

Family Businesses in the Times of Crisis and Global Recession: A story of resilience and sustainability

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From FFI Practitioner
This week, we are pleased to share a family business case illustrating how Firmenich, the world's largest privately-owned perfume and taste company, has utilized their concentrated family ownership and governance model to navigate worldwide crises. Thanks to Marta Widz and Benoit Leleux from IMD Global Family Business Center for sharing this case and lessons that can be learned from Firmenich's example.

In a globalized world, the spread of a deadly disease like COVID-19 is bound to wreak havoc of an equally global scale and provoke an economic recession of unprecedented speed and depth.

Even though family businesses are often viewed as not the most agile, when a crisis of this magnitude hits, they are able to quickly bring to bear skills developed over generations to ensure resilience, capitalizing on the trust patiently accumulated with various stakeholders and continuing to live their deeply-held sustainability values.

For example, following a performance decrease family-owned firms are less likely to downsize the workforce.¹ In the past weeks, we have seen number of multigenerational and global family businesses convert their manufacturing facilities to produce sanitizers and disinfectant solutions with the intention to donate them to the health authorities.^{2,3} One such example is Firmenich, the world's largest privately-owned perfume and taste company.

This article, based on the Firmenich story, illustrates that at the heart of many family businesses' successful pivot are values-based sustainability-driven business models and governance mechanisms that are resilient to even the most dramatic shocks.

Firmenich: Intertwining resilience and sustainability

Firmenich, a Geneva-based family business, is the world's largest privately held manufacturer of fragrances and flavorings industry for consumer goods. Its client list includes the world's largest food and beverage, beauty, and household care and fabric companies. About 4 billion people worldwide use a product containing a fragrance, flavor, or ingredient by Firmenich, ranging from yogurt or cereals in the morning to shampoo or fine fragrance at night.

“AS A RESPONSIBLE COMPANY, IT IS CRITICAL FOR US TO TAKE ACTION AND DEMONSTRATE OUR SOLIDARITY WITH THE LOCAL COMMUNITIES WHERE WE OPERATE IN THESE UNPRECEDENTED TIMES. THIS HAND SANITIZER ALLOWS US TO PROTECT OUR PEOPLE AND THE FRONTLINE EMERGENCY STAFF WORKING RELENTLESSLY TO COMBAT THIS PANDEMIC. TOGETHER, WE WILL PROVE THAT SOLIDARITY IS MORE CONTAGIOUS THAN THE VIRUS.”
– PATRICK FIRMENICH, CHAIRMAN OF THE BOARD, FIRMENICH

Established in 1895, Firmenich is currently entirely owned by family shareholders from the third to the fifth generation. The company is present in more than 100 markets worldwide and operates over 80 facilities across the globe.

In response to the COVID-19 virus, Firmenich reacted swiftly and adapted the production of its Geneva manufacturing sites to donate 20 tons of disinfectant solution to the Geneva University Hospital and medical and emergency services.⁵ To meet increasing global demand, the Group increased its production capacity to 100 tons for hospitals, as well as medical and emergency services across the USA and Switzerland.⁶

“As a responsible company, it is critical for us to take action and demonstrate our solidarity with the local communities where we operate in these unprecedented times,” commented Patrick Firmenich, Chairman of the Board, Firmenich. *“This hand sanitizer allows us to protect our people and the frontline emergency staff working relentlessly to combat this pandemic. Together, we will prove that solidarity is more contagious than the virus.”*

What enabled the quick reaction of Firmenich was, on the one hand, its *recognition of the societal value* reflected in its purpose and fundamentals as well as an inclusive capitalism business model, and, on the other hand, a remarkably *resilient-to-shocks governance mechanisms* model of concentrated family ownership, independence, financial prudence, long-term thinking, and skilful balancing the business and owners' needs.

Purpose and Fundamentals

Firmenich's *Purpose Statement*, “For Good, Naturally,” is its north star – as a result sustainability is one of the five building blocks in Firmenich's *Fundamentals*.⁷

CUSTOMERS	PEOPLE	CREATIVITY	SUSTAINABILITY	LEGACY
<p>We fragrance and flavor our customer's products for our mutual success.</p> <ul style="list-style-type: none"> Our customer intimacy is unique as we partner with our customers to transform their ambitions into reality. We anticipate consumers' desires continuously reinventing the world of taste and smell. We deliver value through innovative products and services, placing decision-making as close as possible to our customers. 	<p>Our people are the heart of our Company. They are recognized for their passion, talent and commitment.</p> <ul style="list-style-type: none"> We strictly maintain the highest levels of personal integrity and ethical behavior. We value diversity and create an environment in which each colleague is empowered and encouraged to grow, enabling us to shape our future with confidence and imagination. We unite the finest talents and nurture an entrepreneurial team spirit to attain our strategic goals. 	<p>Creativity is our essence.</p> <ul style="list-style-type: none"> We create fragrances and flavors that inspire moments of pleasure and delight for consumers worldwide. We lead our industry in research and innovation, constantly driving incremental and breakthrough winning ideas and technologies. We apply our creativity to improve all parts of the business. 	<p>Our integrity and sense of individual and collective responsibility ensure our long-term success.</p> <ul style="list-style-type: none"> We practice a sustainable business model for the well-being of present and future generations. We engage all our partners to build a responsible, sustainable and traceable value chain. We strictly comply with all regulatory requirements and strive to achieve the highest international standards on quality, safety and the environment. 	<p>Our Independence gives us the freedom to control our destiny.</p> <ul style="list-style-type: none"> We are a family-owned company, committed to our independence. We take a long-term view of our business. We pursue a policy of financial strength, profitable growth and return on assets.

Firmenich Fundamentals⁸

Inclusive Capitalism Business Model and “Pathways to Positive” Sustainability Strategy

Firmenich has long recognized the need to capture societal values: Maximizing stakeholders' value is Firmenich's way to achieve the trustworthiness of employees, customers, and the wider community and is reflected in the Firmenich's *inclusive capitalism business model*.

Firmenich is the first company in its industry, the first in Switzerland and the seventh worldwide to become globally certified by EDGE as Gender Equality Employer, ensuring equal pay and gender in the recruitment, promotion, and training.⁹ Firmenich also signed the “Valuable 500” pledge on disability inclusion and employs many blind people, who work at its sensory panels.¹⁰

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Sustainability strategy “Pathways to Positive”¹¹ is ensured through the governance structures that support sustainability, such as Global Ethics Committee, Human Rights Committee, Biodiversity Committee, and Global Sustainability Team. The main goals are “Improving Lives Through Innovation” (the example of which is the engagement in strong innovation on new sanitation to tackle the problem of lack of access to toilets of about 4.5 billion people worldwide in a partnership with the Bill & Melinda Gates Foundation) and “Leading in Environmental Management” (the example of which is are biodegradable perfumery molecules or the boldest environmental goals in the industry to operate with 100% renewable electricity).

Resilient-to-Shocks Governance Mechanisms

Concentrated family ownership, bound by common time-proven values, gives Firmenich the ability for quick maneuvers in times of crises. Decisions can be taken quickly and shareholders are aligned behind the Firmenich's purpose and fundamentals.

Family ownership is also the guardian for Firmenich's vision to *stay independent* as “*Our independence gives us the freedom to control our destiny*.” That independence is also based on the family legacy, which dictates the utmost *financial prudence*: “We pursue a policy of financial strength, profitable growth and return on assets.”

Like many other family businesses, Firmenich is committed to *long-term thinking*. “We practice a sustainable business model for the well-being of present and future generations”: What for non-family businesses is long-term, is for Firmenich just an eyeblink. The company thinks in decades.

The *resilient-to-shocks governance mechanisms* ensure the skillful balance of business and owners' needs, guided by the business-comes-first principle. Governance at Firmenich is based on a *meritocracy principle* – several family members are engaged across the business but currently, there are no family members in the top executive positions. The Board of Directors steers the company, led by a family Chairman and has nine members, with four family directors making the minority at the board. After the long history of a chain of family CEOs, in 2014 Gilbert Ghostine was appointed the first non-family CEO. “*We maximize the advantages of both the family ownership and the learnings of the publicly-traded company*” stressed Gilbert Ghostine, CEO Firmenich, “*all our competitors are publicly traded*.”

“WE MAXIMIZE THE ADVANTAGES OF BOTH THE FAMILY OWNERSHIP AND THE LEARNINGS OF THE PUBLICLY-TRADED COMPANY. ALL OUR COMPETITORS ARE PUBLICLY TRADED.”
– GILBERT GHOSTINE, CEO, FIRMENICH

Lessons to be Learned from Family Businesses for the Post-COVID-19 World

In its long history, Firmenich has successfully navigated numerous crises (such as previous pandemics, economic depressions, and world wars). That history has taught Firmenich that *resilience* (e.g., governance mechanisms of concentrated family ownership, independence, financial prudence, long-term thinking, and skilful balancing the business and owners' needs) and *sustainability* are the best recipes for longevity and the ability to survive the external shocks.

To thrive in the post-COVID-19 world, companies will need to develop both resilience and sustainability to ensure business continuity, liquidity, and the alignment of short- and long-term goals. No surprise, those are characteristics often associated with those family businesses we love to celebrate. They will shine brightest again during this crisis time. And the lessons should not be lost on other businesses...

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Firmenich was the winner of the **IMD Global Family Business Award** in 2011 and received the inaugural **IMD-Pictet Sustainability in Family Business Award** in 2019. Firmenich and will celebrate its **125th anniversary** in 2020.

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