

Family business governance in a crisis: recovery from the crisis

Jeremy Franks: Welcome to the fifth podcast in our series, Family wealth and family business governance in a crisis, in which we've been exploring the impact of the 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 take a look at some of the key issues that families and family businesses have been encountering as we begin to look to the future and the recovery from the crisis. My name is Jeremy Franks, I'm the Head of Wealth planning and Advisory for Europe, Middle East and Africa and once again I'm joined by my colleague Russell Prior who leads our family governance, family enterprise succession and philanthropy services across EMEA. Welcome Russell.

Russell Prior: Hi Jeremy, good to be with you today.

Jeremy: Great to have you here. So, Russell in our last podcast we looked at some of the key lessons that families might take from the crisis. Today we're going to look forward, hopefully positively.

What are some of the key issues that you've seen family businesses working on as we come out of lockdown?

Russell: From a business perspective, Jeremy, I'd perhaps highlight two things, the first of those is to do with trading, how is trading looking as we start to see the recovery taking effect. Clearly there are still many uncertainties out there but there is that glimpse now as lockdown is released that a recovery's coming. And whether trading through Covid has been good or bad I think the big question is what's sustainable moving forward. A business I was speaking to just yesterday that's had a really tough Covid crisis, that has seen quite a large part of its customer base closed down through Covid, is now looking forward to see just how many of them will have survived the crisis and will be capable of reopening and that for them is a big chunk of their turnover. But, at the same time, they're looking at some strategic new opportunities that will really increase their market reach. And, as they were describing it to me yesterday it's a real balancing act between those downside effects and those really positive opportunities and it's quite hard for them to weigh up just exactly how it's going to go. The second thing I'd just mention is the issue of business models. We're seeing many business owners dusting down old plans, plans from before the crisis, they're looking at seeing if they're still valid or how they need to be changed, how or whether they need to embed some of the changes undertaken through Covid, but also looking to see how they need to adapt through emerging future trends and opportunities. Examples that I would include here are things like new channels, greater use of technology, issues to do with productivity and also simplification. And then from a personal perspective, we've seen a real pick up in families looking to embed some of the lessons that they've felt through the crisis. And again, I'd mention two things here. The first would be to do with wealth diversification. I think there's been some real challenges for families that have had their wealth over-concentrated in one or two areas. And then the second thing we're seeing is families really updating their personal wealth planning and family governance arrangements. But we're also seeing family businesses needing to respond to some further issues that we're seeing emerging as to perhaps longer-term trends and changes in the external environment.

Jeremy:

That's a very interesting point you raise there. I think I'd possibly mention two or three points here. I think lots of family businesses have seen the benefit of embracing ecommerce and technology enhancements particularly around blockchain but also in ecommerce, pivoting to let's say a digital format and being able to sell online has certainly helped and saved many family businesses and I think that's a trend which will continue and undoubtedly as I say it's been accelerated by the crisis but I suspect the momentum and the pace of change will continue for many years yet, and I think that's also for you, you talked about diversification before Russell in a sort of a personal context. What I would say is that I'm seeing lots of family businesses at a business level diversify and diversify their channels particularly in retail. Another long-term trend which perhaps has been overshadowed by the crisis understandably has been Brexit and whether you were for or against Brexit, Brexit is here, and the new trade arrangements and deals are here and that undoubtedly creates opportunities and challenges for businesses, family businesses are navigating and embracing and so we're certainly seeing family businesses increasingly focus around the opportunities and the challenges. It may be where there's international trade or where there is, let's say, supply chains coming from the EU. So, that's certainly one trend. And I'd possibly add a third trend about growing businesses and bouncing back greener. There's certainly, let's say, a lot of businesses and family businesses in particular embracing the ESG and sustainability agenda because it's increasingly important and relevant to many customers and I think businesses and family businesses are responding to it and that's one of the great things about family businesses, they're very nimble, they can pick up on shifting trends amongst their client bases. So, family businesses undoubtedly are responding across many sectors to that bouncing back greener agenda.

So, Russell you mentioned you're seeing a pick-up in families looking to update their personal wealth planning and family governance. Could you elaborate a little bit more, practically what are you seeing them do?

Russell:

Sure. Yes, we've said many times through this podcast series that the issues and challenges that families have faced through Covid has forced some really profound thinking and reflection and you know some of the circumstances, the personal circumstances that families will have encountered are really quite profound in terms of the impact. I think this second big lockdown has made many people who were perhaps tempted after the end of the first lockdown to put off doing something about these things, now coming back round and really focusing on addressing these issues. So, I'll share a couple of examples with you, so firstly we've seen many, many more conversations through our business ownership transition events series with business owners seriously thinking about future ownership of their business and many of them getting into action. Whether that is part of a wealth diversification strategy, whether that's preparing to hand over to the next generation, in some cases an exit from those businesses. We're definitely seeing more conversations, more activity and as I say, much more getting into action. And then the second example I'd share is that many of the conversations that we've been having are flowing through into reviews of how well families are organised on more of a personal wealth and financial planning perspective. So, that covers everything from reviews of wills, estate and succession plans, next generational readiness in relation to either the family businesses as I say or in relation to their wealth. Right through to reviews of family governance arrangements, sometimes creating new family governance arrangements and even through to reviews of their family offices. I sense a real dusting down desire to get ready for the future and be prepared and to make sure that all of these arrangements are in a fit state for moving forward. But of course, Jeremy, we've also seen as part of this planning, as part of this reflection many business owners wondering about just how the government will respond in terms of who's going to pay for the Covid crisis and the debt that the government has been accumulating.

Jeremy:

You're absolutely right Russell. It's certainly been an issue that I've had numerous conversations with clients on. Not surprising given that we've got record levels of public sector debt, last year the government borrowed over £300 billion supporting businesses, families, individuals and most importantly the NHS. So, I think governments across the

world are looking at how to one, service the debt and two, how to eventually pay it back. Now, obviously with interest rates being at all-time lows it's a lot easier to service the debt in a low interest rate environment than if it were a lot higher. So, I think that has provided undoubtedly some, let's say, breathing space for the government. But the government has already started to set out a path for increasing taxation and it's done so first of all in the corporate world. So, corporation tax rates will increase in 2023 to 25%, but there's also been a lot of talk around potential Capital Gains Tax rises. Now, there was nothing announced in the budget but that doesn't mean it's off the agenda full stop. Also, there's been talk around the potential for future wealth tax. Again, there's nothing announced in the budget and Rishi Sunak has certainly made a number of comments suggesting that it's not a policy that he favours but that wouldn't let's say rule out a future Labour government introducing a wealth tax. There's also been lots of noise around the potential for Inheritance Tax reform particularly around some of the generous reliefs and exemptions that exist. So, we're certainly seeing clients look at their estate planning and succession planning and consider that with their lawyers and their accountants. We'll have to wait and see what's announced in the future but undoubtedly, I would suggest that there's likely to be lots of tax volatility in the coming years. That's probably a good point to bring today's podcast to a close. We've covered some really important points today from dealing with the issues that have arisen out of the Covid 19 crisis to what needs to be done as we come out of the crisis but also how to deal with and embrace the new challenges for the future. Russell, many thanks for sharing your thoughts with our listeners today.

Russell: No, thank you Jeremy. Look, these are really important topics and it's great to be able to share with our listeners just what it is that families are doing in these areas.

Jeremy: Absolutely Russell. And to our listeners, thank you for joining us. I hope you've enjoyed the conversation and found it thought provoking. If you'd like to pick up any of the issues raised today, please do speak to your Relationship Manager. Keep well and goodbye.