

# COVID 19: Managing Your Family Business During Turbulent Times

## MAY 2020



The economic impact of COVID-19 on Canadian businesses has been dramatic. According to the [Canadian Survey on Business Conditions \(CSBC\)](#)<sup>1</sup>, over 50% of more than 13,000 businesses surveyed indicated they are not able to operate longer than 90 days without a source of revenue. Close to 81% have experienced a medium or high drop in demand for products and services. While most businesses are feeling the pain, the impact can be particularly devastating for family-owned enterprises which also have the added intricacies of family member involvement and interwoven familial wealth.

Family-owned businesses are responsible for contributing nearly 50% to Canadian GDP and producing nearly seven million jobs and they permeate every industry and community across Canada.<sup>2</sup> When they suffer, the ripple effect can hurt well beyond those individuals directly involved in the business.

### Many Eggs in the Family Basket

Different dynamics exist in family businesses that aren't experienced in 'regular' businesses. There can be varying levels of participation in the business, ranging from family members having little or no involvement, to those who are actively involved in the day-to-day operations. However, even inactive family members can be impacted by the business' successes and struggles. In other instances, family

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**“The research on family-owned business clearly shows how significant they are to the Canadian economy in terms of share of GDP, share of employment and prevalence across all geographies and sectors of the country. They are truly the engine of the Canadian economy! However, the numbers can't tell the whole story and convey what's truly unique and special about family-owned business. These businesses and the business families are rooted in the communities across Canada where they live and operate. And they have demonstrated, often through generations of ownership, a long-term commitment to their employees and their communities.”** – Bill Brushett, FCPA, FCA, FEA, President & CEO, Family Enterprise Xchange

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<sup>1</sup> Statistics Canada and The Canadian Chamber of Commerce joint survey on the impact of COVID-19

<sup>2</sup> Family Enterprise Xchange Foundation commissioned study with The Conference Board of Canada



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## WHILE MOST BUSINESSES ARE FEELING THE PAIN, THE IMPACT CAN BE PARTICULARLY DEVASTATING FOR FAMILY-OWNED ENTERPRISES.

members may only have a partial ownership interest in the business but no involvement in the day-to-day operations. There could also be non-family members who have ownership in the business and/or work for the business as well.

These businesses also tend to be very values-driven which informs all aspects of their decision-making processes. Often family members can be torn – what is good for the family may not be good for the business. Turbulent times can create additional layers of anxiety and fear among family members and the business leadership team. Some family businesses have been around for multiple generations and have become an integral part of the family's identity within their local communities and beyond. This amplifies the desire to keep it successful and adds an entirely new level of devastation if it is not.

### **Necessity - The Mother of Invention**

Family businesses leaders may need to think creatively and pivot under these unparalleled circumstances. Small accommodations to existing business models and processes may be all you need to continue to operate your business. For example, in the restaurant business, many family-owned, dine-in only restaurants have opted to turn to take-out and delivery options. Some have even been able to quickly pull together an on-line strategy and digital platform for order taking. This has helped some businesses to 'pay the bills' and keep the lights on during the lockdown. No one knows what the 'new normal' will look like and how long dine-in experiences will be restricted. These new strategies may become the norm for the foreseeable future or may even continue to exist once restrictions are lifted to accommodate changes in consumer behaviour.

### **Managing and Preserving Family Wealth**

Some businesses leaders are sitting on cash until they gain greater certainty over the future. This might be an excellent strategy in the short term; however, factoring in historically low GIC interest rates, income tax and inflation, you will find that your purchasing power has declined requiring longer-term considerations and decisions.

Once we settle into the 'new normal', it will be vital for family businesses to revisit their financial and wealth plans. Existing plans are likely no longer accurate. Updating plans and resetting assumptions will provide insight into the ability to maintain the family's existing goals and, if necessary, adjust them. The current situation merits family business stakeholders to revisit their existing asset allocation strategy to determine if it continues to fit their risk tolerance. Stock market and real estate values have, on balance, increased significantly over the last decade. This has caused many people's asset allocation strategy to get out of line with their actual risk tolerance.

In cases where some family members are owners of the business but don't work in the business and rely on dividends to support their lifestyle, it very important to clearly communicate the current financial situation to all family member stakeholders, as well as its impact on cash flow and potential near and longer term ramifications.

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**Family business leaders should be candid and transparent about issues with both their family members and their employees. Employees who work for family-run businesses tend to be very loyal and stay with same company for many years. They become quasi-family. If your company is experiencing financial difficulties, operational challenges, or other issues, then please talk about it. Ask others for ideas on how to move forward. Your front-line staff may be the source of some of the best ideas.**

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ONCE WE SETTLE INTO THE 'NEW NORMAL', IT WILL BE VITAL FOR FAMILY BUSINESSES TO REVISIT THEIR FINANCIAL AND WEALTH PLANS.

## Do Changing Times Call for a Change in Leadership?

Preserving and transferring wealth and leadership responsibilities across generations is risky and complex in the best of times. There really isn't a common definition of the 'optimal time' to do it. The COVID-19 crisis may push these discussions to the forefront. Family businesses should consider if current circumstances warrant passing leadership on to the next generation to steer the business forward or whether the current generation, often seen as having more experience, is best equipped to lead. If the reigns are passed to the next generation, it's important that there is a plan in place, along with the appropriate support systems, to ensure success. Alternatively, seeking an impartial advisor may help facilitate discussions among the family members. An outsider perspective can foster additional discussions and bring a different perspective to the conversation.

As important contributors to the Canadian economy, we all succeed when Canada's family businesses thrive. "Business families have proven across generations to be both resilient and resourceful during tough economic times," explains Bill Brushett, President and CEO of Family Enterprise Xchange. "As we work through the current crisis and embark on a path to recovery, Canadians can count on family-owned enterprises to do their part - as they always have - to support their employees and communities in the return to prosperity." The team at Fuller Landau stands ready to help.

## COVID-19 RESOURCES HUB

Visit our [COVID-19 Resources](#) hub for the latest information on Canadian and US government programs as well as helpful resources for business owners, including free webinars.

[fullerllp.com/covid-19-resources/](https://fullerllp.com/covid-19-resources/)



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