Coping with crisis

Jeremy: Welcome to the HSBC Private Banking UK podcast. This is the first in the series we’re calling Family Wealth and Family Business Governance in a Crisis, in which we will explore the impact of the current COVID-19 crisis on family businesses, and in particular, the relationship between families and their family businesses. We’re recording this from home, so I do apologise in advance if there is any background noise. My name is Jeremy Franks, I’m the Head of Wealth Planning for Europe, Middle East and Africa, and I’m joined by my colleague, Russell Prior, who heads up our Family Governance, Family Enterprise, Succession and Philanthropy services across EMEA.

Russell: Great to be chatting with you today.

Jeremy: Great to be on with you as well Russell. So Russell, given the speed and severity of the COVID-19 crisis, what have been your observations around how family businesses, and in particular family directors and shareholders, have reacted to this almost unprecedented crisis?

Russell: Well as you say Jeremy I think one of the most interesting things about this has been the speed and the severity of the onset of this crisis and therefore I think we have seen, from most business owners, an immediate reaction being almost in crisis mode. And it’s had impacts on families and family businesses in a number of areas. So at a human level, at a family level, it’s impacted people’s health. Clearly it’s impacting their businesses and it’s also impacting wealth and investments.

Russell: So I think the initial response has been, what do people need to do immediately, right now? Make the absolutely necessary decisions and adjustments. Clearly these are unprecedented times and people won’t have had experiences of this sort of thing before. So I think we’re all learning as we’re going along, and we’re all having to make decisions without perfect information. So I think it’s a real challenge for everybody in this initial phase. I think as we move forward, we’ll begin to see things changing a little bit, but right now, I think most people are in that crisis mode.

Jeremy: Yeah I think you make a really good point there, Russell, that it’s come out of nowhere to many. Certainly, a lot of the entrepreneurs, business owners that I’ve been speaking to over the last three or four weeks, they’ve been in crisis mode. But it’s almost come from nowhere and very different to, let’s say, previous challenges that they’ve encountered, whether it be the financial crisis of 07/08, or the recessions of the late 80s, early 90s. It just seems to have come out of nowhere, so they’ve not really had that warning, and I think that’s really exerted immense pressure on, to state the blindingly obvious, the businesses, but also I think relationships between family members involved in the business.
Russell: Yeah, absolutely. Absolutely, it is. And I think in terms of relationships in their businesses, we’re seeing this happening at family level. Within family businesses, there’s the family members in the business, there’s other family members dependent on the business, but not perhaps working in the business. We also have non-family members, whether they’re directors or employees. And in some family businesses, obviously we have that separation between the family owners and non-family managers. So all of these relationships are being tested. All of these relationships are having to react in an environment where things are moving so quickly and they don’t have the normal amounts of time to react to the development of plans, for instance. So you’ll know as well as I do that normally, if in a business scenario you were thinking about developing a new strategy or developing a new way of approaching a problem, you might take months to formulate.

Jeremy: Absolutely.

Russell: ... the thinking and the decision. Right now, business owners are having to do this in days, weeks, with an imperfect fact base to make these decisions. So I think the decision making and the relationships are being really stressed by the situation we’re in.

Jeremy: I think also, picking up on a point you mentioned earlier, just practically, I’ve had a situation recently where the CEO of a family business has been laid up with COVID-19, so that’s brought into sharp focus the management team around him, made up of some family members and other non-family members. But it’s to your point around the speed of the requirement to make quick decisions and key strategic decisions at short notice, has also been exacerbated by some key personnel not being around or not being able to dedicate their full attention at this critical time.

Russell: I think that’s particularly the case in family owned businesses. In larger businesses where you maybe have an executive management team or a board, you have more people with whom to share the burden of those decisions. In so many family owned businesses, we see a controlling owner or controlling owner-manager, or a matriarch or a patriarch, somebody that the business looks to for that sense of direction, that sense of critical decision making. Because as you highlight, when these people are laid up, when these people are incapacitated, it places a real stress on what the other people around them should do. They’re not used to acting without the guidance and support of that business leader and it’s a real stress on how people, how businesses can make decisions that are in many cases going to be existential decisions. We’ve discussed the issue of the importance of cashflow, of profitability and preserving these things. It’s testing that, but it’s also testing relationships, for instance, with staff in family businesses. How do the business owners react to their staff, to their customers, to their suppliers, to the communities around them? I think all of those are issues that people are having to think really hard about.

Jeremy: It’s almost been a perfect storm in many respects. You’ve had these existential pressures which have exerted immense pressure on families, on their businesses; put relationships under strain, and as we all know, we’re all guilty of this, but our behaviours change when we’re under immense pressure. And that, I think has exacerbated an awful lot of the challenges. But what I would say is I’ve been very impressed by, certainly a number of businesses that I’ve had the privilege to have conversations with key stakeholders on. For example, there was one situation whereby the main individual, the main CEO family member was out of action, so the next generation had to step up, and they’ve done a really good job. They’ve learned on the job, as it were, and from talking to the
patriarch of the family, the individual I was referring to as the CEO, he’s been incredibly impressed with how they’ve risen to the challenge, but also how they’ve dealt with difficult issues that we’ve touched on around relationships with individuals who aren’t connected to the family, but have worked for the family business for 30, 40 years, and managed those issues sensitively as the matriarch and the patriarch would like. So I think there’s lots of positives and I do genuinely believe that a lot of businesses, whilst extremely challenged at the moment will come out of this crisis even stronger and even more able to take advantage of the opportunities that will present themselves in the future.

Russell: I agree. I think I see two sort of situations arising, if you like. On the one hand, you see those families that are well organised, that have strong principles, they have had a good consensus-based way of dealing with things that has been built up over many years. I think they’re able to balance those short-term emergency measures, if you like, with a longer-term perspective, recognising obviously, we need to get through the short term first. In those scenarios, they’re having regard to the different stakeholders in the business and they can also then look at the longer-term perspectives. And what I see in those cases, is a clear transparent communication strategy, bringing everyone together. On the other hand, I think those situations where perhaps there hasn’t been that level of consensus, then you can see a crisis like this test the resilience of a family, test the preparedness, but it can often, and unfortunately, expose issues where some families or some family businesses might’ve wished they’d taken action earlier. So, I think it will test, for some families, family communication. It will test family relationships. And I think in the final analysis, it will test family trust. So it’s a really interesting period, but as ever, all of the issues around governance and things that we talk about with family business owners and we see many, many putting in place, I think those that have put that in place will really reap the benefits.

Jeremy: Just picking up on, a critically important point you raise there around communication strategy and style, as we mentioned earlier on in the conversation, lots of key stakeholders have been put under immense pressure by this crisis. So perhaps tips for our listeners out there, what works well from a communication strategy perspective, given the unique nature of family businesses.

Russell: So what I’ve seen taking place is first and foremost, that the decisions that are taken are informed by a sense, if you like, of principles. It’s easier to agree a set of principles around how you’re going to approach something in the first instance, and then you can take the more detailed decisions off the back of those principles. If, on the other hand you leap into detailed decision making, you very often end up with a very reactive set of decisions, and sometimes when you make three or four or five different decisions, they don’t add up to a coherent approach. Whereas, if you’ve agreed a set of principles about how you’re going to go about things, then that can bring about a degree of consistency.

Jeremy: So in summary, building consensus through principles that all the key stakeholders agree on.

Russell: Exactly

Jeremy: That to me is an absolutely critical point. Building that consensus through principles, perhaps which you know may be fairly loose principles but you know the different generations will agree on.

Russell: Yeah
Jeremy: And perhaps also, different non-family members who are critically important to the family business will also agree on. That really, to me is critically important. One practical example of that, which I’ve seen from several businesses which have been put under immense pressure here is their desire to do the right thing by their employees. And let’s be honest, many businesses have been put under huge pressure, financial pressure, and the easy thing in many instances would be, often to let them go. But what they’ve tried to do, also with the government’s significant assistance is to ensure that their employees are looked after, and if that means them being retained under furlough, then so be it. But I’ve really noticed that, how so many businesses and family businesses have done their utmost to look after employees as best they can. I think it’s genuinely striking.

Russell: Agreed, I think, again, you can see this in the headlines, you can see this in what’s going on out there. Consistency, if you like, sharing the pain across the different stakeholders really makes a difference to the way people think. It enables businesses to have a consistent approach to communication. And I think in the end, it helps to build trust from the stakeholders. So when difficult decisions need to be made, people are much more likely to be on the side with those decisions, if there’s that sense of trust, as opposed to that sense of why are they doing this?

Jeremy: Great point.

Russell: Are we treating everybody in a shared basis?

Jeremy: Absolutely great point.

Russell: So again, I think sorts of principles, yeah really important.

Jeremy: I think linked to that and principles and doing the right thing where possible, it’s also been interesting how so many businesses, and I include within that many family businesses, have risen to the challenge and stepped up to the national cause. So, I think of the likes of more publicised businesses like Dyson, who have stepped up to building, 10,000 ventilators for the NHS. Johnson & Johnson, I think, was in the news earlier on in the week – the US company, which if I remember correctly, may still be family owned – how they think they’ve identified the potential vaccine, and if it’s successful in trials, they’re going to produce a billion vaccines at cost.

Jeremy: So I think these are just great examples of how family businesses and the business community in general have really stepped up to the national cause, and are rallying together. I know you’ve been involved, Russell, I think in some philanthropic endeavours by a number of our clients. I don’t know if you’d like to elaborate on those a little bit.

Russell: Yeah, exactly. I think we’ve seen philanthropists, individual philanthropists, rising to the challenge as well. We’ve seen people rethinking their philanthropy, changing the focus to help out in areas of real need right now. We’ve seen other philanthropists changing the timescales of their plans, so something that maybe they’d thought about for the next 12 to 24 months, they’re accelerating their philanthropy to help now. And they’re really seeing the opportunity to use their philanthropy to make a difference in the communities in the really short term. And again, I think it’s been amazing to see how people are doing that. I absolutely agree with your point about business owners. It’s been fabulous to see businesses re-purposing their activities to really help out in their communities to make
a really big difference to vulnerable people. So, yeah, I think the whole philanthropic social responsibility side of things has been again, another phenomenal response to this crisis.

Jeremy: Just before I wrap up, that will have an enduring benefit. I think there's a greater sense of community now than ever I think I've ever experienced in my lifetime, and I think that will be enduring, particularly given the political divides that we've had over the last few years, after all this is over, hopefully very soon, I think we will definitely reap the benefits of that coming together as a nation, and I think that will have many enduring benefits.

Jeremy: But I've really enjoyed our conversation, Russell. It's been really interesting exploring some of these key issues. But I think to me just some of the key takeaways are the importance of clear communication, whether that be within the family business, but also within the family itself.

Jeremy: Also, the need to have shared principles to me is a striking point, and to build consensus around those, I think, really, really important point, and to be transparent in decision making. Another key point really is how sometimes in a crisis you bring out the very best in people around you. Equally, at times it can be challenging, but I think there's a lot of positives to be taken.

Jeremy: So, on that positive note, I will draw this conversation to a close, but I want to thank you Russell for your thoughts and insight, and I look forward to further conversations on similar themes in the series of podcasts that we're going to be issuing over the coming weeks.

And if any of our listeners have any points they would like to pick up, specifically raised today or related issues, please do contact your Relationship Manager and we can arrange conversations, meetings, albeit virtual meetings until things resume to normality, in the very near future. So, keep well, keep safe, and I look forward to speaking to you in the future.