

# Sinking ship? How one family firm sailed through several crises

Mat Hughes (University of Leicester)

**KEYWORDS:** Family Business, crisis management.

By Tanja Leppäaho, Paavo Ritala and Mat Hughes

In our personal lives, sometimes it takes a crisis – an illness, divorce, job loss or another challenge – to get us to change long-held attitudes and behaviors. Businesses can be the same way, especially ones that have done just fine without needing to change much.

A recent study looked at how one successful but innovation-averse company was jolted out of its complacency by three crises in three different eras. In their 2021 study, Professors Tanja Leppäaho and Paavo Ritala unveil the story of “Finnboat” (a pseudonym), a traditional family business in Finland that has endured, survived, and prospered through three major challenges: the economic recession of the 1990s, the 2008–2009 financial crisis, and the 2020-21 coronavirus pandemic. What is especially interesting is that Finnboat seemed to undertake only modest, if any, innovation during stable times but had an uncanny ability to innovate in times of crisis. In this article and podcast (available below) we share insights from Finnboat that could help family businesses unlock strategies to survive and prosper across crises, moving from a relatively risk-averse state in times of stability to take the risks they need to survive when threatened.

Finnboat is a very typical and traditional family firm, founded by a very strong father character who passed away and left the business to his three sons. The father’s first innovations made the business a success story: Finnboat was the first in Finland to introduce fibreglass boats and in its first year developed other innovations that became successful exports too. The founders’ three successors were less innovative than their father, and more reactive. But crucially, that reactivity became a strength in times of crisis and actually forced them to be innovative. While the brothers were less innovative than the father during placid times, they did embrace his most important value: keeping the

customer at the core of the business. This value, and the heat of three separate crises, forced them out of complacency.

## The Three Acid Tests

The 1990s recession was the first test for Finnboat. This crisis caused a change of mindset in the brothers: from custodians of their father’s legacy to custodians of his values. At this point they innovated their business model, moving to a new business line/segment in the form of bus shelters using their acrylic glass technology.

Another challenge came in 2008: the global financial crisis. The brothers innovated again by abandoning their large boat product lines no longer suited to the market to free resources to innovate around smaller boats, drawing on retrospective designs *to marry tradition with innovation and recalibrating their production lines*. We see this as *leveraging heritage assets* (values, technology, and designs) for new innovations and as a compass for resurging from a crisis. In the Covid-19 pandemic, the most recent challenge, the brothers innovated again, changing Finnboat’s business model to add new digital sales channels and new boat technologies.

So how does a family that has focused on maintaining their business during long periods of calm learn to innovate purposefully when crisis demands it? Classically, we would expect conditions like rigidly relying on proven technologies, a focus on doing better what has always worked for us, and clinging to those things that have made us successful in the past to cause businesses to “stay the course.” But these did not take place in Finnboat. Despite exploiting their capabilities for so long, they were able to innovate and change and overcome the classic paradox between being risk-averse and risk-taking.

## How Finnboat Adapted

Several reasons and explanations were found for why

Finnboat was able to change:

1. They acted on a crisis when it took place through *preference reversal*. When events in the external environment, or outside world, lead to a decline in company performance and company performance becomes unsatisfactory, managerial preferences are changed, creating a schism that serves as an opportunity to rethink the business especially if the future of the family is at stake. This 'preference reversal' creates a *space, a willingness, to innovate* by encouraging a *shift in mindset*.
2. They deliberately accumulated spare resources during untroubled periods to deploy when needed later. In many ways this is similar to what we know as "real options reasoning," whereby companies accumulate and store financial and other resources in periods of calm to give them more options to invest and act when a crisis strikes. These spare resources create the *capacity to act* and *an ability to innovate*.
3. Extra willingness came from Finnboat's desire to protect the family and preserve the business into the future. To preserve does not mean staying the same, but ensuring that the business and the family's legacy and heritage survive and thrive for a long time.
4. The family's *heritage assets*, while they might be dormant during placid times, became stored energy that could power renewed vigor and innovation when the situation demanded it.
5. Frugality in periods of calm, and a desire to preserve the family reputation, drove company survival and restored success in crisis periods.

- However, new business models and product innovations should set the basis for the future of the family and family business. Heritage assets do not hold their meaning and value forever. Building resilience, and innovating for resurgence, requires carefully planning the next phase of the business.

## Read More

Leppäaho, T. and Ritala, P. (2021). Surviving the coronavirus pandemic and beyond: Unlocking family firms' innovation potential across crises. *Journal of Family Business Strategy*, in press, 100440. Published open access at: <https://www.sciencedirect.com/science/article/pii/S1877858521000218> (https://www.sciencedirect.com/science/article/pii/S1877858521000218)

## Listen

Mat Hughes interviews Professors Leppäaho and Ritala

[Link to video](#)

Professor <https://soundcloud.com/user-49751720> · [Unlocking Family Firms' Innovation Potential Across Crises](https://soundcloud.com/user-49751720/unlocking-family-firms-innovation-potential-across-crises) (https://soundcloud.com/user-49751720/unlocking-family-firms-innovation-potential-across-crises)

## Takeaways for Family Firms

What are some of the key lessons for family business leaders from Finnboat? Three are apparent:

- First, crises when they arrive are certainly unpredictable, so patiently accumulating finance, real estate, and technology in stable times can give the family powerful resources to deploy later.
- Get help from outside advisors about managing stakeholders, but be true to yourself and innovate through heritage and heritage assets as much as possible.