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How Family Offices Navigate Disruption

Leading practices to prepare for natural disasters or other crises

In mid-March, when more than 40 U.S. states issued stay-at-home orders due to the COVID-19 pandemic, family offices found their crisis management plans subjected to an impromptu stress test. Family offices either passed the test with relative ease, shifting to virtual working arrangements and taking steps to protect key assets, or they struggled to make the transition.

Generally accustomed to working in one location with its staff in close proximity to each other, nearly all family offices had to establish new work streams overnight, setting up virtual private networks and creating new procedures just to manage the most basic family office activities, like ensuring family members could still approve expenditures and disbursements. Further, many employees were unprepared for their new work-from-home environment. In addition to scrambling to procure laptops—sometimes at their own expense—they had to juggle other responsibilities such as childcare.

While family offices that had invested in a robust digital infrastructure certainly had a head start, that was only one part of the groundwork required to sustain operations during the early days of the pandemic.

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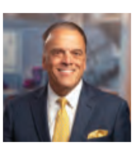

In the end, all family offices with a more structured business approach and a culture that placed risk management as a board-level concern and front and center in their contingency plans were more resilient. By preparing for worst-case scenarios, these offices were ready when the pandemic brought an abrupt close to normal operations.

While we can hope that the COVID-19 pandemic was an extreme outlier that won't reoccur in our lifetimes, all family offices would do well to draw lessons from this experience on how to prepare for natural disasters or other crises that disrupt operations.

Disruption Readiness

What are the leading practices that family offices can follow to ensure that they can fulfill their core mission during a major disruption? For many, it's determining what their primary goals are, such as keeping the family office and related businesses running to ensure that they can continue paying bills. Looking ahead, some family offices are using the lessons learned during the pandemic to springboard innovative business practices that will support their business success over the long run.

The type of family office also shaped their readiness for the disruption. For example, family offices embedded within a large operating company seemed to fare better. They were able to rely on a more established business infrastructure and were often already prepared to support remote working arrangements by employees, with dedicated technology resources and access to data stored in the cloud infrastructure. They were also more likely to be aided by IT departments to extend a secure working environment to employees' homes.

Stand-alone single family offices (SFOs) with or without an operating company were less likely to

have disaster recovery or contingency plans enabling a virtual working environment. Still, stand-alone family offices responded quite capably to the pandemic if they had prepared to back up critical operations that allowed them to continue monitoring the family business interests. Proactive risk assessment planning and evaluations were key to identifying these critical operation points.

As we engaged with our family office clients on their response to the pandemic, three examples stood out:

- **Embedded SFO.** An embedded SFO doesn't stand alone and is part of an operating company. Family office services, like money movement, accounting and reporting for family members and tax planning and compliance are provided by the employees of the private enterprise. When it became clear that all non-essential businesses would need to shut down and work remotely, an SFO took advantage of its operating company's infrastructure to transition everyone from the office to a virtual work environment in just a few days. The office was able to maintain continued focus on key business operations even while remote. Employees are now slowly beginning to return to the office, but plans continue to offer remote working capabilities for the near future and perhaps even long term.

- **Stand-alone SFO with operating company**. Family offices that were considered essential businesses had the option to remain open, and several did. An SFO decided to forge ahead and continue reporting to work. The office's culture was strongly influenced by the mindset of the family it served—which had a healthy appetite for risk taking. The founders of the company continued their appearances in the office as did the other office employees. Business continued as normal, except all their supporting vendors were the ones working from home.

- **Stand-alone SFO without operating company**. The SFO had a high touch, white glove approach to client services to family members and family-owned entities who are the clients of the SFO. Prior to the pandemic, most items were handled by hand and in person. As such, their paper-intensive processes required all expenditures and checks to be completed manually. During the early days of the shutdown, someone would go to the office and leave a folder for review by a superior. This proved to be impractical. After two weeks, the office decided to implement DocuSign technology so the approvals could be done via email.

Overall, the offices that were prepared shared one key characteristic: They could turn to business continuity plans that: (1) had been shared with all stakeholders; and (2) were tested and updated regularly. Their plan remained current and wasn't something they had to dust off to reflect new employees, processes or developments.

The disruption caused by the pandemic also exposed certain business processes as outmoded and inefficient.

Returning to Normal

Family offices should rightly view the pandemic as a key inflection point and begin to look toward a post-pandemic normal to take advantage of the lessons learned. Few should consider returning to their old ways without first questioning their old approach to doing business. For example, even as physical offices begin to reopen, organizations should consider allowing employees to continue working remotely—or even rethink whether they need to rent as much office space to support a smaller in-person workforce.

In addition to challenging the myth that telecommuting impairs productivity, the disruption caused by

the pandemic also exposed certain business processes as outmoded and inefficient. Paper-intensive workflows are just one example. Many family offices rely on business processes that require multiple touchpoints on the same sheet of paper to collect requisite approvals—often from the head of office or a family member. This approach became impractical during the pandemic, and many offices updated their delegation of authority controls to enable bills to be paid without the direct review of a family member. As offices scale back work from home, trying to reinstate those controls would appear to be inefficient. Not every purchase or invoice is of the same magnitude or risk. Many can safely be delegated to a junior level staff member or to an automated approval system, enabling key officers to focus on those that require their attention.

One of the enduring lessons that we believe family offices will carry from the pandemic is that no matter how large or small, all family offices need to operate with a clearly defined set of rules and procedures. That means taking stock of what worked and what didn't. Family offices should consider eliminating or streamlining procedures that have stuck around just because "it's the way it's always been done." To be successful, family offices need to operate as corporate entities and be managed like a business with a clear set of procedures to ensure that they can continue operations even during difficult times.

> The offices that prepare for the disruption and are intentional in their approach to recovery are in a much better position to emerge on a sound footing for the future.

The pandemic has forced organizations to embrace their digital future at an accelerated pace. Savvy ones are leading the charge and seizing the opportunity to drive innovation, using situational momentum to drive investment in digital infrastructure and collaboration tools. Many offices learned that storing key information

A Broad View of Risk

Six functional areas that impact family operations

As family offices assess their risk, they should consider broad functional areas that impact the family and the office operations. While the pandemic didn't impact all areas of concern with equal severity, executives can reflect on their relative risk exposure and determine which functions pose the greatest risk to their business and family interests.

1. **Investment:** Family offices that had incorporated data automation into their accounting and performance reporting dashboards stayed connected. During the pandemic, once offices were back online, they needed to ensure that their investments in the market and their portfolio companies were safe and secure, particularly when stock market volatility increased uncertainty. Family offices with exposure to certain industries, such as hospitality and travel, also faced concerns on how to value incoming revenue streams as business and personal travel plunged.
2. **Succession:** Succession typically has a long-term horizon, so it was of lesser concern for most family offices during the pandemic. Nevertheless, the potential that a principal or founder could be stricken by the virus serves as a reminder that all family offices should keep a plan in place should someone be incapacitated.
3. **Technology:** Family offices that had invested in technology infrastructure found it much easier to support remote virtual operations. They had deployed networked systems that could provide secure access to shared data for multiple authorized users.
4. **Operations:** In addition to adjusting to work from home, family offices faced a challenge as they began to plan to return to work, ensuring the health and safety of their employees. For many, this meant developing plans to procure personal protective equipment and to work with building maintenance to ensure deep cleaning of offices. One of the strongest barriers to returning to work has continued to be maintaining social distancing in shared building elevators.
5. **Management:** Many family offices found that management was ready to step up and adjust to new policies; however, some were still encumbered by culture or other norms that delayed eventual adoption.
6. **Vision and legacy:** How offices responded to the pandemic could impact the reputation of the family. Flexibility, empathy and support for newly transplanted employees will be key inflection points in how the family is viewed, as well as its relationship with personnel. It could have long-term effects on the ability of the office to attract talent—either positively or negatively.

— Jonathan Carroll, Catherine Fankhauser & Bobby Stover

in a cloud infrastructure—which in the past may have been reviewed as a security risk—actually served as a leading practice to provide continued access to key information, documents and software programs.

In the same way, family offices also realized that there were tasks that could hardly be considered essential to the day-to-day running of the business.

Investing time and resources to plan for business continuity is no longer just an option.

These were easily delegated to someone else in the organization or automated. Many offices are turning to automation as a way to perform preventative controls as well as to authorize payments that don't require executive signoff.

Mitigating the Impact

Whether a family office is embedded or stand-alone, all can benefit by actively assessing risk to ensure that they're able to mitigate the impact of disruption during any crisis. "A Broad View of Risk," p. 3, describes which functions pose the greatest risks. And, the "Risk Management Response Matrix," this page, shows that insurance is needed, because a pandemic certainly falls within the category of a high impact risk that can't be controlled.

Lesson Learned

Ultimately, the lesson that family offices should draw from the pandemic is that investing time and resources to plan for business continuity is no longer just an option but a requirement. The offices that prepare for the disruption and are intentional in their approach to recovery are in a much better position to emerge on a sound footing for the future. They spend less time playing catch-up and are able to pivot quickly to continuing the business under new operating conditions.

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—*The views expressed are those of the authors and do not necessarily reflect the views of Ernst & Young LLP or any other member firm of the global Ernst & Young organization.*

Risk Management Response Matrix

A pandemic falls within the insurance category

Insurance High impact risks with little ability to control are generally transferred to an insurance policy.	**Contingency planning** Risks with a high impact and ability to control should be addressed at an executive level and through well-designed governance processes.
Continuous review Lower impact risks that should be watched.	**Testing** Higher impact risks that are readily controlled are staffed and subject to policy and procedure.

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