Prepare Your Business for Challenging Times

No matter what role you play in owning and running your business—the entrepreneur, the CEO of an established business, or somewhere in between—you may often be so focused on building and growing the business that you've forgotten that your most important role is to protect what you've already built.

Defining the family business

A family business is broadly defined as any business in which two or more family members are involved and the majority of ownership or control lies within the family. This unique characteristic of a business actually may make the company more resilient in times of crisis. Why is that? Owners of resilient family businesses are not participating just to make money, but because they share certain values, they take seriously the responsibilities they have to each other, and they focus on the betterment of the business in the long term. Family businesses that are successful in times of crisis will act more collaboratively to reach a shared goal and, as a result, end up being more adaptive. Leadership inside of a family business does not just come from the president or CEO. Shareholders, who may not even have any type of active role, let alone a c-suite job, have power that is often underappreciated, because they have the ability to influence almost every aspect of how the company runs.

In a business crisis, whether that be a global pandemic, a shift in the supply or demand market, or the incapacity or death of a key employee or owner, shareholders in a family business are not solely focused on maximizing shareholder value, like a public company might be. While dealing with family dynamics may feel like an extra layer of complexity during a trying time, a crisis could bring a family closer together by giving you a reason to put your differences aside and take actions that can allow the business to not only survive, but to thrive. It is the choices that your family makes or fails to make both before and during the crisis that will affect what kind of company, if any, emerges on the other side.

Five ways to prepare your family and your business

Whether you're a first-generation entrepreneur or a part of a multigenerational family business, taking the time to prepare your family for the next business crisis is important. Here are five areas your family business could focus on to help your family business weather the next storm.

1. **Values.** It's important to understand and agree upon what values are central to your family business. This will help inform most of the major decisions going forward. Decisions such as: Are you prioritizing employees by keeping wages and benefits? What about your customers, are you staying open or extending credit? How are you thinking about relationships with suppliers—whose bills are you paying first? Would you reduce dividends or distributions? Your family could establish a strong mission statement based on these values and then communicate it to employees and shareholders. This can be particularly important to do with family shareholders who are not involved in the business before a crisis occurs, because having these agreed-upon and established values can allow your company to make important choices, knowing everyone has heard and understands its cornerstones. This can also give your company's management team guidance during stressful times when quick decisions need to be made. When a management team or shareholders fail to make these tough decisions, they can end up causing more damage that the original crisis itself.

2. **Governance structure.** Start with an analysis of the governance structures, processes, and procedures that your family and your business have put into place. Do you regularly utilize these when major decisions need to be made? If there is not a clear, established structure that is used for decisions when there is not a crisis, additional confusion can surely occur when there is added stress, and time can almost certainly be lost under emergency circumstances. If you do already have a structure in place, take this time to critically examine how those policies and procedures worked during the last crisis and determine if they need to be updated.

3. **Communication.** Think about how information is communicated to all stakeholders. Effective communication is particularly important both before and after a significant decision is made. This factor is magnified when there are family member shareholders working in and out of the business. Then factor into the shareholder communication how you are connecting with your employees, customers, suppliers, and the community. One of the most valuable assets of your family business is the trusted relationships that are built over time. Solid, consistent communication plans can continue to strengthen these relationships, while poor communication may erode them. It is during a business crisis that these lines of communication can be a lifeline for your business, because gathering and disseminating information in a timely manner will be hugely impactful.

4. **Succession planning.** Family businesses by their nature are often focused on long-term goals, particularly those that already have more than one generation involved. This can be a major benefit because the management of your business has been thinking in terms of years and decades, rather than weeks and months, since there is a desire by all of the stakeholders for the business to survive over the long term. It's important to focus on transition readiness, especially when you may not actually be contemplating any transition in the near term. By integrating and aligning personal readiness, business readiness, and wealth readiness in a continuing planning process, you can take more control over the uncontrollable. For example, you can create and implement family employment and ownership policies to help make a more effective and harmonious transition when someone is ready to enter or exit the business. Remember that not every family member may be a good fit for every role in the family business. It's important to recognize that succession planning is not just about building and transitioning the business and wealth, but also about transitioning a role and an identity—and helping others to be ready to do the same.

5. **Mentoring.** Taking time to mentor the next generation of family business owners and leaders is an often overlooked, but key component in preparing for or potentially preventing a family business crisis. There are various ways to help teach and pass on both your personal and your business' collective experiences. If you've taken your business through previous crises, you should consider memorializing those events and the steps you took in an effort to teach future owners and leaders what you did and, just as important, why you took certain actions. Proactively establishing an expectation of family mentoring can be particularly powerful as the rising generation of owners and leaders learns how to take over the reins. To help provide guidance when the exiting generation is no longer available, you may consider establishing a formal or informal family business advisory board made up of external advisors to help provide third-party guidance for those moments when the new generation encounters its first business crisis. We saw owners, suppliers, and communities lean on each other a lot during COVID-19, as everyone was learning on-the-go about how to deal with this unanticipated disruption. If you have an established circle of trusted advisors, this type of open and honest communication during a crisis can only occur that much quicker and more naturally.

Since every business crisis cannot be predicted and planned for, family business owners can and should take meaningful steps to better prepare for the unforeseen in order to protect your two most valuable assets: your family and your business.

Marguerite C. Weese
Chief Wealth Strategist

215.419.6561
mweese@wilmingtontrust.com