LGA COVID-19 PRIMER

A Crisis Management Toolkit for Enterprising Families
Section 2: Risk Management

March 16, 2020
Devin DeCiantis, Managing Partner & Risk Practice Leader
Introduction

Dear clients, friends and members of our extended LGA family,

Now that we have a clearer understanding of nature and spread of the virus, a more coordinated global policy response has begun to coalesce -- acknowledging the need for "social distancing" despite the impact this will have on businesses large and small, and a recognition of the importance of "flattening the curve" to reduce the burden this virus will place on our already strained public health systems (more on both strategies below).

As the pandemic seizes control of daily life, it will also have a clear and material impact on the performance of operating companies and investment portfolios, and put strains on the physical and emotional well-being of employees, customers, and families -- particularly cherished elders who are most at risk and the youngest members who are struggling to find meaning in this chaotic time. We hope the resources below will help enterprising families navigate this complex challenge.

At LGA we are also taking several additional steps to help ensure the health and well-being of clients and our community. We are also collecting and sharing insights to support your individual response to the crisis on our new COVID-19 portal on the LGA website, including the report you are about to review. We hope it will provide you with critical facts and insights on the COVID-19 pandemic and help your decision-makers and your family remain informed as the situation evolves.

We encourage you to review and share with family members, Board directors and executives to help inform your own response and support strategic conversations – both for coping with the current crisis and for developing protocols and programs to manage the risk of future crises.

Finally, while we will be acting with extra prudence in the days and weeks ahead, we remain available to support you in any way that might be helpful as the situation unfolds.

Sincerely,
Your global team of LGA Advisors
Focus on Risk Management

THE NEXT SECTION WILL FOCUS ON APPROACHES TO RISK MANAGEMENT IN ENTERPRISING FAMILIES. THESE CONCEPTS AND MODELS ARE PART OF OUR BROADER LGA RISK PRACTICE.

1. CRISIS MANAGEMENT: Exploring what enterprising families can do in the short-term to respond to COVID-19 and other high-risk episodes

2. RISK MANAGEMENT: Exploring what enterprising families can do in the longer-term with respect to Risk Management

3. COVID BACKGROUNDER: Understanding the origins of the SARS-CoV2 outbreak and its physical, economic, social consequences
RISK MANAGEMENT IS A FORM OF “CRISIS PREVENTION” THROUGH ENHANCING ORGANIZATIONAL RESILIENCE

British Standard Institute’s BS 65000 Standard defines “Organizational resilience” as:

“The ability of an organization to anticipate, prepare for, respond and adapt to incremental change and sudden disruptions in order to survive and prosper.”
WHY FOCUS ON RISK MANAGEMENT?

• Strategic risk management is about making better decisions about the future
  – Governance requires *decision-making*
  – Decision-making requires *risk-taking*

• As leaders stare out into an unknowable future, they are forced to assign probabilities to a distribution of potential outcomes...then take a leap

• With the right data, processes, policies and people, modern family enterprise leaders can be rational and even strategic about managing and mitigating risk
DISPROPORTIONATELY REPRESENTED IN STUDIES OF LONGEST-LIVING COMPANIES

• Collins & Porras / Royal Dutch-Shell studies / Tercentenarian Club / Les Henokiens

• **Survival is built into their DNA!**
  • Long-term planning horizon
  • Speed of decision-making
  • Fiscal prudence
  • Focus on managing downside vs. chasing upside
  • Building good will / nonmarket strategies
  • Reputation management
  • Commitment to community / stakeholders

Doesn’t make FBs immune to 21st century business dynamics

FBs can no longer afford to manage risk *reactively*...
“Humanity has become remarkably adept at understanding how to mitigate conventional risks that can be relatively easily isolated and managed with standard risk management approaches.”

“But we are much less competent when it comes to dealing with complex risks in the interconnected systems that underpin our world, such as organizations, economies, societies and the environment.”

Consider Building a Family Enterprise Risk Management Framework

What could possibly go wrong with our existing risk models?

- How are risks interconnected?
- Have we devoted enough resources to preventative maintenance & disaster planning?
- Do we have a documented crisis response plan?
- Do we model a broad range of scenarios during strategic planning?

What processes do we have to manage risk?

- Are we tracking the right data?
- What do we do with the data?
- How do we respond to risk events?
- Do we have a healthy risk culture?
- How do we evaluate and adjust our risk appetite and risk capacity over time?
- What is our process for setting and spending reserves?
- How do we communicate about risk?
- What do we do when a new risk emerges?

What are the key risks to our strategy, operations and overall enterprise?

- How do we gather information about risk?
- How do we rank these risks in terms of probability and impact?
- Do we consider internal and external risks?
- How are these risks integrated into broader strategic planning?

How much risk should we take?

- Is there consensus or dispersion among owners in terms of risk appetite?
- Are we good at taking risks?
- Have we articulated our Risk Appetite in a clear, concise and actionable Statement?
- Have we measured our Risk Capacity?
- Have we adjusted our Risk Capacity to accommodate our Risk Appetite?

What structures do we have to manage risk?

- How involved is the Board in managing risk?
- Who is accountable for managing each key risk?
- What resources are available to train and support them?
- How do we compensate those managing risk?
- Who designed this structure and how often is it reviewed?
Final Thoughts: Never let a crisis go to waste!

DECONSTRUCTING CRISIS (“WAY GEE”)

Danger  Opportunity
Final Thoughts: Always “Be Prepared”

“By failing to prepare you are preparing to fail”

Benjamin Franklin
## Short-Term Risks & Opportunities Worksheet

<table>
<thead>
<tr>
<th>RISKS</th>
<th>BUSINESS</th>
<th>OWNERSHIP</th>
<th>FAMILY</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPPORTUNITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


## Longer-Term Risks & Opportunities Worksheet

<table>
<thead>
<tr>
<th>RISKS</th>
<th>BUSINESS</th>
<th>OWNERSHIP</th>
<th>FAMILY</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPPORTUNITIES</td>
<td>BUSINESS</td>
<td>OWNERSHIP</td>
<td>FAMILY</td>
</tr>
</tbody>
</table>
Additional Resources

VISIT THE LGA COVID-19 PORTAL VIA THIS LINK OR CLICK ON ANY OF THE EXTERNAL RESOURCES BELOW

<table>
<thead>
<tr>
<th>DATA DASHBOARDS</th>
<th>UPDATES AND CHECKLISTS</th>
<th>POLICY AND ECONOMIC ANALYSIS</th>
<th>RESOURCES FOR FAMILIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Johns Hopkins Dashboard</td>
<td>• European Center for Disease Prevention &amp; Control</td>
<td>• Coronavirus: Why You Must Act Now (Medium)</td>
<td>• At-Home Resources for Kids (and their parents) (KiwiCo)</td>
</tr>
<tr>
<td></td>
<td>• The European Commission: The Coronavirus Response Team</td>
<td>• How do I self-quarantine? (Marketwatch)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Debevoise &amp; Plimpton Coronavirus Resource Center</td>
<td>• The SARS Epidemic: What Have We Learned? (Journal of the Royal Society of Medicine)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• How does quarantine actually work? (World Economic Forum)</td>
<td>• How Chinese Companies Have Responded to Coronavirus (HBR)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The SARS Epidemic: What Have We Learned? (Journal of the Royal Society of Medicine)</td>
<td></td>
</tr>
</tbody>
</table>
We would love to hear about your own response to the crisis so we can aggregate and share with other enterprising families around the world as we all brace for a few tough months ahead.

We would be happy to schedule a phone or video call to discuss.

**Feel free to contact Devin DeCiantis, our LGA Risk Practice leader**

at [deciantis@lgassoc.com](mailto:deciantis@lgassoc.com) or +1.203.497.8855

Additional resources on Crisis and Risk Management for Enterprising Families and information about the rest of our services and global advisory team available at [www.lgassoc.com](http://www.lgassoc.com)
These materials and the accompanying presentation are the proprietary work of Lansberg, Gersick & Associates ("LGA").

None of our work should be construed as legal, financial, accounting or investment advice. However, since our services relate to governance of family enterprise, many of the topics covered in our projects have implications for corporate operations and finance. Therefore LGA urges all of our client families to consult with relevant licensed professionals in each of these fields before implementing any recommendations or suggestions developed by LGA in connection with our work.

In particular, LGA strongly recommends that you consult with legal counsel with respect to all legal matters. We specifically do not make legal or investment recommendations, and in no case should any of our work be relied upon as a substitute for qualified legal guidance.