Crisis Management Toolkit for Enterprising Families
Section 1: Crisis Response

March 25, 2020
Devin DeCiantis, Managing Partner & Risk Practice Leader
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.

We encourage you to review and share with family members, Board directors, executives and Foundations 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 Crisis Management

THIS SECTION WILL FOCUS ON APPROACHES TO CRISIS MANAGEMENT IN ENTERPRISING FAMILIES – STARTING WITH PANDEMIC RESPONSE THEN SHARING INSIGHTS FROM LGA’S GLOBAL RESEARCH ON HIGH-RISK ENVIRONMENTS

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
**Speed beats perfection**

"Perfection is the enemy of the good when it comes to emergency management" (W.H.O. Emergency Lead) – Don’t panic... but also don’t wait until you have perfect information to launch early preventative measures or you will miss the chance to contain the impact – full understanding is only possible ex post.

**One Team, One Dream**

Build a small, cross-functional, multi-level Crisis Response Team to implement a Crisis Plan, with the authority to ensure that information, resources and decisions are being shared and triaged effectively throughout the enterprise.

**Prudent Paranoia**

Move quickly, but still deliberately – After early preventive measures have been deployed to contain the initial fallout, use data to assess your maximum exposure, build a strong cash reserve, and prioritize only the most critical activities and investments in case the crisis lasts longer than expected.

**Amara’s Law**

As with disruptive new technologies, we tend to over-estimate the effect of crises in the short-term and under-estimate their effects in the long-term – so consider the implications of both horizons for your enterprise and its key stakeholders.

**Way Gee 危机**

In Mandarin “crisis” is a combination of danger and opportunity – Don’t miss the chance to document your crisis response (to help with the next crisis) and explore adaptive strategies to survive and thrive in an uncertain and volatile environment.
1. Speed beats perfection

“Be fast, have no regrets. You must be the first mover. The virus will always get you if you don’t move quickly…If you need to be right before you move, you will never win.”

“The problem in society we have at the moment is that everyone is afraid of making a mistake. Everyone is afraid of the consequence of error…But the greatest error is not to move. The greatest error is to be paralyzed by the fear of failure.”

Dr Michael J Ryan
Executive Director of WHO
2. One Team, One Dream

CONVENE A NIMBLE, CROSS-FUNCTIONAL TEAM TO LEAD YOUR CRISIS RESPONSE PLAN...

1. Convene cross-functional Crisis Response Team

- Do we have leaders from each of our key governance bodies?
- Have we defined the mandate and authority of this group?

2. Gather Data and Assess Exposure

- Are we exposed? If so, how much and where?
- Do we have any experience managing other crises like this?

3. Engage key internal and external stakeholders

- Who needs to be involved in data gathering and response? Who doesn’t?
- How are we sharing data between these key constituencies?
- Are we providing adequate support for those directly affected?

4. Develop internal and external communication strategy

- What are we telling our internal team?
- What are we telling our external partners?
- Are we doing this alone or hiring outside support?

5. Release emergency resources

- How are we funding the emergency response?
- Have we made all necessary resources available to the Crisis Response Team?
- How are we deciding which active projects to maintain and which to defer or cancel?

6. Reflect, Debrief & Document

- How are we tracking our crisis response?
- Are we documenting what is working well and what could be improved to manage future crises?
- How are we sharing these insights throughout the system?
3. Prudent Paranoia

“How can you use paranoia constructively and not let it rule your life?”

Adapted from “When Paranoia Makes Sense” by Rod Kramer in HBR, July 2002

<table>
<thead>
<tr>
<th>Gather data relentlessly</th>
<th>Question your interpretations</th>
<th>Trust but verify</th>
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</thead>
<tbody>
<tr>
<td>• Make sure you have all the facts—and not just the facts you want to hear or those that are handed to you.</td>
<td>• Collecting data is important, but the way you interpret that information will determine how prudent you are. The most effective people leave a margin for error in their interpretations—often by consulting trusted advisers.</td>
<td>• President Ronald Reagan often invoked this rule, especially when he was dealing with the Soviets on arms-control issues. Reagan was easygoing and trusting. He liked people immensely and wanted people to like him.</td>
</tr>
<tr>
<td>• Paranoid people suffer from “confirmation bias”—looking for evidence to confirm their most feared expectations</td>
<td>• In addition, they are particularly suspicious of brilliant theories that explain every possible fact. They avoid jumping to conclusions, even when it appears that they have all the information.</td>
<td>• But he was also an experienced politician who had his share of prudent paranoia.</td>
</tr>
<tr>
<td>• Prudent paranoia counters this tendency by trying to learn everything they can about what is going on around them.</td>
<td></td>
<td>• So while it seemed as though he trusted his Soviet counterparts, Reagan always acted to protect himself against any trickery in U.S.—Soviet negotiations.</td>
</tr>
<tr>
<td>• They keep their radar on at all times and always do a full sweep.</td>
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</tbody>
</table>

4. Amara’s Law

WE TEND TO **OVER-ESTIMATE** THE EFFECT OF CRISES IN THE SHORT-TERM AND **UNDER-ESTIMATE** THEIR EFFECTS IN THE LONG-TERM...

**Short-Term Context**
- NOT Ebola...
  - ...but a lethal pandemic
- NOT a market panic...
  - ...but an overdue correction
- NOT a depression...
  - ...but a global recession
- NOT canceling all projects...
  - ...but many delayed
- NOT a forever lockdown...
  - ...but only the 1st wave

**Longer-Term Context**
- Impact on Workplace?
- Impact on Travel & Transport?
- Impact on Education?
- Impact on Urban Planning?
- Impact on Retail?
- Impact on Public Health?
- Impact on Public Finances?
- Impact on Infrastructure?
- Impact on Trust / Society?
- Impact on Families?
5. “Way Gee” (Danger + Opportunity)

“DANGER”: MASLOW’S HIERARCHY UNDER THREAT – AT PERSONAL, FAMILIAL AND ORGANIZATION LEVELS...

- Self-actualization
  - Reflections on purpose / Wealth Utilization?
  - Opportunities for Crisis Philanthropy?

- Esteem
  - Prestige, achievement
  - Opportunities for Crisis Leadership?
  - Guilt and privilege?
  - Opportunities for Crisis Philanthropy?

- Belonging
  - Relationships, social networks
  - Psychological impact of social distancing?
  - Impact on Trust?
  - Future of workplace?

- Safety
  - Security, safety
  - Efficacy of Quarantine?
  - Community resilience & stability?
  - Threat to market efficiency?

- Physiological
  - Food, water, warmth, rest
  - Personal exposure?
  - Vulnerable family members?
  - Sanitary protocols?

Wealth typically allows families to focus on higher-order needs, though the Pandemic has forced many of us a few levels back down the pyramid.

“OPPORTUNITY”: TRANSITION TOWARD FUTURE OF TECHNOLOGY, WORK AND RETAIL HAS ACCELERATED...

- Medical Services & Devices
  - E-Medicine / Medical supplies / Pharmaceuticals / Biomedical technologies

- E-commerce & Online Entertainment
  - Online shopping surges as supermarket shelves empty and home grocery delivery becomes an essential tool for social distancing
  - Online games and live webcast surging in popularity
  - Online content distributors experiencing record subscriber growth
  - Delivery and ride-share services adapting (e.g. touchless delivery)

- Online Education
  - 1 billion students at home as schools around the world have been closed to limit community transmission – with online portals flourishing

- Virtual Collaboration
  - DingTalk (Alibaba) installed 1.1 billion times since outbreak
  - Zoom (ZM) shares up 50% YTD on increase virtual meetings

- Purpose
  - Opportunity to reflect on the purpose of shared wealth – to support a healthy family, a healthy enterprise, and a healthy ecosystem
  - Opportunity to demonstrate how family enterprise can lead in terms of social responsibility, talent management, business model innovation, etc.
### Crisis Response Strategies for Pandemics

**WORLD ECONOMIC FORUM PROVIDES EXCELLENT GUIDANCE FOR NON-FAMILY BUSINESSES...**

<table>
<thead>
<tr>
<th>Passive</th>
<th>Active</th>
<th>Advanced</th>
</tr>
</thead>
</table>
| • Wait and see response strategy  
• No strategic threat management  
• Low levels of Board and management awareness | • Generic business disruption insurance coverage  
• Basic outbreak response and business continuity plans  
• Board and management with some awareness | • Strong Board-level leadership  
• Active threat surveillance  
• Active supply chain management  
• Detailed response and continuity plans  
• Active engagement in public/private partnerships to mitigate risk  
• Response training and testing through simulation exercises |

**BUT ENTERPRISING FAMILIES NEED TO MANAGE RISK AT A SYSTEMS LEVEL...**

**WEF: “CLASSIFICATION OF CORPORATE RESPONSE TO INFECTIOUS DISEASE RISK”**

**Systematic**

• What risks need to be managed *beyond* the Business and the Board? (e.g. in terms of ownership and family?)
• What can we do to better coordinate between the Board and the family?
• How will core values anchor our response with respect to employees, customers and suppliers?
• How will our organizational purpose guide our interactions with public health officials and first responders?
SURVEYING OUR CLIENTS, HERE ARE SOME OF THE TOP RISKS OF COVID-19 FOR ENTERPRISING FAMILIES ALONG WITH KEY QUESTIONS THAT ALL FAMILIES SHOULD ANSWER FOR EACH OF THE THREE CIRCLES...

**OWNERSHIP**
- Direct / indirect operating and portfolio exposure
- Liquidity / cash crunch
- Ineffective Governance

**BUSINESS**
- Pipeline risk
- Supply chain disruption
- Credit / cash crunch
- FX exposure
- Talent availability

**FAMILY**
- Vulnerable family members
- Stress / anxiety
- Delayed family gatherings

**Taking a Systems Level View**

- How have family members been affected by the crisis? (Economically? Physically? Emotionally? Socially?)
- What role is the Family Council playing in leading or coordinating the family’s response?
- How is the family supporting those members who are working actively in the business on the front lines of the crisis? How are their families being supported?
- Are there any ways in which activities already undertaken by the business (e.g. investments in process, policy and risk mitigation) be shared with the family – preferably without compromising the needs of the business?
- How are family members NOT working in the business being informed about the corporate crisis response?
- How are the family members tracking the performance of the Board? Via family Directors? Via regular communications from the Board Chair or Secretary?
- What is being done to support the most vulnerable or exposed members of the family?
- How can this crisis be used as an educational opportunity to inform the family about risk more generally?
- How is the family managing the critical role of social distancing? Particularly with respect to care for high-risk groups? (e.g. those >80)

- Have we adapted our existing governance in response to the crisis?
- Do we have a nest egg outside the main business to help buffer against volatility or material loss?
- Are we meeting frequently enough and asking the right questions of management? Of the owners?
- Do we have the capital necessary to provide liquidity to owners or do we need to preserve to protect the business?
- Does the crisis present an opportunity to sell assets? Or to buy assets from others at attractive prices?
- Do we have the necessary information to make strategic decisions during a rapidly changing environment?
- What is being done to protect decision-making capacity in the system?

- How materially can revenues be expected to decline?
- How materially can costs be reduced without compromising on performance or core values?
- Do we have the leaders we need to guide the business through the crisis?
- Do we have the resources we need? (particularly cash and key inputs, but also talent, access to credit)
- How can we use this as an educational opportunity to improve future crisis response and risk management?
- What opportunities may be available to help replace lost revenues with new product lines or repurpose resources to adapt to changing customer needs?
- What public resources, incentives and relief may be available to support our crisis response?
Governance helps to organize a systematic response

KEY ENTITIES LIKE THE BOARD AND A FAMILY COUNCIL CAN HELP ANTICIPATE, DETECT AND RESPOND EFFECTIVELY TO THE CRISIS AS IT UNFOLDS AND KEEP ALL KEY CONSTITUENTS COORDINATED AND WELL-INFORMED

“The Challenge for our leaders is to respond to risk with the right mix of daring and reason...for this we need the best information we can get, the best judgement we can summon, and the best advice we can find.”

– Madeline Albright
THE CRISIS WILL IMPACT EACH ASPECT OF THE ENTERPRISE DIFFERENTLY – AND IT’S CRITICAL THAT THE GOVERNANCE ENTITY BEST POSITIONED TO MANAGE THE ISSUE IS ADEQUATELY EMPOWERED AND RESOURCED

Assign accountability for key risks appropriately

Particularly important for these entities to coordinate actively during a crisis

FAMILY RISKS
- Family Assembly
- Family Council
- Family Employment Committee
- Family Foundation
- Family University / Academy
- Family Office
- Redemption Program
- Venture Capital Program

OWNERSHIP RISKS
- Owners Council
- Shareholders Assembly
- Board of Directors
- Risk & Audit
- Strat. & Finance
- Gov.
- HR / Comp.

BUSINESS RISKS
- CEO
- CFO
- COO
- CIO
- CRO
- CHRO
Crisis management requires close collaboration between key leaders.

**DURING NORMAL OPERATIONS...**

- Board of Directors
- Owners / Family Council
- CEO

Quarterly or semi-annual meetings or updates, data shared before meetings to support strategic planning.

**DURING CRISIS OPERATIONS...**

- Board of Directors
- Owners / Family Council
- CEO

Weekly or monthly meetings and constant flow of data.
A “RISK INTELLIGENT” BOARD IS:

<table>
<thead>
<tr>
<th>Strategic</th>
<th>Provides insight, guidance and reassurance to both executives and the Family (Council) in a timely and responsive manner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive</td>
<td>Defines the decisions that require the Board’s attention and how frequently it ought to convene – particularly during active crises</td>
</tr>
<tr>
<td>Consistent</td>
<td>Establishes the character of the enterprise (particularly around risk culture) – setting the “tone at the top” in terms of the core values of the enterprise which may be challenged during a crisis</td>
</tr>
<tr>
<td>Adaptive</td>
<td>Balances long-term and short-term considerations in terms of resource allocation, frequency of contact, and overall crisis response as facts on the ground and operational context shift</td>
</tr>
<tr>
<td>Empowered</td>
<td>Able to request from management, owners and outside experts any information or resources necessary to support strategic deliberations during the crisis</td>
</tr>
<tr>
<td>Informed</td>
<td>Has access to timely, objective and appropriate information about the enterprise’s crisis response (e.g. enterprise risk dashboard) and the ability to share selectively with owners</td>
</tr>
<tr>
<td>Prepared</td>
<td>Ensures the enterprise has protocols and plans in place to respond to future crises whenever they emerge – and commits to documenting those plans during the current crisis</td>
</tr>
<tr>
<td>Reflective</td>
<td>Understands what is working well and what can be improved about its own strategic functioning and oversight – both during the crisis and afterwards</td>
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A “RISK INTELLIGENT” FAMILY COUNCIL IS:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>Provides insight, guidance and reassurance about the crisis to family members in a timely and responsive manner</td>
</tr>
<tr>
<td>Proactive</td>
<td>Shares timely information with the family about how the crisis is affecting the business as well as how activities in the business might be available to support the family</td>
</tr>
<tr>
<td>Consistent</td>
<td>Holds the Board accountable for living up to the family’s core values even during times of organizational stress (e.g. treatment of employees or customers affected by the crisis)</td>
</tr>
<tr>
<td>Adaptive</td>
<td>Flexible with respect to any planned family social or educational activities, and utilizing digital infrastructure if possible, to engage the family virtually until the crisis passes</td>
</tr>
<tr>
<td>Empowered</td>
<td>Able to request information or resources as necessary to support the family</td>
</tr>
<tr>
<td>Informed</td>
<td>Has access to timely, objective and appropriate information about the enterprise’s crisis response (e.g. family risk dashboard) and the ability to share selectively with family members</td>
</tr>
<tr>
<td>Prepared</td>
<td>Ensures the Council has protocols and plans in place to respond to future crises whenever they emerge – and commits to documenting those plans during the current crisis</td>
</tr>
<tr>
<td>Reflective</td>
<td>Understands what is working well and what can be improved about its own strategic functioning and oversight – both during the crisis and afterwards</td>
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</table>
How a “Risk Intelligent” CEO can support your crisis response

**A “RISK INTELLIGENT” CEO IS:**

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>Provides insight, guidance and reassurance about the crisis to the Board, employees and key external stakeholders (e.g. customers, creditors, suppliers) in a timely and responsive manner.</td>
</tr>
<tr>
<td>Proactive</td>
<td>Anticipates the needs of key stakeholders as the crisis unfolds (e.g. cash flow management, capital spending triage, strategic communications, customer credit) and mobilizes necessary resources.</td>
</tr>
<tr>
<td>Consistent</td>
<td>Holds all employees accountable for living up to the family’s core values even during times of organizational stress.</td>
</tr>
<tr>
<td>Adaptive</td>
<td>Balances long-term and short-term considerations in terms of expense management, capital spending and talent management until crisis passes.</td>
</tr>
<tr>
<td>Empowered</td>
<td>Able to request strategic input from the Board or outside experts as necessary to support the business during and after crisis.</td>
</tr>
<tr>
<td>Informed</td>
<td>Has access to timely and objective information about the enterprise’s crisis response (e.g. risk dashboard) and provides a high-level summary to the Board – updating on a regular basis.</td>
</tr>
<tr>
<td>Prepared</td>
<td>Ensures the executive team has protocols and plans in place to respond to future crises whenever they emerge – and commits to documenting those plans during the current crisis.</td>
</tr>
<tr>
<td>Reflective</td>
<td>Understands what is working well and what can be improved about their own crisis leadership performance – and shifts back to conventional leadership paradigm once the crisis has ended.</td>
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</table>
COVID-19: What can Philanthropy do?

THE WORLD HAS NEVER RESPONDED TO ANYTHING LIKE THIS BEFORE

• We are seeing an unprecedented response in “philanthropy” in the truest sense: “the desire to promote the welfare of others.”

• Private philanthropy has a unique role to play: to bridge gaps, catalyze action, coordinate response, meet immediate needs and maintain long-term focus.

• Funders must get comfortable acting in absence of perfect information and in the face of great uncertainty.

• COVID-19 cuts across all program areas, ideologies, populations, giving strategies: whatever you care about, it is being affected by this pandemic—and there’s a way to help.

• For family philanthropies, responding together to a crisis which affects everyone can provide a unifying experience and shared sense of gratitude.
IN A TIME OF FEAR, POWERLESSNESS AND ISOLATION, FAMILY PHILANTHROPY OFFERS AN OPPORTUNITY FOR COLLECTIVE ACTION

Family philanthropy is more nimble, risk-tolerant and community-connected than much other philanthropy. This crisis provides an opportunity for families to step up in a unified manner. Consider doing the following with your family philanthropy:

**Find opportunities for connection**

People are eager for virtual connection, and family philanthropy offers that opportunity. Set up meetings for your board/family to discuss the crisis: the needs they see in their community, ideas about possible funding opportunities, etc.

**Provide flexible and immediate funding**

Allocate money—now—to this crisis (and more down the road). This could include increasing grants to existing grantees, new efforts focused on COVID-19, and/or discretionary funds for family stakeholders to act locally.

**Delegate authority**

A crisis like this highlights the need for a process that allows foundations to act quickly. Make sure there’s a way for that to happen: delegate authority to staff or a smaller sub-group of the board to make decisions; ensure you’re set up for electronic voting, etc.
SURVEYING OUR CLIENTS AND STUDENTS, HERE ARE SOME OF THE TOP RESPONSES TO THE COVID-19 OUTBREAK THAT ENTERPRISING FAMILIES CAN DEPLOY ACROSS EACH OF THE THREE CIRCLES...

Taking a Systems Level View

We would love to hear about your 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.

- Defining appropriate social distancing within the family
- Share coping strategies and resources from business and Board
- Group Insurance
- Emergency travel services
- Emotional support
- Crisis Philanthropy

- Portfolio rebalancing
- Limit cash distributions during crisis
- Increase frequency of Board meetings
- Deploy war chest to acquire strategic assets at attractive valuations

- Strong leadership
- Liquidity management (building up cash reserves and drawing down credit lines)
- FX hedging
- Communication strategy
- Travel protocols
- Flexible work
Most crises follow the same basic pattern – environments with chronically elevated risk levels (i.e. those that persist in Phase II for months or years) provide unique insights about crisis response.

Pathology of Risk: Episodic vs. Chronic

- **EPISODIC VOLATILITY**
  - Phase I: Risk Spikes
  - Eye of the Storm
- **CYCLICAL VOLATILITY**
- **CHRONIC VOLATILITY**
- **PHASE I**
  - Risk Spikes
- **PHASE II**
  - Riding out the Storm
- **PHASE III**
  - Regression to the Mean

Overshoot

New normal?
VOLATILE ENVIRONMENT DESTABILIZES ECONOMIC AND SOCIAL SYSTEMS, FORCING ENTERPRISES TO RELY ON TACTICAL “COPING MODELS” RATHER THAN STRATEGIC BUSINESS MODELS UNTIL CONDITIONS IMPROVE...

Episodic Risk: We are experiencing an *acute* market failure...

*SOURCE: New York Times*
Chronic Risk: In certain countries, risks are *perpetually* elevated...

**FORCES A SHIFT FROM SHORER-TERM TACTICAL COPING MODELS TO STRUCTURAL ADAPTIVE STRATEGIES TO POSITION THE ENTERPRISE TO SURVIVE AND POSSIBLY EVEN THRIVE WITHIN THE “NEW NORMAL”...**

LEBANON

VENEZUELA

YEMEN

NIGERIA

MALDIVES

HAITI
Insights from LGA research on High-Risk Environments

WE’RE SIX YEARS INTO OUR STUDY OF FAMILY ENTERPRISE RISKS IN EMERGING AND FRONTIER MARKETS – INCLUDING A LARGE PUBLIC DATA SET PLUS IN-DEPTH INTERVIEWS WITH 30 LEADING GLOBAL FAMILIES

<table>
<thead>
<tr>
<th>Sample Size:</th>
<th>200+ Companies</th>
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<tbody>
<tr>
<td>All survived (or surviving) an extreme environment</td>
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<tr>
<td>Age: Youngest are 25 and oldest are 1400+</td>
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<tr>
<td>Geographic representation: 28 countries</td>
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</tr>
<tr>
<td>Generational leadership: 2nd through 42nd</td>
<td></td>
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<tr>
<td>Revenues: from $50 million to $330 billion</td>
<td></td>
</tr>
<tr>
<td>Employees: from 150 to 1.2 million</td>
<td></td>
</tr>
</tbody>
</table>

Sample companies include:
- Sumitomo
- Orascom Development
- Tata
- AJE
- Pick n Pay
- Polar
- Reliance Industries Limited
- Itaú
- Lippo Group
- brandix
- MTOTOF
- Suntory
- Dilmah
- Hans Russell
- Nishat Group
- Koc
- Concha y Toro
- Samsung
- América Móvil
- Dangote
- ATCONZ
- AGRICulture Infrastructure Development Ltd.
- ArcelorMittal
- Baalbaki
- Aditya Birla Group
- C. Hoare & Co.
Many of these may seem distressingly familiar as the pandemic has reframed our relationship to risk and uncertainty...

Certain risks are more prevalent in emerging and frontier markets:

**Ownership**
- Discounted valuations
- Access to capital (financial)
- Change in tax regimes
- Divergent risk appetite
- Threat of expropriation (or in this case, recession-related bankruptcy)

**Family**
- Personal safety
- Displacement
- Disengagement
- Stress and unity
- Moral ambiguity

**Business**
- Market failure
- Access to capital (human & physical)
- Poor infrastructure
- Regulations / graft
Family helps mitigate higher-risk environments

NATURAL SOURCE OF RESILIENCE IN VOLATILE ENVIRONMENTS – PROVIDES RESOURCES, SUPPORT, “TRANSACTIONAL CONFIDENCE,” AND SOLIDARITY BUILT ON AN UNDERLYING PLATFORM OF TRUST

- Family values anchor culture, strategy and decision-making
- Family views on security and risk shape organizational policies and protocols
- Concentration of wealth and power via marriage
- Well-educated family talent (often abroad)

- Accessible and reliable source of funding
- Lobbying / influence through connections
- Geographic dispersion provides access to global advisors, partnerships and capital
- Access to familial networks provides opportunities and common cause
- Diversification of family wealth across multiple jurisdictions curtails risk and enhances commitment to risky home market

- Commitment to family’s reputation enhances focus on quality
- Family brands more trusted than gov’t and multinationals
- Loyal and trustworthy labor pool
- Safer and more reliable to do business with relatives
- Strong commitment to local markets and communities
- Build key infrastructure rather than wait for public investment
# Adaptive Strategies to build Family Enterprise Resilience

LGA RESEARCH ON STRATEGIES OFTEN USED IN EMERGING AND FRONTIER MARKETS PROVIDE HELPFUL INSIGHTS FOR ALL COMPANIES ON THE FRONTLINES OF CRISIS MANAGEMENT

<table>
<thead>
<tr>
<th>Adaptive Strategy</th>
<th>Examples from Global Research</th>
<th>Examples from COVID-19 Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redundancy</strong></td>
<td><strong>Building backup systems and resources</strong> to protect against disruptive events and ensure continuity of your operations</td>
<td>A Caribbean hotel chain maintains backup generators and telecom services to sustain activity during frequent natural &amp; social shocks</td>
</tr>
<tr>
<td><strong>Modularity</strong></td>
<td><strong>Investing in joint ventures</strong> to connect a family’s local leadership into a larger network and gain access to expertise, resources, and scale of external partners</td>
<td>A European private bank utilized affiliated financial hubs to move capital and information across borders over centuries – thriving despite wars, recessions and political social change</td>
</tr>
<tr>
<td><strong>Migration</strong></td>
<td><strong>Quickly pivoting</strong> to new markets in response to rapidly changing conditions that make existing operations infeasible</td>
<td>A Yemeni conglomerate converted vacant buildings near manufacturing facility into housing for workers to avoid crossing sniper fire</td>
</tr>
<tr>
<td><strong>Symbiosis</strong></td>
<td><strong>Developing close relationships with influential actors</strong> to secure growth opportunities, enhance access to resources, and stabilize delivery of services</td>
<td>A South Korean chaebol (e.g. Samsung, Hyundai, LG) thrive under protectionist policy designed to support economic development, though recently also drawing criticism</td>
</tr>
<tr>
<td><strong>Simplification</strong></td>
<td><strong>Reducing complexity</strong> to cope with chronic resource scarcity – shifting to the most essential products, services, and processes</td>
<td>A Venezuelan manufacturer responded to a prolonged shortage of key materials and currency by focusing only on most vital products</td>
</tr>
<tr>
<td><strong>Heterogeneity</strong></td>
<td><strong>Promoting diversity</strong> within the portfolio among suppliers, customers, products and regions to minimize systemic collapse</td>
<td>A Jordanian manufacturer built 14 factories across 7 countries to reduce dependence on a single market and engage their global family</td>
</tr>
</tbody>
</table>
Strategies need to adapt as crises evolve or conditions stabilize

ADAPTIVE STRATEGIES AREN’T A SILVER BULLET OR PERMANENT SOURCE OF ORGANIZATIONAL RESILIENCE

- **Adaptive Strategies** can be useful in managing chronic environmental stressors, though they may not be particularly suitable when the environment returns to more stable conditions.

- Enterprising families need to constantly monitor their external environment and adapt their internal response, or they will be vulnerable to some predictable outcomes...

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**REDUNDANCY**

- Maintaining surplus resources across the portfolio puts longer term pressure on margins, supply chains and investment returns.

**MODULARITY**

- Excessive dependence on external suppliers and distributors leaves supply chains vulnerable to disruption.

**MIGRATION**

- Leaving core markets may make re-entry more challenging, often affecting perceptions of the company, its service offering and relationship to customers.

**SYMBIOSIS**

- Preferential status within key ecosystems can become a liability during moments of structural political and economic change.

**SIMPLIFICATION**

- Focus only on essential services can put stress on those key organizational activities and individuals that are sustaining the enterprise and its key stakeholders.

**HETEROGENEITY**

- Diversification helps limit systematic exposure but can also increase process complexity and stretch organizational resources.
SEE BELOW FOR ADDITIONAL RESOURCES RELATED TO OUR ONGOING RESEARCH ON FAMILY ENTERPRISE RESILIENCE IN HIGH-RISK ENVIRONMENTS

- [Link](#) to description of the project on the LGA Insights portal
- [Link](#) to Academy of Management Paper
- [Link](#) to presentation at FERC 2018
- [Link](#) to presentation at FFI 2014
- Contact us if you want more details about our research, if you’re interested in participating, or to talk to a member of our Risk Practice team:
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For more information

The Tardigrade: A Portrait of Natural Resilience
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