

Family Office Continuity in the Time of COVID19

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As the Covid-19 virus spreads rapidly through the United States, most of the U.S. universities, businesses, government agencies, and school systems began a massive push to work from home or attend classes from home in mid-March. Initially some states mandated that only casinos, bars, and other crowd gathering business cease operations. However, the order to close quickly expanded to all non-essential businesses by the end of March in most states. Even restaurant operations are limited to takeout or delivery services only.

Along with the closures, the topic of business continuity – keeping businesses operating and minimizing the damage from the crisis – has become a key issue both in the press and within the business community. Small and medium-sized enterprises (SMEs) appear to face greater challenges in achieving uninterrupted business continuity than big organizations. However, some are developing innovative approaches that might work for others.

Many local SMEs are not prepared to grapple with business continuity at all. It may be that they are ill-prepared for it, or even that they have never thought about it. This may be in part because they have devoted their money and time to other missions and goals, but it may also be because many SMEs serve a limited geographical market and have not courted a wider customer base. This can threaten business continuity if their market no longer exists. For example, since state governments started requiring people to work from home, state and local courts have been closed. The temporary court closure means no income for many small local law firms because the judicial process is not fully Internet-based.

Family businesses everywhere are trying hard to adapt to the loss of business in the time of pandemic. However, the continuity challenge of the family office has generally received less attention in the media and public discourse.

Types of Family Offices

A family office is an administrative mechanism to manage the family assets. Many family business owners ask their family offices to provide concierge services. These services may include travel arrangements, staff hiring, insurance, taxes, security, legal matters, career development and governance meetings such as strategic events and family council meetings.

Family offices fall into two categories. The first one is the Multi-Family Offices (MFOs). They can be viewed as financial institutions offering services to ultra-high-net-worth clients. Family offices in this category usually serve clients from many different families. These institutions often claim to offer top-notch wealth management services and auxiliary services to the families. These operators usually are bigger in size and have a diverse investment portfolio. They are also more capable than small organizations of investing in business continuity readiness before a crisis hits, making them more ready for bad times. Even as the epidemic spread around the world and force many financial institutions to work from home, business continuity seems to be less a challenge to the MFOs.

Another type of family office, the Single Family Offices (SFOs), may operate more like a small business and may be less prepared to keep the business going when a crisis hits. An SFO serves only one family so the services of these family offices can be fully customized to the family's needs. Thanks to the advances in information and communication technology, one SFO manager can manage very large assets singlehandedly. Other family auxiliary services including food, clothing, housing, travel, education, tourism, etc. can also be outsourced to trusted external vendors.

While such a system may work well when business conditions are normal, the SFO's much smaller staff and narrower focus on one family make it less flexible and

more vulnerable in times of trouble. If other contractors providing services are unable to operate because of the epidemic, then the family office operations will be severely curtailed. For example, family offices in some troubled parts of the world must hire bodyguards to protect family members. What happens when social distancing laws keep these trusted bodyguards from doing their jobs? It's the job of the family office to find another way to protect family members' personal safety, and this can be challenging during a crisis like a large-scale epidemic. Only if the family office and family members plan for such major incidents ahead of time can they keep the family office business going without interruption.

Hybrid offices can provide more options

In Latin America and East Asia, where family ties are very strong inside and outside of the business, SFO or hybrid SFO structures are preferred over multi-family offices. As a matter of fact, when dealing with Latin-American multigenerational families-in-business, each SFO is as unique as the business family it serves, reflecting not only the specific family values, interests and cultural patterns, but also their investment strategy and vision. We have found tailor-made hybrid structures (in between MFO and SFOs) that outsource some functions and keep the rest to themselves. For example, a family firm might let a well-known bank or wealth management professional manage the family's savings, but keep some professional and personal services internal, such as managing family relationships, educating the next generation members, operating the family foundation and other services to family members. This hybrid structure not only gives the family-in-business flexibility to increase or increase or scale back on the outsourced services if necessary, but also allows it to operate with minimum internal staff: Just two or three people at most are needed to coordinate the efforts.

While most of these SFOs will continue operating through the crisis with fewer functions, business continuity remains a big challenge. Even though most of them may use this time to digitalize their operations and transform the way they handle family services, we have to consider that a large number of SFOs in Latin America and East Asia are incubated, nurtured and sustained within the main family-business organizational structure. And since the SFO staff are typically on the

payroll of the family business, most of them will experience budget constraints if the businesses are closed or working at a reduced capacity. Consequently, they will have to prove their value added to the family in order to stay employed full time.

How family offices can prepare for the future

Several SFO managers we approached said they will take advantage of this specific period of time to educate family members (for example, through online courses on wealth management) and to evaluate service providers. Additionally, since the family wealth management mission statement and philanthropic strategy must be reassessed due to the current economic crisis, families are using online meeting technologies to gather input from next-generation family leaders about what might change. Next-generation members are also being asked how to use the "entrepreneurial funds" (venture capital) the family might have in order to acquire or help other SMEs. Hopefully, new entrepreneurial ventures will flourish out of this pandemic.

In brief, this global health crisis is giving the families an opportunity—and a mandate—to involve, at an earlier stage, next generation members into the SFO operation, development and future structure. Only by bringing them on board in these difficult times will they understand the challenges wealth management implies, connect deeply to their potential ownership role and value their privileged status. And because the Covid-19 pandemic has given all of us a sense of our own vulnerability, businesses might do well to think about succession plans and get the next generation ready for leadership.