

# 4 ACTIONS TO TAKE: FAMILY BUSINESS OWNERS AND BOARDS MUST ACT NOW IN THE WAKE OF THE CORONAVIRUS CRISIS

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*The Owners and Boards of family companies must act—alongside CEOs and management teams—to steer their family businesses in the wake of the Covid-19 pandemic. There is a place for all three parties to problem-solve, and no one group has all the answers.*

Much is being written about what CEOs and management teams must do to address the growing shock waves that mount daily as a result of the Coronavirus pandemic. But what about the additional two groups at the helm of companies worldwide—the Owners and the Board? What should they be doing to steer family companies in the wake of the Coronavirus crisis?

Here are **4 actions** that family business Owners and Boards should take now in the wake of the crisis:

1. Owners: Get Involved but Clarify Roles.
2. Communicate Abundantly. Hold Regular Phone/Video Meetings for Owners and Board Members.
3. Participate on Crisis Management Task Forces.
4. There is No Substitute for Good Scenario Planning.

## 1. OWNERS: GET INVOLVED BUT CLARIFY ROLES.

In these extraordinary times, the roles of family business owners, board members, and executives can become less clear and more intertwined. This is natural: anxiety is high, people want to help, families are accustomed to rallying to get through a crisis together (an “all hands on deck” mentality), and there is virtually no precedent for navigating a crisis of this magnitude.

The risk of role confusion during a crisis, though, is that it can lead to greater instability and uncertainty and the exclusion of important parties—none of which is helpful at this time. Owners and Board members **will** interact with Management teams regarding the crisis. So, it is important to gain clarity regarding the **responsibilities of each of these three groups** and the **final decision-making authority of each** during the crisis mitigation period.

### **Roles and Responsibilities of the Owners, Board, and Management During the Crisis**

All three bodies have a legitimate stake and role in crisis management: *Owners* have a responsibility to get involved when decisions affect the reputation and risk profile of their business. *Boards* have a duty to protect the interests of the company and owners and ensure fiduciary oversight and legal compliance. *Management* has an obligation to secure the safety of employees, meet financial and contractual obligations (or negotiate new ones), and ensure production and delivery of products/services. There is a place for all three parties to problem-solve, and no one group has all the answers.

While each family business and its governance system is unique, below are our general guidelines for the differentiation of roles—related to the business—during a crisis:

#### *Owners:*

- Set the equilibrium between short-term decisions to survive versus long-term decisions to emerge from the crisis stronger and more nimble
- Decide on major transactions or fundamental changes to the business (such as taking on additional debt or discontinuing dividends temporarily)
- Ensure the family’s values are espoused in the crisis response, especially regarding the treatment of key stakeholders (e.g. employees, customers, critical suppliers)
- Work with the Family Council to keep the family appropriately informed

### *Board of Directors:*

- Ensure compliance with governmental and legal regulations, restrictions, and policies
- Approve of redirecting corporate resources toward the crisis (such as starting to produce personal protective equipment to aid healthcare workers)
- As above, ensure the family's values are espoused in the crisis response, especially regarding the treatment of key stakeholders (e.g. employees, customers, critical suppliers)

### *Management:*

- Form crisis management task forces to respond to and get in front of the crisis, including conducting regular contingency and scenario planning
- Set policies to protect the safety and health of employees
- Keep the company financially solvent and meeting its contractual and financial obligations (or renegotiate them)
- Engage with strategic suppliers to try to minimize supply chain interruptions

## **Working Together**

It is critical that all three groups—the Owners, Board, and Management—keep one another well-informed during the crisis mitigation period. It can be useful to create a temporary task force with representatives of each group in order to keep one another up to date and to quickly convene and make complex decisions that affect all three groups.

For example, the difficult decisions shown below ought to be discussed collectively whenever possible, but who decides needs to be clear.

<b>Complex Decisions</b>	<b>Who Decides</b>
Whether to lay off a large number of employees, which will impact the reputation of the company and the family	Management recommends. Board approves. Owners decide.
Whether to postpone payments to certain suppliers who have had long-term relationships with the business	Management recommends. Board decides. Owners are informed.
Whether to close a division or company that may not survive the crisis	Management recommends. Board approves. Owners decide.

## **2. COMMUNICATE ABUNDANTLY. HOLD REGULAR PHONE/VIDEO MEETINGS FOR OWNERS AND BOARD MEMBERS.**

Given the ever-changing circumstances of this crisis, it is essential that Owners and Boards meet regularly (separately) to discuss important updates, key decisions, and essential next steps. They need to be able to make decisions quickly and efficiently.

These meetings should take place at least weekly right now, on average for one to two hours, by phone or video. After one or two months, the groups can re-evaluate frequency.

Agendas are prepared by the leader of each forum. Below are sample topics for these meetings:

- Updates from crisis management task forces on the impact of the crisis on the company and actions being taken
- Financial situation and actions being taken to maintain financial stability
- Any decisions that need to be made regarding the above
- Media/Communications strategy, e.g. discussion of press about the company or family
- What can be expected to unfold in the next week
- What needs to be kept confidential
- What you can do

If the Owners do not yet have a representative group—called an Owners Council—now is a good time to establish one if the ownership group is larger than about 15 individuals. The Owners Council meets more often than the entire ownership group (for example, two to three times weekly right now), and is the point of contact for the Board and Management when a decision or solution by the Owners is needed. Unless the Owners are well represented on the board, it is the responsibility of the Owners Council to communicate with the Board and Management, and to keep the full ownership group informed and up to date during weekly Owners meetings. (Note that the Owners Council does not replace the Family Council, which focuses on the family’s talent development, unity, and connection to the business. There are distinct roles for both Councils.)

It is advised that the full Board meet weekly, not a representative group. Due to their fiduciary role and their need to guide and oversee Management, all Board members must be regularly informed and ready to problem-solve and make decisions.

### **3. PARTICIPATE ON CRISIS MANAGEMENT TASK FORCES.**

In addition to top executives serving on crisis management task forces, it is also helpful to include the participation of Owners and Board members with relevant knowledge and expertise. These individuals are instrumental in reporting back to their respective forum to provide updates from each task force without disrupting the task forces' progress.

It can be useful for next generation successors or high-potential leader candidates to join these task forces to gain experience working through a crisis, and to rise to the occasion and show their leadership skills.

### **4. THERE IS NO SUBSTITUTE FOR GOOD SCENARIO PLANNING.**

The exercise of scenario planning allows Owners and Boards to consider various assumptions related to different scenarios that might happen in the future. Scenario planning is a best practice for management in times of great uncertainty or a severe crisis. Scenarios can change weekly and must be updated as often as the course changes, new data is accessible, or a new assumption needs to be evaluated.

The Owners can request scenario planning reports of Management through the Board or CEO. Most scenario plans are synthesized and summarized for the Board and Owners by Management and are delivered on a weekly basis.

#### **Managing the Short-term and Long-term**

As the crisis evolves, amidst huge uncertainty, crisis management teams are having to deal with short-term pressures while maintaining the ability to rebound quickly when things turn around. Some companies will emerge stronger and more nimble from the crisis, while others will be severely damaged. The role of family business Owners and Boards during these unprecedented times is precisely to bring a sense of balance and stability to the equation.

## ABOUT THE AUTHORS

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Eduardo Gentil is an advisor to multigenerational family enterprises on issues related to family and ownership governance; ownership strategies; shareholder agreements; establishing or strengthening boards of directors; financial planning for families, family offices, and businesses; succession planning; and next generation talent development. He is a frequent speaker and instructor on family enterprise best practices. Since 2000, he has led the São Paulo office of Cambridge Advisors to Family Enterprise, a global advisory firm serving business families, where he is Senior Partner.



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## ABOUT THE CAMBRIDGE FAMILY ENTERPRISE GROUP

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The Cambridge Family Enterprise Group, founded in 1989, is a global advisory, education, and research organization dedicated to family-owned enterprises. We help families in business achieve transformative change and multigenerational success for their families, ownership groups, enterprises, and financial wealth. It is comprised of two divisions: Cambridge Advisors to Family Enterprise, a highly specialized, international advisory firm serving family enterprises, and Cambridge Institute for Family Enterprise, an education and research institute dedicated to the significant issues family enterprises face. [CFEG.com](http://CFEG.com)