LGA COVID-19 PRIMER

Crisis Management Toolkit for Enterprising Families

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Impact of the Crisis on Enterprising Families

FAMILIES ARE EITHER SINKING, SWIMMING OR SURFING – AND SOME DOING ALL THREE ACROSS THEIR PORTFOLIOS

Viral variance
Global stockmarket performance by sector*, %
January 1st-April 3rd 2020, $ terms

-60 -40 -20 0 20 40
Health care
Technology
Consumer staples
Communications
Materials
Industrials
Utilities
Consumer discretionary
Financials
Energy

Retail
Travel & Tourism
Public events & entertainment
Commercial real estate
Energy

Agriculture
Grocery
Construction
Transportation
Restaurants
Banks

Medical supplies
Pharmaceuticals
E-commerce
E-learning
E-entertainment
Communications
Enabling Tech

Source: Bloomberg

*Companies with current market capitalisation over $5bn

The Economist
Common dilemma for all Enterprising Families

HOW TO RESPOND TO CHALLENGES IN ALL THREE CIRCLES SIMULTANEOUSLY...

OWNERSHIP
- Operating and portfolio exposure / valuations
- Liquidity crunch
- Ineffective Governance

FAMILY
- Vulnerable members
- Stress / anxiety
- Delayed gatherings
- Lifestyle impact
- Questioning meaning & purpose

BUSINESS
- Demand shock
- Supply chain disruption
- Credit / cash crunch
- FX exposure
- Talent management
- Compliance

...WHILE PLANNING STRATEGICALLY FOR A FUTURE THAT REMAINS DIFFICULT TO ANTICIPATE?

GRAPHIC: CFA Institute
REMEMBER 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**

*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**

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?
Start by understanding the typical pattern of crises.

Critical to identify where you are in the cycle – each phase requires a tailored response.
SOME WILL INITIALLY OVER-ESTIMATE AND OTHERS DOWNPLAY THE IMPACT OF THE CRISIS – BUT IF THE SYSTEM HASN’T ALREADY BEGUN THIS WORK IT’S TIME TO GET STARTED

• Launch agile **Crisis Response Team**

• **Anchor** crisis response in **core values**

• Support **virtual connection** across branches and generations

• **Communicate openly and often** about crisis response and outcomes with **all key stakeholders**

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**Board / Trustees**

(AND NURTURE TRUST)

**Owners / Family Council**

**CEO**

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LANSBERG-GERICK
Phase 2 Recommendations: Riding out the Storm

PROLONGED PERIODS OF UNCERTAINTY REQUIRE NIMBLE CRISIS GOVERNANCE – ALLOWING KEY DECISION-MAKERS TO COORDINATE CLOSELY WITHOUT INTRUDING ON FRONT-LINE CRISIS MANAGEMENT...

• **Document crisis** response within the **business** and among the **family**

• Revisit **shared vision** and reexamine **feasibility**, then reset **expectations**

• Review **compensation policies** and **coordinate** with decisions about **dividends** and **redemption**

• **Benchmark** wherever possible

• Beware the **eye of the storm** – false endings are comforting but also dangerous...
Beware the “Eye of the Storm”

DANGEROUS TO SHIFT OUT OF CRISIS MANAGEMENT MODE TOO EARLY – AVOID UNWINDING COPING MODELS UNTIL IT’S CLEAR THAT BROADER CONDITIONS ARE IMPROVING...

Chart 8: Dow Jones Industrial Average during the Depression Era

Don’t get caught here...

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg
Phase 3 Recommendation: Don’t forget the Upside

START PREPARING NOW TO CAPITALIZE ON OPPORTUNITIES THAT EMERGE AS A RESULT OF SHIFTING POLITICAL, SOCIAL AND ECONOMIC PATTERNS

“Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it’s imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do.”

Warren Buffett

“Never let a crisis go to waste.”

Rahm Emmanuel
President Obama’s Chief of Staff
WE STILL DON’T KNOW WHAT WE DON’T KNOW ABOUT THIS VIRUS...BUT A FEW CLEAR TRENDS ARE EMERGING

**Redundancy:**
Firms and families will maintain bigger safety buffers for critical resources

**Heterogeneity:**
Operating and investment portfolios will become (even more) diversified

**Symbiosis:**
Private and public interests will (finally) converge – with renewed emphasis on corporate purpose

**Simplification:**
Enterprises and their owners will need to redefine what is truly “essential”

**Migration:**
Quicker adoption of new technologies as barriers to entry collapse

**Modularity:**
Future of the workplace will be reshaped by open architecture / platforms
Never let a crisis go to waste!

ENTERPRISING FAMILIES ARE UNIQUELY POSITIONED FOR PROACTIVITY UNDER THESE CONDITIONS, GIVEN LONGER-TERM PLANNING HORIZONS, CONSERVATIVE BALANCE SHEETS, AND RAPID DECISION-MAKING CAPABILITIES

◆ REBALANCE YOUR PORTFOLIO
Take the opportunity to shed struggling or legacy assets or make opportunistic acquisitions

◆ REJUVENATE YOUR TEAM
Your brightest stars will shine during your darkest hours – invest in their development whether on the front-lines, in the C-Suite, on the Family Council or at the Board

◆ RECOMMIT TO YOUR SHARED DREAM
Crises test our commitment to a common vision and purpose – invest in aligning your key stakeholders around an exciting and feasible vision for the next normal

◆ REVISIT YOUR GOVERNANCE
Use your experience during the crisis to define what is working and what could be improved

◆ REIMAGINE EDUCATION
The pandemic has offered a once-in-a-lifetime opportunity to teach owners about their enterprise and its resilience in the face of adversity

◆ REMAIN VIGILANT
Document your crisis response and build lessons learned into a systematic Family Enterprise Risk Management (FERM) program
VISIT THE LGA CRISIS PORTAL OR CONTACT US TO LEARN MORE ABOUT OUR ADVISORY SERVICES

Our Latest Insights on Crisis Management:

- **“El día después de la crisis”**
  - Written in Spanish, this article provides insights on how to manage the aftereffects of a crisis. It is available in English.
- **Principled Decision Making**
  - Discusses key principles for effective decision-making during crises. Available in English.
- **What Family Businesses Need to Adapt to a Crisis**
  - Offers guidance on how family businesses can adapt to unforeseen challenges. Available in English.
- **Values and Crisis Response**
  - Analyzes the role of values in crisis management. Available in English.

For More Information, visit the LGA Crisis Portal or contact us.
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