The “family enterprise” constitutes the entirety of a multi-generational family’s business, investment, philanthropic, and lifestyle activities. Depending on the structure of the family, risk management may be coordinated through a family office, an operating company, or through a holding company or trust structure.
Understanding Family Enterprise Risk

Why Did We Do This Study?

The complex structure of family holdings, comprised of corporate entities, trusts, partnerships, and family investment interests, makes it difficult for owners and their advisors to address risk across the entirety of the enterprise—including risks to the family itself.

The majority of family enterprises do not have a full time risk manager, and as a result we frequently see “siloing of risk” by boundaries such as family business, family office, family branch, family investment interests, or by accountability of decision making. Managing risk in silos has prevented family enterprises from understanding their total risk and developing an integrated insurance and risk management plan.

Our goal was to address the scarcity of available data on risk management strategies employed by family enterprises. We wanted insight from family enterprises themselves on their risk management practices. We sought answers to the following questions:

1. **Knowledge**: Do enterprise families understand risk management best practices?
2. **Implementation**: Do enterprise families adopt these best practices?
3. **Effectiveness**: How effective is their implementation based upon best practices?

This study has been informed by Crystal & Company’s unique perspective as a third generation family enterprise focused on providing strategic risk and insurance advice, and complemented by Family Office Metrics’ rigorous analytical approach.

Cornell Survey Research Institute administered the survey to ensure that the data would be aggregated independently and prove statistically reliable.
Over the summer of 2014, we reached out to family enterprises across the United States to participate in a survey. Our results are based on the responses of 159 participants.

Regardless of how the respondent’s enterprise is structured (operating company, single family office, holding company, or some other entity), all family owners receive “family office services” including:

- Investment Management
- Bookkeeping and Administration
- Insurance Purchasing
- Tax Preparation
- Philanthropy
- Trustee Services
Key Findings

What Did We Learn?

Family Risks Overlooked:
The study reveals a significant disconnect between the strategic risk management planning conducted by family enterprise executives and the inclusion of the family itself.

While 66% of participants “strongly agree” or “agree” that strategic risk management objectives are determined at the highest levels of the family enterprise, only 3 out of 10 have implemented a risk management review process that includes risks to the family itself.

Awareness Is Not Enough:
The study shows that most participants in the study indicate that “identifying and assessing current and future threats to the organization's assets” is a top priority.

Although a majority of the participants are aware that they need to create a process for comprehensive risk management, less than half have taken effective action to address this need.

More Work Ahead:

Nearly all (95%) of the participants in the study indicated they are well aware of the potential risks to a family, but only two-thirds of the respondents have taken steps toward implementing a plan to address specific areas.

Examples include risks such as family conflict, family members seeking liquidation, or asset growth too slow to support family growth or spending.
The Family Enterprise Risk Index was developed through a questionnaire that divided questions into distinct sections that illustrate how families should think about certain areas of risk. This allowed us to examine how each participant was doing in each area and generate a total score.

Creating the Index

How Did We Determine A Score?

The Family Enterprise Risk Index was developed through a questionnaire that divided questions into distinct sections that illustrate how families should think about certain areas of risk. This allowed us to examine how each participant was doing in each area and generate a total score.

FAMILY ENTERPRISE RISK QUADRANTS

The scorecard was built on Family Office Metrics’ Risk Review Framework©, which is adapted from the Committee of Sponsoring Organization of the Treadway Commission (COSO) internal control framework. The COSO framework examines risk management in terms of five major components: control environment, risk assessment, control activities, information and communication, and monitoring.

- **MONITOR**
  Lower impact risks that should be watched.
  *Example:* External Regulations

- **INSURE**
  High impact risks with little ability to control are generally transferred to an insurance policy.
  *Examples:* Natural Hazards, Liability

- **MANAGE**
  Those risks with a high impact and ability to control should be addressed at an executive level and through well-designed governance processes.
  *Example:* Succession Planning

- **PROCESS**
  Higher impact risks that are readily controlled are staffed and subject to policy and procedure.
  *Example:* Wire Transfer Policy
The Results

How Are Family Enterprises Doing?

To determine an overall score, we scored 20 questions from the survey and each was given an equal weight of 5 points to determine a maximum score of 100. Our respondents’ original scores ranged from 25-91—an unexpectedly wide range.

<table>
<thead>
<tr>
<th>INDUSTRY SCORE</th>
<th>ORIGINAL RANGE</th>
<th>CURVED GRADE</th>
<th>OVERALL ASSESSMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>82-91</td>
<td>A</td>
<td>EXCELLENT</td>
</tr>
<tr>
<td></td>
<td>66-81</td>
<td>B</td>
<td>ABOVE AVERAGE</td>
</tr>
<tr>
<td></td>
<td>52-65</td>
<td>C</td>
<td>SATISFACTORY</td>
</tr>
<tr>
<td></td>
<td>39-51</td>
<td>D</td>
<td>POOR</td>
</tr>
<tr>
<td></td>
<td>25-37</td>
<td>F</td>
<td>FAIL</td>
</tr>
</tbody>
</table>

Most family enterprises have an original score of 70 or less. We curved the scores to better understand the common themes found for each letter grade.
Overall, our study showed that most family enterprises are employing common practices and not best practices. The top performers excel at setting priorities, making risk management decisions, and creating processes and plans that span the entire enterprise.
Final Thoughts

What are the next steps?

We created the Family Enterprise Risk Index to provide families with a scorecard to evaluate themselves against their peers, as well as to establish an absolute standard for risk management. We set out to elevate the topic of risk management and begin a dialogue among family shareholders, family office executives, operating company executives, and professional advisors.

We benefited tremendously in the creation of the Family Enterprise Risk Index from the input of many of the industry’s leading practitioners. Once we had gathered the data, we were able to tap the collective insight of a number of exceptional advisors and family office executives. We thank them each for their generous input and assistance in interpreting the results.

The Family Enterprise Risk Index serves as the foundation for a new set of tools we are building to help families assess their own strengths, capabilities, and weaknesses. Some of the most interesting conversations have been with individual advisors and their family clients comparing their scores against the index and each of the sections. We will also be publishing additional findings from the study in the months ahead.

This is our inaugural effort, and we look forward to enhancing the survey in the next permutation. Over time, we hope to track how risk management approaches evolve, as well as to pursue certain topics, such as reputational risk, in greater depth. Additionally, we hope to broaden our scope to global families in future years.

We are committed to serving the needs of the family enterprise community and we thank you in advance for your constructive feedback, thoughtful reflections, and provocative questions.

LINDA BOURN
Executive Managing Director
Crystal & Company

PAUL MCKIBBIN
Managing Partner
Family Office Metrics

January 2015
About Us

CRYSTAL & COMPANY

Crystal & Company is a leading strategic risk and insurance advisor, addressing clients’ risk management, insurance brokerage, and employee benefits consulting needs. The firm is comprised of more than 400 professionals, each distinguished by their technical expertise and industry-specific knowledge, and driven by their passion for client service. Crystal & Company is headquartered in New York with 10 regional offices throughout the country, placing over $1 billion in premiums annually in the global insurance marketplace. Established in 1933, the company has sustained its independence through 80 years and three generations of Crystal family ownership and management.

Our dedicated Family Enterprise Risk Practice team applies an integrated approach to family businesses across a wide range of industries, family offices, private trust companies, and family affiliated ventures.

Crystal & Company is a member of Brokerslink, a global alliance of leading independent insurance brokerages spanning more than 80 countries and 300 cities across the world.

FAMILY OFFICE METRICS

Family Office Metrics is the premier consultancy for family offices. We help our clients create, re-engineer, and improve offices across the world by applying our domain expertise, our insights gained from primary research, and industry best practices.

Since 2001, Family Office Metrics has worked with over 160 clients on 250+ projects to deliver best total solutions to management, operations, and technology problems.

Family Office Metrics is built upon the professional experience of its partners and consultants who are trained as accountants, attorneys, and programmers with extensive backgrounds in banking, investments, and finance.

CORNELL SURVEY RESEARCH INSTITUTE (SRI)

SRI has been providing survey research, data collection, and analysis services since 1996 to a wide-range of academic, non-profit, governmental, and corporate clientele. With a state-of-the-art facility located at Cornell University, SRI possesses extensive capabilities for telephone, mail, and web survey data collection. SRI has been well situated to conduct numerous major national and state studies on such subjects as the long-term effects of the New York City school-based intervention study on risky behavior among young adults, assessment of the prevalence of elder abuse in New York State, the effects of retirement on drinking behavior, health and safety issues of New York City firefighters, business climate assessment for the Division of the Budget of New York State, major trends in the telecommunication industry, rising tuition at universities, how people cope with aging and careers, and topical issues such as support for civil liberties and the war in Iraq. SRI has conducted over 2000 projects to date.