

Family Businesses Must Plan for the Unthinkable

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KEYWORDS: Leadership, Family Business, crisis management.

It's been almost 14 months since the first Covid case was reported and, in that year, a great deal has happened. Very few business owners, particularly in North America, took the potential for a crisis seriously at that point. In a research project my colleagues and I have been conducting since April, we found that while over 60% of the larger businesses had plans for a digital or cyber crisis, far fewer had done any planning for a pandemic—around 6%. This in the face of the medical community's repeated warnings that a worldwide pandemic, causing global chaos, was only a matter of time. This was no Black Swan.

We had warnings and we've had close calls—among them SARS, EBOLA, Swine Flu, and MERS. I think it is imperative we ask ourselves, "Why do so many people minimize real threats, and what can we do to make sure that we make appropriate preparations for future pandemics and other sources of existential threat?" The tendency to downplay threats seems almost universal and very human. It is very dangerous—just ask those Venezuelans who cling to the idea that today, as they have done for some 22 years, "normalcy" will return.

This reminds of the powerful lesson of the Stockdale Paradox. Admiral Stockdale was a Vietnam prisoner of war, and when he was asked which prisoners were most likely to not return alive he answered:

Oh, that's easy, the optimists. Oh, they were the ones who said, "We're going to be out by Christmas." And Christmas would come, and Christmas would go. Then they'd say, "We're going to be out by Easter." And Easter would come, and Easter would go. And then Thanksgiving, and then it would be Christmas again. And they died of a broken heart. This is a very important lesson. You must never confuse faith that you will prevail in the end—which you can never afford to lose—with the discipline to confront the most brutal facts of your current reality, whatever they might be.

Why We Don't See Threats

Let's return to the question of why so many of us avoid the unthinkable. The answer has at least four roots in the imperfect way we, as humans, make decisions:

1. We tend to follow the crowd—we need look no further than our obsession with "best practices" to find evidence of this. This "Bandwagon Effect" is closely related to the pervasive feeling that "it," whatever "it" is, can't happen here. But please remember that your competitor's inaction is a poor excuse for your own lack of desire to take initiative.
2. We mistakenly believe that because something has not happened in the recent past, it will never happen—think of how we feel about the rise of Nazism in our modern era. This is known as the "Normalcy Effect."
3. We try to avoid thinking of negative things. This optimism bias is supported by confirmation bias in which we attend only to information that supports our point of view.
4. We are too quick to default to helplessness in the face of a challenging situation we have not yet seen. This is one reason why many long-lived businesses continue to thrive where others do not; they have seen and survived a great deal. As an owner of Hoares Bank, a business founded in 1672 said to me (paraphrased), "We've lived through world wars, famines and pandemics; we will live through this too."

We need to fight these negative tendencies and open our minds to threats previously deemed outside of our reality. At the very least, every board should have a committee that systematically and continuously identifies potential risks faced by the company. It often helps to brainstorm threats and then rank them along two dimensions:

- How likely is the threat to occur?
- How costly would recovery from the threat be if it

were to occur?

Once such threats are identified and ranked, it is advisable to consider them one at a time, starting with likely costly threats and working our way to unlikely inexpensive threats. A pandemic, for example, has a low likelihood of occurrence at any given time, but a high recovery cost, so it is in the middle of any threat ranking.

Scanning the Horizon

Rankings are not static. Covid, for example, should have changed position to the top of the threat list last January, when there were almost 10,000 reported cases in 21 countries. This, combined with stealthy infections, had all the hallmarks of a burgeoning disruption. However, if you find comfort in following crowds, you would have been reassured by reports such as the January 27 report by the National Association of Business Economists that made no mention of COVID and predicted a rosy economy for 2020.

Exercising what a good friend of mine calls “Productive Paranoia,” I took a different tack and pushed all the boards I serve on to consider the question of how we would react if the threat became real. Many of my colleagues pushed back, maintaining that such an exercise was unneeded. Several senior leaders who envisioned their budgets and bonuses shrinking resisted strongly. I merely asked, “what could it hurt to do some high-level planning?” The result of our discussions for some meant accelerating tenant contract renewals; for others it meant accelerating investments in digital commerce; for a few it meant developing plans if the business needed to switch from B2B to B2C; and for all it involved thinking about how the workforce would be restructured, including online meeting capabilities and work-from-home scenarios.

As we now begin to see the end of the crisis in sight, we face new questions needing answers before the Summer of 2021. Will there be more people permanently working from home? Will demand for products and services change yet again, and how will we maintain our culture in a new working environment? A risk often overlooked, yet identified by our research, concerns the short- and long-term effects of the pandemic and resultant social isolation, family hardship, and general fear on mental health. The exercise of coming up with the new questions can again be a job for the team charged with discerning and ranking risks.

Regardless of company size, a high-functioning board of directors greatly enhances survival chances. The board is the next to last defense against unseen internal and external threats. By challenging management and helping leaders improve, the board should always be helping prepare the organization to face the unpredictable and unavoidable. I joined one board when the company was under \$100 million; it is now over a billion. Getting there was a process of continuously improving internal operations, adding profitable activities, and improving the capabilities of the entire workforce in order to take advantage of unusual opportunities and respond constructively to disruptions. And yes, they and several of the companies I am involved with have been achieving record returns amidst this pandemic.

The Case for a United Front

The benefits of a cohesive ownership group cannot be stated forcefully enough: they are as important and helpful as a feuding ownership group is harmful. Cohesion and alignment allow owners to remain actionable under pressure, and able to swiftly make far-reaching decisions. A cohesive ownership group that derives cohesion at least in part from having a shared and compelling purpose will support reinvestment and change, which in turn provides a sense of security and stability to all stakeholders. For example, another company on whose board I serve has already made three acquisitions during the pandemic—why? Because the family saw a unique opportunity for growth to support their mission, while others saw a need to retrench. Indeed, they did this while rolling out a new diversity initiative among their thousands of employees that others would have claimed as too costly during a period of economic upheaval. Cohesion enabled the family to promote change and reward change makers. As a general rule, purpose gives meaning to sacrifice and suffering, which are needed to build great and sustainable families and businesses. Purpose and cohesion are a shield against selfishness, infighting, and the degenerative effects of an amplified sense of entitlement.

When looking to the future, there are a few issues I believe should be in the forefront of family business owners’ consideration; they are disturbing trends for which we need to plan. A trend more disturbing than radical partisanship is the general cultural breakdown of trust in authority. This extends well-beyond political authority. For example, it seems a significant

percentage of the population questions scientific validity. This trend gathered strength with the anti-vaccine movement, and even in the face of Covid it seems stronger than ever. Of course, the offshoots of climate change deniers and anti-maskers have not helped either.

I believe these societally dangerous trends have their roots in two culturally relevant trends—a breakdown in the education system that views advancement as a right rather than something that is earned, and perhaps even more troubling is a trend toward indulgent-boundaryless parenting. These likely have resulted in a large share of the population not just believing in conspiracy theories but also longing for them. Now the smallest part of a pattern -- which in reality is no pattern at all, but rather random noise in an increasingly complex social world -- is accepted by many as factual evidence. I'm not sure of all the implications of this, but I can say confidently that our company and family reputations are very vulnerable, and we should be hypervigilant to protect the reputations we have built. It's worth remembering here the bible verse often quoted by Chick fil-A founder Truett Cathy: "A good name is more desirable than great wealth."

From Crisis, New Opportunities

I believe family business on the whole have been a force for good in our world. Income gaps in family businesses are lower than other forms; concern for and support of the community are greater; employees are kept longer in downturns; and these firms have unparalleled ability to make rapid transitions with a cohesive and committed ownership group, not yoked to the whims of public equity markets. Yes, there are notable unethical exceptions, but they are rare. Using the lessons here will help achieve the many laudable missions of our family companies. Be long-term in your horizon; promote open communication in the family and management; hold the company accountable at the board and family levels; and build a culture that promotes reinvestment in family and business and the development of slack resources to support growth and weather bad times.