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Family Wealth and Family Business Governance in a Crisis

Purpose, people and process.

Jeremy Franks: Welcome to the second podcast in our series, Family Wealth and Family Business Governance in a Crisis, in which we explore the impact of the current COVID-19 crisis on family businesses, and in particular their relationship between families and family businesses. In our podcast today we're going to focus on governance in family businesses, taking an in-depth look at family business governance and why it's so important, particularly at the current time. We are recording from home, so apologies in advance for any household noises. My name is Jeremy Franks, I'm the Head of Wealth Planning for Europe, Middle East and Africa. And once again I'm joined by my colleague Russell Prior who heads up our Family Governance, Family Enterprise Succession and Philanthropy services across EMEA. Welcome Russell.

Russell Prior: Hi Jeremy. Good to be with you again today.

Jeremy: Great to have you here. Okay Russell, so why is governance in family businesses so important, particularly at the current moment?

Russell: As I see it Jeremy, it's like this. It's hard enough to get good leadership, management, strategy and results in business, but if you overlay that with all of the dynamics that can take place within family relationships, then you can see what an enormous challenge you have on your hands in running a family business. When these things are harnessed, it can be incredibly powerful and that's why we see so many fantastic family businesses. Family business governance as a solution aims to bring an equal level of clarity, transparency, understanding, commitment and accountability to governance within the family as it does within the business. Good family business governance, therefore, aims to strengthen the family enterprise, increase the support and engagement from the family while reducing the risks of conflict arising. But as you know, we do see situations where things don't work out. Jeremy, what's your experience of where things go wrong?

Jeremy: That's a good question. I think there's many areas where things go wrong, but perhaps just to focus on a few. I think communication to me is absolutely critical. Clear and transparent communication, whether that be within the family or between family members and the family business or between family members and key stakeholders within the family business. I'd probably also mention inter-family conflict, that can be very destructive to a family business. If key family members, particularly those with significant interest in the business and decision-making responsibilities aren't all pulling in the same direction, that can be very destructive and distracting. I'd probably also identify when sometimes family members are placed into senior positions within a family business, perhaps before they're ready to, or perhaps they don't have the relevant skill set and experience – that can be extremely unhelpful. One, because perhaps they're not making the decisions that they should be making, but two, the impact that that has on other members of the business, particularly those who perhaps aren't family members. It can be very unsettling from their perspective. And perhaps the last issue I would raise is where there's a lack of succession planning in family businesses. And I suspect this is an issue which perhaps may have been brought into sharp focus by the current crisis. And I suspect going forward, on a positive note, that many businesses, family businesses in particular, that come out of the current crisis stronger and more able to take advantage of opportunities that present themselves, will look at this issue and address that in the coming months. So, Russell, what's your experience of what makes good family governance?

Russell: Well I think a number of things need to be in place, whether it's to deal with creating that positive environment or deal with some of the risks that you highlighted. But for ease of understanding, I group them under three headings: objectives, decision-making and communication. So, under the heading of objectives, what we're really looking for is alignment and/or clarity of business and personal objectives for all family members involved. We're looking for agreements around succession for those key roles, but also, what does continuity really mean for the business? We also need the family to understand that ownership is about patient capital and long-term stewardship of the business. The second heading I mentioned was decision-making. And here what we're looking at is who, where and how decisions are made. Creating a clear demarcation between the ownership roles, the management roles and the family roles, and recognising the challenges of family members inside and outside of the business. We also need to make sure there's real transparency regarding the reward that comes from that family business, whether that's as a shareholder or as an employee or as a family member. And the third heading I always focus on is communication. And you really highlighted this as being so important. This is about transparent dialogue. It's about dealing upfront with assumptions and expectations. So often they go unsaid, but they really need to be teased out. And it's about having a system for managing conflict. And of course, all of that needs to be based on strong common family values. So, Jeremy, I've listed those three areas. Do you see any of them being more important than some of the others?

Jeremy: As I mentioned before, communication to me is almost the common denominator. It's the driving force behind many of the issues that you raise. I think clear communication can enhance effective decision-making and even, where decisions perhaps aren't to the liking of all key stakeholders, clear communication can help alleviate any tension that may result from that. I think clear communication also helps when setting objectives. I think also another point I'd like to just pick up is the point you raised around patient capital. To me this is the big differentiator that family businesses often have over some of their peer group or competitors in an industry. The fact that they can take that long-term view and they can consider perhaps opportunities which, businesses with more demanding shareholders perhaps wouldn't entertain, gives family businesses a great opportunity and I think this will be particularly relevant in the post-COVID world. And so, I think there's going to be some great opportunities for family businesses in the coming years. I know Russell, you've worked with many families over the years to help them build their corporate governance frameworks and also the frameworks governing the relationship between the family and the family businesses. How do you go about doing this?

Russell: So, we have a process that we work through with families and I'll come to that in a moment if I may. But just as importantly, we believe there are two prerequisites, which where they exist make things much easier. The first is that the family has a purpose around which it can coalesce. And the second is that the family, particularly the senior generation, is willing to make that process an open and engaging one. If there's a culture of disagreement, on the other hand, let alone conflict, or if it's one generation or part of the family telling the other what to do, then the process, I can assure you, is going to be very, very difficult indeed. So back to the way we approach these things, we follow three steps: purpose, people and process. So, for purpose it's all about identifying the shared or common purpose for the family wealth, for the family business, it's about developing a family wealth narrative and building an ethos of responsible ownership. When we look at the people issues, it's about identifying all of the stakeholders in the family wealth and agreeing how they're going to be involved in the process. Creating that atmosphere of trust and constructive communication and identifying the core and common family values. And then finally it's the process of creating the governance framework. And here it's about building the rules, the decision-making and communication. And it's also, to the point you made earlier on, about the ongoing training and development programs for the successors in the family and the family business.

Jeremy: Thanks Russell. That's probably a good point for us to bring today's podcast to a close. We've covered some really important issues today from the importance of good governance in family businesses and how this promotes effective decision-making and how to prevent internal conflict to the importance of clear and transparent communication between family members and other key stakeholders. Russell, thank you very much for sharing your thoughts and insight with our listeners today. To our listeners, thank you for joining us. I hope you've enjoyed the conversation and found it

interesting. Do join us again for the next podcast, which will be Governance and Family Wealth. If you would like to pick up any of the issues raised, please do contact your Relationship Manager. Keep well, goodbye.