Risky business
Identifying and mitigating risk in the family enterprise

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Objectives

• Consider your business and family's exposure to risk
• Review a framework for identifying, prioritizing and management your risk
• Learn from other business families
• Have some fun
What is risk?

- Common to most definitions of risk is uncertainty and undesirable outcomes
- With risk comes potential reward:
  - The potential of gaining or losing something of value

**OPPORTUNITY**
Unique risks

• System-thinking results in unique risks for families in business

What is risk?

• Risk is anything that affects an organization's ability to meet its objectives and preserve its reputation
What influences how we perceive risk?

- Who regularly drives over the speed limit?
- Who regularly drives significantly over the speed limit? (more than 20 km/hr over the limit)

Risk: a delicious illustration
At each table…

• For the person who sat down…convince the 'stander' why sitting down was better

• Were you convinced? Why or why not?

Who's right?

NEITHER
What is your risk personality?

Seeker  Manager  Mitigator  Avoider

COMFORT WITH THE UNKNOWN

Risk seekers

• Take chances on high-risk, high-return opportunities
• Rely on gut more than research
Risk managers

- Tend to be optimistic and see risk as opportunity
- Gather information to help them manage risk
- Feel they have a good understanding of the risks they face

Risk mitigators

- Are willing to take a chance once they've done significant research
- Prefer to play it safe
- Become nervous when things are less predictable
Risk avoiders

- Are cautious
- Often look for guarantees, even if that means settling for less money
- Don't see risk as opportunity

Where do you fall?
Where do your family members fall?

Seeker  Manager  Mitigator  Avoider

COMFORT WITH THE UNKNOWN

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What's your risk profile? Your family members?

(workbook activity)

Working through differences

• Know your own risk personality
• Consider family members and colleagues – how do they deal with risk?
• Focus on the decision that must be made – why you need to make it, what success would look like, what information you need to make the decision
What risks are unique to business families?

Types of risk

- Strategic risk
- Financial risk
- Performance/operational risk
- Relationship risk (family vs non-family)
- Reputational risk
Strategic risk

- The risk that your company’s strategy is not effective and your company struggles to reach its goals as a result
- Lack of formalized processes
- Lack of communication/buy-in from family (not driven by family values)
- One voice/group think

Financial risk

- The risk of financial gain or loss measured by revenues, return on investment, return on equity, profitability, cash flow, etc.
- Paradox: reap vs. sow
- Lack of diversification in investment portfolios of family members
Performance/operational risk

- An unexpected failure in your company’s day-to-day operations, leading to decreased performance
- Fair vs. equal for family employees
- Underperforming family members
- Training next gen leaders
- Abuse of power

Relationship risk (family vs non-family)

- The potential for increasing or decreasing connectedness among and with family members
- Lack of effective communication
- Unresolved conflicts
Reputational risk

- The potential for gain or loss as a result of the business/family's reputation or community standing
- When your name is on the door
- Business issues impact family and family issues impacts business
- Family indiscretions

Reputational risk, small scale
Reputational risk, an example

Reputational risk, large scale

Bread price-fixing: Investigation into at least 7 companies

Loblaw, George Weston fixing scheme response
Foundational reputational risk management

• The primary trust-building attributes are:
  – Treats employees well
  – Has ethical business practices
  – Listens to customer needs and feedback
  – Places customers ahead of profits
  – Offers high quality services
  – Takes responsible actions to address a crisis

How is your business and family exposed to risk?

(workbook activity)
Some examples

<table>
<thead>
<tr>
<th>Risk</th>
<th>Category</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Next Gen leadership not ready to take over</td>
<td>Operational</td>
<td>This Gen unable to retire on planned timeline</td>
</tr>
<tr>
<td>Poor product reviews from an influential website</td>
<td>Reputational</td>
<td>Sales losses and overall loss of market share</td>
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<td>Conflict among siblings about roles in the business</td>
<td>Relationship</td>
<td>One sibling may leave business, emotional strain on family as a result</td>
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Not all risks are created equal

- Focus is important
- Acknowledge resource constraints
- Plot to understand priorities
Plotting risks
(workbook activity)

Analyze and prioritize risks

- Identify Relevant Risks
- Discuss Contributing Factors to Risk
- Review Current State of Policies, Procedures, etc.
- Discuss Inherent Nature of Risk
- Rank Likelihood and Impact

Legend:
- Unacceptable
- Caution
- Acceptable

Likelihood
- VH
- M
- VL

Impact
- High
- Medium
- Low
Managing risk

Overall risk management

- Identify Risks
- Assess Risks and Contributing Factors
- Prioritize Risks
- Manage Risks (Strategies, Actions)
- Monitor Results
- Goals (Objectives)
Options for managing risk

- Avoidance
- Transfer
- Mitigate
- Accept

- Terminate
- Transfer to another
- Reduce likelihood and/or impact
- Tolerate

Risk management plan

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Best practices for risk management

- Tone at the top
- Involve people from across the organization in identification and planning
- Standard discussion in Board meetings
- Formalized policies, procedures and processes
- Forum for discussion among the family

When the worst case scenario occurs

- It's hard to develop a crisis management plan in the middle of a crisis
Crisis-readiness

• Be prepared in advance so you aren't scrambling
• If done correctly, crisis management can enhance reputation
• Companies are judged on the crisis AND the response

DO:
• Have a plan
• Respond quickly – no response is a response
• Communicate internally – be transparent (incl with Board)
• "I'm sorry" may work

DON'T:
• Providing no response, or "No comment"
• Offer conflicting statements
• Provide opinions before knowing facts
• Personalize the impact
Key takeaways

Top three takeaways

1. We all perceive risk in a different way
2. Work across your family business system to identify, prioritize, and create a plan to manage risk
3. Use best practices for general risk management:
   - Effective Advisory Board or Board of Directors
   - Have a strategic plan for the business, and
   - Hold family meetings
Thank you!

- Krista & Dave