# Risk & Opportunity Management for Business and Enterprise Families

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FOX Family Office Exchange

# Introductory Slides
# Member Cohorts

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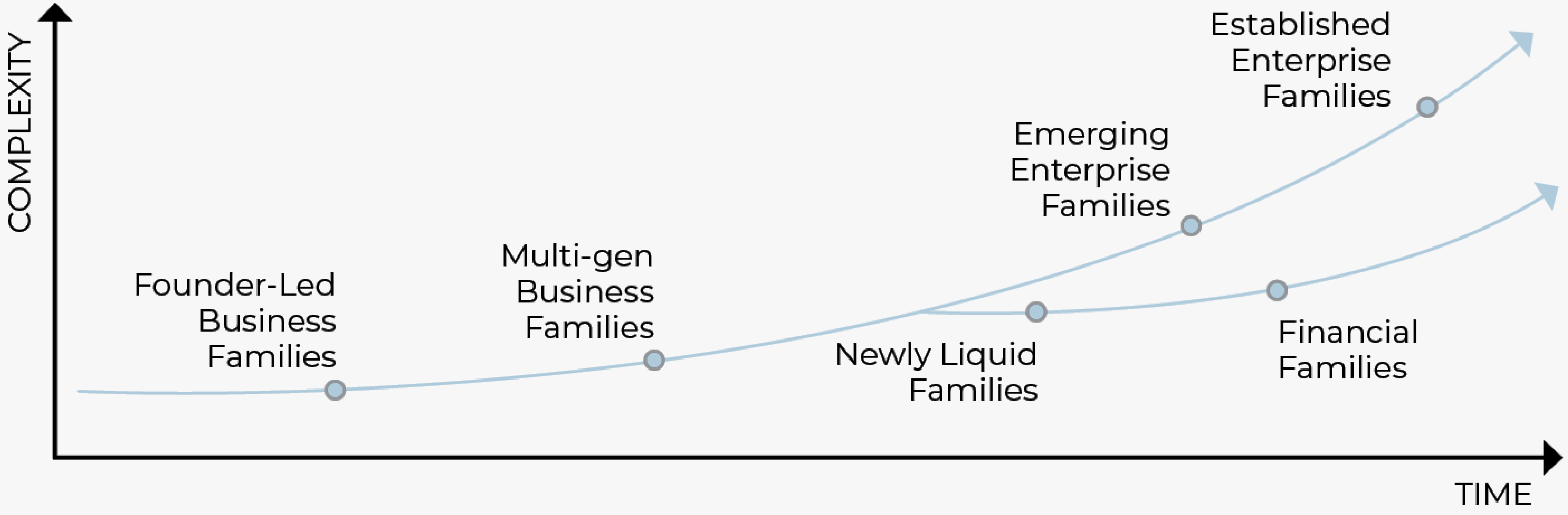
# Family journey stages and member cohorts



# Founder-Led business Family Cohort

## Profile of a founder-led business family

Family business founders, entrepreneurs, and first generation (G1) business leaders who's primary current focus is on growing and managing the operating business. Exploring whether and how to pass ownership and decision-making to G2 is an approaching concern for members in this cohort.

## Key needs and themes to explore

- Decisions around passing ownership and decision-making to G2
- Sourcing financing
- Finding business partners, investors, and advisors
- Optimizing a new family office or exploration of starting one
- Business management e.g., governance, hiring, compensation, compliance
- M&A and direct investing opportunities
- Personal financial services such as tax accounting

# Multi-Gen Business Family Cohort

## Profile of a multi-gen business family

Business owners who are thinking beyond the operating company and may be exploring retirement or sale of the business. Planning for the next stage in their lives or careers, members of this cohort are preparing their family for a multigenerational journey with focus on governance, often in the form of a family council.

## Key needs and themes to explore

- Securing advice on, and networking for, potential business sale
- Building and launching an early-stage or embedded family office
- Investment education
- Estate planning
- Trustee and beneficiary training
- Personal financial services, e.g. tax accounting
- Sourcing and selecting general advisors

# Newly Liquid Family Cohort

## Profile of a newly liquid family

G1 families and business founders early in their family office journey who are planning for, or recently had, a transition of their business and thus experienced a significant liquidity event. Members of this Cohort may be exploring new business opportunities, developing investment strategies, and educating their children.

## Key needs and themes to explore

- Sourcing advisors to guide business sale and post-sale needs
- Family office guidance e.g., MFO or create SFO, and governance issues
- M&A opportunities
- Continuation of the entrepreneurial spirit with subsequent business
- Identifying partners and investors, securing financing
- Development of investment strategy, including direct investing activities
- Philanthropic goals

# Emerging Enterprise Family Cohort

## Profile of an emerging enterprise family

Families with a multigenerational perspective who may have increasingly complex trust structure and who are building out formal family offices. Recognizing recognize the importance of a family vision is essential for its continued success, members of this Cohort are addressing family matters and activities beyond the operating business(es).

## Key needs and themes to explore

- Family dynamics and unity
- Responsible ownership and leadership education
- Integration of spouses
- Investment education and governance
- Greater involvement in philanthropic endeavors
- Adoption of family-focused functions
- Family office recruitment, development, and compensation
- Access to deals, special investments, real estate, PE/VC funds
- Strategic and business planning for the family and/or the family office
- Specialized advisors and service providers with niche expertise

# Established Enterprise Family Cohort

## Profile of an established enterprise family

Complex, multigenerational families, having various entities, owners and decision-makers, with a formal governance structure in place to manage diverse goals and family trusts. Having formalized the Enterprise charter, a shared vision for the future, development and selection of future leaders, and performance metrics to measure the enterprise success, members of this cohort have expanded their focus to include all form of family capital, including human, social, and spiritual.

## Key needs and themes to explore

- Family dynamics, family unity, and responsible ownership education
- Family office staff onboarding and education on best practices, systems, etc.
- Best practices and approaches with legacy, governance, impact, and next gen
- Advice and solutions for sophisticated technology needs
- Family capital initiatives, e.g., education, governance, conflict resolution
- Development of a solid philanthropic strategy
- Access to deals, special investments, real estate, PE/C funds
- Specialized advisors and service providers with niche expertise

# Financial Family Cohort

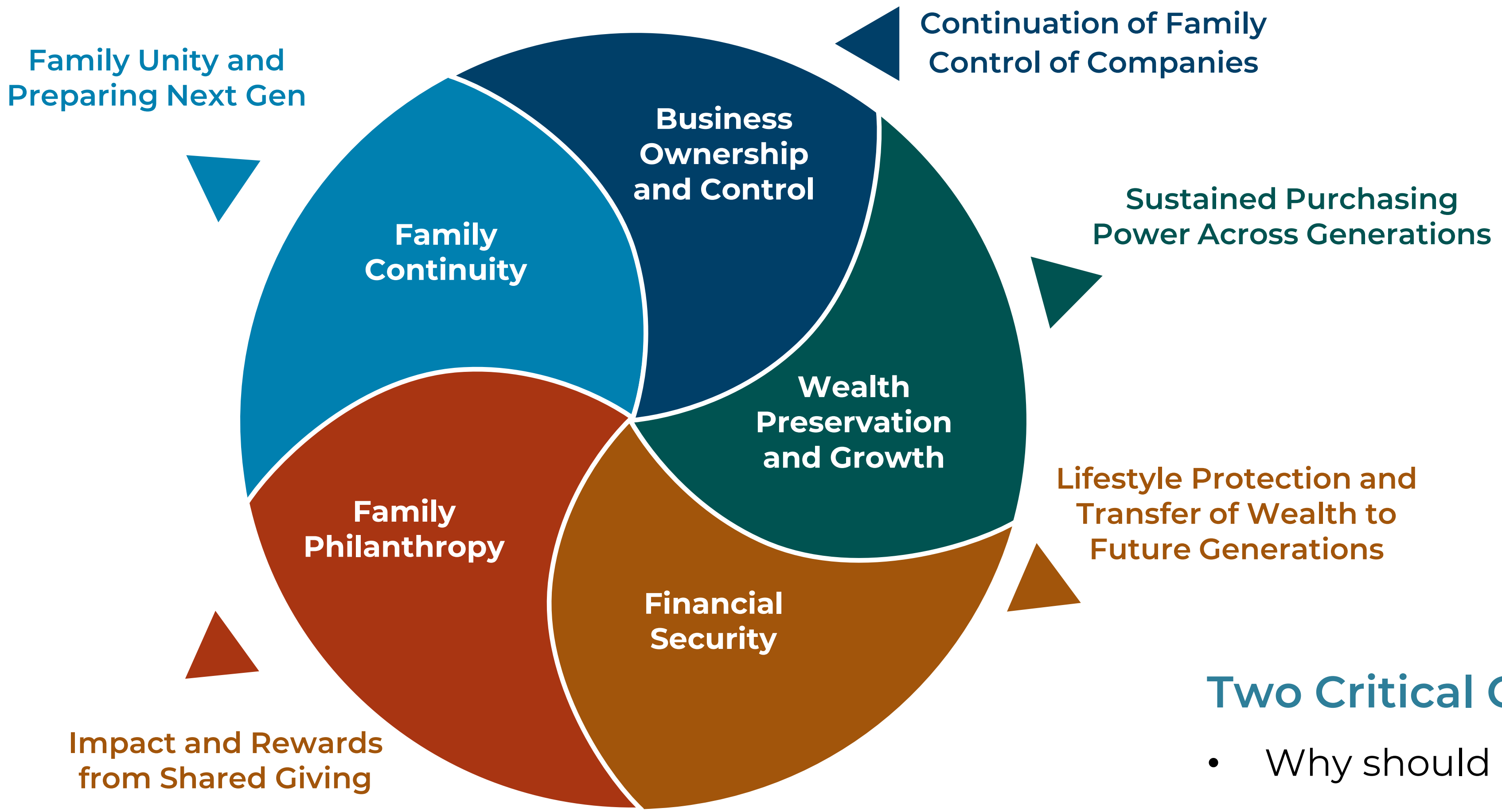
## Profile of a financial family

Families who have sold all their operating companies and are no longer active investors in businesses and who collaborate on other family endeavors, such as a private trust company, philanthropic undertakings, joint education, or shared vacation and real estate properties. Typically having many households served by a dedicated family office, members of this Cohort are focused on prioritizing preservation and growth of their wealth.

## Key needs and themes to explore

- Family dynamics, family unity and responsible ownership education
- Family office staff onboarding and education on best practices, systems, etc.
- Best practices and approaches with legacy, governance, impact and next gen
- Sophisticated technology advice and solutions
- Family capital initiatives, e.g., education, governance, conflict resolution
- Development of a solid philanthropic strategy
- Access to deals, special investments, real estate, PE/C funds
- Specialized advisors and service providers with niche expertise
- Family communications
- Educating trust beneficiaries

# Common Goals of Families and Family Offices




## Two Critical Questions:

- Why should the family stay together
- What is the purpose for the wealth?

Source: FOX Family Office Research

# 6 Common Types of Family Offices

## Early-Stage Offices

**Founders Office**
Office executes the goals of the Founder. Privacy and cost control are often priorities for the Founder, along with preserving family unity.

**Compliance Office**
Tracks ownership and manages tax compliance, banking and insurance services - usually outsources more strategic roles like wealth transfer planning and investment management.

**Investment Office**
Focuses almost exclusively on strategic and tactical asset allocation, often selects underlying investments, and does performance reporting.

## Later Stage Offices

**Trustee Office or Private Trust Co.**
Oversees family trusts and supports trustees engaging with beneficiaries. Also supports a broad range of financial services needed by the beneficiaries.

**Integrated Multi-family Office**
A full-service financial office providing comprehensive services to multiple households in multiple generations.

**Enterprise Family Office**
Develops and implements strategies for the enterprise, including business(es), portfolio investments, philanthropy, family unity, family governance, and risk management.

# Framework for a Professional Family Office

Roles and Goals for the Family Office and Annual Assessment of Value

Ownership, Governance and Oversight

Talent, Team Structure and Incentives

Scope of Services and Delivery Process

Outsourcing to External Advisors

Operating Policies, Procedures and Reporting

Technology and Data Security

Cost of Family Office and Allocation of Fees to Clients

**Roles, Goals and Assessment of Value**: The family must define roles and goals for the office, and annually assess the value of the office to the clients served.

**Governance and Oversight:** The owners provide direction, and the Board sets long-term objectives and oversees office performance.

**Talent, Team Structure and Incentives:** The office has the right structure, and the staff has the right skill sets, training and incentives.

**Services and Outsourcing to Advisor Partners:** The office structures financial services around the complexity of the family and services are insourced or outsourced accordingly.

**Technology and Data Security:** Integration of systems and resources to ensure optimal technology and data security systems.

**Operating Procedures:** The integrity of operating processes, procedures and reporting enhances efficient service delivery.

**Cost, Budget and Allocation of Fees:** The management team identifies the impact of complexity on cost and develops and implements a methodology for allocating fees to clients.

# Risk & Opportunity Management

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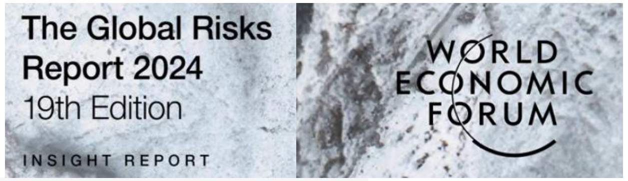
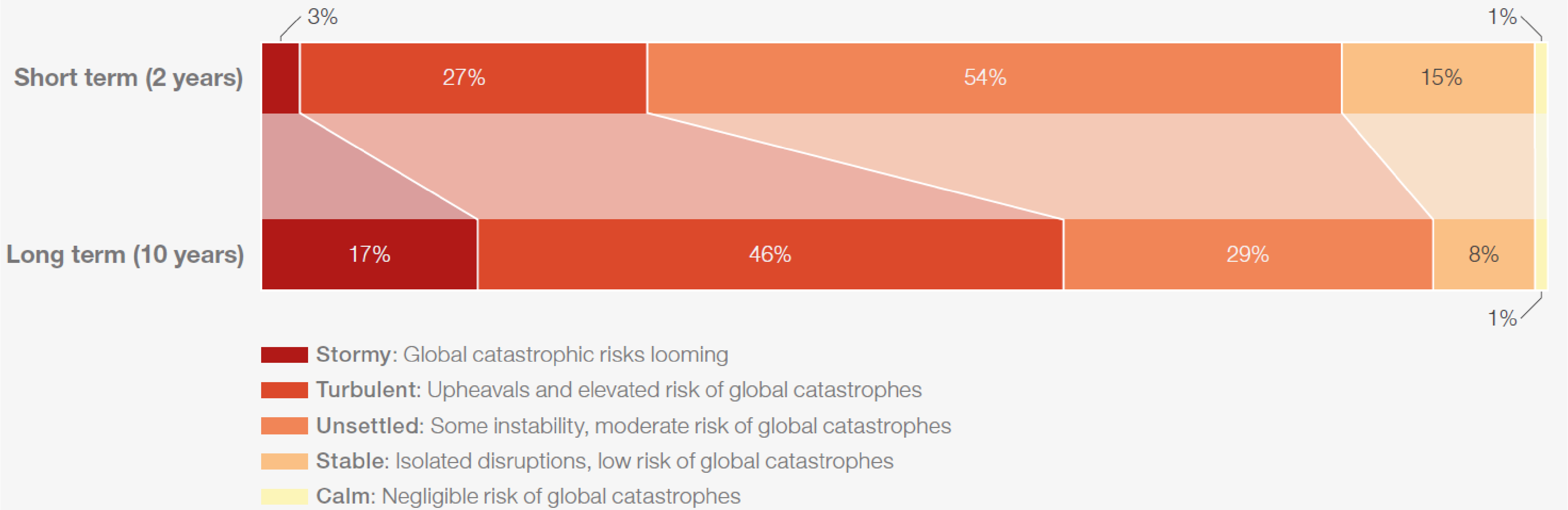
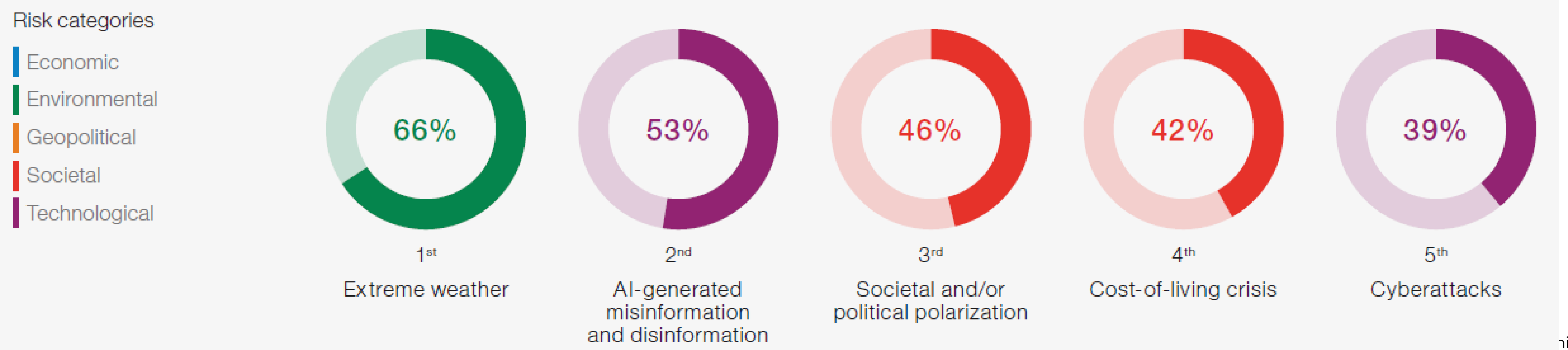
# A risky world…








Source: The Global Risk Report 2024 – World Economic Forum

# Concerns about Governance, Education and Philanthropy

| By Percent of Respondents to Each Score n=varies | | Not Concerned | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Extremely Concerned |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Family Governance | Selection and Evaluation of Board Members | 26% | 13% | 8% | 8% | 10% | 6% | 11% | 7% | 7% | 5% |
| | Planning for Leadership Succession | 11% | 5% | 4% | 2% | 14% | 7% | 16% | 16% | 12% | 12% |
| | Effective Committee Design and Structure | 18% | 8% | 10% | 11% | 10% | 10% | 12% | 9% | 7% | 4% |
| Alignment and Education | Rising Gen Education and Engagement | 6% | 2% | 7% | 7% | 11% | 10% | 20% | 11% | 14% | 12% |
| | Family Meetings and Planning | 7% | 4% | 7% | 9% | 20% | 14% | 11% | 11% | 10% | 6% |
| | Family Vision and Values | 9% | 7% | 11% | 9% | 11% | 6% | 12% | 11% | 14% | 10% |
| Philanthropic Planning and Administration | Family Philanthropic Values and Goals | 11% | 9% | 5% | 7% | 11% | 12% | 17% | 13% | 5% | 11% |
| | Assessment of Philanthropic Impact | 13% | 11% | 7% | 7% | 17% | 8% | 16% | 9% | 7% | 6% |

Highlighted cells indicate clusters of responses, does not always indicate the highest percentage in each row.

Source: 2021 FOX Family Office Benchmarking Report

# Family Enterprise Risk Roadmap

| GLOBAL MACRO FACTORS | Extreme Weather Events & Environment | Cyber Security & Technology Gaps | Geo Political Uncertainty | Talent Shortages |
|---|---|---|---|---|

| DIMENSIONS | ALIGNMENT and ENGAGEMENT | SHARED FAMILY VISION | ENTERPRISE GOALS and RISKS | ENTERPRISE GOVERNANCE | LEADERSHIP and LEARNING |
|---|---|---|---|---|---|
| ENTERPRISE CAPITAL | Lack of a Clear Enterprise Purpose or Guiding Principles | Lack of Exploration or Understanding of Possible Future Scenarios | Inadequate Opportunity and Risk Assessment | Unclear Levels of Authority in Enterprise Structure | Insufficient Learning Opportunities and Leadership Selection Process |
| FAMILY CAPITAL | Misalignment in Family Values and Culture | Divergent Family View on Enterprise Vision | Imprudent Allocation of Family Capital | Distrust in the Governance Process | Unprepared Family Leaders or Improper Succession Planning |
| BUSINESS CAPITAL | Lack of Family Support for Business Direction | Lack of Planning for Industry Disruptions | Inadequate Return on Invested Capital for Risks Taken | Not Addressing Cohesion and Exit in Shareholder Agreement | Not Attracting and Retaining Strong Leadership |
| FINANCIAL CAPITAL | Unclear Purpose or Ambiguous Roles for the Family Office | Suboptimal Structures to Support the Vision | Unclear or Inconsistent Wealth Goals and Investment Strategies | Lack of Depth and Board Experience Related to Finance and Family Dynamics | Ineffective or Inexperienced Office Talent or Strong External Advisors |
| PHILANTHROPIC CAPITAL | Lack of Support for Family Values or Inconsistent Views on Social Responsibility | Unclear or Disjointed Philanthropic Goals | Inability to Identify and Measure Meaningful Philanthropic Impact | Lack of a Thoughtful Process to Support Decision-making | Insufficient Family Commitment to Involvement |

# Response from Families

- (1) Development of a culture of resilience, with a risk and opportunity management system that allows the Enterprise to correctly identify, monitor, and mitigate the risks.

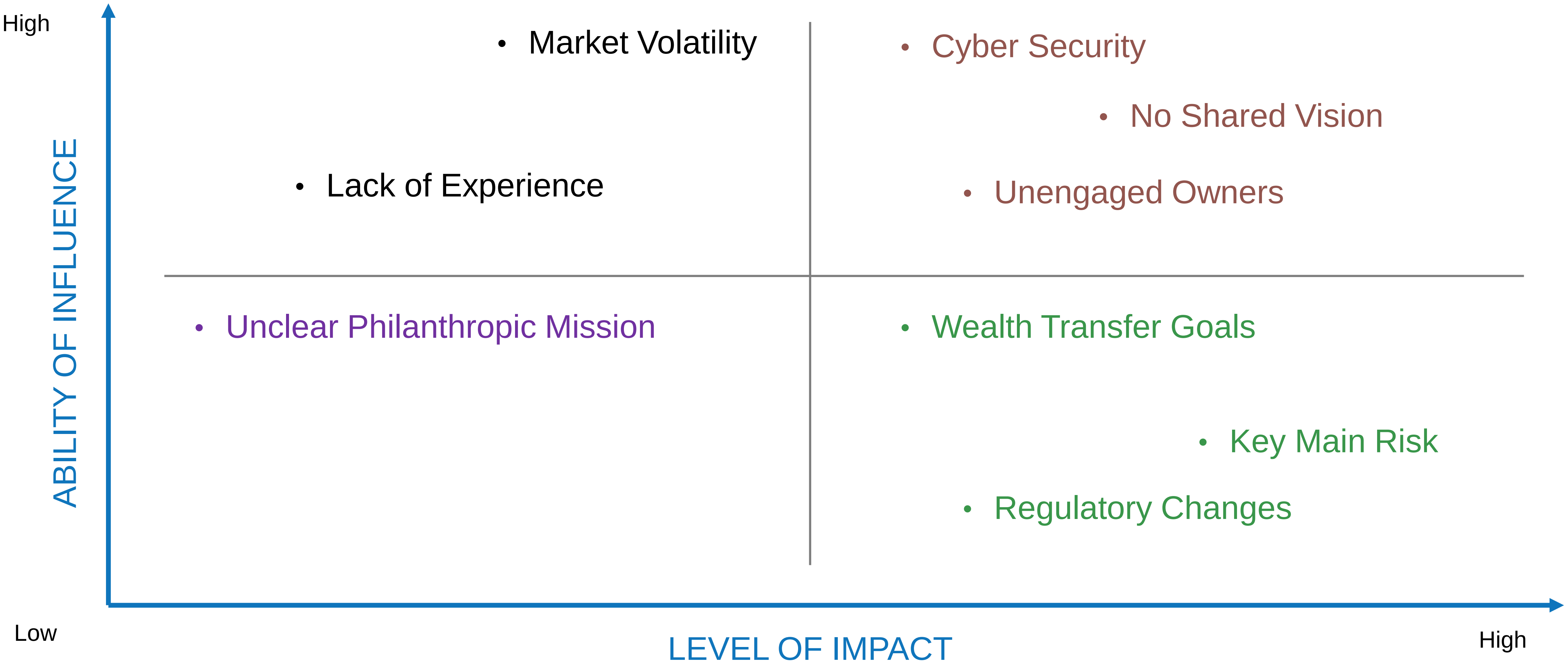
- (2) Strengthening of the Family Enterprise mindset/model

- (3) Mitigation strategies, such as Hedging

# Risk & Opportunity Management System

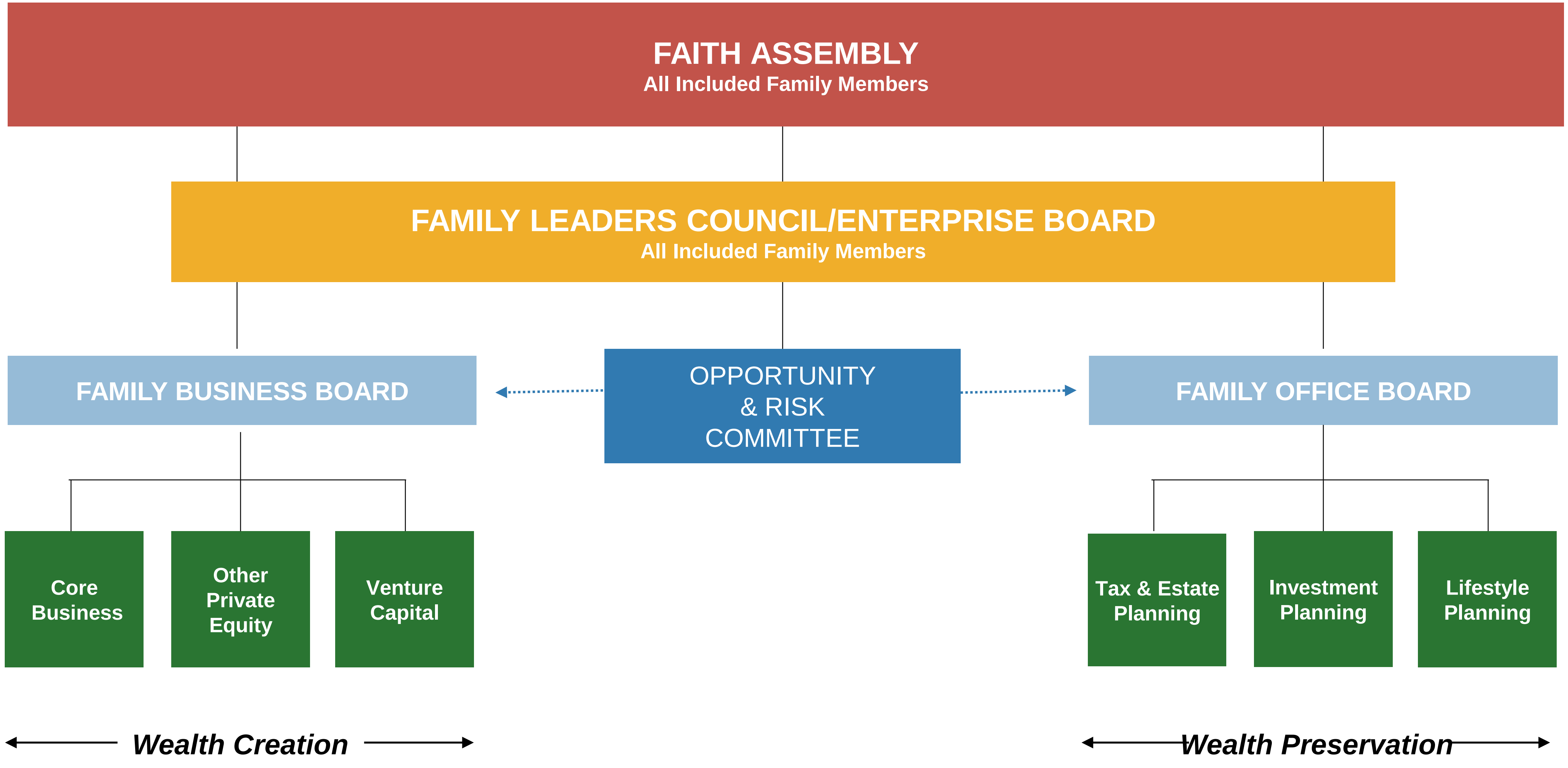
1. Assess Owner Attitudes and Appetite for Change and Risk-taking
2. Identify What’s Potentially at Risk for the Family
3. Identify the Financial Impact of Key Opportunities and Risks
4. Integrate an Opportunity & Risk Committee into the Governance Structure
5. Prioritize Alternatives and Allocate Capital Accordingly
6. Design a Reporting Process to Monitor Strategies at the Board Level

# Identify the Financial Impact of Key Opps/Risks




*Source: FOX Global Family Enterprise Institute (2019)*

# Integrate an Opp/Risk Committee into the Governance




*Source: FOX Global Family Enterprise Institute (2019)*

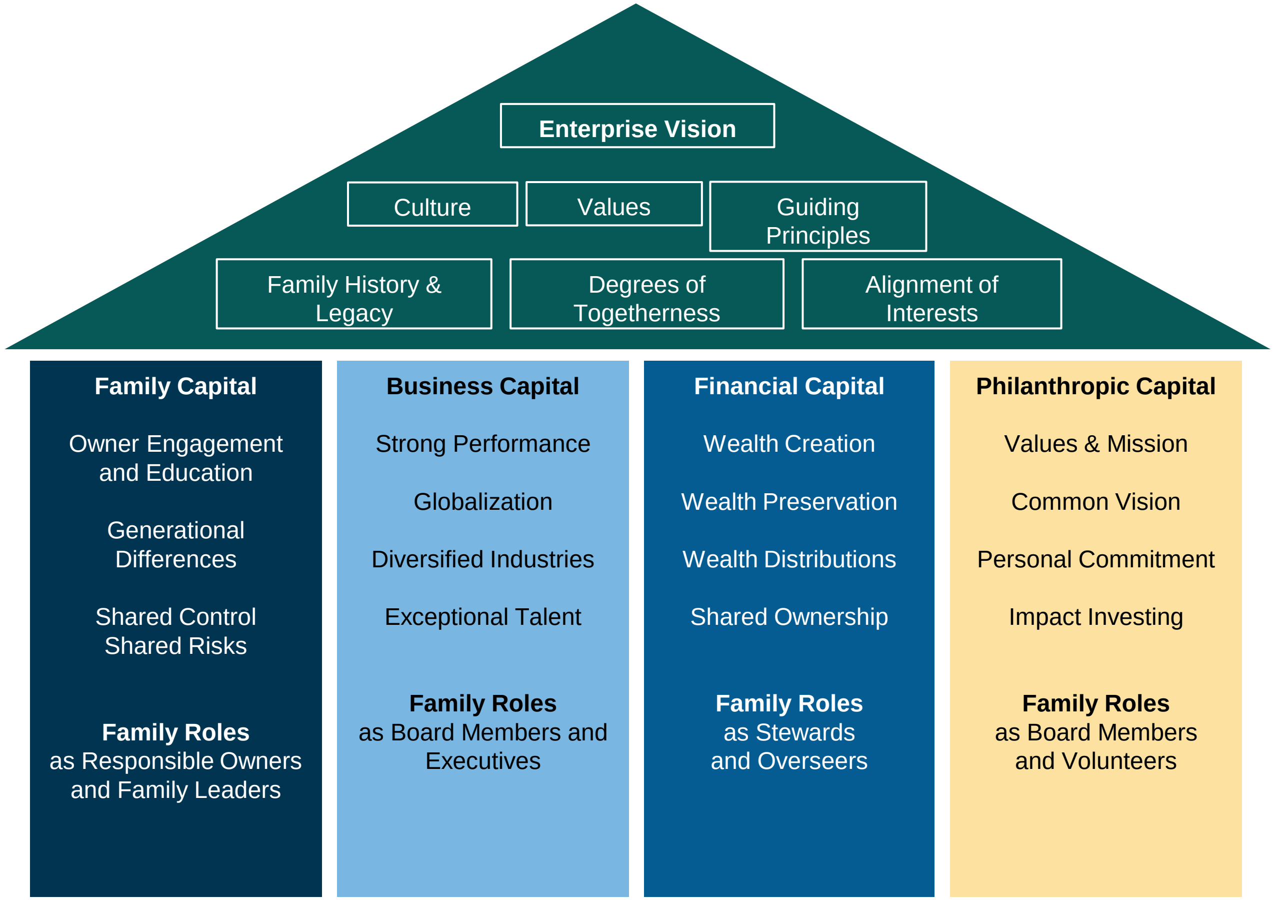
# Case Studies

- Accor Hotels
  - Chief Disruption Officer
  - Shadow Milennial Board of Directors
- Netflix
  - New approach to Governance
- European Family Enterprise
- Liquidity Management at Latin American Family
- US Family Enterprise
- Volkswagen
  - Building a Portfolio of optionality

# Response from Family Enterprises

2) Strengthening of the Family Enterprise mindset:

- Reassess the family values & culture
- Adapt the vision
- Strengthen the Governance
- Invest in a strategic Family Enterprise Office
- Professionalize the leadership
- Incorporate societal philanthropy and impact
- Increase the knowledge



# Risk Mitigation Strategies

3) Mitigation Strategies

| | High Probability Risk | Low Probability Risks |
|---|---|---|
| High Impact Risks | HEDGE | INSURE/ REINSURE |
| Low Impact Risks | MITIGATE | ACCEPT |

Examples of Risk Hedging Strategies include Diversification, Globalization, doing more private investments, decreasing investment risks, Redundancy plans, alternative residences, and others

*Source: FOX Global Family Enterprise Institute (2019)*

# Opportunity Management

*"You cannot overtake 15 cars in sunny weather… but you can when it's raining"*

Ayrton Senna

# Opportunity Management - Examples


- **Strategic redefinition:** launch of a new brand
- **Invest in Philanthropy and Impact:** ”*You can’t save your way out of recession – you have to invest your way out. We look at our CSR activities in pretty much the same way. You can’t just do them in good times and then just forget about them in bad times and hope to get the same results*” – Craig Barrett, former Chairman & CEO, Intel

- **M&A:** A European Enterprise Family made the largest acquisition of its 75+ history during COVID.
- **Invest in people**: *“Now is a time to invest, truly and authentically, in our people, in our corporate responsibility, and in our communities. The argument – and opportunity – for companies to do this has never been more compelling”. -* Howard Schultz, former CEO, Starbucks
- **Reassessment of tax structures**

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