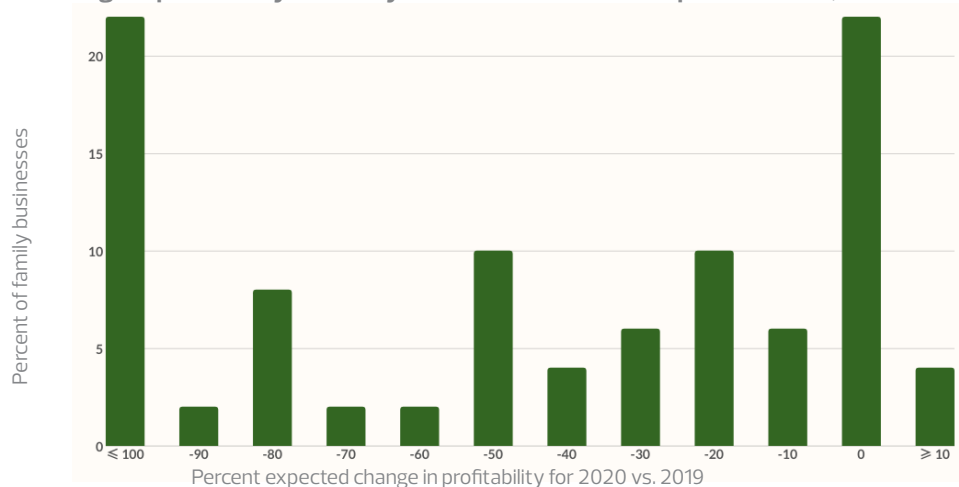
Dutch family businesses are being severely affected by the crisis. A total of 78% of all family businesses surveyed indicate that they expect to suffer a loss of revenue in April 2020 compared to the same month last year (see Figure 1). Some 6% of these family businesses have seen their revenue completely disappear, and 44% state that their expected revenue for April 2020 has decreased by at least half compared to April 2019. Revenue will remain the same for 16% of the family businesses, while 6% anticipate slightly higher revenue this month compared to April of last year. On average, the family businesses in this study anticipate a revenue loss of 40% for April 2020..

Figure 1. Expected difference in revenue for family businesses in April 2020 compared to April 2019, due to the corona crisis



In addition to seeing their revenue hit hard by the corona crisis, family businesses also note that the overall profitability outlook for 2020 is quite bleak. Around 22% of the family businesses surveyed expect that their profitability from 2019 will turn into a loss for the whole of 2020, or that at best they will break even for the year (see Figure 2). Some 47% of the family businesses anticipate that at least half of their annual profit from 2019 will be lost in 2020 due to the corona crisis. A total of 22% expect to achieve the same annual profit, while 4% expect their profit to increase in 2020. On average, these family businesses will lose over 43% of their profitability in 2020. This percentage is likely much higher in reality, since we did not ask for the amount of projected losses in the survey and therefore cannot include this information in our calculations.

Figure 2. Expected change in profitability for family businesses in 2020 compared to 2019, due to the corona crisis



Note: For the 22% of family businesses that will lose 100% or more of their profitability in 2020 compared to 2019 (≤ -100), this means that they will end the year by either breaking even or suffering an overall loss..

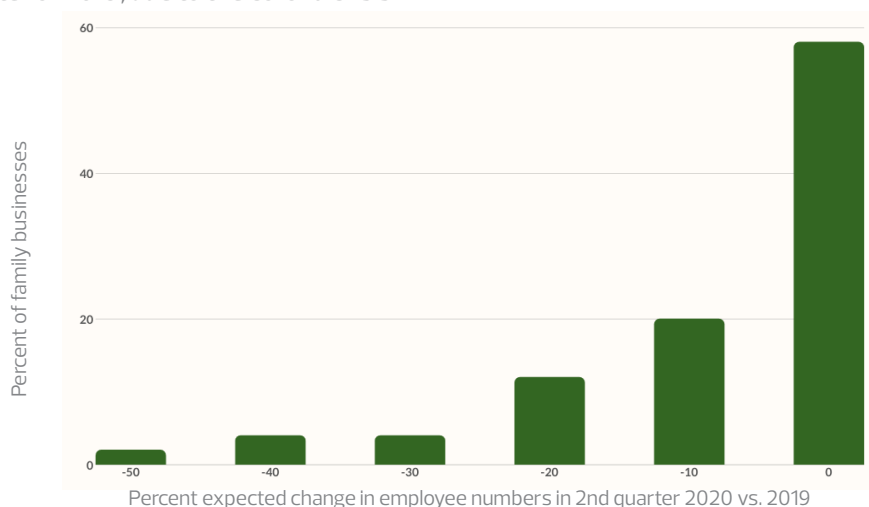
Directors are deeply concerned about the consequences of the corona crisis on their family business: 28% of the directors surveyed state that this keeps them up at night. Furthermore, 14% of the family businesses in this study were not adequately prepared to work remotely (i.e. digitally). The effects of the corona crisis are not limited to family businesses themselves: 72% of the family businesses indicate that the crisis is also impacting deliveries from suppliers.

Retaining personnel in times of crisis

The study conducted by Nyenrode in 2011 revealed that family businesses are strongly committed to retaining their employees for as long as possible, even if this is at the expense of the business's own capital or the dividends for the owners. In addition, our 2015 study on family businesses' marketing towards the labor market showed that employees of family businesses remain employed longer than those of non-family businesses, and that 68% of family business employees also prefer working at a family business. All this creates a close connection between the family business, the owners and the personnel. It was therefore important for this panel survey to examine employee retention at family businesses during the corona crisis.

A majority of the family businesses surveyed (58%) state that the number of staff during the corona crisis will not decrease compared to the same period in 2019 (see Figure 3). In total, the family businesses expect employment to be 8.2% lower than in the second quarter of 2019.

Figure 3. Expected change in number of employees at family businesses in the second quarter of 2020 compared to the second quarter of 2019, due to the corona crisis



Family businesses are remaining loyal to their personnel during the corona crisis as well. In fact, nearly two-thirds of the family businesses surveyed (64%) state that maintaining jobs during the corona crisis is the business's primary goal (see Table 1). Accordingly, almost all of the family business owners (92%) would rather forgo dividend payments than lay off staff. A further 64% of the family businesses indicate that they would eat into their own capital before downsizing their workforce. However, over one-third (36%) will not extend employees' temporary contracts during this period.

Table 1. Statements regarding family business personnel and the corona crisis

Statement	(Strongly) agree	(Strongly) disagree
Maintaining jobs is our most important goal during the crisis.	64%	14%
It is important for us to retain as many employees as possible, because we will desperately need them after the corona crisis.	74%	8%
Our business will eat into its own capital before laying off personnel.	64%	16%
The owners of our business are more likely to forgo dividends than lay off personnel.	92%	2%
Our business will not extend our employees' temporary contracts.	36%	30%
We had a lot of difficulty recruiting staff last year.	60%	30%

The close connection between family businesses and their employees was mentioned earlier, but other important effects relating to business economics play a role as well. Many family businesses

(60%) struggled to recruit staff in 2019. The strength of family businesses' long-term perspective is clearly evidenced in this regard. These businesses are largely willing to eat into their own capital and forgo dividends because they anticipate that things will improve again after the corona crisis, at which time they will desperately need the employees whom they worked so hard to recruit.

Government and banks

The Dutch government has taken full responsibility in this corona crisis. In doing so, the clear choice has been made to prioritize public health interests over the country's economic interests. This does not change the fact that the government has taken measures to mitigate the economic consequences of its decisions. The measures in effect during the data collection period of this study were as follows (rijksoverheid.nl, April 3, 2020):

- Implementation of temporary scheme to help companies pay wage costs
- Additional support for independent contractors
- Relaxed rules with respect to payment of taxes and reduced tax interest rate
- Broadened scope of Guarantee Corporate Financing scheme
- Interest rate deduction on Qredits microcredit for small businesses
- Temporary guarantees for agriculture and horticulture companies
- Discussions regarding tourist tax (central government/municipalities) and the arts and culture sector
- Compensation scheme for impacted sectors

Not all measures are equally relevant for Dutch family businesses at the moment, and others are sector-specific. Nevertheless, we still asked the respondents about the overall set of measures. Figure 4 shows that the directors of family businesses are largely satisfied with the government measures in place. Only 22% of the directors disagree.

Figure 4. Family business directors satisfied with measures announced by the government to help businesses during the corona crisis

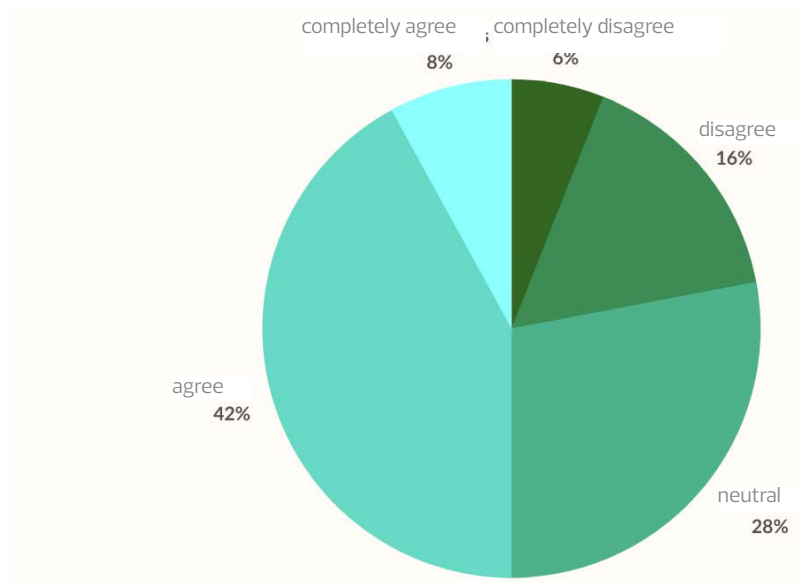


Table 2 shows that the directors of Dutch family businesses are fairly satisfied with the actions of the government and the banks. However, two considerations regarding the government policy in relation to taxes are important for the government to take into account. The majority of the family business directors surveyed (54%) believe that the Dutch Tax and Customs Administration should automatically grant their business a tax deferral during the crisis rather than requiring them to submit an application.

Table 2. Statements regarding the government's and banks' actions towards family businesses during the corona crisis

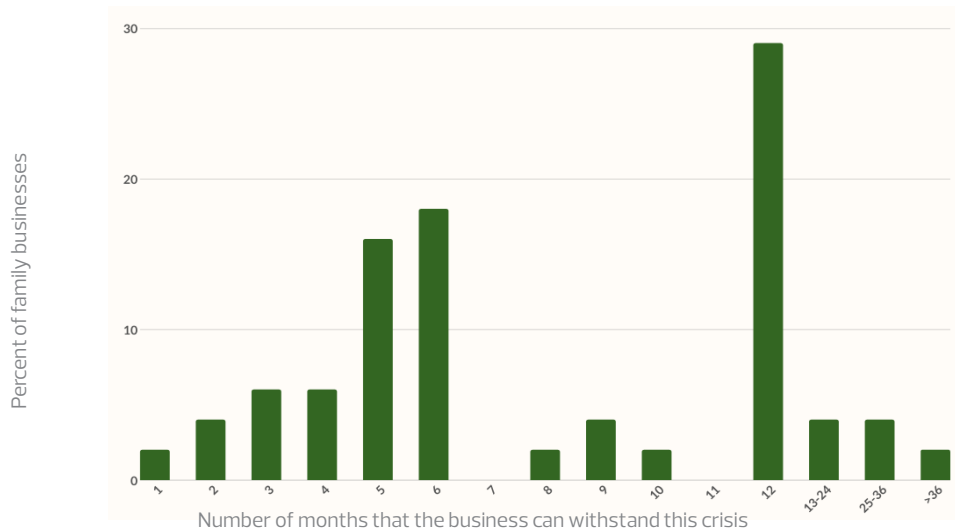
Statement	(Strongly) agree	(Strongly) disagree
I am satisfied with the measures that the government has announced to help businesses.	50%	22%
A three-month tax deferral is too short for our business.	38%	26%
The Dutch Tax and Customs Administration should automatically grant our business a tax deferral instead of requiring us to submit an application.	54%	30%
We would rather eat into our own private capital than ask the bank to postpone our financial obligations (such as repayment of a mortgage or line of credit).	24%	48%
I am satisfied with the attitude of the banks towards our business in this crisis.	42%	16%

The position of the banks during the corona crisis has also fared relatively well thus far. Nearly half of the family business directors surveyed (42%) state that they are satisfied with the banks' attitude towards their business during this crisis. Only one-sixth of the directors disagree with this statement. Furthermore, one-fourth of the family businesses would rather eat into their own private capital than ask the bank to postpone their financial obligations (such as repayment of a mortgage or line of credit).

Resilience, the future and reflection

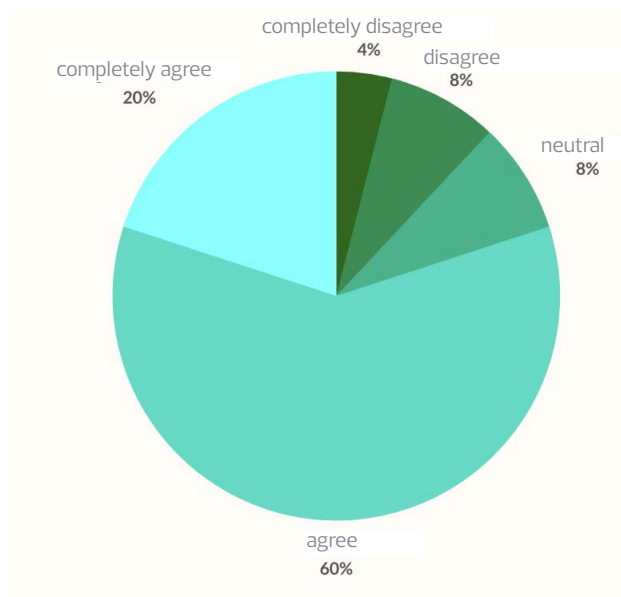
Family businesses are known for their resilience. They can survive an economic downturn because they make less use of external financing and leave a great deal of family capital in the business. But for many family businesses, the effects of the corona crisis are more severe than those felt during an economic recession. An average revenue loss of 40% is not sustainable for long. Figure 5 shows that 12% of the family businesses surveyed think they can withstand this corona crisis for a maximum of three months. At the same time, 39% believe they can hold out in these circumstances for at least a year. On average, the family businesses think they can withstand the crisis for 10.3 months.

Figure 5. Number of months that family businesses can withstand the corona crisis



Despite the sharp decline in revenue and profitability due to the corona crisis, the Dutch family business directors feel positive about the future: 68% of the directors surveyed feel optimistic about the future of their business after the corona crisis, and only 12% disagree (see Figure 6).

Figure 6. Directors optimistic about the future of their family business after the corona crisis



Not only are many family business owners optimistic about the future, they also see the effects of the corona crisis as opportunities for the near future (see Table 3). For instance, 46% of the directors of family businesses state that this crisis presents opportunities for the business, a similar percentage (44%) say that the corona crisis gives the family business a new push to innovate, and a further 46% indicate that the crisis has given them reason to adjust business policy in the future. But many of the directors (84%) would not go so far as to say that the corona crisis will ultimately benefit their business.

Table 3. Statements regarding the future of family businesses after the corona crisis

Statement	(Strongly) agree	(Strongly) disagree
The corona crisis presents opportunities for our business.	46%	32%
The corona crisis gives our business a new push to innovate.	44%	34%
The corona crisis will ultimately benefit our business.	16%	58%
The corona crisis has given me reason to adjust my business policy in the future.	46%	28%
For me personally, the current corona crisis has prompted me to think sooner about my succession.	8%	58%
For me personally, the current corona crisis has caused me think sooner about what will happen to my business when I'm not here anymore.	28%	46%

Table 3 also shows that the corona crisis has now prompted a number of family business directors to reflect on their own future role. Many family businesses depend on just a few people, with the director typically being one of them. For 28% of the family business directors surveyed, the corona crisis has been a direct reason to think sooner about what will happen to the business if its director is no longer around. For 8% of the directors, the crisis has even caused them to think sooner about their own succession.



Recommendations for family businesses

It is nearly impossible for businesses to prepare for the economic effects of a crisis like the current corona pandemic. However, the situation we now find ourselves in makes it all the more clear that entrepreneurs and owners of family businesses are more vulnerable than they would like to be in several areas. The virus not only impacts the entire economy, but also affects our lifestyle and our health.

The results of the RSM–Nyenrode Family Businesses Research Panel provide insight into the impact of the coronavirus on family businesses. Based on this study, we would like to draw your attention to the following:

- Carefully consider whether or not you will take advantage of the government measures. There is a moral appeal to only make use of the emergency measures if this is truly necessary in order to retain your staff. Improper use of the measures not only poses a risk of heavy fines, but also carries a high risk of damage to your business's image and reputation.
- Be aware that deferral of payment (e.g. of taxes) does not mean cancellation; a good liquidity plan is crucial.
- Pursue inventive solutions and new working methods when normal processes are disrupted. During this period, it seems like many things can be arranged in a short time span that would otherwise take several years.
- Check whether your business policy needs to be adjusted due to the corona crisis. Perhaps you can use this period to develop innovations in your products, services or processes. You could also think of new product–market combinations.
- Check whether your debtor policy needs to be adjusted in the short term. Take good care of your employees as well. Bear in mind that they are also being significantly impacted, and now have the double burden of caring for parents/children and worrying about their job.

In addition to the financial and economic consequences identified in the survey, we noticed that the coronavirus has prompted people to think about whether they have all their affairs in good order. We would therefore like to bring a few other points to your attention:

- Do you have a will, and does it still meet your needs and comply with current legislation?
- Do you have a living will in which you grant someone power of attorney to represent you once you are no longer able to do so yourself?
- Have you discussed the continuation of your business in an emergency situation with your immediate family members or relatives?



About RSM:

RSM is the premier adviser and full service provider in relation to fiscal & accountancy issues, financial processes and (current) legislation for the SME sector and family businesses. With 11 locations and 500 professionals spread across the Netherlands, we provide our services both regionally and nationally.

Through close cooperation within the global RSM network, RSM also offers international clients a comprehensive range of financial services. RSM supports the growth and development of large international family businesses in the SME sector.

About Nyenrode Business University:

Nyenrode Business University is the only private university in the Netherlands, founded by and for the business community in 1946. Nyenrode is a household name in the field of family business and has been conducting research on this topic since 1992. Nyenrode's connection with the business community is still its lifeline, with the research findings benefiting both businesses and students.

About the RSM–Nyenrode Family Businesses Research Panel:

In 2019, RSM and Nyenrode Business University created a research panel focused on family businesses. Seventy large family businesses are now part of the panel, and this number is steadily increasing. A total of 86% of the respondents own their family business, while 9% of the respondents are family members of the owner. The general data for the RSM–Nyenrode Family Businesses Research Panel was collected during April and May of 2019, and the data for the coronavirus study was collected from March 30 through April 3, 2020. Despite this extremely short data collection period, a total of 50 directors still completed the entire questionnaire. We are deeply grateful to all respondents for their prompt replies, especially in such a difficult time for families and businesses. Without their participation, we would not have been able to write this report.