Recent research has shown that employees of family-owned businesses are generally happier and more productive. They feel better about their jobs, and it shows. In fact, family-owned and -controlled businesses today account for almost 90 percent of all U.S. companies.

Part of the success of family businesses is the positive impact that being run by a family has on customers. In a national study in which consumers were asked to share their impressions of different kinds of organizations, family-owned businesses are largely considered more stable, more customer-friendly, more approachable and more trustworthy. Interestingly, even the appearance of a family connection increases market visibility and consumer trust.

In the local region in particular, legendary family brands continue to thrive while new family-run organizations are sprouting up faster than you can count. And one of the great things about the Valley and Los Angeles business community is the geographic diversity and balance it provides.

In this special section of the San Fernando Valley Business Journal, we’ve assembled some articles about the benefits of running or working for a family-owned business as well as some features covering trends in the category.

Thank you to all the great family-owned businesses in the Valley and your unique contributions to the local business food chain.
Family Businesses are Positioned to Lead Revival of Global Economy

A new report from the STEP Project Global Consortium and KPMG Private Enterprise has demonstrated how the unique structure of family businesses has empowered them to respond to the impact of COVID-19. The study found that the involvement of the family and their long-term mindset has enabled them to demonstrate resilience in the pandemic, placing them in a key role to lead the economic recovery.

The report, titled “Mastering a comeback: How family businesses are triumphing over COVID-19,” includes insights from nearly 2,500 family businesses and more than 500 non-family businesses. It uncovers three core strategies used by family businesses to address the immediate impact of COVID-19:

1. Exercising patience: Family businesses are focused on protecting their succession plans and long-term future for the next generation. This long-term mindset has enabled them to leverage their patient capital to understand the full impact of COVID-19 on their business and others in their industry, with a view to adopting plans for the long-term, rather than just mitigating the short-term impact of the pandemic.

2. Social responsibility: They took steps to address the impact of the pandemic not only on their family and business, but on the welfare of society, and the needs of all their stakeholders including employees, customers, suppliers and local communities.

3. Business transformation: Family businesses were found to be 42 percent more likely to implement business transformation strategies than non-family businesses during the pandemic. Family businesses with multiple generations in the firm were 45 percent more likely to implement a business transformation strategy than single-generation family firms. "One of the key differentiators of family businesses is how they define success," said Andrea Calabò, STEP Project Global Consortium’s global academic director. "While profits and dividends are important financial measures, success in family businesses is also defined by both financial and non-financial objectives, such as control, transgenerational succession, social capital, emotional connection to the firm, and reputation."

"While profits and dividends are important financial measures, success in family businesses is also defined by both financial and non-financial objectives, such as control, transgenerational succession, social capital, emotional connection to the firm, and reputation." They took steps to address the impact of the pandemic not only on their family and business, but on the welfare of society, and the needs of all their stakeholders including employees, customers, suppliers and local communities.

"These non-financial (socio-emotional) objectives are important enough in family firms to have a direct impact on their decision making and how they measure success," added Calabò. "It also explains why, after taking immediate actions to cushion the financial shock of COVID-19, families turned their attention to longer-term strategies for sustaining the purpose and non-economic value that the family derives from owning and managing the business."

Key findings from "Mastering a comeback: How family businesses are triumphing over COVID-19":

- Sixty nine percent of family businesses reported that COVID-19 resulted in an initial revenue decline, 9 percent reported an increase specifically due to actions taken to pivot their business, and 22 percent reported no revenue changes.
- There was an 8.56 percent workforce reduction among family businesses globally, compared to a 10.24 percent reduction in non-family businesses.
- Three quarters (78 percent) of family firms globally made use of government support programs, primarily in the form of low-cost loan arrangements. There was less interest in government subsidies among family firms compared to non-family businesses.
- More than 70 percent reported that they maintained their R&D investments and continued to launch new products and services.

PATIENCE AND LONG-TERM THINKING

The size, scale and age of the business also contributed to how businesses chose to respond to COVID-19. The report concludes that because older business families have been so committed to sustaining entrepreneurship across the generations, this has led them to act carefully and focus on longer-term solutions. Their patient capital and financial resources, especially among older and larger family businesses, allowed them to withstand major changes and challenges to their operations in the short term and to identify opportunities for the long term.

"For many family businesses, an unexpected and positive outcome of the pandemic was the gift of time," said Tom McGinness, Global Leader, Family Business, KPMG Private Enterprise. "With a slowdown in their business operations, several family business leaders found they now had the time to explore ideas for new products, new markets and extensions of their business that had been in consideration for several years. Others took the time to look seriously at ways to streamline their operations, including implementing new digital solutions, and to focus on important family issues such as succession planning and their ownership structure."

GREATER FAMILY INVOLVEMENT LED TO GREATER SOCIAL RESPONSIBILITY

"The pandemic opened up opportunities for young, tech-savvy family members to take on prominent roles in introducing digital technology solutions that streamlined their business operations and launched a host of new products into the market," said Jonathan Lavender, Global Head, KPMG Private Enterprise. "These NextGen influencers also recognized that implementing an ambitious ESG strategy was an essential ingredient in the transformation of the family business. As a result, they have expedited the operational changes necessary for achieving their firms’ environmental and societal goals and firmly embedded ESG as a strategic business priority."

Learn more at kpmg.com.
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Family-Owned Businesses Show Resilience Through Pandemic

U sing its proprietary ‘Family 1000’ database of more than 1,000 publicly listed family or owner-operated companies, Credit Suisse has found that since 2006, on a global level, the overall family business universe has outperformed non-family-owned companies by an annual average of 370 basis points. This outperformance has been strongest in Europe and Asia at 520 basis points and more than 500 basis points per annum, respectively.

The COVID-19 pandemic had significant impact on equity market returns and volatility last year. Family-owned companies tend to have above-average defensive characteristics that allow them to perform well, particularly during periods of market stress. Return data for the first six months of last year supports that view given an overall year-to-date outperformance of around 300 basis points relative to non-family-owned companies.

Key Findings on Family-Owned Companies:

• Higher growth and profits — The analysis suggests that, since 2006, revenue growth generated by family-owned companies has been more than 200 basis points higher than that of non-family-owned companies for both smaller and larger companies. At the same time, the analysis also suggests that family-owned companies tend to be more profitable. For example, average cash flow returns (using the Credit Suisse HOCT metric of Cash Flow Return On Investment or CFROI) are around 220 basis points higher than those generated by non-family-owned companies. These superior returns are observed across all regions globally.

• Perform better on ESG scores — Family-owned companies on average tend to have slightly better ESG score results than non-family-owned companies. This overall better performance, which has strengthened over the past four years, is mostly led by better environmental and social scores as family-owned companies appear to lag their non-family-owned peers in terms of governance. From a regional perspective, family-owned companies have the highest ESG scores with family-owned companies in Asia ex-Japan scoring better than those located in the USA and their scores are rapidly converging with those generated by their European counterparts. In fact, Asian family-owned companies already score better in terms of governance than their peers in Europe or the USA.

• Older family-owned companies have better ESG scores than younger firms and this performance is seen across all three environmental, social and governance areas. Perhaps the fact that older family-owned companies have more established business processes in place allows them to incorporate or focus on areas of their business that are not directly related to their production processes, but that are relevant in terms of maintaining overall business sustainability.

• COVID-19 impact — In order to better understand the ESG characteristics of family-owned companies, a survey of more than 200 companies was conducted. The companies were asked how much of a concern COVID-19 is to them going forward. Despite the impact on revenue growth this year, it seems that the family-owned companies surveyed view COVID as slightly less of a concern to their firm’s future prospects than non-family-owned companies. Family-owned companies have also been less likely to furlough their staff than non-family-owned companies (46% versus 55%). Among family-owned companies, support programs have been set up most often in Asia rather than in Europe or the USA. This might reflect a greater availability of government-sponsored support programs in these regions.

• Social impact — The survey showed that, while family-owned companies have focused more on social policies since the outbreak of the COVID-19 pandemic, they seem to lag non-family-owned peers on several ESG-related factors, most noticeably human rights and modern slavery-related policies. Family-owned companies on average have less diverse management boards, fewer of them have support groups for the lesbian, gay, bisexual and trans (LGBT) and black, Asian and minority ethnic (BAME) communities, or have made public statements concerning respect for human rights or the related United Nations principles.

“We have tracked the performance of family-owned businesses compared to non-family-owned companies for many years now and have seen a regular pattern of stable and superior through-cycle profitability and returns for all shareholders, minorities included,” Urs Rohner, chairman of the Board of Directors of Credit Suisse Group and chairman of the Credit Suisse Research Institute, commented. “With the onset of the global pandemic and an increased global consideration towards environmental, social and governance (ESG) concerns, we’ve added further qualitative analysis to delve deeper into what makes family-owned businesses unique.”

“Our Family 1000 report reaffirms many of the outperformance metrics family-owned businesses have shown in our previous studies compared to non-family-owned businesses,” Eugene Klerk, head of Global ESG Research Product at Credit Suisse commented. “When talking to investors about family-owned companies, we often hear that they outperform because of a perceived longer-term investment focus compared to non-family-owned companies. Our analysis suggests that this is indeed the case. This year, with the exceptional circumstances of a global pandemic, we delved deeper in our analysis and found the traditionally more conservative financial model of family-owned companies built on lower leverage and strong cash flow generation has proved an asset. They have notably relied less on government employment support to furlough their workforces, implicitly reflecting their own social responsibilities.”

The ‘Credit Suisse Family 1000: Post the Pandemic’ report is available at credit-suisse.com.

Family-Owned Businesses Create 78% of New U.S. Jobs and Employ 60% of the Workforce

S core, the nation’s largest network of volunteer, expert business mentors, published an infographic illustrating the major impact that family-owned businesses have on U.S. job creation and economic growth. Family businesses—defined as businesses operated by two or more family members, with majority ownership held within the family—employ 60% of the U.S. workforce and create 78% of all new jobs. Furthermore, family-owned businesses generate 64% of the gross domestic product (GDP).

Family-owned businesses have shown resilience throughout the pandemic and continue to thrive. The infographic highlights the significant contribution of family-owned businesses to the U.S. economy in terms of job creation and overall employment.

The infographic features several key points:

• Family businesses account for less than 10% of all U.S. businesses but are responsible for over 50% of all jobs created and more than 55% of all net job growth. Family-owned businesses create nearly 3.6+ million jobs a year, which is equivalent to opening a business every 1.5 minutes.

• Family businesses are known for their long-term focus and commitment to their communities and employees. They are often owned by family members, ensuring a stable and supportive environment for employees.

• Family-owned businesses have higher employee retention rates compared to non-family-owned businesses. This is because they offer a more secure and stable work environment.

• Family businesses are more likely to provide benefits such as health insurance, retirement plans, and flexible work arrangements.

• Family businesses have a lower turnover rate, which reduces the cost of hiring and training new employees.

• Family businesses are more likely to invest in the local community and support local suppliers and vendors.

• Family businesses are more likely to prioritize sustainability and environmental practices, which can lead to cost savings and a positive impact on the environment.

The infographic also provides data on the types of family-owned businesses and their economic impact:

• Manufacturing
• Retail
• Construction
• Professional services
• Healthcare
• Food service
• Transportation

These family-owned businesses provide millions of jobs and support countless communities across the U.S. The infographic underscores the importance of family-owned businesses to the U.S. economy and highlights the need for continued support and recognition of their contributions.
Family Businesses Need to Focus on ESG

In a year where business has had to transform the way it meets the needs of society and the environment, family-owned businesses risk falling behind, according to a new global survey of 2,801 family business owners.

While more than half (55%) of respondents saw the potential for their business to lead on sustainability, only 37% have a defined strategy in place. European and American businesses are lagging their Asian counterparts in their commitment to prioritizing sustainability in their strategy. 9% of respondents in mainland China and 79% in Japan reported “putting sustainability at the heart of everything we do” compared to 23% of US and 39% in the UK.

Larger businesses or those owned by later generations also buck the trend, with greater focus on sustainability.

“Family businesses are increasingly out-of-date conception of how businesses should contribute to solve the world’s challenges,” Peter Englisch, global family business leader at PwC said, “It is clear that family businesses globally have a strong commitment to a wider social purpose. But there is a growing pressure from customers, lenders, shareholders and even employees, to demonstrate a meaningful impact around sustainability and wider ESG issues.”

Many listed companies have started to respond to see how you can save more.

GROWTH

The survey suggests family businesses have weathered the pandemic relatively well. Less than half (46%) expect sales to fall despite the pandemic and survey respondents felt optimistic about their business’ abilities to withstand and continue to grow in 2021 and 2022.

‘Family businesses must adapt to changing expectations and, by failing to do so, are creating a potential business risk. This is not just about stating a commitment to doing good, but setting meaningful targets and reporting that demonstrate a clear sense of their values and purpose.’

FAMILY BUSINESS LAGGING ON DIGITAL TRANSFORMATION

Even though 80% of family businesses adapted to the challenges of the COVID-19 pandemic by enabling home working for employees, there are also concerns about their overall strength when it comes to digital transformation. 52% of respondents described their digital capabilities as ‘not strong,’ with a further 19% describing it as a work in progress.

Yet here there are clear generational differences: 41% of businesses that describe themselves as digitally strong are 3rd or 4th generation, and Next Gens have taken an increased role in 46% of digitally strong businesses.

Peter Englisch said, “It is a concern that family businesses are lagging behind the curve. There is clear evidence that having strong digital capabilities enables agility and success and that they have a similar enthusiasm for sustainability. Businesses should consider how they can engage the experience and fresh insight of Next Gens when it comes to prioritising their digital journey.”

THE GOVERNANCE GAP

While family businesses report good levels of trust, transparency and communications, the survey highlights the benefits of a professional governance structure. While 79% say they have some form of governance procedure or protocol in place, the figures fall dramatically when it comes to important matters such as a formal constitution or protocol, while only 15% have established conflict resolution mechanisms. Englisch added, “Family harmony should never be taken for granted – it’s something that must be worked on and planned for, with the focus on professionalism that’s applied to business strategy and operational decisions. There are growing concerns from regulators around the world about family business succession, especially with a third of 1st, 2nd or 3rd generation businesses expecting the next generation to become majority shareholders in the next five years. It is therefore vitally important that businesses take a lead on ensuring they have formal processes in place they can ensure stability and continuity in the long run.”

The Family Business Survey is available to read at pwc.com.
Report Reveals Lessons Learned from Family Businesses

Family-owned and family-controlled businesses, which account for 90 percent of all U.S. companies, rarely outlive their founders to survive the next generation. Only one in three defies the odds, but that requires a well-thought-out transition plan and, in some cases, even a non-family member to step in and lead, according to a white paper by U.S. Trust, Bank of America Private Wealth Management, and the University of Virginia Darden School of Business.

The report reveals eight lessons learned about building a family business and enhancing its value across generations. U.S. Trust, which helps family businesses live past their founders, partnered with the University of Virginia Darden School of Business to explore the distinct challenges and advantages of owning a family business, particularly when it comes to transitioning leadership, ownership and control. Their findings are outlined in a jointly published report, Family Matters: Cultivating human capital, financial capital and innovation across generations in family businesses, with insight from proprietary and academic research, case studies, and in-depth conversations with business owners.

“Companies that thrive for multiple generations under the ownership of the same family offer valuable lessons for building sustainable companies,” said Katy Knox, president, Bank of America Private Bank. “These businesses are strengthening communities, sustaining families, and driving growth and innovation throughout the economy.” According to business owners surveyed by U.S. Trust in 2018 with family members involved in or employed by their business, seven in 10 see family involvement as a competitive advantage. When asked about their transition plans, 52 percent of business owners hope to eventually sell or transfer ownership of the company to family members or employees. Despite this optimism, history shows that the smooth transition of a family business is an exception, not the rule, and the rate of success decreases with each subsequent generation.

Lessons learned from multi-generational family businesses are distilled into eight actionable insights for family business leaders as they consider generational transitions, make strategic investments, work to create an inclusive culture, and innovate without losing their roots.

EIGHT LESSONS LEARNED
1. Take a stewardship approach: Leaders should speak publicly and often about the company’s mission and values, and make decisions that show a willingness to place the long-term interests of the employees and community over short-term profits.
2. Lean on values: Demanding that family members model the company’s values builds goodwill with customers, employees and the community, and helps organizations stay resilient during tough times.
3. Continuously engage and develop the next generation: Family members are encouraged to learn what the business does and how they might build a career; those not interested in the business remain engaged in other ways, such as philanthropic organizations related to the company.
4. Balance cohesion with respect for differences: Families practice unity through common purpose, but also welcome diversity of thought and experience; intergenerational differences are a form of diversity and cultivated as a potential source of strength.
5. Reward innovation: Employees who ask questions, propose new ideas and take smart risks are rewarded. Real-time problem-solving and superior, customizable services increasingly are needed in a rapidly changing business world.
6. Treat outsiders as well as “insiders”: Every family member may not have the capacity, interest or temperament to succeed in the business. Non-family employees may be better suited to lead and may be encouraged through meaningful career paths and even ownership shares.
7. Talk numbers: Family stakeholders should understand the company’s risks and performance, and how it integrates with their own financial lives and plans. They should consider diversifying investments or funding their own ventures with family support.
8. Communicate, communicate, communicate: Family members are connected, personally and professionally, and remain in regular contact so that institutional knowledge is shared and there is a common sense of identity and mission.

“Because a family business is a source of pride, identity and wealth, founding generations understandably want to see the business continue for the ongoing benefit of family,” said Karen Reynolds-Sharkey, managing director and National Business Owner Strategy executive for U.S. Trust. “Keeping the passion alive, engaging and developing future leaders, and effectively passing the baton to the next generation can be as hard as building the business in the first place. By sharing these insights, we hope to help business leaders plan a transition that protects, and even enhances, the value and legacy of the family business.”

“We are pleased to partner with U.S. Trust to shed light on these important and often little-considered issues,” said Greg Fairchild, Isidore Horween research associate professor of business administration at the Darden School and the University of Virginia’s director of Northern Virginia Operations. “The lessons distilled from these-family businesses have applicability for both business creation and preservation.”

The report features four original case studies of businesses spanning one to five generations of family ownership. Collectively, the three issues family business owners say they contend with most are: human capital, financial capital, and innovation. The report covers each of these areas with in-depth contributed commentary from Darden School of Business professors and an exploration of five core leadership themes, including spotting and harnessing talent; developing the next generation; engaging ownership through communication; innovating and staying agile; and building (and sharing) wealth.

A full copy of the Family Matters report is available for free download and can be found atustrust.com/familymatters.
Family Office Exchange Bolsters Family Business Expertise with New Leadership Addition

Family Office Exchange (FOX), the industry-leading membership organization for families, family office executives, and trusted advisors, announced that Gabrielle (“Gaby”) Griffin is joining the organization as market leader for business owners and family office executives.

In her role, Griffin will help address the needs of business owners and family office executives by providing knowledge, education, and peer exchange opportunities. She will also lead the overall FOX Family Office Council experience and manage multiple councils. The FOX Councils provide members with opportunities to learn from and share ideas with ‘highly accomplished and hard-to-find peers in a confidential environment. She will also serve as the moderator for the Investment Network and as a member of the FOX leadership team.

Griffin takes a very personalized approach to her relationship management practice and has built client and advisory relationships that span over two decades.

According to Bill Sullivan, President of FOX, “Gaby’s expertise and experience in working with business owners is critical as this segment of our FOX membership continues to grow. Business Owner needs are vast, ranging from the basics of starting a family office to managing the complexity of sustaining a multi-generational Enterprise Family.”

Griffin brings 25 years of wealth management, corporate banking, investment, and strategic advisory experience to FOX and its members. She joined FOX from Capital Group. Prior to that, she held leadership positions at LaSalle Bank NA advising business owners, their families and family offices, as well as working directly with ultra-high net worth clients as a relationship manager for Abbot Downing. She has been involved with the FOX community for more than 20 years.

Griffin earned a B.A. in Political Science from the University of Wisconsin at Madison. She obtained a Certified Private Wealth Advisor (CPWA) designation at the University of Chicago Booth School of Business in 2013. She is a member of the Chicago Estate Planning Council (CEPC), Women Investment Professionals, 100 Women in Finance, DyMynd Angels, and Urban Land Institute (ULI). Gaby has served on the Board of Trustees for Victory Gardens Theater since 2012. Additionally, she has held several other positions in the non-profit sector.

FOX brings together families, family office executives, and trusted advisors to build a community focused on peer exchange, continuous learning, and objective guidance. The community includes over 8,000 family leaders and sophisticated advisors from 500 organizations in 20 countries who utilize FOX’s resources each year.

For more information about FOX email info@familyoffice.com.