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FFI

Intelligence Matters

Strategies for Family Enterprise Success

Intricate Balancing Act

Successfully Managing Risk in the Contemporary Family Enterprise

A panel discussion with:
FFI Family Business Advisory Committee

Including Leaders of Nine Marquee Family Businesses:

Avedis Zildjian Company, Crane & Co., El Paso Advisors, Gottesman Properties, Grupo Lando, Haws Corporation, King Ranch, Lacaze Consulting Group, and Radiator Specialty Company

Moderated by
Paul Karofsky, *Founder & CEO*
Transition Consulting Group, Ltd

Intelligence Matters is a series published by the Family Firm Institute. It is designed to offer a compelling discussion on a critical topic of timely relevance for the family enterprise.

www.ffi.org

FFI Family Business Advisory Committee Panelists:

Deborah Zildjian

Avedis Zildjian Company

Deborah is vice president of human resources and a 14th generation family shareholder of Avedis Zildjian Company which, according to Dunn & Bradstreet, is the oldest business of record in the United States - founded in 1623. Zildjian is globally recognized as the maker of musical instruments, primarily cymbals.

Lanse Crane

Crane & Co.

Lanse is a 6th generation family member among nine generations in Crane & Co.'s current ownership group. He retired two years ago as chairman and CEO of the business, which was founded in 1801. A global family enterprise, Crane & Co. has been the paper supplier for all U.S. currency since 1879 and is a world leader in high-security currency products, fine cotton stationery, and high performance materials for filtration and insulation applications. He now works as a consultant, board member, and advisor.

Daniel Echavarria

El Paso Advisors

A native of Colombia, Daniel has been living in the U.S. for nearly 20 years and is the chairman of the board of Fundación Corona, a family philanthropic foundation focused on health education, entrepreneurial and local community development in Colombia. He is presently going through the selection and nomination process to join the board of directors of their holding company and manages a small family office for one of the branches of the family.

Jerry Gottesman

Gottesman Properties, LLC

Jerry is a 1st generation family member and founder of a large real estate development company with holdings throughout New Jersey and New York, including nearly 40 parking facilities located mostly in New York City. Twenty-five years ago Jerry established Manhattan Mini Storage, the first company in the city to provide mini storage facilities. Today that business is owned by his four daughters with three 2nd generation family members involved in its management.

Susana Gallardo

Grupo Lando

Susana is a 3rd generation family member of Grupo Lando, Spain's largest pharmaceutical company, based in Barcelona. Three years ago they executed a successful IPO of 40% of the company. Susana sits on the family board as well as the board of their family office, Lando. She also serves as the director of various other companies and foundations in Spain.

Tom White

Haws Corporation

Tom is executive vice president and a 4th generation family member of Reno, Nevada-based Haws Corporation, which was founded in 1906. Haws Corp. is a pioneering American family business having invented the drinking fountain, emergency drench showers, and eye washes.

Sally Kleberg

King Ranch

A native Texan who is now based in New York, Sally grew up on her family's ranch, which is also their family business. She is a 5th generation owner among seven generations in ownership of the ranching business that has been under continuous 100% family ownership since 1853.

Scott Thomas

Lacaze Consulting Group

Scott is a 1st generation owner of a family business he initially launched as a construction company 32 years ago that grew to become a successful firm serving leading retailers by designing and building their concept store environments. Since the company recently closed due to market conditions, his new consulting firm is leveraging the leadership position and expertise he garnered with his construction company.

John Huber

Radiator Specialty Company

John is the first non-family member president and CEO of Radiator Specialty Company (RSC), a second generation family-owned business that was founded more than 85 years ago. RSC is a diversified manufacturer with a full line of more than 400 specialty automotive, heavy duty, plumbing, hardware, industrial, and export products under many highly-regarded brand names such as Gunk® and Liquid Wrench®.

Moderated by:

Paul Karofsky

Transition Consulting Group, Ltd

Paul is founder and CEO of Transition Consulting Group, Ltd, a firm he established in 1991 and that now operates in partnership with his son David, who serves as president. A co-founder and executive director emeritus of Northeastern University's Center for Family Business, Paul is a member of the FFI Board of Directors, holds FFI's Certificate in Family Business Advising with Fellow Status, and is a faculty member of the certificate program. He is a recipient of FFI's Barbara Hollander Award for distinguished service to the field.

"One of the main risks is the family… It's the kind of risk that has to be managed from the beginning, from generation to generation, and within a generation. You deal with individuals who have different expectations towards the business… Depending on which circle you are within the family, you can be a real risk to the business."

Susana Gallardo

Executive Summary

As the economic recovery begins to take shape, uncertainty and volatility continue to permeate the business landscape. While family businesses remain a key driver of global economic growth, they nevertheless must seek effective methods for accessing and managing risk. The contemporary family enterprise is challenged to employ the best strategies for sustaining competitive viability while world economies wrestle with the fallout of contraction and re-orientate for recovery amidst the ongoing impact of globalization.

With one out of three family businesses surviving into the second generation, the challenge is made more complex by the transformation from the old models of past generations to today's diversified enterprise-based platforms. Families are exploring new forms of governance and revising their management structures. Many are evolving from traditional approaches that favored consolidated, hierarchical authority to ones that distribute responsibility across multiple business interests to better understand and anticipate the nature and function of risk.

Once owning a business meant running the business; today, many business families preside over an array of holdings that may include multiple businesses or subsidiaries, real estate and other hard assets, investment trusts, a philanthropic foundation, and a family office. One thing is clear: Issues related to risk permeate the full complement of business family endeavors, whether it involves the complexities of governance, investing in philanthropy and devising strategies to protect wealth, or engineering a sale, acquisition or divestiture, implementing a succession plan, or re-branding products and services to counteract competitor encroachment.

Last September, while leading practitioners, advisors, educators, and researchers in the global family business and family wealth fields gathered in New York City for FFI's annual International Conference, FFI's Family Business Advisory Committee convened a panel to offer a timely examination of risk from their perspective as leaders of marquee family businesses.

PK: Risk management is often thought of in financial terms, but family enterprises face other kinds of risks. From your perspective, what might those be?

Sally Kleberg: Being a commodities business we have nature to contend with. Some of the strategies we've used to manage that risk are to diversify the locale in which we operate. In 1980, we took a huge step and divested ourselves of all of our foreign properties and repatriated that capital back to the United States. That left us with one property in Brazil which we finally released in 2000, having been there since 1952. Because of the political situation, it was very difficult to repatriate the funds. We could sell it to a Brazilian but we couldn't get the money out of the country. It took us many years of negotiation and lots of different administrations in Brazil. When we repatriated, we diversified in the U.S. because we were 100% in Texas at the time, with the exception of one property in Florida. Our cattle operation was worldwide, having developed the first cattle breed in the U.S. 65 years ago. It was developed to live in the climates of south Texas - disease and drought resistant. Our Florida operation was predominantly sod and sugar cane. Following repatriation of the funds, we ramped up in Florida and diversified in Texas, because drought conditions are endemic in Texas and you have hurricane risks in Florida. When the hurricanes come to Florida, you hope that Texas is healthy.

"The biggest asset is the family but it's also the biggest liability if it's not properly managed. The element that can contribute the most is the breakdown of family communication, engendering the risks of litigation, family conflict, and so on."

Daniel Echavarria

And when a drought or hurricane comes to Texas, you hope for Florida. No matter where you are, the commodities business is all about risk management.

Susana Gallardo: One of the main risks is the family; it's a great asset and a great risk. It's the kind of risk that has to be managed from the beginning, from generation to generation, and within a generation. You deal with individuals who have different expectations towards the business: Who might want to work there, who might just want to "cut the cake" as much as they can. Depending on which circle you are within the family, you can be a real risk to the business.

PK: Are you saying that the greatest challenge for you, risk-wise, is managing the expectations of family members?

Susana Gallardo: Yes, it's one of them but also to all be on the same boat.

Daniel Echavarria: That is the biggest risk for family businesses, which shows itself in the statistics. The biggest asset is the family but it's also the biggest liability if it's not properly managed. The element that can contribute the most is the breakdown of family communication, engendering the risks of litigation, family conflict, and so on.

Tom White: Our family ownership is really split at the second generation, so they're cousins (they don't have 50/50 shares of the business). For us it has been trust-related issues, almost exponentially over what I would consider regular family business. The two sides of the family have not historically done much together socially. In my 4th generation we still don't do much together except for our family council meetings twice a year. That's when we bring the families together. A lot of my time in the office is actually spent maintaining the trust that's been established between the two of us... a big risk is losing trust.

John Huber: In any business, not just a family business, losing quality or talented people is an issue. The people side of it is very important. But it is complicated within the family because not only do you have that issue of maybe losing talented people but you need to continue the business. You also have issues with relationships. As an outsider in the family, I don't have as big a problem as you're talking about within the family. However, any business has a high risk of losing talented professionals if you don't continually innovate and grow.

PK: Are there other experiences of risk beyond the family, geography, or weather?

Lanse Crane: To some extent the family issues are not just business or financial but emotional and relationships. There is emotional risk that goes with family ownership and family enterprise. It can drive people away—talented family members who don't want to go to work for the business because it's far more complicated being a member of the family and the member of a business. But we should also think of risk in a positive way, too. Certainly there is negative risk but nothing ventured, nothing gained. Reasonable risk taking is essential to growth and development, and to avoiding inertia. Risk is a fact; the question is how do you manage it, and integrate it into your decisions and actions.

Scott Thomas: Following that thread… being the first generation, my wife is a college professor and it would have been great to have her in the business but she never had much interest, outside of listening to me. For example, we had a hedge exit strategy involving a more diversified income portfolio, with a construction company which separated it out at the first level.

It would have been great having my wife in the firm everyday helping me because I had to rely on outside managers for that support. When you can build good relationships with siblings or your cousins, you get a deep personal commitment that can be harder to achieve with professional managers. It's about both sides of that risk reward.

"In any business, not just a family business, losing quality or talented people is an issue… But it is complicated within the family because not only do you have that issue of maybe losing talented people but you need to continue the business… any business has a high risk of losing talented professionals if you don't continually innovate and grow."

John Huber

MAKING SENSE OF THE FINANCIAL RISKS IS MORE THAN MANAGING DOLLAR TO DOLLAR

PK: As part of its plan to mitigate the effects of the financial sector crisis, the government gave banks lots of money and they have been sitting on it, scared stiff to lend to anyone. How has this affected you and your company? How have you approached, avoided, or embraced financial risk?

Jerry Gottesman: I look at the financial risk issue slightly differently than you've presented it, Paul. Our company is owned equally by my four daughters and all the properties are in trust, so the four daughters are essentially controlling it. Without them there is no company, they own everything. As my career ends, and a little bit because of the financial stress, I see different fears among the four of them. I'm not sure they truly understand the profit and loss issues of our business. We have total disclosure about everything that relates to our businesses, but truly understanding the risks and precedents I'm not sure is clear to them. The financial crisis hasn't really bothered us because we don't need money on a day-to-day basis, we need it for new acquisitions and we've been reluctant to pay the interest rates to borrow. Our issue is for the four people who control our company to understand what it's all about. If there is a proposal to make a capital investment in an existing property, or more importantly in a new property, my wife and I need to educate our daughters beyond the numbers as to what the essence of our business is. If we don't do that successfully, we might freeze rather than progress.

PK: Jerry, you raise a great point. So many members of the younger generation may know how to read a balance sheet and monthly statement but fail to understand the significance of the numbers, their consequences, and how they play out.

Daniel Echavarria: In our case, the company is professionally managed; the family is prohibited from working in the business and their participation is limited to the board. The family is a bit distant from what management is doing with the banks in refinancing some of its debt and reducing overall debt levels. One of the bigger risks that we've had to manage has been the family itself and the perceived risk of the shareholders. Fortunately the company is 120 years old and solid, and it's perceived by its creditors in Colombia as of good credit quality. But for the family, that wasn't the case and many people were reading the newspaper headlines thinking that the world was going to end. That panic really rubbed the family the wrong way.

So part of managing the family has been done by the family council, increasing the transparency of the quarterly business reports. When things aren't going well and people want to understand the debt structure – what's maturing, how the business is doing, where we're generating growth, what's the profitability of different business units - I go back to the issue of communication. When there is a breakdown of communication, it's not healthy for the business, the family, or stakeholders.

"There is emotional risk that goes with family ownership and family enterprise. It can drive people away—talented family members who don't want to go to work for the business because it's far more complicated being a member of the family and the member of a business… Reasonable risk taking is essential to growth and development, and to avoiding inertia."

Lanse Crane

We've improved the quality of information and transparency; we've also realigned the family council, the corporate board, and the business to capitalize on this crisis.

Sally Kleberg: Like most farmers and ranchers, we have been extraordinarily conservative when it comes to debt. When we take on any debt, we hear about it from shareholders because even though we own our land we are the largest, single tax payer in the eight Texas counties in which we operate.

Over time, it's probably created an issue as far as growth is concerned. When we made the big purchase of the Coca Cola groves in Florida, it took us two years to convince shareholders that we needed to assume such a huge debt, even though we had a guaranteed contract with Coca Cola to assuage their fears. They would take all of the orange juice from those groves for the next 7 years; which basically paid our debt. Our operating capital has gone into Treasuries and when we did try to diversify, we did so at the wrong time losing a lot of our investment income. But it was gravy and very conservatively managed. We have good banking relationships with a very conservative bank because they were hit with the devaluation of the Mexican peso and the S&L crisis. While we've been fortunate we have missed a large number of growth opportunities as a result. But the family seems okay with the decisions because they were raised with a fear of losing the ranch. The family is very knowledgeable of their own history and that of the company and region.

Jerry Gottesman: How do you make sure that they know?

Sally Kleberg: You learn on your dad's or your mother's knee. We have an annual shareholders meeting that lasts 10 days. People in the company or members of the family are interviewed by the kids about what it was like growing up on the ranch. They are steeped in the businesses. We take them out to the gas plant, they wrestle calves on the ground, and we show them the farm machinery. Two times a year we have the 6th generation meet at one of the operations—whether it be the pecans in New Mexico or the oranges in Florida—to learn more about it. A two-volume history of the ranch was written back in the mid 50s that should be a requirement of every 18 year-old who comes to their first shareholder meeting. It tells about the Depression and the story behind Captain King bailing out his neighbor by buying his land on the courthouse step, then turning around and renting it to him for $1 a year so he could keep the land.

ENDURING VOLATILE SITUATIONS: COMPARING FAMILY TO NON-FAMILY ENTERPRISES

PK: How do family enterprises compare to non-family businesses in their ability to withstand volatile situations?

Susana Gallardo: One of the great assets of family businesses is that we have the long-term view. While we all like to earn money every month, we have the capability and the experience from generations that have been through many crises. We have learned patience.

Tom White: I agree; the only caveat I would add is the family environment. Some family members who do not work in the business are afraid of what's going on, and others are looking at this as a buying opportunity and saying, "Can't you come along and just understand?" Whereas a non-family enterprise might look at things completely objectively as to where things are, the opportunities, and just execute. They have the bank and the credit to help them do that.

That's one potential negative of the family in a volatile situation. You have family members with different motivations; some are driven to promote the success of the business while others are motivated by what's in it for them.

Daniel Echavarria: Obviously many family firms have advantages primarily because of a longer investment horizon and stronger staying power. In moments of crisis perhaps one of the disadvantages is the financial dependence the family may have on the firm, whether it is dividends or oversized salaries. They may be reluctant to make difficult decisions.

Lanse Crane: We need to sharpen the difference between family and non-family by considering the family businesses that have a publicly traded component. There are situations where there are liquidity opportunities. Part of what this issue speaks to is whether you are stuck or not stuck. If you're stuck, then some of the down side that Tom is referring to is more apparent. And while you might like to be patient, you're feeling a little more threatened because you don't have the ability to walk away. Those family members who are committed to the long term, understand the business, and are willing to take the opportunities during a crisis are different from those who disagree. And those who disagree can't leave. That's the real tension and when the family business gets to be a challenge.

The other factor relates to not having enough outside experts, analysts, or sources of data to educate shareholders and provide comfort in hard times. It's about the internal sense of crisis. If you can leverage third-party expertise to address the strategies, soundness, and durability of the company in hard times, it can be comforting for the family.

John Huber: I see it in ways similar to what are being described here. As someone running the company, I'm always interested in growth; I'm always looking for creative ideas of how we can do things. This time the family is more concerned about what they have at risk. And they have everything at risk unless their portfolio is diversified to where they can rely on other areas. But in this recent crisis I don't know of too many businesses that are safe. So it has hurt our ability to grow because we've had opportunities for acquisitions but there has been reluctance by the family to make that investment. What we've done is taken some cash that we generate from the business and invested in brand development rather than acquisitions; growing organically.

Daniel Echavarria: One clear advantage of a family business is when the employment policies are correctly defined for outsiders and for family members they can be better places to work. The family values and legacy bring a larger purpose to those involved. Typically you'll see a deeper care for talent development for all employees, whether they're family or not. That is a huge plus for family businesses in recruiting and retaining talent.

Debbie Zildjian: We're very fortunate in our family as we only have five shareholders. In the next generation, there are three daughters ranging in age from 22 to 29; going through this kind of financial crisis is all very new to them. Four or five years ago we introduced a dividend policy and it was the first time they started seeing a steady stream of income. When everything fell off the cliff last year, we immediately communicated to them that the dividend is one thing that will probably go—or at least be diminished. And then we explained financial things, like the bank covenants, and why we can't distribute certain amounts. We were fortunate that we didn't have many layoffs.

"Our company is owned equally by my four daughters… We have total disclosure about everything that relates to our businesses but truly understanding the risks and precedents I'm not sure is clear to them. Our issue is for the four people who control our company to understand what it's all about… If we don't do that successfully, we might freeze rather than progress."

Jerry Gottesman

Then we decided to help the generation understand how dependent we are on relationships with our customers and our artists, and how they were so significant in building our business. Even though we were in this financial crisis, we made a decision to go out and do these special sales events with our dealers to show that we supported them.

"When things aren't going well and people want to understand the debt structure – what's maturing, how the business is doing, where we're generating growth, what's the profitability of different business units - I go back to the issue of communication. When there is a breakdown of communication, it's not healthy for the business, the family, or stakeholders."

Daniel Echavarria

PK: What I've observed with families that I'm close to in this current economic situation is that there is always great judgment passed by non-family employees on the family: their compensation, the car they drive, the home they live in, the number of vacations they take, the outside boards they're involved in. That scrutiny sends a message to family members to look at themselves very closely and behave responsibly.

Scott Thomas: That holds true in any company. As the leader of a firm, you can make anything happen about three times simply because you're the boss. Then people have got to really want to do it with you. If you're acting irresponsibly, whether you're in a family business or other kind of business, you're going to have a hard time with the troops. Certainly there is scrutiny of what family members take out but irresponsible behavior reads as irresponsibility, regardless.

PK: I'd argue that it's different in the family business when the owner pulls up in a new company Mercedes after executing layoffs. It's speaks visibly to the family's values.

Scott Thomas: Very true, that's irresponsible. When our company began to get in trouble, I immediately took a salary cut that was significantly larger than what I asked anyone else to do. That was responsible behavior.

TRADITION AND INNOVATION IN FAMILY ENTERPRISE IMPACTS RISK

PK: The family enterprise can be characterized as comprising a complex mix of tradition and innovation. What does that mean to you and your organization's context? How does this combination shape the nature of risk in family enterprise as compared to other business organizations? What's in the history, the culture, and the values that are related to risk?

Sally Kleberg: It's partly about the younger generation understanding the basis of why management makes the decisions they do. The closer family members are to the company, the more they understand; the more they understand the history, the less likely they are to question management. They need to spend time studying where the family ethic comes from. Even though we do our best to educate them, if they didn't grow up working on the ranch getting their hands dirty, and they just come down from Wyoming for the shareholders meeting, they may have an entirely different opinion of what the company should be doing.

PK: Lanse, your family business has a rich tradition of innovation. How does it compare to what Sally just described?

Lanse Crane: Listening to Sally, it was all resonating with me. We're spread out with 7 family clans and 100 shareholders! Those shareholders of course have all the connections that go with it, with their wives, husbands, and children. There are fewer family members working for the company today than there was 25 years ago. Our advantage is that the need to innovate is built into the success stories that we tell of the company. We all are associated with companies where maybe the things that matter

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> ***Sally Kleberg***

most are the stories you tell about the history or what's going on now. It's a big part of the cultural understanding of the business. The stories that are told around our company and our family are of the innovation risks that were taken, not the stories about what didn't work. When you're the leader of a company with significant longevity, one of the questions you're always asked is, "How did it last that long?" The first thing you say is, "Well, I didn't do it, there were other people". The risk to innovate is a big part of that.

One famous story is when we first got the government currency paper contract back in 1879. My great-grandfather, who was then 24, persuaded his seniors to let him compete for it. He won it by a quarter of a penny in bidding but he didn't know how to make the paper! You couldn't do that today but he was determined to get the contract first and then figure out how to do it.

PK: Jerry, you've been innovative in your business… moving from different types of real estate. Now that your daughters own the business, and are shareholders and beneficiaries of the trust, how do you get them to understand the company history and ensure their future buy-in? Rather than becoming passive owners and shareholders, will they be entrepreneurial as you have been?

Jerry Gottesman: That's a very good question. In our business, if you don't over-leverage there's relatively little risk. When you purchase a property and pay cash for it, there's really nothing to fear. But there is the time it takes from coming on line to producing income. I definitely notice a concern about risk on the part of my daughters. There are four families; two of the families are involved in the business through husbands. The wife of one of those husbands also works in the company. But the two that are not involved definitely have questions about risk. I think the questions come from lack of detailed understanding of our business. If you buy a property and put a parking lot on it, and you price it right, people will park. But there are issues as to whether it's smart to buy certain land in the first place. The educational process is more than just fully disclosing information; they need to understand the nuances and the details. That is an issue I'm wrestling with. In our family there is no crisis by any means but it is an ongoing concern.

Susana Gallardo: In our pharmaceutical business, you have to really bet on innovation and research. In the 1960s, when it was very easy in Spain, we didn't have many pharmaceutical products. The easy path would have been to license products from other international companies and sell them in Spain. Some companies larger and older than ours did that. My grandfather bet on research and invested when he didn't know what was going to come out of it. It turned out to be the right thing to do. In our family we've learned that you have to take risks but on innovation for entrepreneurship, which can be a difficult path. We have become leaders by investing in research and continue to do so. It's very much in our blood. We were the first family to have our own family office in Spain and the first family-owned pharmaceutical company to go public.

Scott Thomas: You have to build a culture of innovation that encourages risk taking. You have to start there as it is a constant education process. The war stories that you tell are about innovation and challenges, and overcoming it all, which helps create a cultural mindset within the company for future success.

Sally Kleberg: An issue we are facing is with the drought in south Texas that's now three years long. We lease out half the ranch to outside hunters. It's not a large source of income but it is partly out of our good will. We have corporate and individual hunting clients but have had to cancel our quail season. Because of the size of our land, it's basically a preserve of native game. Word of the cancellation got out to some of our lessees through one member of the family who mistakenly sent out an internal memo saying that there will be no quail hunting on King Ranch this year, and to "get over it." We have to preserve the quail stock as we're down 62%. Yet some family member who didn't understand how important this was to the business sent it to a lessee. Well, the repercussions were huge. While the hunting season is set by the state, we set our own rules for the management of our land and what's required to steward it properly. We're changing the policy now and keep the family educated because you damage the brand and your income stream when you do things like that.

"… a non-family enterprise might look at things completely objectively as to where things are, the opportunities, and just execute. That's one potential negative of the family in a volatile situation. You have family members with different motivations; some are driven to promote the success of the business while others are motivated by what's in it for them."

Tom White

THE STRATEGIC DILEMMA IN RISK: MITIGATION OR MANAGEMENT?

PK: In your family organization, how do you perceive and act on risk mitigation vs. risk management? Is there a difference?

Tom White: My first thought is that mitigation is dealing with the family and personality issues to head those off at the pass. Risk management is something you delegate; insurance, for example. Mitigation is sitting down with my second and third cousins at the family council and bringing them up to speed on issues in the business.

Scott Thomas: Risk management is a global process and mitigation winds up being one of the recommended management tools. That goes along with my thinking that to mitigate you can buy insurance, but can you transfer the risk? How do you deal with pieces of risk in a fairly concrete, tangible way? Coming from a contracting background, my whole job was risk management. You've got good insurance and you're trying to move risk around with your contracts while you're also trying to educate your people to be very safe. We built a culture where if you stepped onto the wrong side of risk, we talk about it—today. The difference between an issue and a problem is about three days.

Daniel Echavarria: We have our risk management processes that identify and map all of the risks; it's something we do every year with our risk focus methodology. Last year we identified 703 risks, an average of 78 per company. There are other risks that are uncontrollable, such as in Colombia we have a particular set of risks associated with our neighboring government. Colombian companies are currently looking for new markets in Brazil and Peru, and countries with which we have friendlier relationships. Risk management is the mapping of all those risks; mitigation is deciding which risks to take action against and the nature of those actions, whether it be insurance, diversification, or creating new growth platforms.

John Huber: That's a good point. You're really managing to mitigate. But at the same time, I think you could find opportunities within that mitigation that could be opportunities for growth. We've seen that when it comes to chemicals in the environment and the green consciousness that is emerging today. When you have petroleum-based chemicals that you're producing, that's a risk. To mitigate, you need to reformulate and in that process, you create a new business.

Scott Thomas: If you see an industry risk and you figure out a really good mitigation strategy, you can change your cost profile. Our work in the retail sector required us to frequently work on store sites at night, which is very risky. There are 100 different ways that bad things can happen.

"… Considering the family businesses that have a publicly traded component… There are situations where there are liquidity opportunities. Those family members who are committed to the long term, understand the business, and are willing to take the opportunities during a crisis are different from those who disagree. And those who disagree can't leave. That's the real tension and when the family business gets to be a challenge."

Lanse Crane

We became very smart at controlling those risks and suddenly we had built a whole business essentially around effectively managing those risks.

Sally Kleberg: With our base risk being nature, and it's very often unforeseen from one season to the next, we took the adversities that nature presents to us and became innovative within that. For example, we're constantly innovating in new grasses that will grow during drought conditions or be disease resistant. Once you stop innovating, you're dead. Family companies are more willing to innovate because they're long-term investors; they want the company to prevail for generations to come. The public company gets nervous about today's shareholder selling out. We don't really have that risk in front of us.

Debbie Zildjian: We're an acoustic company and have been for literally hundreds of years. It's what we are known as, it's our brand. Yet the biggest external risk to our business is the emergence of electronic music. It's huge.

Lanse Crane: One example I offer to reinforce all that has been said here is that of the Bacardi family. Their history is all about how you deal with risks that are very difficult to manage. Diversification, protection of trademarks by transferring the rights overseas, establishing a business presence in other locations, etc., all were part of their risk mitigation strategy - which operated simultaneously as a growth strategy. There is no Bacardi in Cuba anymore. But Bacardi is a powerful brand and still a very successful family business.

PK: Clearly our panelists have provided valuable insights into the complexities of managing risk in the family enterprise – they have also made it clear that while complicated, managing risk is not new to family companies but part of the fabric of these dynamic enterprises.

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