

Weathering the storm.

Family firm strategies
in the midst of growing uncertainty

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STEP Project COVID-19 Middle East and Africa Report

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01. Family firm **strategies** in the midst of growing uncertainty

Family businesses are arguably one of the most important entities in the social fabric of societies in the Middle East and Africa. Their transgenerational survival matters because they constitute a significant source of wealth-creation within their local communities. With this in mind, the Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business at the American University of Sharjah and the STEP Project Global Consortium invited several universities in the Middle East and Africa to join the research project, “The effects of the COVID-19 pandemic on family firms”.

The resilience of family firms allows them to combine economic and family-oriented goals. While guiding their firms in very competitive industries, leaders of these entities also have to maintain family cohesion around the economic project. Therefore, this report aims to explore how Middle Eastern and African family firms have behaved and implemented different models of resilience to weather the COVID-19 pandemic.

The pandemic did not spare family firms from its ravages. It directly affected their revenue streams and disturbed their financial positions. However, the new normality triggered their instincts for resilience. To understand the models of resilience operating in family firms, it is important to recognise the three dimensions in which they have responded to current uncertainty:

- **Critical recovery memory.** Generations of survival knowledge from previous crises over the years has guided their reaction to the COVID-19 pandemic.
- **Short-term decision-making.** These families absorb the initial impact and stabilise their firms by using their immediate economic, social, and available human resources.
- **Strategic actions.** Family firms strategically transition through the recovery period, and prepare themselves for the new normality.

This report develops a deeper understanding of the behaviour of family businesses during crisis in emerging and developing economies by focusing on the Middle Eastern and African contexts. We explore their uniqueness and challenges.

We expect this report to provide current and prospective family business leaders and future generations with new lessons of how family firms reacted to the COVID-19 pandemic. We provide some specific examples that we hope will encourage them to continue with their vigorous efforts to lead their family firms across generations. Moreover, we believe that this report could help policymakers to have a more comprehensive understanding of family firms and their unique characteristics as economic and social actors in the region. Public policy should recognise them as one of the main contributors to wealth-creation in their local communities.



Dr. Rodrigo Basco

Professor & Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business

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Public policy should recognize family firms as one of the main contributors to wealth-creation in their local communities ■

1.1 Key findings

Family firms have activated their **recovery memory** to overcome the COVID-19 pandemic. Recovery memory is an implicit organisational knowledge that transgenerational family firms develop with the experience from previous crises or traumas.

Successful family firms have reacted to the financial impact of the pandemic by carefully implementing a set of **cost reduction decisions** that balance administrative, operative, and labour costs.

Successful family firms have responded to the pandemic by **repositioning their strategy**. While the crisis forced some to shift their entrepreneurial strategies by looking for new opportunities, other family firms exercised patience to prepare their organisation for the new normality.

Family firms with a strong financial position have accommodated their communities' needs by developing and implementing **corporate social strategies**.

Family firms have attempted to honour their **compromise with employees** by delaying any short-term decisions that could adversely affect their human resources.

1.2 Lessons for family firms in the Middle East and Africa region

01

Implement a cabinet crisis to reduce the uncertainty among stakeholders, manage the family-business relationship, and prepare the family firm for the recovery period.

02

Reinforce the firm's resilience by **enriching the memory recovery** for future crises. Crisis should double as an opportunity to develop the resilience of family firms across generations.

03

Leverage the family's social and human capital to absorb the impact of the crisis and commit to the different key stakeholders around the project.

04

Involve and train the next generation of family members in managerial activities, enabling them to run the organisation in unforeseeable events and increase their commitment toward the business.

05

Adjust the existing succession plan for the new normality. Due to the increased uncertainty that the ongoing pandemic causes, it is crucial to the continuity of family firms to prepare for an unpredictable future.

06

Use **family values as drivers to navigate a crisis** and take difficult decisions.

02. Impact of **COVID-19** on Middle Eastern and African family businesses

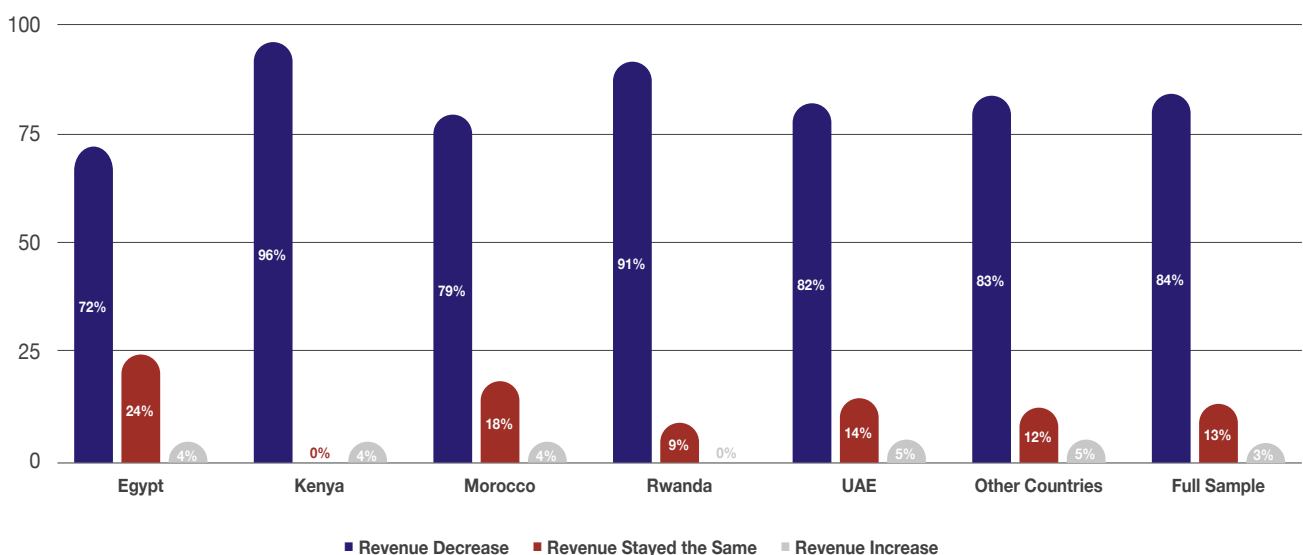
The COVID-19 pandemic has affected the social and economic activities of our societies. Specifically for family firms, it has threatened human resources, which are fundamental organisational pillars for their competitiveness. Additionally, it has produced significant financial stress for the vast majority of businesses in the Middle East and Africa.

The shock of the pandemic materialised as a physical and psychological threat for both consumers and firms. The former reduced their spending, while the latter experienced a tumultuous and unprecedented period of uncertainty that forced them to rethink their organisational investments and future strategic plans. Compounding this was a global public health crisis, during which governments around the world instituted citywide and countrywide lockdowns to avoid the collapse of the healthcare system.

The ultimate combination of these circumstances initiated a period of uncertainty and economic instability.

The majority of Middle Eastern and African family businesses have seen their sales deteriorate gradually (see Figure 1) and the initial impact of this subdued revenue marked the beginning of a new reality. On average, 84% of all family firms in the sample reported a decrease in revenues. While only 3% reported an increase, a further 13% reported no changes in their revenue stream.

Figure 1: Impact of the COVID-19 pandemic on the revenues of Middle Eastern and African family firms (proportion of family firms that declared decrease, increase, or no change in their revenues).



However, revenue decline varied across countries. For instance, Kenyan and Rwandan family businesses stood out as being significantly affected by the COVID-19 pandemic. Respectively, about 96% and 91% of each country's surveyed family firms experienced revenue decreases. Those in Egypt were the least impacted, with 72% reporting decreases in revenue. In Morocco and the UAE, 79% and 82% of the family firms, respectively, declared a decline in revenues.

The impact on revenues varied across different economic sectors (see Figure 2). Specifically, the accommodation and hospitality services were the most affected because of social distancing and travel restrictions around the world, with 95% of the family firms operating in these sectors reporting a reduction in their revenues. The other three sectors that also suffered were the manufacturing sector, construction sector, and transport and storage sector (86%, 85%, and 83% respectively).

In contrast, the human and social work sector recorded the highest percentage of family firms that experienced revenue increases (20% of the surveyed firms) as the pandemic increased the demand for their services and products. Businesses that indirectly benefited from the new economic and social reality, such as the entertainment and recreation sector, recorded the second most significant revenue increases (17% of the surveyed family firms).

In contrast to 86% of the family firms in the wholesale and retail sector that reported a decline in revenue, more than 6% in this sector experienced an increase. The latter percentage could be attributable to the lockdown scenario that drove final consumers to purchase products and services online. Those family firms with a high level of digitalisation were able to capture this new online demand.

In sum, the COVID-19 pandemic has threatened family firms' survival and has charted an uncertain future for their transgenerational continuity.

“
At first, we shifted from in-store dining to an all takeout solution via services like Otlob
 ”
 Ahmed Zakzouk,
 the founder¹

Figure 2: Top sectors affected by COVID-19 pandemic

Rank of the sectors reporting revenue decline	Rank of the sectors reporting revenue increase
Accommodation and hospitality services	Human health and social work
Manufacturing	Information and communication
Construction	Wholesale and retail
Transport and storage	Entertainment and recreation

¹ Information or quote retrieved from <https://egyptianstreets.com/2020/09/24/family-businesses-in-egypt-fight-to-stay-afloat-amid-covid-19-woes/>

2.1 How did Middle Eastern and African family firms react to the shock of the COVID-19 pandemic?

Middle Eastern and African family firms have weathered the COVID-19 pandemic by mobilising their resources of resilience at three different levels (see Figure 3), namely critical recovery memory, short-term reactions, and strategic actions.

CRITICAL RECOVERY MEMORY

Refers to the approach that employs organisational knowledge to react to a crisis based on lessons from previous periods of uncertainty.

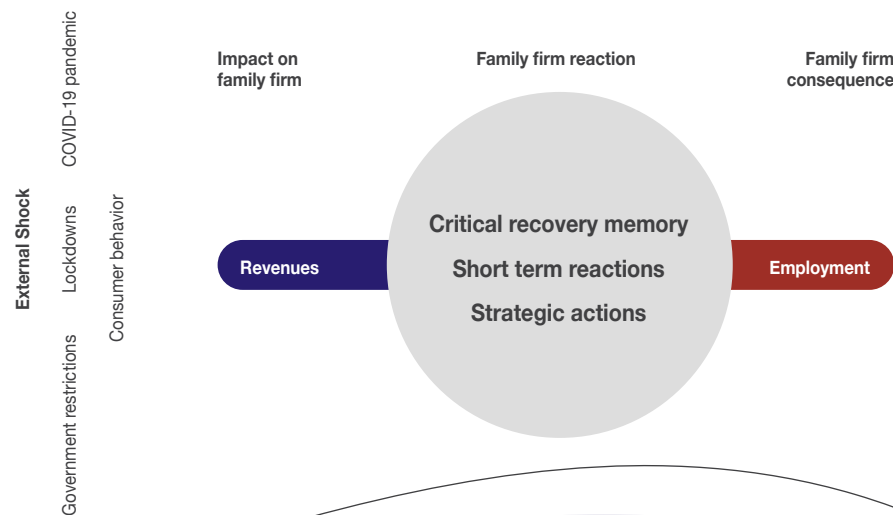
SHORT-TERM REACTIONS

Refer to the immediate decision-making at the operative level to absorb the shock and heal the short-term financial damage caused by a crisis.

STRATEGIC ACTIONS

Refer to planned middle-term actions to stabilise the firm and to define whether and how to mobilise resources for strategic repositioning during a crisis.

Figure 3: Model of resilience for family firms



We observed that not all family firms in the Middle East and Africa reacted in the same way to the pandemic. They showed different approaches in combining recovery memory, short-term reactions, and strategic actions to navigate through the pandemic, while operating in a new socio-economic dispensation.

03. Three levels of **family firm resilience**: from recovery memory, through short-term reactions, to strategic actions

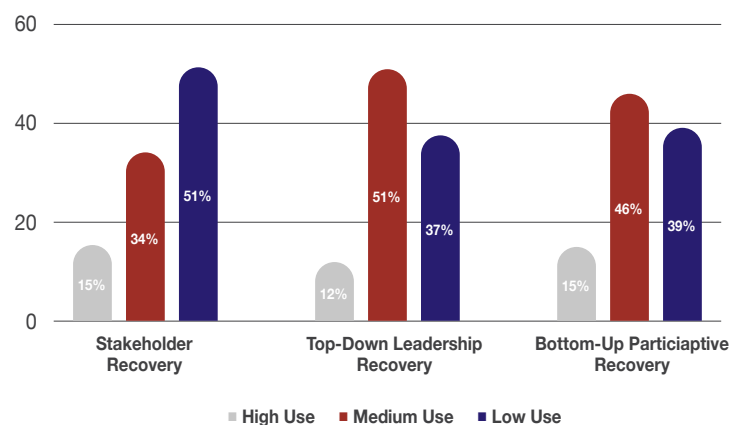
3.1 Activating the critical recovery memory

Critical recovery memory is the tacit organisational knowledge gained from past crises that businesses employ to tackle new unexpected ones. There are three main recovery memory approaches:

- *Stakeholder recovery* refers to the maintenance of social capital that relies on communication, relationship, and partnership with external stakeholders to prepare the family firm to overcome a crisis.
- *Top-Down leadership recovery* refers to the activation of upper-level management to organise and communicate the directives down the hierarchy to engage and navigate the crisis.
- *Bottom-Up participative recovery* refers to the participative leadership where all members of the organisation and the family collectively engage and navigate the crisis.

The most common recovery memory approaches among Middle Eastern and African businesses were the top-down leadership and bottom-up participative recovery. Respectively, about 63% and 61% of the surveyed family firms used these approaches or combined them. Conversely, only 49% of the family firms relied on their external stakeholders for recovery.

Figure 4: Proportion of surveyed Middle Eastern and African family firms that used the three recovery memory approaches.



Rwandan family firms presented the lowest levels of stakeholder recovery relative to the full sample. On the other hand, 71% of Moroccan businesses relied on this approach. The importance of this recovery approach in each country highlights the extent to which family firms rely on their social capital to confront the ongoing pandemic.

The top-down leadership recovery and bottom-up participative recovery differentiated the countries we studied. Kenyan family firms reported the highest proportions of top-down leadership recovery at 92%, but the use of this approach was common also in Egypt, Rwanda, and the UAE at 78%, 72%, and 82% respectively. This indicates the nature of the hierarchical structures of family firms in the region and their highly centralised decision-making leadership style. However, the Moroccan businesses were the exception as they reported the lowest proportion of top-down leadership recovery at 21% and a high proportion of bottom-up participative leadership at 57%.

Centralised leadership is a common characteristic for Middle Eastern and African family firms. In this context, bottom-up participative

recovery is less likely, that is to say, there is low participation of employees in decision-making. Within this context, family firms are less likely to seek out employees' suggestions and feedback to address the current challenges and plan their recovery. This scenario could mirror a cultural understanding of human relationships, in this case, hierarchical societies with a high level of power distance. Thus, it could constrain the regeneration of new and fresh ideas to mobilise resources and actions to overcome a crisis.

Rwandan family businesses are an exception, as they apply a dual recovery approach that combines a model for bottom-up participative leadership and a top-down leadership. We observed similar circumstances in the UAE context where they engaged in projects and innovations with strategic input from both employees and management.

Centralised leadership is a common characteristic for Middle Eastern and African family firms .

3.2 Reacting to face the short-term impact of the COVID-19 pandemic

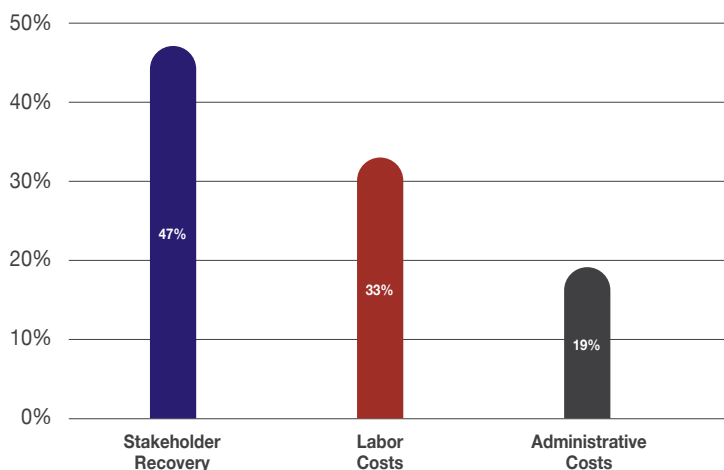
As the COVID-19 pandemic bore down on family firms' revenues, upper-level management teams immediately reacted to reduce its effects. Since many firms found themselves in a vulnerable position, there was a need for urgent action to stabilise their financial situation. This reaction materialised through short-term decision-making related to reducing operative, labour, and/or administrative costs.

The reaction of upper-level management had a short-term orientation and was directed towards mitigating the financial impact of the pandemic. These decisions may have consequences on the long-term competitiveness of family firms:

- 01.** Decisions concerning the *reduction of labour costs* may have had a positive impact on the short-term survival of these businesses but a negative impact on their long-term competitiveness because such decisions undermined the firms' culture and employees' commitment.
- 02.** Decisions concerning the *reduction of operative costs* may have had a positive impact on their short-term survival but a neutral impact on their long-term competitiveness. This would depend on the nature of the eliminated costs, that is to say, when the removed costs did not undermine the firms' competitive advantages.
- 03.** Decisions concerning the *reduction of administrative costs* could also have had a positive impact on the firms' short-term survival to alleviate financial stress with a subdued negative effect on long-term competitiveness.

The most common operative reaction of Middle Eastern and African family firms focused on reducing operating costs (47%), followed by labour costs (33%), and, finally, administrative costs (20%).

Figure 5: Proportion of surveyed Middle Eastern and African family firms that used different short-term reactions to mitigate the financial impact of the COVID-19 pandemic.



3.3 Implementing strategic actions

Middle Eastern and African businesses also adjusted their strategic position to respond to the prevailing pandemic, while making short-term decisions to stabilise their financial position. They reconfigured their internal strategies to re-allocate human, social, economic, and financial resources to compete in the new socio-economic dispensation.

The three main strategies that Middle Eastern and African family firms implemented:

- **Pivoting strategy.** This refers to encouraging the development of new ideas and innovations, thus directing the organisation toward new business opportunities to stimulate additional revenue streams.
- **Social strategy.** This refers to implementing non-revenue activities to provide a societal good, based on the needs of the community.
- **Freezing strategy.** This refers to temporarily freezing the status quo of the firm structure, processes, or operations until the external situation returns to previous normality.

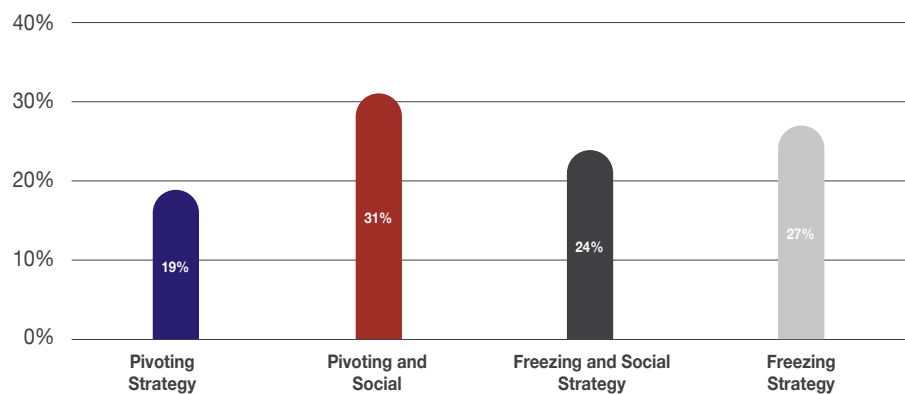
The pivoting and freezing strategies represent two opposing market philosophies that businesses have used to stay competitive. The philosophy of the pivoting strategy is entrepreneurial while the freezing strategy philosophy favours the preservation of the status quo. On the other hand, the social strategy is to a non-market strategy that positions a business, relative to their societal context. While pivoting and freezing strategies are in opposition, social strategy can combine with pivoting and freezing strategies.

Figure 6 shows that while 19% of the surveyed Middle Eastern and African family businesses developed a pivoting strategy, 27% of them applied a freezing strategy. The rest of the surveyed family firms combined pivoting and social strategies (24%) or freezing and social strategies (31%). These firms have recognised their social responsibility during the COVID-19 pandemic because they identified the social needs and favourably responded to them by developing projects or actions to assist their local communities. In total,

55%

of the surveyed companies incorporated a social-oriented strategy to their primary strategy, being either a pivoting or a freezing strategy.

Figure 6: Proportion of surveyed Middle Eastern and African family firms using different strategies.



The family firms from the UAE far exceeded their counterparts in other countries, in adopting strategies comprising some degree of social orientation (see figure 7). About 79% of them opted to add a social aspect to their pivoting or freezing strategies. In the same direction, 58% of the Egyptian and Rwandan firms and 54% of the Kenyan firms combined their primary strategy (pivoting or freezing) with a social aspect. Middle Eastern and African family firms have a great sense of social responsibility. This positions them to take strategic action to preserve their firms in the new normality while accommodating the needs of their local communities.

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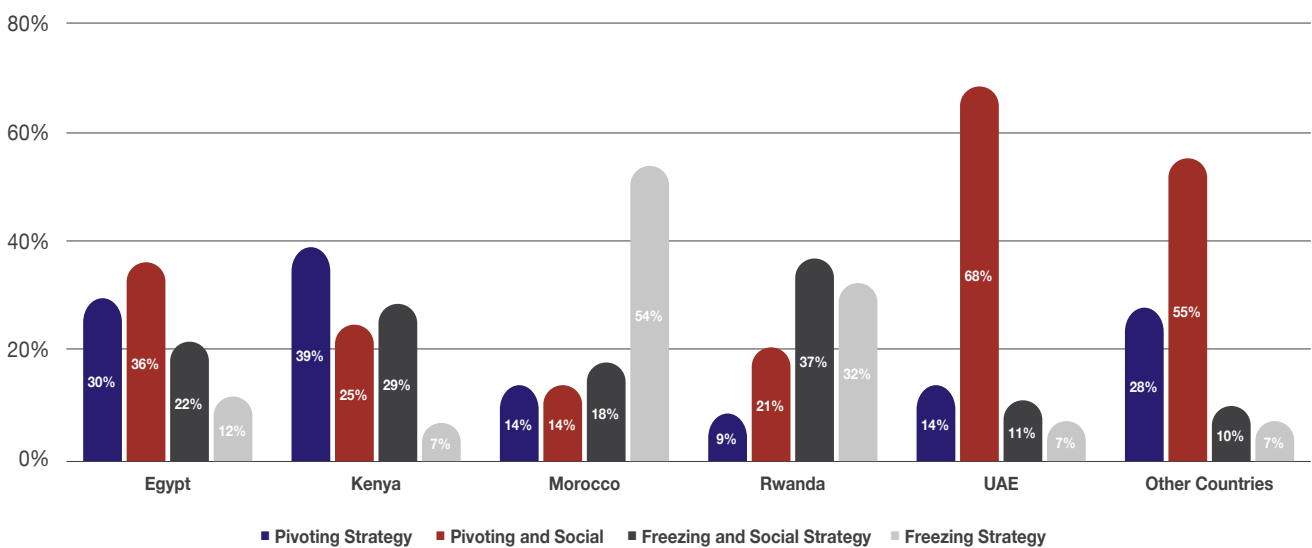
We have made a number of contributions and implemented initiatives across our companies as we look to support across the communities in which we operate. We stand in solidarity with the world in fighting this virus and are happy to perform our duty supporting efforts to combat it.

- Mr. Youssef Mansour,
Board Member of Mansour Group.²

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The strategic actions of family firms differ across countries. The Kenyan firms were the most entrepreneurial, with 39% of them implementing a pivoting strategy, followed by Egyptian family firms at 30%. In contrast, 54% of the Moroccan firms opted for a freezing strategy, followed by Rwandan family firms at 32%. The most common strategy for UAE businesses was the combination of pivoting and social strategy (68%). Conversely, 37% of Rwandan firms combined freezing and social strategies, followed by the Kenyan family firms at a rate of 29%.

Figure 7: Proportion of surveyed Middle Eastern and African family firms using different strategic actions across countries.



² Information or quote retrieved from <https://www.mansourgroup.com/mansour-group-supports-global-efforts-to-combat-coronavirus/>

04. Firm employment consequences

↓
20%

The shock of the pandemic affected the revenue of family firms and triggered varied responses to increase their resilience. Middle Eastern and African family firms attempted to confront the new environment by utilising their memory recovery. Thus, they attempted to stabilise any economic consequences by implementing a set of short-term decisions, and re-formulating their strategies to prepare their companies for the recovery period. Despite these efforts, employment shrunk by 20% from the initial institution of lockdown measures.

The degree to which employment within these firms suffered also varied across countries. Kenyan and Rwandan family firms suffered the highest rates of employment decline, indicating that they were less financially prepared to sustain a long-lasting period of crisis. Conversely, Egypt, UAE, and Morocco reported the lowest rates of employment decline.

“

Our Group has been doing considerably well. Of course, there had been some hitches along the way due to this pandemic and we found that nothing was unmanageable on account of the determination of our employees to sail through this biological and economic disaster intact. Those efforts have now translated into us being able to hire more people now and return the salary that was deducted.

- Rizwan Sajjan,
Founder and Chairman of Danube Group.³

”

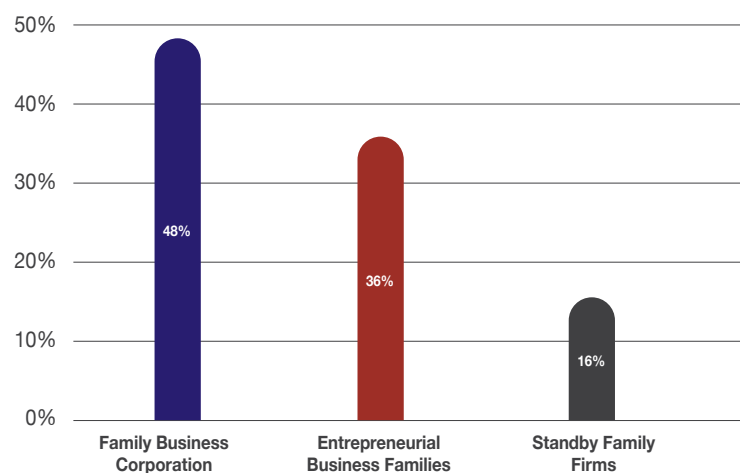
³ Information or quote retrieved from <https://gulfnews.com/uae/danube-group-restores-salary-cuts-made-during-covid-19-1.1605086298522>

05. Types of family firm resilience

To conduct further analysis on the combination of recovery memory approaches and strategic actions that would restrain employment decline, we categorised family firms into three groups with common and identifiable characteristics:

- **Family Business Corporations.** This group comprises either family firms that secure one or a few of their revenue streams (to be considered essential activities) to absorb the initial COVID-19 shock in their cash flow, or family firms that are financially stable. Another defining trait of the firms in this group is their strong leadership of one manager or a group of managers within hierarchical organisational structures.
- **Family Entrepreneurial Businesses.** This group comprises family firms with a pronounced entrepreneurial orientation to explore additional revenue streams and alternative ways to weather the COVID-19 pandemic.
- **Standby Family firms:** This group comprises family firms that are waiting and monitoring the evolution of the pandemic without significant administrative, operative, and strategic changes. To reduce the operative and financial losses, the firms in this group are actively working with stakeholders such as government, suppliers, and customers.

Figure 8: Proportion of surveyed Middle Eastern and African family firms across different types of resilience.



The family business corporations and family entrepreneurial businesses experienced less employment trauma than the standby family firms did.

“

We like to think of offense and defense. The offense is to always get into sectors ahead of the curve, the defense side is what we are going to do as a business, this is the process of what we should do in the company if things do not get better as we hope they would in the very near future. The crisis in a way is affecting the way that businesses function and operate; this will, in my opinion, accelerate investments in technologies. In the same token, we need to ensure that we are positioned to take advantage of this shift.

- Mr. Youssef Mansour,
Board Member of Mansour Group.⁴

”

⁴ Information or quote retrieved from <https://anchor.fm/mansour-group/episodes/Leading-Through-COVID-19-ef1eun/a-a2dlmdu>

06. Country level perspectives

6.1 The Egyptian Family Firm Perspective on COVID-19

The Egyptian family firms were affected dramatically by the COVID-19 crisis, that resulted in a general decrease in revenues for most of the manufacturing and service industries.

There is a need to understand the impact of the COVID-19 pandemic over several snapshots throughout a designated time series. The operational costs increased due to the financial commitments towards different stakeholders. This was accompanied by delays in cash collections, which resulted eventually in cash flow challenges for several family firms. Family firms tried to reduce their administrative costs throughout the pandemic. The general behavior was for the family members to bear the financial consequences, rather than burdening the employees with salaries and wages reduction. However, this was not always feasible, and it depended on the firm and family's financial strength.

It is important to highlight strategic actions taken by Egyptian family firms. The most common strategy for Egyptian family firms was freezing the entries to new fields of production or services. However, many family firms were agile enough to adopt new business models and tools, such as online platforms to surpass the current crisis and maintain their revenue streams. This indicates the innovative capabilities of Egyptian family firms.

The pandemic was unprecedented and most of the surveyed family firms adopted a top-down approach to adapt to the new normality, while other family firms adopted a stakeholder approach when collective actions such as dealing with the government (taxes and regulations), creditors, and suppliers were required. It was noticed that only a small number of family firms adopted a bottom-up approach to deal with the pandemic, this shows the need for NextGen family firm members to develop a more participative leadership style to address external crisis in the future.

Family values play a significant role in the Egyptian family firms' decision making process, especially to curb the effect of COVID-19.

It is important to highlight strategic actions taken by Egyptian family firms.



Ashraf Sheta
Assistant Professor
American University in Cairo

THE CASE OF TANTA MOTORS FAMILY FIRM

Interviewee: Engineer Amr Aboufreikha (third generation)

Name of the organization: Tanta Motors

Title of the interviewee: C.E.O

Size of the firm: +700 employees

Industry: Manufacturing, trading, and construction.

Number of family shareholders: 35

Company date of establishment: 1950

Founded in 1950, Egypt based Tanta Motors is a multifaceted company operating in different sectors. The C.E.O, Engineer Amr Aboufreika, highlights that the company's beliefs such as respect, commitment & achievement were fundamental to deal with the COVID-19 pandemic. Tanta Motors established a crisis committee to manage the COVID-19 pandemic. The crisis required a deliberative effort to identify diverse impacts on the firm by breaking it down into manageable problems with realistic and proactive solutions. Company-wide communication became the most important tool to manage uncertainty. Amr believes that both employees and stakeholders require explanations regarding the impact of the pandemic on the firm, strategies, and future developments to address the new normality and to stabilize the firm. Tanta Motors success laid on the cohesion between the company's values and its ability to react to and mitigate the challenges of the pandemic. The company seems to prove the resiliency of family firms both in its capabilities of acting quickly and proactively as well as adopting diverse strategies to address the shifting economic and social conditions.

Tanta Resilience. Resilience became key merit of Tanta Motors as the pandemic began affecting its economic activities. The crisis committee was undertaken by top level management, stakeholders, middle management, and those possessing technical knowledge. Moreover, suppliers, buyers, and creditors were given ample information as to the likely changes that would occur under the new and unprecedented conditions. Lobbying efforts were similarly successful in delaying accruals due to banks loosening the burden on stakeholders. Regular management meetings were held to deliberate on any challenges and to engage with internal stakeholders, effectively providing a platform for innovative suggestions.

Reacting to the pandemic in the short-term. Labor Costs: Amr strongly believes not only in the merits of employees as fundamental assets to Tanta Motors operations but also considers his employees as valued members of the company. Consequently, no labor cost reductions were implemented. One of the firm's strategic decisions during the recovery period was to preserve its human resources. Operational Costs: the main economic activities kept running during the pandemic and the firm supported extra costs to adjust the physical condition of their shops, establishments, and factories to implement precautionary measures as well as all the costs related to equipping the employees with the adequate tools to be protected. Administrative Costs and other outflows: Shareholders agreed to take no extra dividends in 2020 to help the company operate with relative ease.

Strategic Actions. To reduce uncertainty within the organization, Amr ensured the company's operability throughout the pandemic. Tanta Motors largely operated through the freezing strategy continuing with economic activities to safeguard its position in its respective industries. However, based on the employees' skills and knowledge, the firm introduced a new product, ventilation gates, to capitalize an opportunity during the pandemic. Additionally, the budget related to corporate social responsibility was increased up to 20% as Tanta Motors sought to provide essential products for local communities

It is important to highlight the solidarity and social embeddedness of Rwandan family firms

6.2 The Rwandan family firm perspective on COVID-19

It is important to contextualize Rwanda's situation since the time COVID-19 was declared a pandemic. Rwanda is the most densely populated country in Africa, with 407 inhabitants per square kilometer where traditional farming is one of the main livelihoods. Whilst Rwandan economy is centered on the service sector (50 percent of the economy), agriculture (34 percent of the economy), and industry (16 percent of the economy), the industry sector has grown due to the government promotion program and ever since was expected to reach 19% in 2020, to replace the agricultural sector gradually.

The ongoing global pandemic negatively affected the two-digit growth rate and performance of the Rwandan economy. However, to avoid a health crisis the business environment has followed strict precautionary measures that hindered the normal economic activities of Rwandan family firms.

- Business shops, restaurants, and hotels have continued operating with common precautionary measures such as social distancing, limited capacity, and in some sectors, the opening hours have been restricted.
- Public transports have been partially operating, in some specific periods the services were suspended depending on the severity of the situation. In some weeks, it operates within towns but does not cross specific areas.
- Areas most severely affected by the pandemic went into lockdown. Depending on the severity of the situation, both public and private firms have to limit their employees to essential ones, up to 30% or 50% of their total capacity, and the rest work from home.
- Larger gatherings such as weddings and sporting events were suspended. Since this regulation has been lifted, attendance at such events is limited to 10-30 people, but no receptions are allowed.
- All bars remain closed since the pandemic outbreak in the country in March 2020 until now mid-2021.
- Farming activities have never been interrupted since the outbreak of the pandemic in the country.

The ongoing pandemic has impacted Rwanda's economic structure, which in turn has affected family firm revenues where small and medium firms have suffered the most because of lack of resources. The sudden reduction of the economic activities has paralyzed some family firms while others implemented reactive strategies. It is important to highlight the solidarity and social embeddedness of Rwandan family firms, those with a better stock of resources, to engage in non-revenues actions to reduce the impact of the pandemic on their communities.

The COVID-19 pandemic has shown the importance of public policies to work together with the business community to consolidate and reinforce the Rwandan economic environment and to make firms, and family firms in particular, be more resilient.



Pierre Sindambiwe
Lecturer,
University of Rwanda

THE CASE OF A **SELECTED** FAMILY FIRM IN RWANDA

Interviewee: Cyusa Jean Baptist (Manager 2nd generation)

Title of the interviewee: Manager

Number of generations: 2 generations

Primary industry: Service industry, Hotel.

Company date of establishment: 1980s

The local family firm was founded in the 1980s, located in the southern province of Rwanda. The firm has a hotel, a motel, a coffee shop, some restaurants, some small shops, and several offices. The family involved in the business is composed of the founder who primarily runs the hotel, assisted by the appointed manager, Cyusa Jean Baptist, who oversees all family firm activities. There are other family members part time involved in the family firm with different operative responsibilities.

Family firm resilience. Despite being in the economic sector, which suffered the most due to the collapsing economic activities, the hotel did not close. Hotels were not considered essential activities and some of them had to temporarily close, however, the firm absorbed the accommodation demand coming from those industries being considered essential and operating during the pandemic. The family social capital was used to maintain the relationships with stakeholders to capture the remaining demand. Additionally, the bottom-up recovery approach emerged from the family's side by unifying their effort behind the firm. Family members worked together to continue the reminding operations when the situation forced the family firm to put some of the employees in temporal furlough.

Reacting to the pandemic in the short-term. The reduction of both operational and labor costs was the immediate reaction for the firm. Because of the government restrictions, the family firm was forced to close several economic activities and stabilize its firm's cash flow. Due to the fragile financial situation and the uncertainty regarding the time the pandemic would last, the family decided to reduce the number of employees as a necessary action for survival in the short-term, with an aim to re-incorporate all the employees once the economy recovers.

6.3 The Moroccan family firm perspective on COVID-19

Morocco recorded its first case of COVID-19 on March 02, 2020. Moroccan authorities declared a state of health emergency on March 20 when the country only had a dozen of cases. After three months of strict confinement, epidemiological indicators favored gradual deconfinement by June 10, 2020.

The Moroccan economy was dramatically impacted by the COVID-19 crisis especially on the tourism industry, air transport, and some exporting sectors (notably the textile and automotive sectors) because of the shocks of the demand and supply sides (OECD, 2020). It was also affected by the global economic collapse, which particularly hit Europe, its main trading partner. In contrast, companies operating in the mining, agribusiness, and chemical industries among others have resisted the effects of the pandemic better. Small and medium-sized enterprises have been the most affected by this crisis.

Our research on Moroccan family firms shows the impact of the COVID-19 pandemic on firms' revenues. While some family firms have chosen to keep all employees and not reduce salaries, others have resorted to financial aid offered by the Moroccan government to help firms overcome the COVID-19 pandemic. The solidarity and commitment are part of the Moroccan family firms' values, which made them consider employees as family members.

Firms suffered from delays in cash collections, which lead to cash flow challenges faced by most of the family firms working in several industries. However, the mutual trust that exists between family firms and their stakeholders including suppliers and customers allowed them to

overcome this crisis. Concerning wages and dividends, several Moroccan family business leaders had decided to not accept any dividends during the year 2020.

Two strategic actions were adopted by the Moroccan family firms: freezing strategy and pivoting strategy. It is worth mentioning that some Moroccan family firms were agile enough to use new business models or to enter into new fields of production or services to absorb the COVID-19 shock. The Moroccan government played an important role to support pivoting strategies because family firms had access to bank loans to pursue new initiatives.

To sum up, the shock of the COVID-19 pandemic is one of a kind whose ramifications transcend the health sphere and constitute an unprecedented economic and social upheaval. Most of the Moroccan family firms were surprised on how to act during this type of crisis with a high level of international uncertainty. However, their resilient DNA has emerged as a condition to survive. Family firms were able to overcome the COVID-19 pandemic due to their social and cultural values mainly related to solidarity, mutual trust, involvement, and commitment. It is also worth mentioning that due to the bridging and bonding social capital they were able to withstand this unprecedented crisis.



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Hassan 2nd University

The solidarity and commitment are part of the Moroccan family firms' values

THE CASE OF **LEVANT** FAMILY FIRM

Title of the interviewee: Ahmed Hamadi CEO
(Second generation)

Size of the firm: 50 employees

Industry: manufacturing

Number of family shareholders: 4

Company date of establishment: 1975

The Levant is a manufacturing Moroccan family firm in its second generation. The COVID-19 pandemic impacted the firm's revenues because several orders were canceled. The CEO estimated that the turnover dropped around 50%. Moreover, due to the government restrictions to prevent a national health crisis, the factories were closed for almost one month.

Levant resilience. Ahmed decided to call for an urgent meeting with all shareholders to discuss the implications of the COVID-19 pandemic and to collectively draw potential solutions to address the uncertainty of the unprecedented times. This meeting was important to commit to shareholders, unify goals, and define future actions. The shareholder meeting kicked off the top-down recovery process which involved the top management team and, subsequently, the whole organization.

Reacting to the pandemic in the short-term. The Levant family firm decided not to reduce labor costs as an action to compensate for the revenue decrease. Therefore, employee salaries were not affected and none of the employees have been dismissed. The clear message that the family sent was: "employees are considered as family members and solidarity is our intrinsic family firm value"

Strategic actions. The main strategic action was to pivot and try to adapt part of their production operations to the new demand of precautionary equipment such as masks and protective visors among others. To support the new investment to supply the market, shareholders assumed the compromise with personal funds, reinventing past profits, and government support to invest in new machinery and to train human resources. The Levant family firm acted entrepreneurially to respond to the normality.

07. Demographic information about the sample

The data used to write this report was extracted from “Mastering a comeback – How family businesses are triumphing over COVID-19”. STEP Global Consortium and KPMG Private Enterprise Global family business database: COVID-19 edition, which relied on a convenient sampling strategy replicated across multiple countries. Each affiliate and collaborators of the STEP Project Global Consortium identified potential respondents that were eligible for the project considering business and family characteristics. The research was designed by the STEP Project Global Consortium research committee and validated and adjusted with the intervention of academics, practitioners, and business families. The final version of the questionnaire was generated in English and then translated into 13 languages. The survey was launched in June 2020 and the data collection process ended in October 2020.

In total

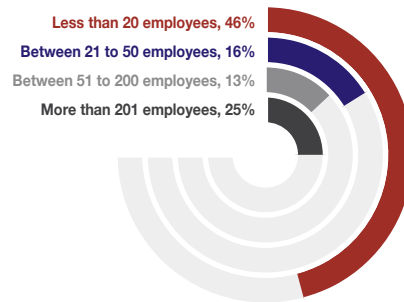
500

family firms from the Middle East and Africa region completed the questionnaire in

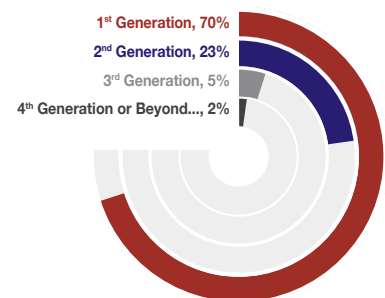
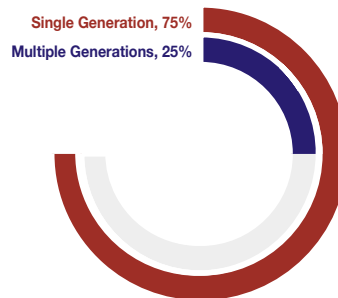
11

countries.

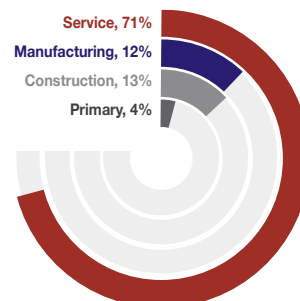
Size of the firm – number of employees



Generation



Industry



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