

Should a family office have a crisis management plan – and if so, what might it look like?

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Most family offices and family firms do not have a crisis management plan. The principal and the CEO will be relying on their ability to see the potential for things going wrong and reacting in good time. But the reality can be very different; an incident can quickly spiral out of control and become a crisis. Then, without a plan in place that allows for an organised response, it may not be possible to get off the back foot.

One way to test this assumption is through scenario planning, a well-honed training tool in both the army and academia. In this article, we will walk you through a fictitious incident based on a compilation of real-time events. Through this scenario we pose some questions you might well ask if you were managing this hypothetical situation and we discuss the value of having a family office or family business crisis plan – and to what extent it can reduce both the likelihood and impact of a crisis. We also take a look at what such a plan might look like.

The scenario – general background

Sir John Morton is a Cambridge don and a Nobel Laureate in Medicine. He has leveraged his breakthroughs in remedial medicine by founding a successful biotech company, Waguloo plc, of which he is CEO. Backed by venture capital, the company started in 2007 as part of the NHR Cambridge Biomedical Centre, most of its original scientists being post-graduate researchers. Its commercial potential grew rapidly. It listed on the London Stock Exchange in 2010 and has gone from strength to strength. Sir John's wife, whom he met at university, and one of his daughters are salaried members of Waguloo's executive leadership team. Together with Sir John, they own a significant shareholding. Their intent is to maintain substantial equity in the company in the long-term interests of the family.

By 2012 the company had a product approved by the US Food and Drug Administration (FDA) and the European Medicines Agency (EMA). Investors continued to be attracted by the promise of the technology and its healing potential. A number of the company's institutional investors, including the Universities Superannuation Fund that has

£30 billion under management, have strict rules regarding ethical investing.

Last month the public profile of both the company and the family rose, with a front page story in the *Financial Times* and a slot on the BBC's *Newsnight*, when Waguloo became the poster child in the UKTI's Britain is Open for Business promotion campaign for the fast-growing bio-medical field. The company is currently running human trials for a new product, Bandex, a spray dressing that creates a new skin within hours on severely burned patients. Trials are being run at several European hospitals including the Hospital Kaspella and the Surgical Centre Trimontium in Plovdiv, Bulgaria. Sir John is scheduled to address the European Medical Physics and Engineering Conference in Sofia, Bulgaria, in two weeks' time. The conference is hosted by the Bulgarian Society of Biomedical Physics and Engineering.

Scenario Problem Part I: A friendly email raises a red flag

Imagine that you, the reader, are a senior non-family member of Waguloo's leadership team. You receive an email from a close friend in Sofia. He mentions that he has noticed a fair bit of traffic on Twitter in Bulgaria; there seems to be a public outcry about the mysterious cause of death of a half-dozen or so people in Plovdiv, who were brought to hospital there with severe burns following an industrial gas explosion. He ends his email to you with the rather quizzical comment: "Hey, I thought that new product of yours was supposed to patch things up?"

Some questions to ask

- Would you define this as a potential crisis?
- If so, who in the company or in the family do

you alert? Sir John is a very busy man and doesn't take kindly to unnecessary interruptions.

- Considering your friend mentioned Twitter, what is your approach to social media?
- Would it be a cost-effective exercise to monitor social media to see if the news has spread to other countries?
- What other key questions might you be asking at this point?

Discussion

Before a family company or office determines whether a situation facing it is a potential crisis, it is useful to define the term. The opening paragraphs of a crisis plan should do so. There can be a temptation to define a crisis in financial terms – for example, an adverse event that has the potential to cost the company, say, £0.5 million. But sometimes a minor event or issue, if badly or belatedly handled, can lead to much worse. Therefore, it is inadvisable to define a crisis purely or even mainly in financial terms. And there are the reputational aspects of a crisis to consider. Reputation is hard, if not impossible, to value in monetary terms. In this scenario, the company, being relatively new, is more of a family company than a family office – though in the longer run it is likely to devote increased staff effort to supporting and enabling family interests. In the meantime, the company's leadership team should be mindful of the family's as well as the company's reputation – the two are inextricably linked. Therefore, a definition of a potential crisis should include reference to possible damage to the family's reputation.

So a full definition of a crisis might be as follows:

Any abnormal and unstable situation that threatens the family, the business, its strategic objectives, its reputation or the viability of associated business.

By way of further explanation: a crisis can be due to a wide range of events and incidents. These might be external – for example the unauthorised disclosure by a third party of sensitive information, or dishonest activity by a counterparty with which the business is linked – or an unsubstantiated allegation promoted on social media. Or the causes can be internal – for example questionable actions by an employee. Often a crisis is simply the consequence of oversight or negligence. There is always the possibility that senior management learns about the problem late in the day and compounds the issue with a hesitant or piecemeal response. If the issue becomes public then the business may struggle to recover. The reputation of the business and that of the family may well be compromised.

One interesting thing about this particular scenario is that there is no specific indication that the deaths of the hospital patients in Plovdiv have anything to do with the company's product. This highlights the

reality that a family and its interests can be badly affected by something which is not under their control and maybe has nothing to do with them.

The principal or CEO will always prefer to hear potentially bad news from someone in their organisation than from an outsider or, worse still, from the media or from an investor. So, if in doubt, let the boss know soonest – even if it is out of hours or at a weekend.

Many families and their businesses claim that their best defence against social media is their low profile. While it is true that for every family business that is well known there are dozens that are not, it does not take much for a family first to have a profile and secondly to lose control of it. Warren Buffett said: "It takes 20 years to build a reputation and five minutes to ruin it". This can apply to a family as much as to any other entity. Therefore, it makes good sense for a family office or firm to monitor what is being said about it on social media. If the family has international interests then the office needs to be aware of what is being said more widely. In the scenario, what happens in Bulgaria doesn't necessarily stay in Bulgaria. And, picking up adverse tweets is one thing, but having a sense of what to do about it – if anything – is quite another. Judicious inactivity might well be the appropriate reaction – but this should be a considered reaction, rather than left to chance with eyes closed to the implications. Therefore, having a crisis plan that addresses reputational issues and provides guidelines on how to react – and the threshold for doing so – can enable a family office to be prepared if damaging things are said in the public sphere.

If offices feel uneasy referring to the plan as a crisis management or crisis preparedness plan, there are other terms for use, such as substituting the word 'issue' or 'incident' for 'crisis' – or referring to a 'business continuity plan', though there can be differences in the definitions.

Getting at the true facts of the case as a matter of urgency is always important. In the early hours of an adverse event, uncertainty and speculation abound – not an easy basis for deciding whether to act and what to do.

Scenario Problem Part II – one week on – Bandex becomes a big bother

The medical examiner's report on the deaths from the gas explosion reveals that some of those who died from their burns did so because of infections which set in after a spray dressing was used for bandaging. You have found out from Waguloo's clinical division that Bandex was used on some of the patients. The report is mentioned in the local Bulgarian press, but it does not mention the product name Bandex.

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Some questions to ask:

- How, and to what extent, should Waguloo's leadership team be apprised of your investigation into the Bulgaria situation?
- Should shareholders as a whole be informed that there are problems with the Bandex trials?
- What third-party sources are you looking to for information – such as social media and expert networks? And do you have to be careful about giving or receiving inside information?
- How can Waguloo get back on the front foot and proactively provide information? Might this include the use of social media?
- Considering potential liability and the difficulty of providing information while investigations are taking place, how open and honest should Waguloo be once the news hits the market?
- BBC Newsnight is on the scent and is preparing a story on the connection between Bandex and the Bulgarian deaths – with or without your company's input. The producer requests through you an interview with Sir John. What would you advise?

Discussion

Most of these questions relate to openness – to what extent the family and the company should be 'transparent'. The question of openness in a different context has recently been topical in France: the French government, in the interests of transparency and to counter corruption, has been planning to provide public access to a register of trusts. This would enable anyone to identify beneficial ownership and trustees. The French government has for the time being suspended this plan, following a legal challenge based on the right to privacy. The challengers argue that those who seek access to the register need to show a legitimate interest. Family trusts, offices and companies will tend to secrecy or at least discretion – there needs to be a legitimate interest by the authorities or others if the office is to divulge information.

On the other hand, when things do go wrong and where there is an argument in favour of public

interest (albeit often hard to define exactly what that interest is), there is nowadays a presumption of openness. In former years, the accepted principle was to say only what had to be said, and keep everything else under wraps – whereas today, a response based on 'no comment' excites both derision and outrage. The guidance is therefore to be open about everything of relevance, and to withhold only that which absolutely has to be kept secret.

What does this mean for a crisis management plan? The company's or family office's lawyers will advise that the bare minimum be said. On the other hand, the communications advisers – assuming the office retains the services of a PR company or employs a head of communications – will exhort timely openness on all relevant facts. It is therefore essential that the crisis plan makes provision for the rapid assembly of the leadership team, either remotely or face-to-face, and that the team includes both legal and communications experts around the same table. Working together, they must reach agreement on what can be said and what must not be said, in response to given situations – ideally before the event. Because time is always tight once things start to go wrong, these discussions can therefore only happen effectively if the leadership team frequently meets in the absence of crisis. This has the purpose of discussing the principles and practice of how they should operate and what they should do and say, against a variety of contingencies – the 'what ifs'. Better to do this in the cool light of the day through a workshop-based discussion – rather than when a crisis is raging and the office faces huge pressures, perhaps including demands for interviews by the media or by the authorities.

Ultimately, crisis resolution is the responsibility of the leadership, to whom it may be appropriate to grant media access in certain situations. It is the remit of the communications adviser to prepare leadership accordingly, whether this is the principal or CEO, or – for less serious issues – another senior family member or senior representative.

As far as communication with external entities is concerned, the office should operate under the

following principles, which should be set out and explained in the crisis plan:

- *The health and safety of the public, the family and our employees comes first:* we will offer help immediately and communicate that we are doing so, and show sincere concern for those affected and a desire to help in any way possible.
- *Response must be rapid and appropriate:* we will quickly establish with whom we need to communicate, what should be said and will provide timely updates. We will be judged on how the crisis is handled during the first critical minutes and hours.
- *We will strive for balance between our wider responsibilities and the legal concerns of the company and the family:* remembering that the health and safety of the public, the family and our employees comes first.
- *We will always tell the truth:* we will not speculate in the absence of fact, whatever the pressure of questioning.
- *We will notify key stakeholders:* of the situation and of our actions in response (personally, not through the media).
- *We will conduct the first press briefing as soon as practicably possible:* once proactive engagement with the media has been decided, we will provide media updates on a regular basis.

Dealing with a crisis is a 24/7 matter. The plan must therefore enable the leadership team to assemble out of hours. The leadership team should be content to supply home telephone numbers for this purpose. This covers the possibility of personnel being unobtainable on their mobile telephones or – worst case – the mobile network failing, as it did following the 7/7 London terrorist attack. A ‘Second XI’ or back-up team should also be listed in the plan and be empowered and trained to take decisions should any of their superiors on the leadership team be unavailable. I would further advocate that the office consider having a website – if it does not already do so – on which it can post information in the event of an issue of public interest. This in turn means that the office must be able to get access to update its website out of hours, and that the plan should include the relevant points of contact to enable them to do this. It is a moot point whether family offices should have a policy of using social media actively – or indeed a policy of not doing so, given the usual desire for discretion. Suffice to say that social media as one vehicle of choice should at least be considered, given the benefits that an up-and-running social media community can bring, should the family office need to disseminate news and updates widely and rapidly.

Scenario Problem Part III – the following week – corruption adds insult to injury

The Bandex problems are now out in the open and your stock price has fallen precipitously, though Sir John and key family members are confident that Waguloo’s underlying technology remains very sound. But today you receive an email from your agent in Sofia saying that the director of the hospital in Plovdiv has been suspended from his post due to allegations of corruption as part of a continuing investigation by the chief prosecutor’s office at the Ministry of Justice. Four months earlier, Sir John met this hospital director when the director was visiting Waguloo’s lab in Cambridge as part of a European hospital directors’ tour, all paid for by Waguloo.

Some questions to ask:

- Should Sir John go as planned to address the European Medical Physics and Engineering Conference in Sofia?
- At this point, how do you deal with media/social media, analysts and investors?
- What can be done to begin rebuilding Waguloo’s reputation?
- Does this scenario suggest that your family office or company would be well advised to consider their preparedness to deal with a potential crisis? What kind of planning and practice are needed?

Discussion

There is nothing explicit, from what we can deduce from the scenario at this stage, to link the alleged corruption of the hospital director with the burns deaths, the Bandex trials or the visit to the Cambridge lab. Nonetheless, hostile commentators could have a field day, suggesting family complicity in corruption and worse. Aspersions may well be cast on the ethics of the company and, by extension, of the family. In any response, stick to the facts and don’t threaten litigation – at least not until careful consideration and clarification of the facts. Whether and in what capacity Sir John appears in public should also be subject to careful thought. And, when and if he does, he must be prepared to answer some difficult questions. To regain business and family reputation could be a long haul. Bearing in mind that this family company is a public limited company, the recovery of the stock price will be a litmus test of its commercial and technological reputation, if not its moral one.

The value of a crisis plan is that it enables preparedness as well as the methodology to handle all such situations. It will be written and designed to enable the family and their business to react quickly and positively in a time of crisis. It is, however, a

guide and not a definitive template on how to resolve all potential crises. Above all, it gives time and space for the right people to think about what they need to do next, and to act accordingly – having considered possible scenarios in advance.

Dealing with incidents and crises is thus all about having a prepared mind. By being familiar with potential scenarios, the family's leadership team can both plan and train for them so that they can react appropriately when they happen for real. As crises do not occur in a uniform manner, a prepared mind equips a leadership team with the agility and responsiveness to handle even the most significant problems.

Some family office representatives may argue that they don't run businesses on behalf of the family and are not susceptible to crises in the same way as those that do, as per the scenario in this article. For example, the family business may have been sold some years before, or now be run by another branch of the family. In such cases the current and future generations of the family are likely to rely on investments for their livelihoods rather than directly on business activities. But crises harmful to the family may still arise if incidents and issues connected with those investments are not handled quickly and professionally. For example, investments in corrupt or unethical business – perhaps because of inadequate due diligence or a changing situation – can cause significant financial and reputational damage to the family. And there could be legal implications if the US Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act has been transgressed, or if there has been internal abuse or fraud within the family office in connection with the investment process. Furthermore, investments in property and land imply responsibility for the investor – if not legally then at least morally – to ensure that those assets are properly, safely and sustainably managed. As family offices and businesses expand their interests into what may be for them new sectors or new parts of the world, then the attendant risks could – if they materialise – initiate a crisis. For example, the Modern Slavery Act that came into force in the United Kingdom in April 2016 requires the directors of any business with an interest in the United Kingdom and with revenue above a certain threshold to set out clearly how they ensure that they

do not employ enslaved or extorted labor. Many directors have yet to comply. By extension, it is advisable that family investors in international manufacturing companies take reasonable steps to ensure that supply chains in third countries are not likely to cause embarrassment. The collapse of the Rana Plaza textile factory in Bangladesh, resulting in the deaths of over one thousand workers, was an example of major supply chain embarrassment for those international investors and manufacturers who relied on that factory as a source of cheap garments. In the future there might also be legal implications for those thus involved. Such events require the rapid assembly of the family leadership team in order to consider their position and take steps as necessary. For example, the team might consider whether it is appropriate to divest as quickly as possible – or perhaps to stay invested and thus take some responsibility for seeking to change the way the company concerned does business. The team might decide at the same time to formulate statements in the event of public interest in their position.

While the scenario depicted in this article has largely concentrated on reputational implications, the family should also consider the possibility of crises of a more tangible and personal nature. In this scenario the family office is heavily orientated towards running the business. But in the fullness of time such an office might well expand its staff and its remit in order to take some responsibility for the safety, security and wellbeing of the family itself. This could cover planning for family travel, for running family properties, for investments, for physical and for cyber security, and to cover contingencies in the event of an issue in any of these areas. Good cyber security is a function of sensible procedures while travelling, as well as proper processes and protection back at home and in the office – as noted by Holly Isdale in her excellent article in the September issue of this journal. Travel security is also a function of good procedures in the light of sensible awareness of the risks. And contingency – or crisis – planning needs to take account of those instances where complacency or failure to heed advice, or a combination of apparently random factors, leads to a family traveller going missing – or, worst case, a kidnap, which is hardly a

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unique phenomenon among well-known families. And, while the family is clearly the priority, procedures also need to cover the employees of the family office.

The family office crisis plan should also cover the possibility of regulatory and tax issues (especially where the family has multi-jurisdictional interests) and should not ignore issues caused by divorce, often foreseeable in broad terms. Activities by wayward members of some families have in the past led to blackmail attempts requiring careful handling. Potential complications with succession issues would also be a basis for bringing together the leadership team – in advance – in order to assure themselves and the family that everything is in place for a smooth transition. This could include checking that key man insurance and the requisite powers of attorney in the event of incapacitating injury or illness of a family leader are in place, as well as listing all the stakeholders, both internal and external, who would expect to hear a death announcement direct from the family or its office rather than from the media.

All this is commensurate with Barbara Hauser's prediction in the September issue of this journal that family offices will increasingly attend to contingency and succession planning. Workshops based on relevant scenarios with key leaders and managers present are an excellent vehicle for the necessary discussions and ensuing actions. This process can be well designed to ensure that all possibilities have been considered and covered – and if they really have, then it serves as useful reassurance.

Early recognition and intervention is always the most effective way of preventing a real incident or issue turning into a crisis for the family and its business. All employees have a role to play in the management of a successful outcome. The leadership team must be prepared to act quickly, positively and as responsible corporate citizens in the face of a potential crisis. That the family and its business leaders are seen to be well prepared and to act correctly provides reassurance and confidence to all who work with them and who are dependent on them. Trust in the leadership, as well as education and training, will encourage employees to escalate concerns and potential issues quickly upwards through their management – or in emergencies direct to the leadership team. This trust will enhance a sense of teamwork; in times of crisis all must work together towards a successful resolution. Conversely, without this sense of trust and the dynamic to report concerns quickly upwards, the best plan may fail.

While the family office will be chiefly concerned with protecting the family's wellbeing, interests, assets and reputation in both the short and the long term, it will also wish to show sincerely that it has the interests of its employees, the wider community

and the environment at heart, and to plan for these as well.

In effect, family businesses and offices must be prepared – and be seen to be prepared – to deal effectively with sudden and unexpected events across a wide range of interests both in time and space. The leadership team must be aware of the potential risks facing them, and be prepared to respond quickly to events outside their direct control. Management of crises cannot be left to chance. By increasing awareness of the risks, through training and education and by having a well-understood crisis plan in place, family offices will be better able to deal with a wide range of events in a timely way and to recover and resume service as normal. Ultimately, that is the purpose of a crisis plan.

Conclusion

What your crisis plan should include:

- The plan's purpose.
- Defining potential crises and categories of incidents.
- The process for contacting and getting the leadership team together in and out of hours, and their deputies if any of the top team are unavailable, including their specific responsibilities.
- The escalation process, rapidly up to the leadership team.
- Critical information requirements – what the team needs to know in order to be able to decide and to act – effectively an information checklist.
- Media and communications guidance – this will include media enquiry guidelines, pre-drafted statements and use of social media and websites.
- Key stakeholders, their points of contact and who in their family office owns the relationship with each of them, to ensure rapid contact at the appropriate level.
- Legal factors and the implications and use of legal privilege, to include communicating with lawyers, discoverability, document requests and dealing with authorities.
- Local business continuity, to include (as applicable) safety, personnel preparedness, site evacuation, site lockdown, liaison with the emergency services; alternate office availability, IT, data and telephonic recovery, communications with staff, personal IT security.
- Travel security and contingency actions.
- Cyber security including when on the move.
- Dealing with terrorist incidents, including violence in the workplace (and the home as applicable).
- Response to physical and criminal damage to

family interests (as applicable), including estates, property, private aviation and maritime assets and disruption of family employees' livelihoods, as well as handling protests and disturbances targeting family interests (as applicable).

- Continuous background activity, including situation monitoring, updating, stress-testing, validating and auditing the plan, discussing, training and rehearsing through the mechanism of scenario-based workshops.

Key principles of crisis management – on which to base a plan:

- Having a PREPARED MIND is the most important principle for the leadership team. Consider the 'what ifs' on a frequent basis – devote a few minutes in everyday meetings to doing so. Think through the possibilities. Embed the prepared mind ethos.
- Have a validated plan that is understood and rehearsed. Don't over-complicate or over-template it (there will never be a 'black book' for every situation). And just because you have extant procedures, never get complacent.
- Get the right people together quickly, ensuring that they know their roles before a crisis.
- Be timely, get the facts and ensure the passage of information. But accept that you will have to take some early decisions without knowing everything (that's where judgement is so important and often how leaders earn their spurs).
- Listen to what stakeholders are saying; foster a sense in your employees that they should quickly report potential issues if they have any doubts or concerns.
- Have contextual awareness – put things in perspective to the relative culture and politics.
- Act early and don't be reluctant to say that you have a crisis (it's easier to de-escalate in a timely way than to escalate too late in the day).
- Never say anything definitive unless you are

absolutely sure that you know the truth – take nothing for granted.

- Remember that major crises are nearly always caused by coincidences of several contributing factors, of which your family business or investment may be only one.
- Remember that there may be a public inquiry or hearing, or a civil or criminal court case that will scour in minute detail every word that you say, every email you write and every action you take.
- It is vital to say something at the earliest possible opportunity. The vacuum created by the failure to communicate will quickly be filled with rumour, misrepresentation, gossip and poison.
- When it comes to giving information, there should be a presumption of openness. The question should be: "Is there any good reason why we shouldn't reveal this?" rather than: "Do we really need to tell them this?" A spirit of openness and honesty will always enhance your reputation. Any suspicion that facts are being hidden will do the opposite.
- Your message should show concern, action and reassurance. Concern reflects a family's values and priorities: people; environment; property; business. Good reputation will follow. It is acknowledging or understanding the points of view of protestors; showing sympathy for families; or recognising the hurt or inconvenience a community may have suffered. Action is about what will happen next – an investigation to find out what went wrong; steps the company or family is taking to correct or clean up the damage, to close down a facility, to bring in a back-up until full service can be restored. Reassurance means saying that lessons will be learned and that you have a contingency plan in place to prevent the likelihood of a repeat.

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