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Finding your shared purpose: Family business governance in a crisis

Jeremy Franks: Welcome to the third HSBC Private Banking 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 the relationship between families and their family businesses. In our podcast today, we're going to focus on governance and family wealth, taking a more in-depth look at governance in the family setting and in particular, why it's so important at the current moment. We are recording this podcast 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 there, Jeremy. Good to be with you again today.

Jeremy Franks: Great to have you here, Russell. Okay, Russell, so practically, what are you referring to when you talk of governance and family wealth?

Russell Prior: When we talk about governance in relation to family wealth, we're really asking the question; "Is a family properly organised to achieve and realise whatever purpose they want from their wealth?" Whether that be in the long term, or heaven forbid in the short term, because something unexpected happens in the family. But has the family considered all of the risks and issues, how they might affect family members, and do they have the right plans and actions in place against those eventualities?

Jeremy Franks: The crisis has been in existence obviously for some months now, but we're now starting to see some significant relaxation of measures. What are the key factors in relation to governance and family wealth that you've seen and have been discussing with family business owners during this crisis?

Russell Prior: So I guess Jeremy, one of the most unexpected and possibly yet interesting aspect of the crisis has been that for many of our clients, notwithstanding how busy they've been, the enforced separation from the daily routine of going into their offices or working alongside their companies. And what we've seen is that this has allowed them a huge amount of time to reflect on a much broader range of things. If you throw in then the effect that the crisis has had on businesses, on markets, on livelihoods, I think we're seeing some really profound thinking about client situations and their futures.

Jeremy Franks: I think you're absolutely right, Russell. I've observed clients looking at how well organised the family is and the family finances are. Then I've also seen clients sort of revisit previous assessments of businesses they've considered to be extremely safe and see if that view still holds tight. And then on the nonfinancial side, I've seen clients give very serious consideration to the mental and nonfinancial wellbeing of their families. And also asking some hard-hitting questions of themselves and the family around and re-evaluating what they want out of life when normality resumes. You say you're seeing profound thinking, in what areas are you seeing this?

Russell Prior: Very much building on some of the points you've made, Jeremy. I think one of the critical things we have seen a lot of focus on is this issue of the purpose of the wealth that clients have created. And as you say, the crisis has shown just how fragile wealth can be and how fragile life and livelihoods can be; things that were previously judged as being secure, not seeming quite like that currently. So we've seen them asking some really hard questions about the purpose of the wealth now and into the future. But as you say, it's not just financial wealth, it's a lot to do with nonfinancial wealth. Health and wellbeing, and that of their family is one big topic. Quality of family relationships is another. We've seen traditions and rituals that families will have observed being upset because

family members are around the world or they can't get together. I think we're seeing families think much harder about their history as they think about the future. And of course, all of this affects communication and the decision-making within the family and in relation to the family wealth.

Jeremy Franks: I agree completely. I think, as you say, purpose is a question which is relevant to many business owners and their families at the moment, but I think a large part of it, if I understood you correctly, what you're talking about, has to do with people, emotions and family relationships, would that be fair to say?

Russell Prior: Exactly, exactly that. I think this is perhaps the second area of reflection that I would raise. The families, I think, are looking at the future of their wealth, it so quickly turns to the people. It's tough to say it and not many will say so out loud, but in many cases, this crisis will have really exposed the levels of trust and communication within families. It will have really tested in some families the family values and in moments of real pressure where those core values are really tested hard, sometimes they'll be shown up. Sometimes they'll be exposed. I think people will also have tested the levels of preparation within family, both the senior generations' willingness to hand over or to let go. And also the next generations, in terms of their preparedness to take things on. And sad to say, and less positively, will also have exposed in some cases, disharmony or conflict. And that's why this strong governance around significant family wealth becomes so important, being prepared for the unexpected so that the purpose of the wealth can be protected and realised. And if I may, Jeremy, that leads me onto my third reflection, which I've touched on some of the softer factors like purpose and communication, but these need to be backed up by the harder ones like wills, estate planning and coordination of advisors, for instance. I know this is an area where you've been doing a lot of work with clients over recent months.

Jeremy Franks: Yeah, absolutely right. I think the way I'd put it is you almost need to hardwire the intentions, so you can address the purpose, you can address the people issues, but unless you've got, let's say the foundations and the intentions hardwired through things like wills and estate planning, which I'll elaborate on in a moment, the rest can fall away. And you really need to support your intentions with a number of key actions I would suggest. I think the first one I would mention is making sure that your will is up to date. Some of you may have listened into a podcast I did with Patrick Power last month. Again, that really, I think, draws out the importance of getting an up-to-date will that perhaps reflects changes in circumstances. And also I think importantly, addresses where you want your assets to go should you pass away. That can help avoid what I would describe as predictable conflict, that together with what I describe as estate planning. So again, feeding into the process around structuring your will and updating your will is very much looking at, to an extent, lifetime estate planning and looking at where assets should be held, by whom and perhaps looking at structures that may or may not be appropriate to your objectives. I think also another key point is coordination of advisors, I think you mentioned. That is a very, very important dynamic, which is often overlooked, I would suggest. The ability to almost build a team of trusted advisors around the family to make sure that they know who to go to if you're no longer around or if the key family members aren't around is incredibly valuable, I would suggest from my experience. But also, perhaps, if it's appropriate, letting the advisors know each other and start to build that dialogue and that communication is incredibly important, I would suggest from my experience. But making sure that everyone's on the same page in respect of information, objectives, can avoid lots of potential mistakes. So I think that coordination of advisors is incredibly important.

Russell Prior: And I think Jeremy that's what's interesting about governance and family wealth. As a term and a practice, governance has been more readily associated with family businesses. Whereas I think what this crisis has shown that it can be just as important, just as relevant to the management of wider family wealth.

Jeremy Franks: You're so right. I couldn't possibly agree more. To me, it's two sides of the same coin effectively. You need to be able to look at the governance of the family business or family businesses, but also you can't neglect the governance of the family and separate family wealth and to address one is to perhaps leave opportunities for errors and mistakes to happen in respect to the other. So it's incredibly important to address both. It's probably an opportune moment to bring today's conversation to a close. But just to recap, purpose is incredibly important. Having the clarity of purpose, in both financial and nonfinancial wealth, can help bring a family together both now and in the future. People addressing the issues you raised around people dynamics, trust, and also being honest and reflecting on how they've been impacted by the current crisis. What can you do to perhaps improve communication and build trust. And where those trust levels are high, how can you cement that so that it stays in place for the future? And linked to that is the point we've just discussed around process. Hard-wiring the intentions and backing up some of the softer points we've discussed with solid foundations and things like wills, coordinating advisors, looking at structures, which will support the intentions that have previously been considered. Russell, many thanks

for sharing your thoughts and your insights with our listeners today. To our listeners, thank you for joining us, once again. I hope you've enjoyed the conversation and found it interesting. If you'd like to pick up on any of the issues raised today, please do contact your Relationship Manager. Do join us again for a podcast in the series and all that remains is for me to wish you a good day, keep well and goodbye.