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Challenging some stylized facts by bringing the family owners back into family business research: From family firms CSR to family driven innovation.

Cristina Cruz, PhD. Professor, IE Business School  
Director, IE Center for Families in Business



# Motivation

- We know a lot about how (family) *managers* shape family firm strategy; however, much less is known about how (family) *owners* shape family firm strategy.

**This is unfortunate because ownership implies control over the firm and its resources and gives owners the right to decide how value is created.**



## How to diversify

**Wanda Ferragamo**, when asked by a journalist why she bought a **chain of hotels** in the 1990s -

“

Why did I buy the hotels?  
Well, that's very easy - I  
need to give work to my  
grandchildren!

*Salvatore Ferragamo*

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# How to manage your people

*God is our HR director.  
People just leave when they  
die!*

**-- Punch Sulzberger**

**The New York Times**



# Where to place your headquarters

*“This is one of the key factors that my great-uncles, understood. The family needs to devote a lot of its time to the company. We cannot be shareholders living in some exotic place. We need to be in Gardone val Trompia.”*

Franco Gussalli Beretta



BERETTA

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“ The owner family looks after the company very carefully - as if it were their own child. That makes family ownership something special.

When you have the values that the Kirk Kristiansen family has shown, it means that you encourage care for customers, employees and business partners.

It also means that while making money in business is important, family values are more important. ”

-- **JØRGEN VIG KNUDSTORP, CEO LEGO**





**WHAT IS THE  
ROLE OF AN  
OWNER**

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OWNERS DELEGATE  
RESPONSIBILITY BUT  
HOLD  
ACCOUNTABILITY





What type of owners do you have?

	Operating owner	Governing owner	Active owner	Passive Owner
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WHAT?

They have managerial & governance responsibilities

The participate in governance but are not involved in the day to day

They are not involved in the company but are highly engaged. They have a strong sense of belonging and are committed with the family legacy

They are not emotionally attached to the business, low pride of belonging, not engaged

STRATEGY

EXECUTE

DEVELOP

UNDERSTAND

ACCEPT

FAMILY GOVERNANCE, SUCCESSION , RULES

CONTRIBUTE

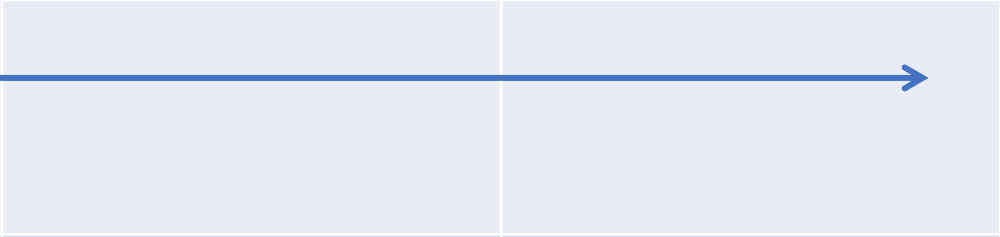
CONTRIBUTE /LEAD

CONTRIBUTE /LEAD

UNDERSTAND

COMMITMENT

HIGH



LOW

# MINDSET: The meaning of “responsible ownership” in family firms



## **ACCOUNTABILITY**

Responds for any circumstance whatever might happen with and within the company



## **STEWARDSHIP**

Build a shared common (family) values and goals (financial and socioemotional) and prioritizing them over individual interests

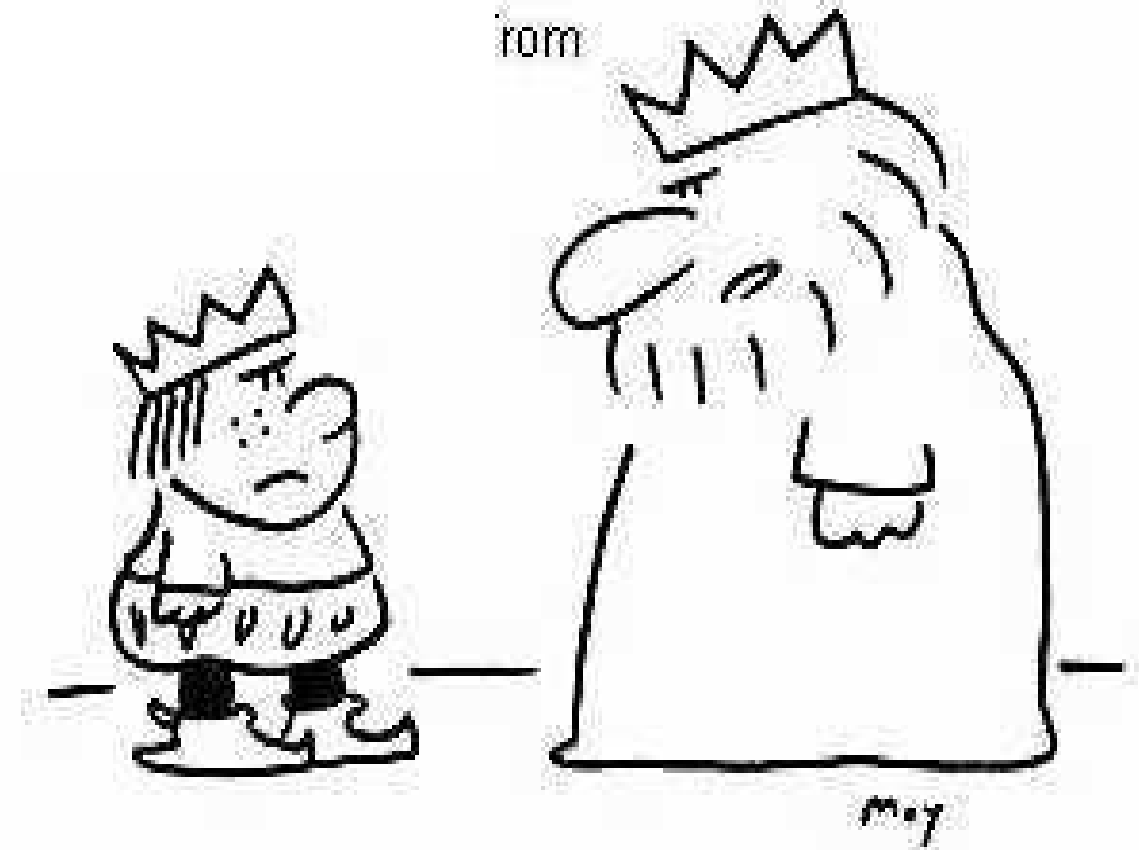


## **PROSPERITY**

Work actively to preserve and increase the family wealth

# TO JOIN OR NOT TO JOIN?

Working for  
a FB vs  
Belonging  
to a FiBs



"Don't be silly — of course you're going into the family business!"

# A quest for understanding the “strategic role of family owners”

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## RESEARCH ARTICLE



## Ownership competence

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### Abstract

**Research Summary:** Ownership is fundamental to firm strategy, organization, and governance. Standard ownership concepts—mainly derived from agency and incomplete contracting theories—focus on its incentive effects. However, these concepts and theories neglect ownership's role as an instrument to match judgment about resource use and governance with the firm's evolving environment under uncertainty. We develop the concept of ownership competence—the skill with which ownership is used as an instrument to create value—and decompose it into matching competence (*what* to own), governance competence (*how* to own), and timing competence (*when* to own). We describe how property rights of use, appropriation, and transfer relate to the three ownership competences and show how our theory offers a fresh perspective into the role of ownership for value generation.

**Managerial Summary:** Business owners own with different levels of competence, and differences in ownership competence matter for value creation. We argue that ownership competence consists of competence about *what* to own (matching competence), competence about *how* to own (governance competence), and competence about *when* to own (timing competence). We clarify the role played by each of the three



## OWNERS AS STRATEGISTS: OWNERSHIP IN A DIGITAL WORLD

21 - 22 JUNE 2022

ONLINE CONFERENCE

## Owners as Strategists Conference 2022

Our international conference aims to strengthen the dialogue and stimulate new thinking about the strategic role of ownership. The conference brings together leading international academics with firm owners and entrepreneurs to discuss important questions about the contributions of firm owners to value creation, innovation, firm strategy and governance.

The two-day conference offers a Practice-and-Academic Day to build bridges and foster exchange between research and practice (June 22) as well as a Research Day that discusses the latest academic research projects of selected academics (June 21).

2023

## FERC Workshop - Bringing ownership back into family firms

# RENT GENERATION PROCESS BY OWNERSHIP TYPE

Cristina Cruz  
Juan Santaló



# Motivation

- Ownership matters not only about how to deploy resources but how to generate them
- Strategic role of ownership: Family owners chose the rent generation strategy that better fits with their preferences :
  - Family firms rely more on innovation intensive strategies than in physical capital
  - Family firms seem to enjoy higher returns to innovation

**Family owners show a higher willingness and a better ability to invest in innovation intensive strategies**

# Hypothesis building

Family owners have a strong concern for firm survival (Chrisman & Patel, 2012; Anderson, Duru & Reeb, 2012) and are more reluctant to lose control (Gómez Mejía et alia, 2007, 2010; 2018)

## ***INNOVATION AS A SURVIVAL STRATEGY***

*“The family business is somehow limited in its growth options as it does not want to lose control. So we have to invest in innovation to compete successfully with other firms that are merging or opening up their capital to external investors”*

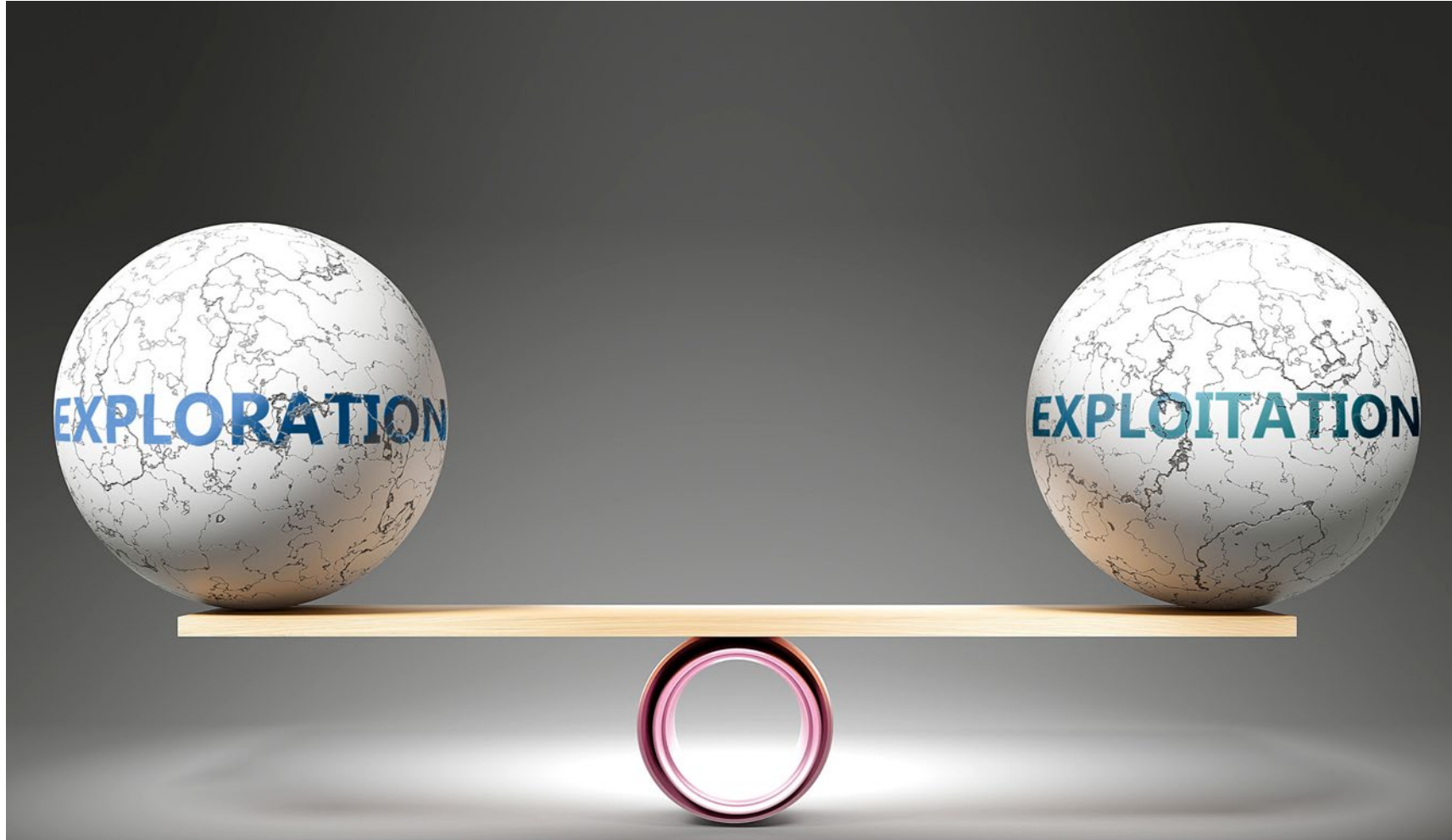
*(Interview with Gabriel Pascual, Director of Innovation of Calidad Pascual )*

*“Our investment horizon is much longer because for us the important thing is to keep the family legacy alive. This long term thinking favor innovation strategies as it makes owners patient about when to ask for innovation returns”.*

*(Interview with Rafael Gonzalez, CEO of Flex)*

# BASIC TRADE-OFF

*Schumpeterian  
rents*



*Ricardian  
Rents*

Longer term  
Pay-off

Higher risk of losing  
control  
(more capital intensive)



	Ratio stock R&D over stock of physical capital  (1)	Number of Patents registered (logs)  (2)	Number of product innovations (logs)  (3)	Ratio Num. Patents over R&D ex.  (4)	Ratio Num. innovations over R&D ex. (logs)  (5)
Family firm dummy	0.0382* (0.0220)	0.0690*** (0.0239)	0.0870*** (0.0302)	0.1415*** (0.428)	0.2005** (0.0804)
Log of sales	0.0351*** (0.0062)	0.0455*** (0.0071)	0.0939*** (0.0088)	-0.0153 (0.0123)	-0.1476*** (0.0262)
Log of age	0.0197 (0.0139)	0.0205 (0.0143)	-0.0078 (0.0212)	0.0177 (0.0312)	-0.0505 (0.0550)
Constant	-0.5482*** (0.1125)	-0.6826*** (0.1371)	-1.2768*** (0.1669)	0.5141*** (0.3274)	3.5019*** (0.6661)
Year fixed effects	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES
Number of observations	9657	12,618	12,510	5,309	5,226

## TESTING THE MECHANISM: STOCK OF R&D INCREASES SURVIVAL LIKELIHOOD

	Probability of firms active in 2006 surviving in 2016	Probability of firms active in 2007 surviving in 2016	Probability of firms active in 2008 surviving in 2016	Probability of firms active in 2009 surviving in 2016	Probability of firms active in 2010 surviving in 2016	Probability of firms active in 2011 surviving in 2016
Stock RD <sub>t-1</sub>	.0202* (.0125)	.0197* (.0123)	.0182 (.0121)	.0246** (.0122)	.0331*** (.0127)	.0417*** (.0139)
Physical capita <sub>t-1</sub>	.1921*** (.0673)	.2565*** (.0659)	.1754*** (.0636)	.0737 (.0679)	.0779 (.0719)	.0717 (.0745)
Q1 in size	.3735* (.2004)	.5262*** (.1942)	.1949 (.1898)	-.0813 (.2002)	-.0098 (.2084)	.0318 (.2155)
Q2 in size	.3575** (.1510)	.4695** (.1493)	.5147*** (.1486)	.3992*** (.1471)	.2827* (.1473)	.2529 (.1574)
Q3 in size	-.1034 (.1343)	-.1927 (.1337)	-.1637 (.1268)	.0347 (.1274)	-.0043 (.1268)	.0315 (.1374)
Foreign	-.2368 (.1931)	-.2922 (.1960)	-.0578 (.1929)	-.0458 (.1950)	-.0513 (.2059)	-.1212 (.2227)
Profits	4.117 (2.757)	2.781 (2.707)	2.722 (3.585)	4.099 (4.126)	1.84 (5.493)	5.232 (4.147)
Age	.3396*** (.1087)	.3180*** (.1135)	.2606** (.1180)	.2323** (.1165)	.2195* (.1231)	.2874** (.1401)
Probability of survival	40.21%	43.90%	48.33%	54.37%	60.02%	65.37%
Observations	920	911	900	881	868	797
-2LogLikelihood	1239.945***	1249.356***	1246.665***	1214.587***	1168.186***	1028.330***

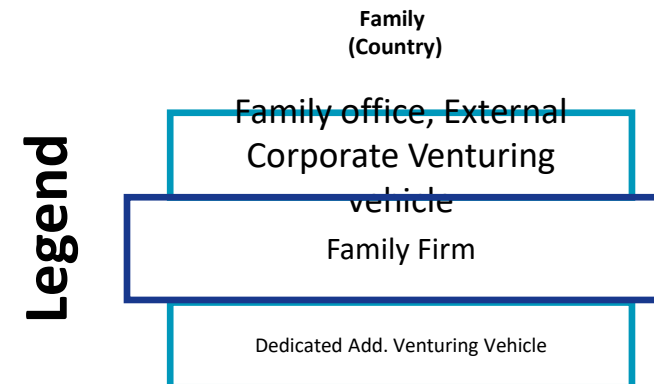
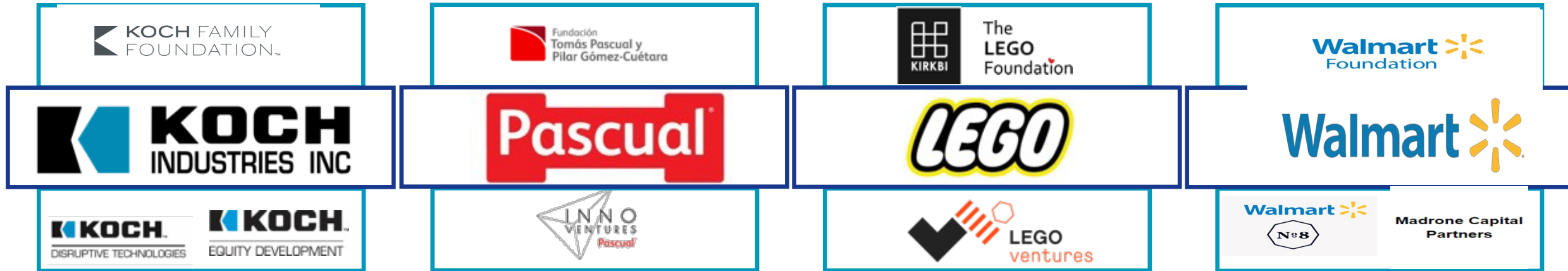
# The family owners entrepreneurial & philanthropic ecosystem

## Koch Family (US)

## Pascual Family (Spain)

## Kristiansen Family (Denmark)

## Mulliez Family (France)



■ US ■ Global

Contributing to our local community



Traditional philanthropy/grant-based giving



Impact investing



Venture philanthropy



None of the above



Q. Which, if any, of the following does the business or the family owning the business engage in  
Source: PwC 10th Family Business Survey, October-December 2020: US base: 236 Global base: 2801

## Walmart Accused of Using Charity to Sway Cities Where It Wants to Expand

Give this article



A Walmart in Los Angeles. A group says that charitable giving from the retailing behemoth's foundation follows a telling pattern. Kevork Djansezian/Reuters

## How do family owners take decision about “social impact” across domains?

Cruz, C., Milanov, H., & Klein, J. (2023). It's a Family Affair: A Case for Consistency in Family Foundation Giving and Family Firm Community CSR Activity. *Journal of Business Ethics*, 1-17.

# We are the incubation arm of Walmart.



Store N°8 incubates companies with the potential to transform the future of commerce. We work on the outer edges of what's possible. We pursue big ideas and take risks by stepping outside of Walmart's core business to focus on leapfrog capabilities.

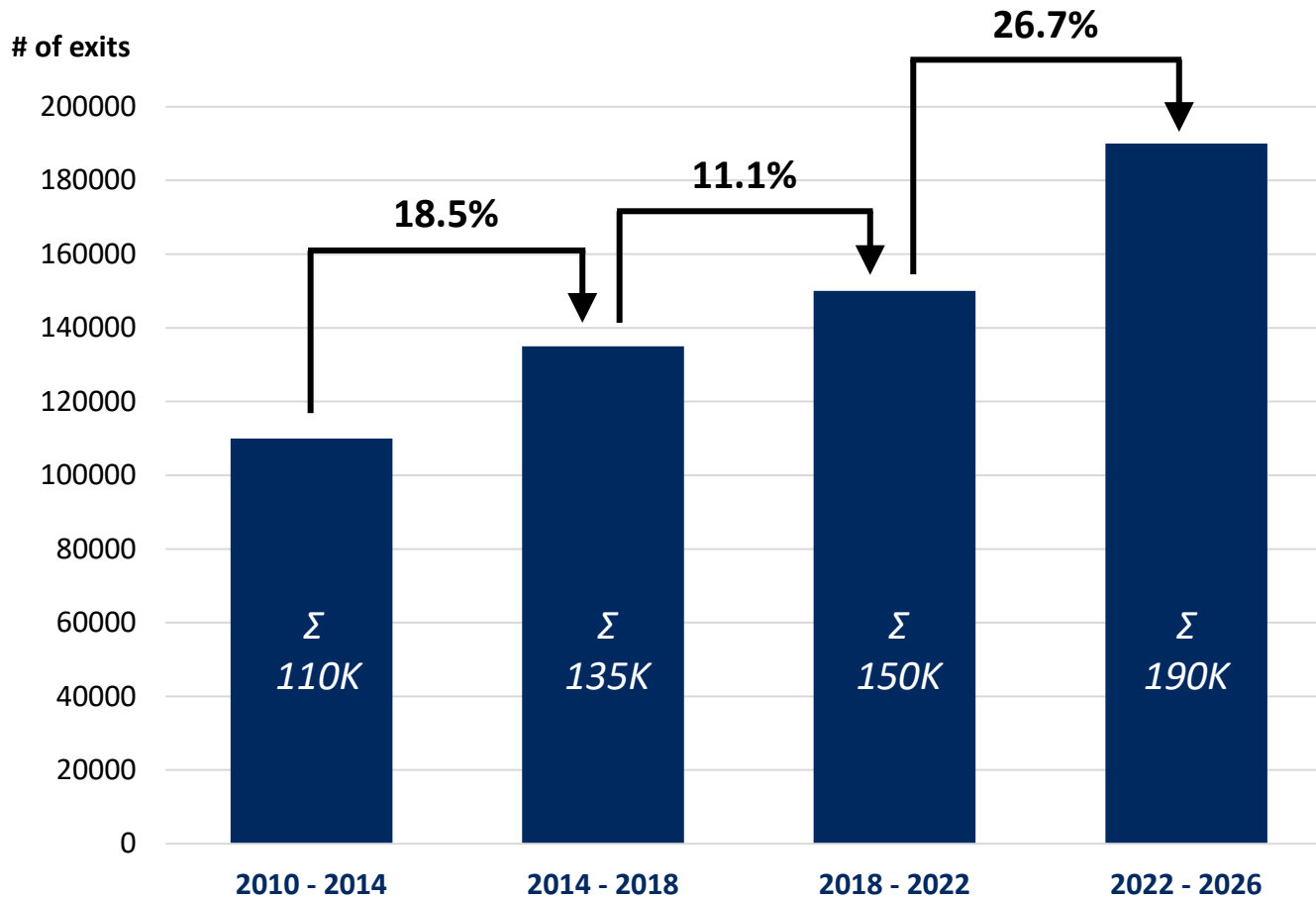
How do family owners take entrepreneurial decisions across domains?

Example of R.Q.:

- How do business owning families allocate resources among the different vehicles? e.g. How do families decide which activities to drive across FOEs and which one's within FOBs?

# Less family firms...

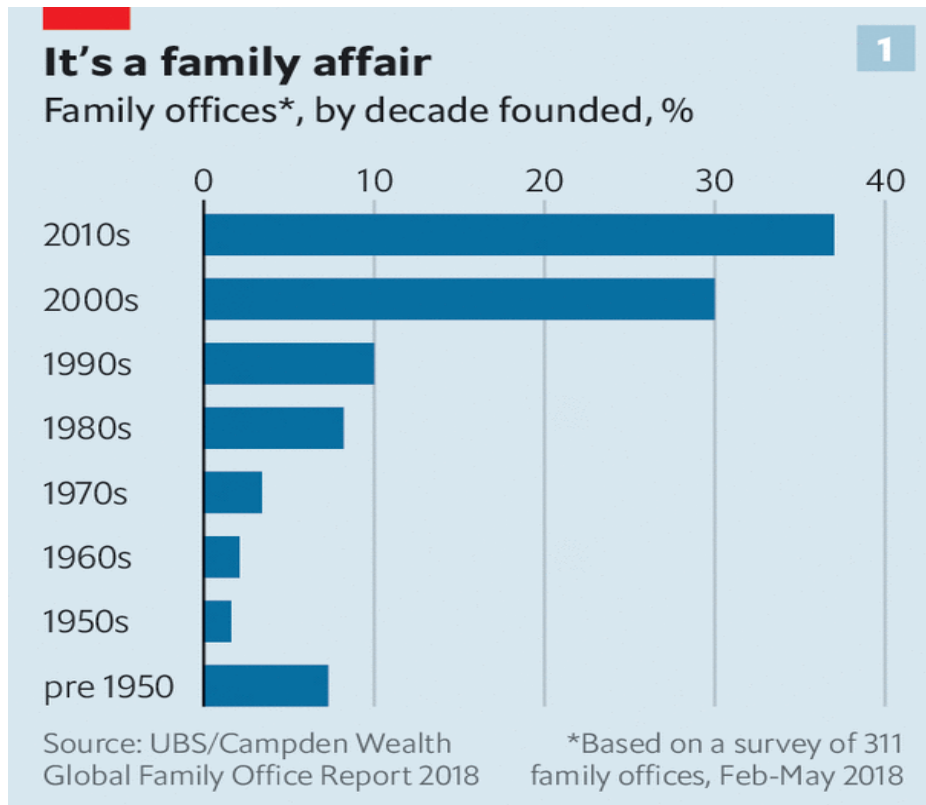
## Number of family firm exits (2010 – 2026)



190.000 family firms in Germany are due to be handed over between 2022 and 2026 – an increasing trend

- **~190.000 of ~3.315.000 German family firms** will be handed over (2022-2026)
- **>72% increase in family firm handovers** over the last ten years
- Approximately 42% of these companies have **revenues between €1M - €100M**

# But not necessarily less family owners



The Economist

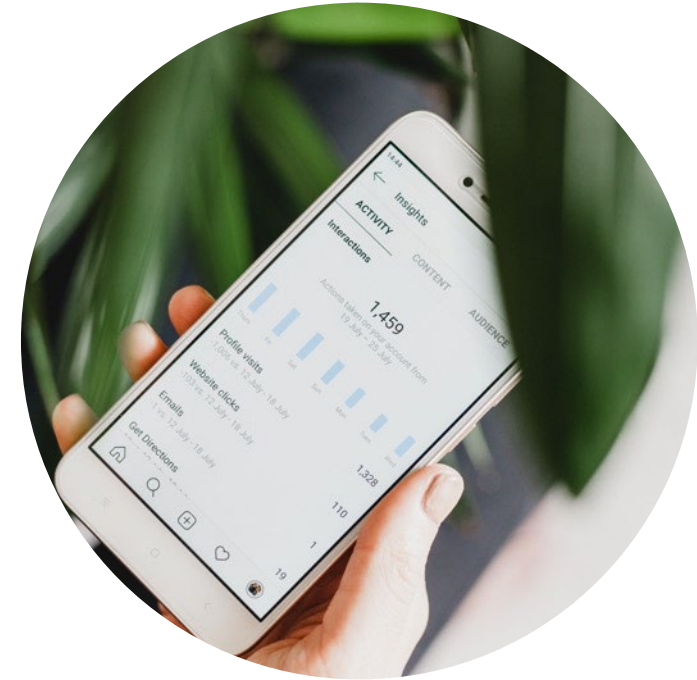
- Creation of Vehicles for Family Wealth Management:
- In the US, the growth of wealth managed by family offices is projected to be 6% annually for the period 2022-2030, with \$21.1 billion managed by 2030 (\*).

(\*) Familyoffice.com

# From an Operative mindset To an Investing mindset



**OPERATIONS**  
Managing the  
Family Business



**INVESTMENT**  
Managing the  
Family Portfolio



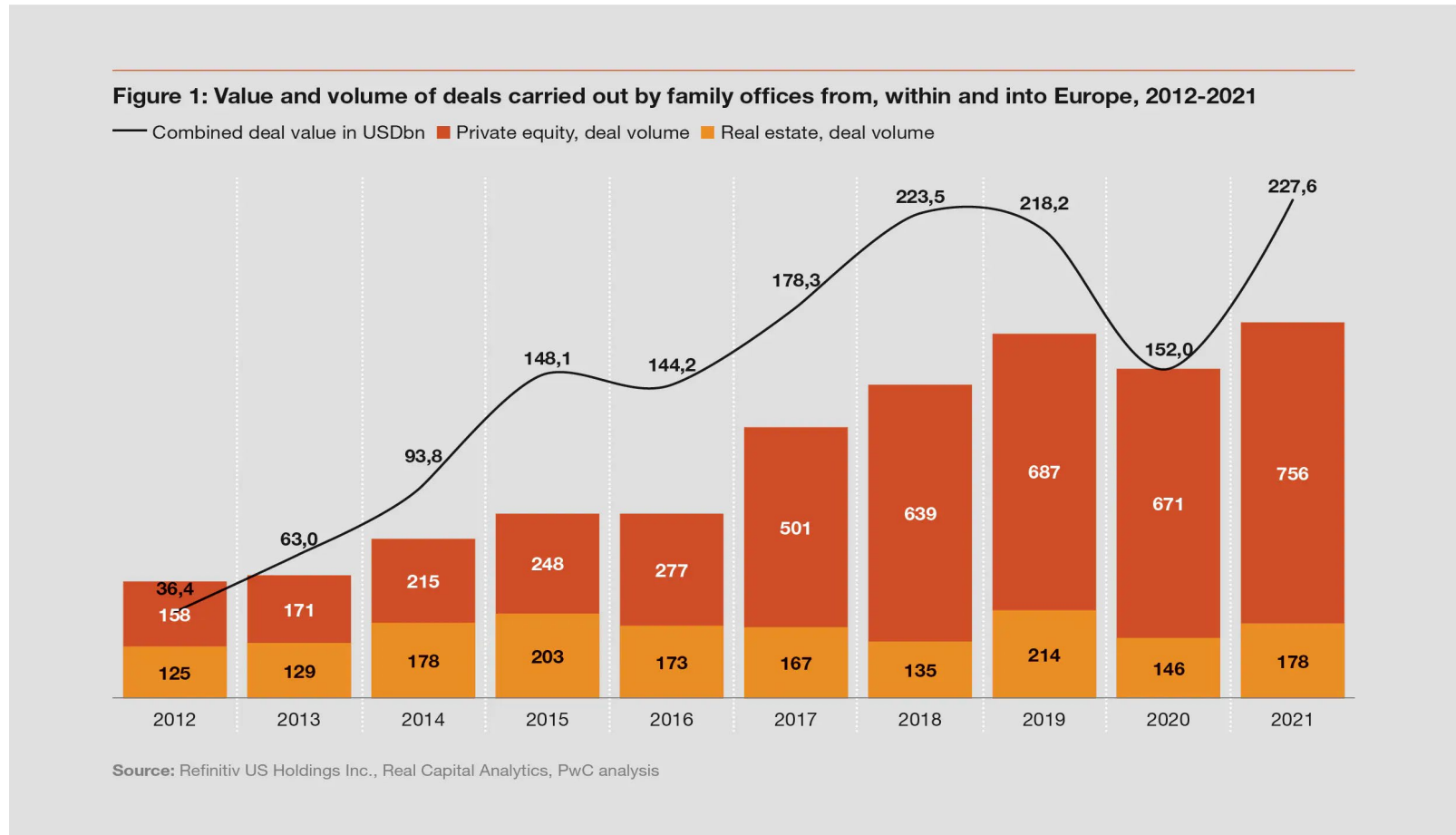
# A different type of investor

**Family offices' allocation to Private Equity tends to be meaningfully higher than other investors. Over the next 12 months, they expect to increase their allocation to alternatives even further.**

Do family owners invest differently?  
(compare with PE)

Are SEW concerns translated to FO environments?  
(within FO analyses)

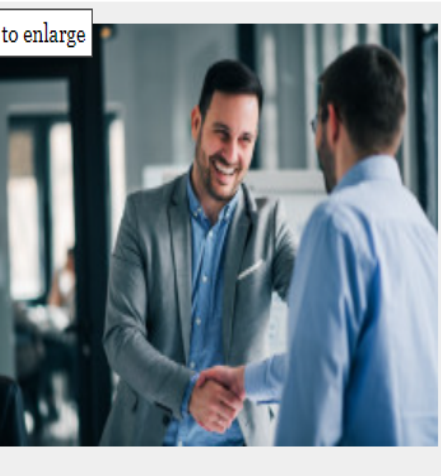
Are agency problems different in FO?



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# NEXT GENERATION ENTREPRENEURS DRIVE VENTURE CAPITAL EXPOSURE IN FAMILY OFFICES

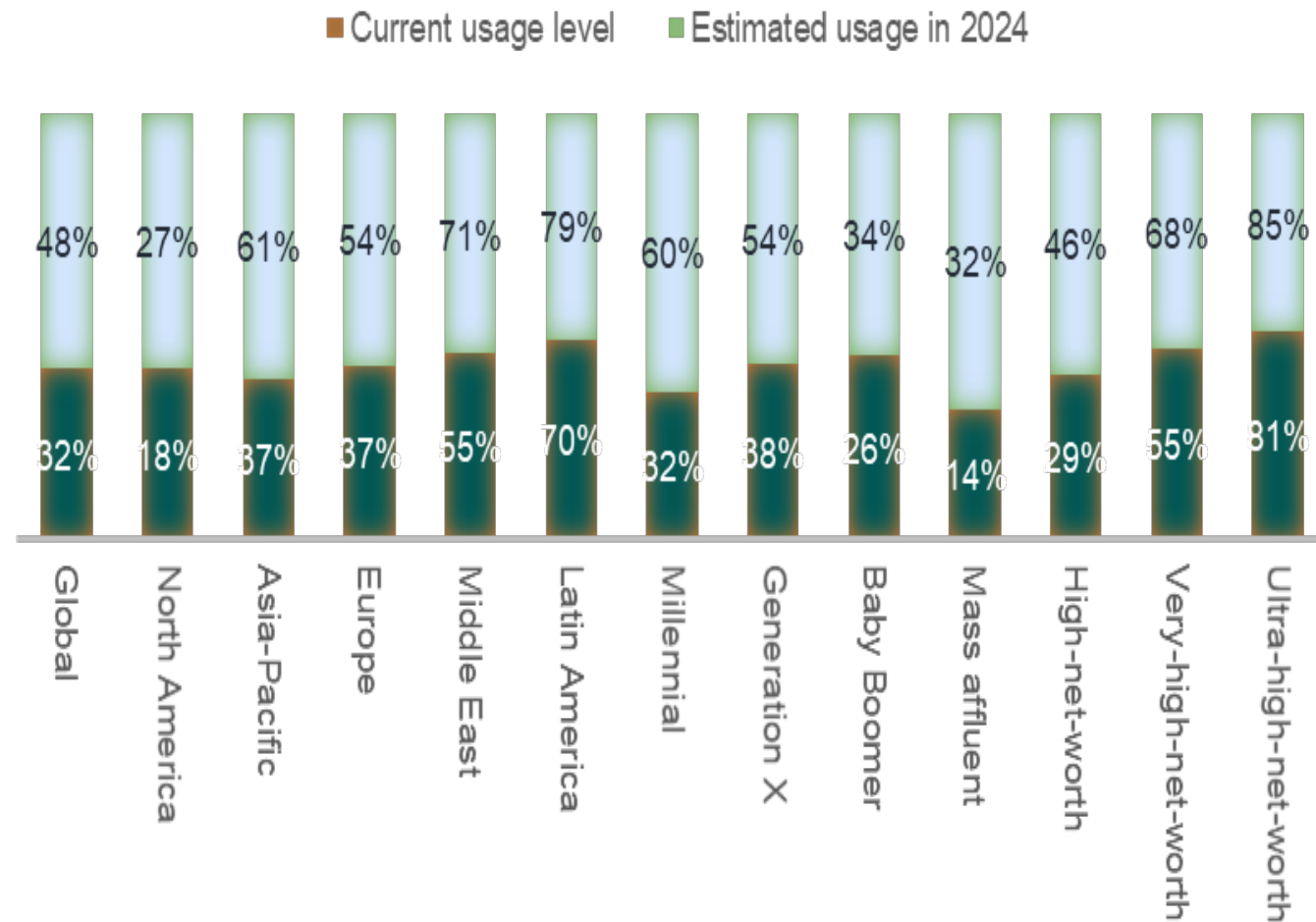
7 OCTOBER, 2021 12:00 AM | BY JAMES BEECH



The next generation taking charge of family wealth are seizing more opportunities in the world's \$418 billion venture capital space and powering the expansion by family offices into early investments, according to new research by Campden Wealth.

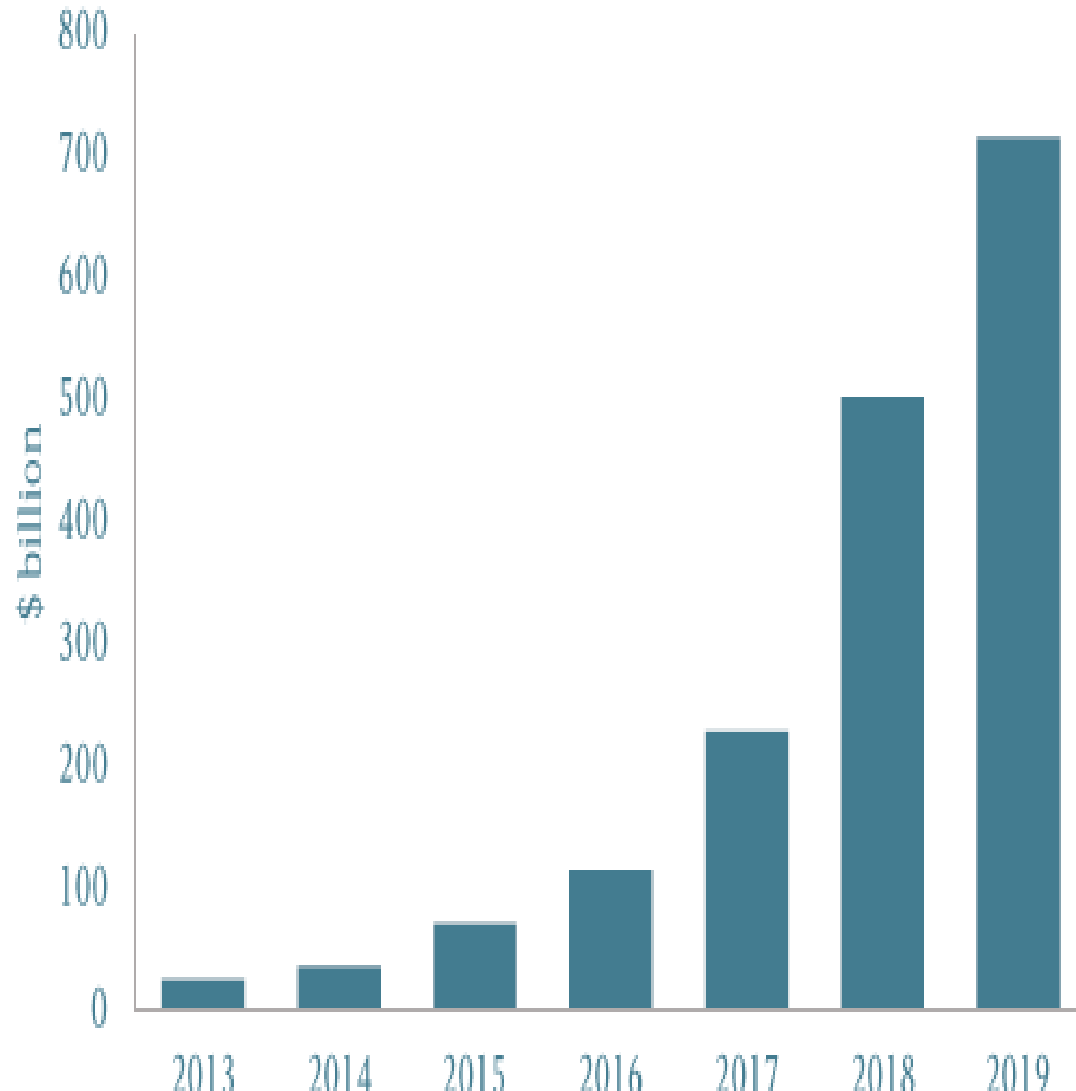
However, the best venture deals continued to be hard to access and most family offices relied on their

## % of usage in the portfolio of PE



Source: EY 2021

## Impact investing has grown at 27% CAGR from \$25.4 BN to \$715 BN



Your guide to a disrupted world

Start a

FT Wealth **Impact investing** [+ Add to myFT](#)

### Rich millennials push to put family wealth into impact investments

Young urge elders to back ESG-linked projects instead of traditional philanthropy



Fernando Scodro used business course material to get his parents to buy into impact investing © Munshi Ahmed

*thank  
you*

<https://familiesinbusiness.ie.edu/>