

Unforeseen Crisis Made These Family Businesses Stronger

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Pandemics, wars, and natural disasters can have a significant impact on the economy and its organizations. Such events are called “exogenous shocks” because they come without warning from the outside and trigger crises within the organizations as they scramble to react and survive.

Family businesses have often found themselves especially vulnerable to exogenous shocks due to their size, structure, and preference for self-financing. These shocks can affect family businesses in many ways. Reduced demand for products or services can lead to fewer sales and increased inventories. Raw materials and financing options may be in short supply. However, our research also revealed a silver lining: External shocks motivated the family firms to reckon with what they stood for as a family and consolidate it with their business strategy.

Through consolidating their business and family identities, and questioning and strengthening their understanding of “who are we” and “what do we stand for,” the family backed up their strategic positioning and defined guidelines to help them deal with future shocks.

Our research (Alguera Kleine, Ge & De Massis, 2023) into six German family businesses provides interesting insights into their questioning of their identity, (“who are we as an organization,”) through a look at their strategic responses to the challenges posed by the COVID-19 pandemic. German Mittelstand, as the backbone of the Germany’s economy, is known for its closeness to customers and employees. The disruption caused by the pandemic forced the Mittelstand firms in our research to question how to maintain that closeness. For example, while large corporations were able to provide home office solutions for their employees, Mittelstand firms were forced to find alternative solutions. They often lacked the money and the IT

infrastructure to keep running smoothly while employees quarantined, and customer relationships were disrupted. As a result, these family firms were indeed forced to rethink their strategic positioning. This, counterintuitively, provided an invaluable opportunity for these family businesses to reconsider their strategy and thus their identity.

Reflecting on Identity During COVID-19

Driven by the pressure to keep everyday operations going, many family firm owners do not take time to reflect on what their firm stands for and which values it represents. Many family firms suffer from an unstable or even unclear identity that is not aligned with their business strategy. However, uncertainty caused by external crises like COVID-19 can highlight the discrepancy between family and business goals, providing a rare opportunity for family business owners to (re)define the identity of the family businesses.

Exogenous shocks like COVID-19 and the resulting disruptions in working conditions, production, and financing options require family firm owners to rethink which strategic option suits them best. To do so, they must clarify how their understanding of the organizational identity (“who are we as an organization” and “what do we stand for”) and strategy are aligned. As one family firm member told us:

“For over 100 years, it has been part of our family business’s DNA to always make the best out of every situation.”

They also must resolve the trade-off between maintaining what they stand for and doing what must be done as they shift their strategy. Business owners felt compelled to clarify their previously unclear identity, balancing it with the need for growth. While the family

focus often prioritizes preserving the company's identity as a family business that promotes employee and customer closeness, the growth focus often must reduce that closeness to advance the company's interests. As one of our interview subjects told us:

"So, I mean this crisis was completely different to any crisis before and we can't just apply the concepts that our predecessors have used. So, what we did in this crisis was we involved our employees a lot more than usual. We talked to them a lot more. We implemented an even more open communication, and I think that was good. Because we have to be transparent, and we have to involve our employees."

For Mittelstand family firms whose business model was based on customer contact and the manufacturing of goods and services, COVID-19 meant large pressure on the financial survival of the firms:

"We had a bit of financial difficulties in the time before the merger and before the pandemic, and it was clear to us that we had to change, we had to find a solution."

Three Stages of Clarifying Identity

We found three stages of identity changes in the Mittelstand companies: prior to Covid-19, the first encounter, and the new normal.

Prior to COVID-19

While some Mittelstand family firms had a consistent and stable identity, where strategy and identity were meaningfully aligned, other firms had less consistent identities due to strategic tensions between the family and business goal systems.

The First Encounter

During COVID-19, confronted with changes in competition and markets and required strategic deviations, family firms with well-established identities initially questioned that identity, but ultimately reinforced it. However, family firms with less-defined identities experienced more soul-searching and turbulence during the pandemic. Competitive challenges and the resulting necessary strategic shifts made them question their identity and ponder "what do we stand for" for the first time. Then, by aligning strategy with this newfound identity, they were able to stabilize and reinforce it.

We found that identity-stable family firms strengthened

their identity by choosing either a family or growth orientation. While preserving a consistent sense of what the organization continues to stand for could result in missed business opportunities, the elaboration or reformulation of prior claims provided identity stability during times of strategic change.

However, families with unclear identities were able to construct one – from their entrepreneurial activities and values that were important to the family in the past. Here, an identity was constructed, inspired by a previous identity and the family firm's history. The crisis and the financial fallout motivated these family businesses to re-establish a family atmosphere and preserve family values rather than pivoting their business for the sake of profits.

The New Normal

Despite the uncertainty in how long the pandemic would last, we found that some family businesses had, after one year of being in the pandemic, made strategic changes to deal with the identity challenge. Identity-inconsistent Mittelstand firms that were forced to further professionalize constructed an identity not based on family history, but towards a complete reorientation of the family business. In these cases the family reduced its presence in the business to ensure the firm's survival, pivoting the family values toward a stronger focus on efficiency, professionalization, and either a merger, aggressive growth, downsizing, or profound restructuring.

Emerging Stronger: Knowing 'Who We Are'

What does this mean for family firm owners?

- First, a family firm's unique identity stemming from the closeness with the family can serve as a guide for strategy-making during exogenous shocks. A clear identity is the north star for evaluating strategic options and acting upon them.
- Second, exogenous shocks can have a positive impact on the family firms' identity, by either reaffirming it or forcing them to look within themselves and define it.
- Third, although Mittelstand firms often struggle to verbalize and describe their identity claims, taking time to understand "what do we stand for" and "how do we act according to this" can

help Mittelstand firms maintain their uniqueness -- i.e., closeness to employees, customers, and partners -- despite financially difficult situations during crises.

- Finally, our research calls for policymakers to understand that crises such as COVID-19 can cause major disruptions to family firms. Understanding the challenges posed by often conflicting family and business identities, the policymakers need to consider providing clear rules on how to deal with industry disruptions from factors beyond their control. They should give these family firms the time and resources to re-define their priorities as a family and develop new business strategies for emerging from the crisis.

Explore the Research

Alguera Kleine, R., Ge, B. & De Massis, A. Look in to look out: strategy and family business identity during COVID-19. *Small Bus Econ* (2023).
<https://doi.org/10.1007/s11187-023-00846-3>