

Family Enterprise Risk Management - What It Is, Why It Works

Here is a typical wealth manager approach to business families – “Tell us what you can about your wealth but give us a pot of cash to invest”. The reality faced by most families is rather different. Usually their material wealth consists of a core business interest, direct investments with high growth prospects (some related to the core business), direct real estate investments, and residual liquid assets (often cash). This is the investment reality for the family – but there are many more dimensions to the family enterprise than that.

What “Family” and “Wealth” Really Mean

Firstly, it is important to understand what a family means by the term “Family”. The default reaction is to talk in terms of blood relations and kinship. Seeing the Family in terms of blood relations or the male line only is not unusual and neither right nor wrong. Defining the Family in broader terms so as to encompass female as well as male members, non-blood relations such as long-serving loyal employees, trusted advisers, those who enter through marriage and adoption is not as rare as you might expect either.

The business model favoured by wealth managers and estate planning professionals requires them to focus on the Family’s financial, or more broadly speaking, material assets – its “Financial” Wealth. Some Families are content to adopt this definition of their Wealth, but for many others it is not enough. For them, Wealth also extends to such notions such as the length of time the material Wealth has existed, the number, ages and geographic dispersion of the individuals that constitute the Family – the “Human” Wealth, and the diversity of competences, interests, beliefs and norms the Family members recognise - the “Intellectual” Wealth, as well as of course the formative experiences and character of the creator(s) of the first fortune.

Established in 2002, The Termes Partnership is an independent firm exclusively serving family offices and family-owned businesses both large and medium-sized. We are not an asset manager or an intermediary for any financial services providers, all of whom we keep at arm’s length. Our partners’ expertise covers a wide range of crucial business functions required for the successful and effective deployment of family business & investment assets, including business strategy & governance, capital structure & project finance consulting, strategic asset allocation advice and technology consulting.



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As we have seen, the ideas of Family, and its Wealth, are both complex and dynamic. This means that real effort has to be put in by the Family to dealing with such critical issues as –

- What the Wealth is for
- The need to agree on a fair, robust and durable decision-making process about the Wealth
- Setting out the way in which ownership and management of the Wealth should pass between generations
- Understanding how social, technological and geopolitical factors might affect Family members and their stewardship of the Wealth

External Factors Affecting the Family and its Wealth

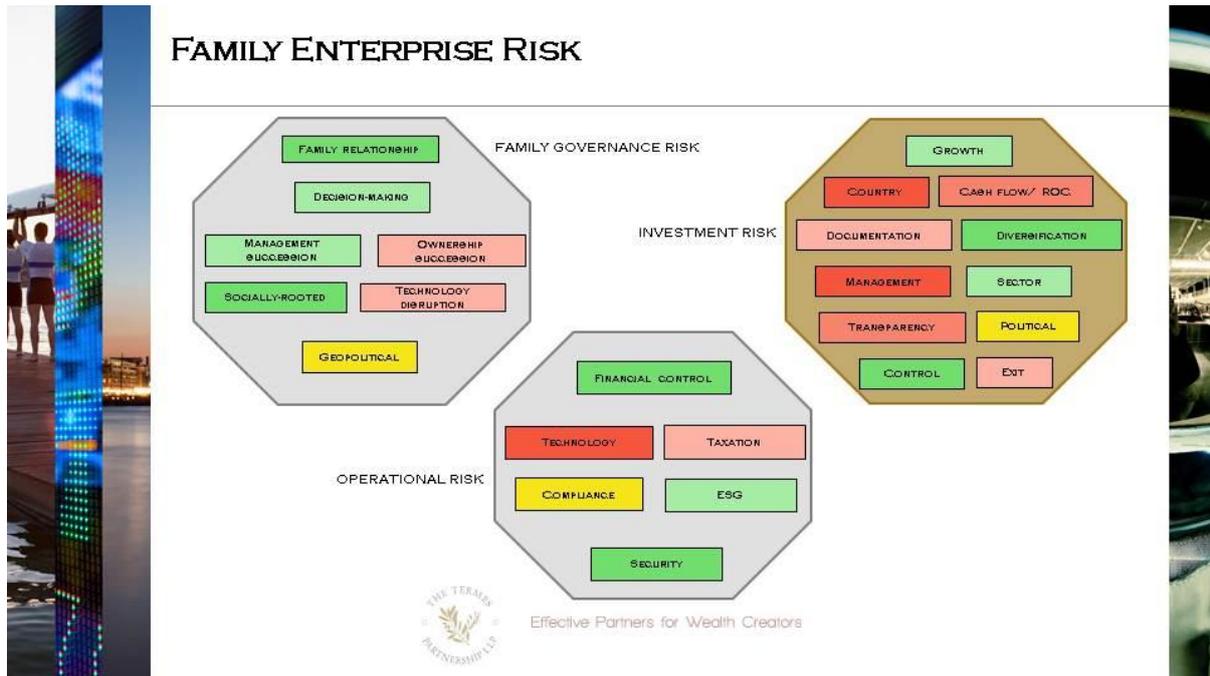
And then there are all the many external factors affecting the Family and its Wealth that are not directly related to its portfolio of investments. Family businesses are subject to the intricate and ever-changing taxation and regulatory regimes where they operate. These factors are further complicated by the fact that many families and their business interests cross national boundaries. Many Families are concerned to ensure their businesses operate in a way that respects environmental and social standards, not least because of the increasing legislation that applies in these areas.

Then there are the many issues that arise from the technology platforms that the Family chooses to support its activities. These include availability (software defects, natural disaster, backup and recovery), performance (speed and network resilience) and business process (clarity of business objectives, technology requirements definition, accountability and responsibility). Security is also of critical importance, not just in terms of individuals and tangible assets like buildings, but also cybersecurity, which covers password integrity, data loss, spoofing, malware and identifying careless or uninformed or even disloyal employees.

Our Unique Approach – Family Enterprise Risk Management

For us, the Family Enterprise is a complicated and dynamic entity that can be thought of in three different ways: the Family itself, the Operational environment that affects it and the Investments that it makes and manages. We add value for Families by helping them, not just to look at their Enterprises from these perspectives, but to do so by breaking each down into a spectrum of risk factors that continually influence them. We call this approach Family Enterprise Risk Management, and the risk-based methodology we refer to as Termes.Risk.Focus.

The power of this approach is that, by helping clients evaluate Family dynamics, the Operational set up and the Investment portfolio objectively, we help them build a truly personal sense of conviction as to the most appropriate management focus and deployment of assets. A picture paints a thousand words, so we came up with the following diagram to demonstrate the different components of Family Enterprise Risk and show how Termes.Risk.Focus is used to identify and evaluate them:



Each risk element is consistently represented visually, using this scale:



Using the Approach to Promote Success in the Family Business

In the example above, our approach has identified high risks for the Family Enterprise in relation to its technology platform as well as country and management risks for some of its investments. In this case the Family is operating outdated software which is vulnerable to cyberattack, and Family members are using portable electronic devices without the benefit of any policy that minimises the risk of personal compromise and critical data loss. It is doing business in a country where the lack of modern road and port infrastructures represent significant risks to its ability to transport key components to the site of a new multi-million dollar asset it is developing, threatening the timely completion and profitability of the project. It has an investment in a technology start-up which has failed to generate any profits since it was funded due to an over-concentration on the technological features of a large suite of products rather than focusing on those capable of generating rapid sales growth.

Our approach deals with the reality of the Family Enterprise, and has a proven track record of helping Families who face hard-to-solve problems. We think that our approach helps them get an effective grip on these challenges. Termes.Risk.Focus is a sound, tried and tested method that can help all members of any business Family, no matter how sophisticated or otherwise, to understand how the land lies.

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