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Pattrick Smellie: Lessons from family businesses to a post Covid-19 future

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Family-run businesses' nimbleness and resilience food for thought as NZ emerges from Covid-19. Photo / Getty Images

BusinessDesk

By: Pattrick Smellie

One of the truisms in the agricultural sector is that family farms tend to survive hard times better than corporate-owned farms.

Family farms may not have the economies of scale or the capital to invest in new technology, but they have things that a corporate farming operation can never aspire to and which are closely tied to the heady combination of love, obligation and shared DNA.

A family unit pulls together in crisis in ways that a collection of shareholders will never do.

It can be a prison for family members who want out, but the ability of a family to pool its resources – financial, social, and professional – to overcome adversity is a powerful thing.

Is it too much to hope that a similar truism may play out widely as New Zealand businesses emerge from the Covid-19 crisis?

As economists rethink their estimates of the severity of Covid's impact on the New Zealand economy because lockdowns are ending earlier than expected, could another source of relative resilience be the often overlooked dynamics of successful family enterprises?

Philip Pryor, who has been running the Family Business Central consultancy from a variety of locations including Christchurch, Nelson and Sydney during the Covid lockdown period, is observing up-close how the particular resilience of family-owned enterprises can assist in hard times.

"I'm meeting with 10 to 17 family businesses a month at the moment," he says on a Zoom call from what appears to be somebody's spare room in Sydney. "Apart from tourism, they are actually doing quite well."

One big farming operation has taken some hard knocks, "but they haven't had to lay anybody off yet and they will get through this fine."

Like just about every type of business owner still standing after the lockdown period, the family businesses that Pryor advises have "worked like hell".

While many are the kinds of small and medium-sized enterprises that typically adjust more nimbly to changing economic conditions than a large corporate, Pryor is at pains to stress that smallness is not a definition of a family businesses.

There are plenty of very large family businesses. In New Zealand, think Todd Corporation, or the Spencer, Goodfellow, and Michael Hill Jeweller empires.

Nor does Pryor count husband-and-wife teams as family businesses. He looks for the involvement of siblings and more than one generation in his definition.

Their common characteristics tend to be:

- frugality in good times and bad, meaning they often hold better cash reserves and can avoid seeking help from a bank;
- a healthy scepticism about capital expenditure. They tend to set the bar high on new investments;
- a long term approach to expectations of profitability and dividends;
- a tendency not to carry significant levels of debt;
- a flair for retaining talent, in part because some of that talent comes from within the family and in part because family businesses that hire external talent have cultures with a greater sense of commitment and purpose than 'ordinary' companies;
- they tend to grow organically rather than acquire other businesses for growth, although Pryor says a couple of the family firms he works with moved fast when opportunities – both anticipated and unexpected – emerged during the Covid lockdown period. Having cash on hand and swift decision-making processes helped them to move far faster than competing bidders.

International studies also suggest that family firms are more likely to have a diversified range of assets, which tends to make them more resilient to recession. Perhaps unexpectedly, the global figures on family businesses also suggest they are more likely to have international operations.

That appears to be less true among New Zealand family firms. That was one key finding of a 2016 study by PwC of the local scene found New Zealand family businesses.

The same study also found New Zealand family firms were more tightly held than their global peers, with only 10 percent having 'outside' shareholders versus 28 percent globally, as measured by PwC.

Many appeared underprepared for digital technology disruption and were unambitious about expanding beyond existing product lines and sources of revenue.

However, the massive uptake of digital communications and e-commerce during the recent lockdown suggests many businesses have not found the technology transition difficult, when faced with an urgent need to pivot.

To help cope with the sudden change in economic conditions – after all, the New Zealand economy was entering its 12th year of uninterrupted growth when Covid-19 struck – Pryor has often helped family businesses to establish "instant advisory boards" to capture more perspectives quickly.

Yet even here, being a family business can be an advantage.

What a family's common gene pool may lack in terms of modern-day concepts of corporate diversity can be offset by the ability to reach across generations and into other families through marriage, friendship and partnerships to access to personal networks for experience and expertise.

Business connections made through family ties often start with a greater sense of trust and purpose than the potentially random 'request for proposal' process that businesses traditionally use to source expert advice and services..

In New Zealand, family businesses are still not statistically likely to endure much beyond a second generation of ownership.

However, that may reflect the nation's relative youth.

Research by US family business consultancy Headwaters in 2018 found that US family businesses with annual revenues of between US$100 million and US$3 billion were less likely to fail during downturns.

Nearly three-quarters of them had been owned by between two and five generations of a family, meaning they had gone through somewhere between 25 and 100 years of economic cycles of recession, recovery and boom times.

To survive that long, many have also created enduring cultures and brands that prize reputation and benefit from long-term perspectives.

As New Zealand's 'team of five million' faces a less globally connected future and a greater reliance on the skills and entrepreneurship within its own borders, family-owned businesses might reasonably be expected to be disproportionately significant contributors.

(BusinessDesk)