Foster Business Family Identity Through Social Impact

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Ford, Estee Lauder, Hyatt. What do these names have in common? For starters, they are behind some of the largest family firms in the world. But they are also associated with a revolution in finance and have pioneered a new set of practices: investing for both return and impact. Why are prominent business families taking this path and what are the behavioral mechanisms leading to it? In our research, we found that individuals in business families use impact investing to build their own identity by either building on, reshaping, or deconstructing their family's legacy.

Cornerstones of Impact Investing

In 2007, the Rockefeller family gathered experts from the business and the social sector to explore new ways of investing that would create positive effects on society and the environment while generating some return for the investors. The term "impact investing" was born. Since then, business families have mastered the act of investing in social enterprises and been called the "cornerstones" of this new sector.

But what is it that convinces families who have stewarded business empires for generations to invest in impact-oriented projects that may be risky, yield low market returns, and are often much more complex and time-consuming than traditional philanthropy? To answer this question, we talked with 10 business families leading the field of impact investing in Europe.

We found that in each family, one member was responsible for the impact investing initiative, and their journeys are shaped by a desire to build their own identity and probe their family's legacy. Impact investing is a response to the balancing act business families are known for: sustaining and growing a business while serving their community through employment and philanthropy. However, while families can keep their good deeds at an arm's length from their business operations, in impact investing these considerations go hand in hand.

Three Views of the Family's Identity

Our research showed that members of business families may have three different views of their family, which directly influence their identity building process as individuals and fuels their engagement in impact investing. In the first one, the individual sees consistency in how their family has been balancing financial and non-financial considerations and can identify concrete social initiatives implemented at the heart of the firm's daily operations. In this case, impact investing is used as a way for the individuals to build their own identity in harmony with their family's identity. One of our participants explained: "Our family business is very keen to be leaders in sustainability, to be a key employer in [our city] where we have our history. With the operating business, we always had this mindset, and then not so much with our investments."

Other individuals may find their way towards impact investing because they feel uncomfortable about the family's inconsistency in balancing financial and social considerations. Some individuals can then use impact investing to reshape their legacy in a way that makes sense to them. One of our participants, who was part of a banking family, said he knew he didn't want to become a traditional banker focused on maximizing profits, although he recognized this was his legacy. "I'm the son of a banker. I have this heritage in a way," he said. When talking about his impact investing activity, he further explained: "It was banking, but it was a different type of banking, and somehow it enabled me to reappropriate for myself the genes or the heritage, the banking heritage."

Finally, other individuals enter impact investing by deconstructing their legacy and reacting against their family, who they perceive has failed at reconciling their role as business owners with their social duty toward society. For example, one of our participants decided to

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sell the family business to set up an impact fund because she didn't identify anymore with the industry in which her family had built their wealth. "For many reasons, it was a relief to exit [this business], and thinking about social entrepreneurship and impact investing at the time, we thought: how can we become a completely different company?"

These three viewpoints represent three possible journeys that members of business families might take to engage in impact investing -- by either building on, reshaping, or deconstructing their legacy. Impact funds that advise or work with them should consider the family's legacy and the individual's own journey. Hopefully, this will lead to more fruitful impact investments that benefit society at large.

Note: The famous business families mentioned in our opening example are not part of our research sample but were found through research on publicly available sources and are used here as an illustration to our arguments

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