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COVID-19: How some companies leapt, while others stalled

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Abstract

This impact paper is based on the follow-up study of how altruistic corporations responded to COVID-19 crisis. Altruistic corporations are companies that serve unconditionally their customers, suppliers and local communities through their core business processes. Our previous study (Getz & Marbacher, 2019) found that these companies outperform their competition in normal times. The follow-up study reveals that during the COVID-19 crisis, these companies have also shown antifragility (Taleb, 2012).

Keywords: COVID-19, Leadership, Transformation, Organization, Altruism

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COVID-19: How some companies leapt, while others stalled

In mid-March, COVID-19 locked down most of Europe and Asia. For Sterimed, a 900-strong world leader of high-end sterile medical packaging, this was mixed news. A sudden 40% increase in demand for its pouches was welcome but ramping up production at its French plants was challenging. One aspect was particularly thorny: procuring protective masks for workers was impossible in France and even in China, where the export of such masks was banned at the time. But Sterimed refused to endanger its employees and found a solution.

Sterimed had been exporting its products to China for several decades. Quickly, the company realized that one Chinese client was also producing protective masks. Sterimed got in touch and the client agreed to send several free sample boxes. As a result, not only could Sterimed protect its employees, but its CEO Thibaut Hyvernat could also help others. "I am a very sociable person, so I started calling my friends who run businesses and began sharing some of the spare masks." Then, a thought struck him: "Instead of helping several dozen friends, I could help 20 million friends!" Hyvernat immediately called the head of Asian operations who quickly came back with two important facts: (1) more than one of Sterimed's Chinese clients were manufacturing protective masks and (2) China was lifting its export ban.

The next day, working from his suburban Parisian home, Hyvernat called an executive meeting. "The conversation lasted 10 minutes. Or rather, there was no conversation. We all said: 'Let's do it,'" he recalled. Put differently, in these 10 minutes Sterimed decided to launch an activity which was totally new to them: importing medical supplies. The company leveraged its core technical, regulatory, and supply chain competencies, but they still needed to: (1) obtain authorization to run this new activity and approval for the import of masks; (2) book the production capacity for up to 20 million masks with its Chinese suppliers throughout April and pay for it in advance (Sterimed declined the government's emergency credit and paid with its own funds); (3) arrange a huge hub with the capacity to receive large cargo plane loads arriving from China and dispatch them with trucks to European clients. Two weeks later the first million masks arrived, followed by four million the week after, and 25 million by mid-April.

Last but not least, although mask prices soared, Sterimed sold them at cost price—of buying and of estimated transportation. "If air transportation costs exceed our estimations, we may well lose money by the end of April. But that is not the point," remarked Hyvernat.

During COVID-19, many companies tried to figure out a new way to run their business, while also aiming to create traditional economic value. Sterimed achieved it, but with a different and unique purpose in mind—creation of social value. We call such companies altruistic and found that their economic success comes only as a result, indirectly. Our five-year study showed that they were continuously successful using their very specific, socially-focused mode of business. This is proof that there is a new way to run companies. And it isn't just a B-Corp way of working. Rather, it offers a solid and credible alternative to the "Chicago school" approach for running the capitalistic firm (Friedman, 1970). COVID-19 reinforced this. We took a fresh look to see how and what the altruistic corporations were doing.

Not wasting a crisis

Altruistic corporations are companies that serve unconditionally their customers, suppliers and local communities through their core business processes (Getz & Marbacher, 2019). Hence, they measure their success by, for example, how loyal their customers are, how supportive their suppliers are or how admired they are in their communities. Paradoxically—but in fact, naturally—these altruistic corporations' successes with the members of their ecosystem translate indirectly into economic success. We observed this phenomenon in several dozen companies across three continents, both public and private, in industries ranging from banking and manufacturing to retail, pharmaceutical, and healthcare. Many of these companies have been practicing corporate altruism for decades. Though altruistic corporations differ from their competition both by their unique focus on their ecosystem members' good and—as a consequence—by higher economic performance, they remain capitalistic firms. That said, they often allocate their after-tax profits more to further service of the ecosystem members—and employee—needs than to shareholder needs, including in the public companies and with the stockholders' agreement.

That is the situation in normal times. Since crises are often said to be the true tests of the way businesses are run, we followed up with several altruistic corporations we had studied and added some new ones across many industries. Here is how and what they did during the COVID-19 crisis.

In banking, advisors of the 200-branch strong UK division of the Swedish bank Handelsbanken did not hesitate when one of its clients—a medical ventilator manufacturer—asked for something which had never been done before. Faced with a surge in demand, the manufacturer needed to place a massive purchase order for ventilator parts, a transaction that would usually take 2-3 weeks to process. Handelsbanken's advisors managed to process it in 7 days, by working into the evenings and even on weekends, thereby accelerating the delivery of these ventilators to UK hospitals at the height of the pandemic. Remarkably, this wasn't the first, but the third crisis, in which Handelsbanken distinguished itself. In the early 1990s real-estate and the 2009 crises, Handelsbanken was the only Swedish bank that did not turn to taxpayers' money for a bail-out. On the contrary, Handelsbanken extended its credit to individuals and businesses that were under strain, thus benefiting society as a whole, instead of being a burden for it.

In the textile industry, LTC, a high-end French textile producer, also decided to help with the demand for masks. On Friday, March 13, 2020, just at the start of the pandemic in France, they developed a professional reusable mask made from washable fabric within 24 hours and set the offer live on their website. On the following Monday, after receiving close to one million visits and thousands of calls begging to sell the masks, LTC went into action. In the next 48 hours, they transformed all their manufacturing and supply chain to launch the non-stop 24/7 production of 150,000 masks produced and delivered to hospitals and other clients, every day. Similar to Sterimed, LTC charged a price that just covered production and shipping. What's more, they shared the design and specifications of the mask publicly thus allowing other manufacturers to produce it too.

In food production, on March 24, 2020, Laurent Cavard, the CEO of Altho, a major potato chip producer announced a 9% pay increase to all its delivery suppliers. What's more, Altho backdated the increase a week and also pledged to pay any invoices immediately upon their receipt.

In utilities, on the same day of March 24, 2020, EnergyVision, a Belgian provider of energy transition solutions wrote to all its clients announcing a freeze in bills, stating that customers wouldn't be charged for energy consumption for the following two months. The company was already not charging clients for the initial studies of their energy infrastructure, or for the costs of transitioning towards more efficient and greener solutions. EnergyVision were just charging clients for energy consumption using transitioned infrastructures and at a price much lower than what they had paid before. Now, this price has been brought down to zero.

In insurance, on April 2, 2020, just after April fool's day, MAIF, an 8,000-strong French mutual insurer announced that they were refunding €100 million back to its 2.8 million car insurance customers. MAIF's experts observed a 75% drop in car accidents during the lockdown and decided to refund this unpaid damage fund back to its customers whom they viewed as no fools at all.

You may think that all of these companies could afford being altruistic during the crisis because they were already doing well. Yes and no. Yes, thanks to their way of running their business they were already outperforming their competition continuously. For instance, in 2020, MAIF was ranked as N°1 for customer relations in France in insurance for the 16th year in a row, and Handelsbanken in Sweden outperformed its competition on profitability for 48 years in a row, while in the UK—its growing market—it was voted the best *private* bank four years in a row, although its 200 branches are in retail banking. But it would be a mistake to think that it's because of their financial strength that they had the chance to act unconditionally for the good of their ecosystem members. In France, none of the larger competitors of MAIF returned any funds to its car-insurance customers—they all pocketed the money.

There is something in the very way the altruistic corporations are run which makes them pursue the good of their ecosystem members unconditionally. Something which explains why these companies refuse to make profits in the inflated market, why they increase what they pay suppliers, why they return their rightfully earned profits to customers, and why they work extra hours during their time off without charge.

The altruistic corporations explained

Corporate altruism isn't business philanthropy—donating part of corporate profits. Neither is it B-Corp or Benefit Corporations way of running business, where you try to balance the simultaneous pursuits of social and economic value. Instead, altruistic companies focus unconditionally on the creation of social value, wagering that the economic value will follow. That means that if a specific business activity does not generate—or even loses—money, it's fine for an altruistic company as long as it provides benefits to a part of the corporation's ecosystem. Amazingly though, we have found that this wagering is not simply a nice thing to do, but that it leads to corporate success. More, we have also found that these crises reveal how antifragile these companies are, a quality, which According to Nassim Taleb (2012), denotes a system's capacity—from weightlifters to entrepreneurs—not just to show resilience or robustness but to become stronger while facing adversity.

Below are four organizational components explaining how corporate altruism leads to success and antifragility.

- *Socially-oriented and inspiring corporate vision***.** This depicts a company unconditionally serving their ecosystem members—customers, suppliers, and local communities—as well as employees, and viewing financial performance as a result of these actions and not as their purpose. The vision must be larger than the boundaries of the company and also be aspirational, thus allowing employees to own it emotionally.

- *CEO as a guardian for the vision***.** These CEOs view their first responsibility as ensuring that everyone has ownership of the company's vision and that it serves as the criterion for their decision-making. The CEOs don't tell employees what to do but ask: "Does what you are trying to do constitute the best way to serve our ecosystem members as persons first and not as means to our business?"
- *Autonomous action***.** Since all company employees know what vision they're pursuing, decision-making and the power to implement ideas belong to them. Knowing the decision criterion, they have no need to ask managers which options are best for each and every ecosystem member they deal with.
- *Managers acting as servant leaders***.** Managers are not occupied with instructing and controlling teams, but with asking them "what do you need in order to do your best for the company's vision" or "what is preventing you from doing your best." Managers can then remove the obstacles to employee action and provide them with the necessary resources (material, financial, time…) they need to act.

The FruitGuys, a Californian company delivering fresh fruit to offices, provides a great illustration of how these four organizational components allowed them to thrive, as well as to weather several crises, COVID-19 included.

Corporate altruism thriving in practice

Firstly, The FruitGuys' vision of doing all they can for customers was the very reason Chris Mittelstaedt founded the company. In 1998, he was looking for a start-up that made sense, when his friend mentioned to him that office employees really lacked healthy food. "If you could do something to make them healthier, that would be great," he said. Shortly after, Chris started his business, not in a proverbial garage, but in his San Francisco apartment kitchen. There, together with his wife, they prepared healthy fresh fruit baskets, which Chris would then deliver to businesses who signed up to the idea.

The company took off. Doing all they could for customers soon extended to doing all they could for the fruit growers too. Ed McGee was one of these, growing peaches that The FruitGuys buyer Rebecca North described as so juicy that "when you've eaten one, you need to take a shower!" One day though, Ed encountered a huge problem. Small rodents, gophers, invaded his orchard digging tunnels and eating the roots of his peach trees.

Rebecca knew little about gophers, but she wanted to do all she could for Ed and so asked him: "What can we do for you? What do you need?" Ed half-jokingly replied: "I need barn owls." She didn't know much about owls either, yet she continued to think about it and shared the issue with Chris. A few months and calls later, the FruitGuys surprised Ed by coming to his farm and installing four owl nesting boxes. Not long after this, owls came to nest in them. To Ed's delight, since a barn owl can eat up to six rodents in a single night.

Rebecca, who is in charge of teaching other The FruitGuys employees how to interact with farmers, sums up the company's approach: "Real face-to-face interactions with farmers are critical to the relationship. We want long-term relationships, not just one or two dates. We're looking for a long-lasting marriage!"

Chris defines his life goal as "crafting business models that allow for people and organizations to have a positive and healthy impact on the world". This, in turn, drives "what FruitGuys is and what it provides to clients, employees, community partners, farmers and the world at large."

Secondly, for this corporate vision of unconditionally serving the ecosystem members to be owned by everyone, the role of CEO as corporate vision guardian was critical. It wasn't simple, though.

From the very beginning, Chris did everything to explain to his employees how best to serve customers, and he thought this was sufficient. However, one day a customer complained about a particularly rude gesture one of The FruitGuys delivery drivers had used with a client. This led Chris to a one-year introspection and to the elaboration of a more explicit philosophy of customer service that he called the 5Rs: be Respectful / Responsive / Realistic / Responsible / Remembered positively. In this way, Chris said, "I was able to teach the behavior that I wanted, to make it part of the daily routine [instead of] explaining it every day." This philosophy was then extended to suppliers. From then on, Chris would say to his employees: "Do whatever you think is necessary [to implement this philosophy], no matter what the cost. You have *carte blanche*".

Thirdly, enabling employees to internalize the company's vision and philosophy allowed them to act on their own when facing customer or supplier problems.

One day, while dealing with account receivables, Nicole Wagner called a major client about the late payment of eight bills. "You tell me that you sent me these invoices electronically, but I never received them," Nicole heard how upset the customer was on the phone. She apologized, admitting that she must have forgotten to check the box indicating that the client prefers to receive invoices automatically via the data-transfer system. But the customer was still upset because she now had to process the bills manually.

So, Nicole decided to act, "Ma'am, I am aware of how much trouble our mistake has caused you: it's unacceptable," she said. "Would you like us to just cancel these bills for you?" she then offered. Totally taken aback, the client changed her tone and refused Nicole's kind gesture, instead promising to pay the owed $320. Interestingly, Nicole used *carte blanche*, but the client rejected the gesture.

Finally, as servant leaders, The FruitGuys managers are key, not only for giving employees the responsibility and power to do all they can for customers and suppliers, but also in providing them with resources they need to do so.

This all started with the CEO Chris telling everybody: "I'm not smart enough to come up with the right answer, but let's ask really good questions to try to find out what the right answer would potentially be."

In the meantime, Nicole moved from account receivables into customer relations and then became the manager here. One day, Mary – a member of Nicole's team – received a call from a client in Fresno, in north-eastern California: "You just delivered my box of fruit… The bananas are all brown. I don't understand how you can deliver fruit in such terrible condition!" said the client on the phone.

"We're very sorry. It must be because of the heat, nearly 40°. We should have sent you greener bananas," apologized Mary. "Is it alright if we send you another delivery tomorrow?" she proposed. "No, it's not alright. I need this fruit today," the client replied.

Though this was a very minor client for The FruitGuys, ordering just one medium-sized box every week, Mary decided to act. Together with her manager Nicole, they called Meesy, another manager in charge of the Silicon Valley warehouse. Together, they decided that Meesy would get a company van and drive for three hours to deliver new bananas to this client. Put differently, two managers helped Mary to do "all she could" for the client—who could not believe it when the new fruit box was delivered to her on the same day.

The FruitGuys have relied on the four organizational components to provide unconditional service to their customers and suppliers for the past 22 years, during normal times. However, these same components have helped the company to weather multiple crises as well, reaching 170 employees and over $35 million in revenue.

Antifragile altruism in times of crisis

In 2000, two years after its foundation, The FruitGuys were struck by the dotcom crisis because of their struggling Silicon Valley clients. The first thing many of them did was to cut their "corporate benefits" budgets, including their provision of free fruits for employees. In a short time, the company's $1-million turnover was halved. To save his start-up, Mittelstaedt had to lay off some of his employees and drive the delivery truck himself again.

Yet, Mittelstaedt called this crisis a "blessing in disguise." Most of Silicon Valley's high-tech firms took years to recover from the dotcom crisis, laying off many of their staff. This was not the case for the low-tech The FruitGuys. In the meantime, many of the laid-off Silicon Valley executives left to find work elsewhere, in Chicago or Dallas, in a trend described in the humor of the time as "B-to-B and B-to-C: back to banking, back to consulting". But they missed their peaches and pears. So, having become used to their healthy daily fruit basket, some called The FruitGuys to find out whether they offered the same delivery service in their new city.

This is the blessing Chris was referring to. Soon, The FruitGuys started opening branches around the US and today, they serve 15 hubs delivering in 48 states.

COVID-19 has hit The FruitGuys even harder than the dotcom crash did. In a matter of weeks, its revenue dropped by 90%. Chris recalls someone telling him to "moth ball" his business and lay off everyone to stem the losses. He admits that financial logic did dictate this solution, but it didn't sit well with the company's vision and philosophy. Moreover, providing fresh fruit became even more important during COVID-19 because of the health benefits of their vitamins.

So, during the first week of the crisis The FruitGuys leadership team started to look for solutions in line with its vision and "even at triple the losses incurred," as Chris put it. Quickly, they invented a home delivery business for private customers. In addition, they launched a program to deliver fruit to people fighting COVID-19, adding the local community to the ecosystem they served. The team has also decided against layoffs, preferring instead a partial furloughing of the workforce, all the while paying them 100% of healthcare. They also decided to find work with other businesses for its delivery and packaging employees to avoid furloughing.

At the time of writing, 93 out of 170 employees are furloughed, including some of the leadership team who suggested the plan. Of the 77 remaining, The FruitGuys found 13 of them temporary work in other businesses. Moreover, in one month the company has pivoted dramatically from office to home delivery. They now have orders worth $90,000 per week, reaching a rough breakeven point. The Paycheck Protection Program from the US government will allow them to bring back employees to the reinvented company. They are anticipating that only 60-70% of their corporate customers will come back and are looking at growing their home delivery business to propel them forward so they can not only achieve full employment again but actually exceed their previous annual trajectory.

A solid alternative to the "Chicago school" way to run companies

The FruitGuys and all the other companies we have mentioned found how to leverage their business competencies and processes to act—also in times of crisis—for the good of their customers, suppliers and local communities. But they did not achieve this through smart financial analysis, focusing on profit or shareholder value maximization. Amazingly, they did it by rejecting the unique financial orientation and instead, focusing single-mindedly on the good of their ecosystem members. This allowed them to devise and implement—often pivot—massive solutions on a dime. Sterimed, for example, is considering—at the time of writing—to turn their new import activities into a major business pole after the crisis. They managed to do so because they weren't asking many questions, just one: "How can we transform our processes to keep on serving unconditionally the members of our ecosystem, as well as our employees?"

All crises end – that is what crises do. However, for many companies that won't be good news. They may be unable to meet demand when it picks up—or exceeds normal levels– because suppliers will have disappeared, clients will have fled and employees will have been laid off. Like in Aesop's fable, they will resemble the oak which breaks during the storm. And like in this tale, altruistic corporations will resemble the reed which bent but did not break. They didn't break because, after the crisis, just like the former clients who called The FruitGuys to deliver them fruits in other regions, these companies are surrounded by members of their ecosystem who haven't forgotten. The crises prove the superiority of the altruistic way of running companies, but there is more.

There has been lots of talk about not wasting a crisis like this. Altruistic corporations show that there is a credible alternative to the "Chicago school" way to run companies. This alternative does not consist in balancing the creation of social and economic values, like B-Corps or the 181 US top CEOs of Business Roundtable (Winston, 2019) offer. Instead of pursuing financial performance which eludes you, you can use the crisis to refocus your company single-mindedly on the common good, and—as a result and not as a purpose—to thrive. It may not be possible for every company, but it's not too late to try.

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