



Ownership Project Insights, No. 2

Family first, business first, or broadly beneficial:
What kind of family business do you lead – and
what kind of business do you want to become?

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Ownership Project 2.0:
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impact from within

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About Ownership Project Insights

Ownership Project Insights is the Ownership Project's publication series dedicated to practitioners. These action-oriented papers deliver critical analyses, data-driven observations, provocations, and playbooks for family offices, family holding companies, family businesses, family foundations, and those working closely with them.

About Ownership Project 2.0: Private Capital Owners and Impact

Ownership Project 2.0: Private Capital Owners and Impact is a global research project driven by dual imperatives:

First, we are conducting high calibre research into family offices and family holding companies, and into the investment activities of family businesses and family foundations, and publishing it in top peer-reviewed academic journals.

Second, we aim to move the needle on practitioner behaviour, using our research to drive conversations and influence the strategy and goals of family-owned capital. Achieving this objective means translating our data and academic research papers into forms that practitioners – family members, non-family leadership and staff, and professional service providers – can actually use, day to day.

The project is led by Professor Marya Besharov, Principal Investigator, and Dr Bridget Kustin, Senior Research Fellow and Director.

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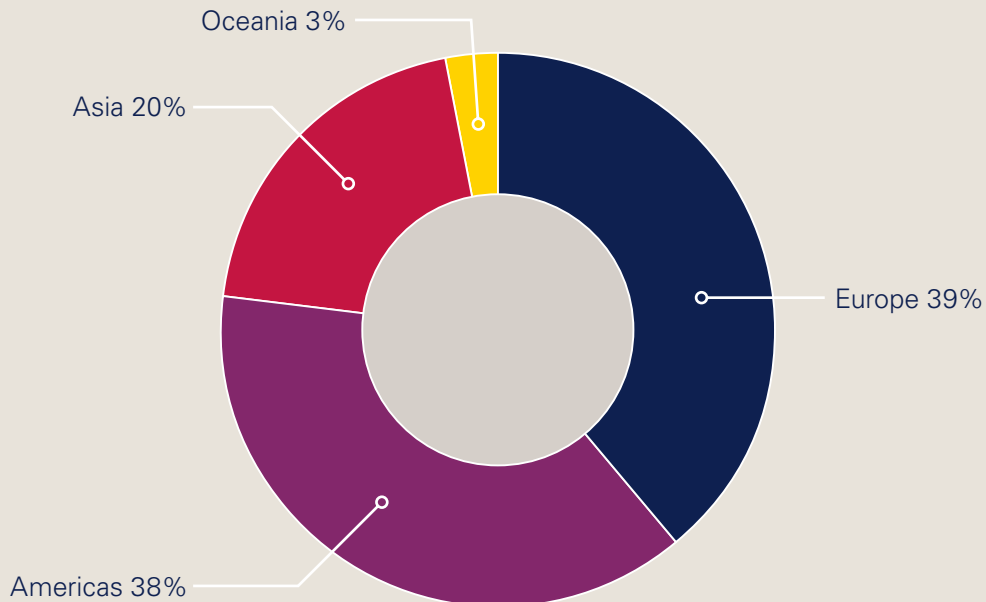


Executive Summary

Family business is a defining feature of the global economic system. The largest family firms – those with annual revenues above USD 1 billion – have significant footprints on nations, consumers, workers, and supply chains. What ethical responsibilities do family owners have towards these stakeholders? Answering this question is important, because owners of large family businesses can serve as models for other business owners, setting norms and raising expectations. But because the owners of large family businesses value privacy, there has historically been very little systematic, globally sourced evidence about how these individuals understand their ethical responsibilities – until now.

This *Insights* paper presents highlights from the Ownership Project's interviews across 2018-2021 with family business principals about how their ethical priorities shape their businesses. Supported by a grant from the Ford Foundation, Dr Bridget Kustin and Dr Mary Johnstone-Louis conducted anonymous interviews with the principals of 64 large, multi-generational family businesses from 25 countries around the world.¹ The research team spoke exclusively to family principals because of these individuals' significant impact on both their families and their firms, and they asked an array of questions about principals' views on ethics and purpose in the context of their business.

Figure 1: Geographic distribution of participating family businesses



1. 'Large' was defined as firms with average revenues of USD 11.6 billion, and minimum annual revenue of USD 1 billion. 'Multi-generational' was defined as firms with at least one member of the second generation or beyond was in an ownership or senior (board or C-level) leadership position. 'Family principal' was defined as a family firm shareholder who also held a C-level leadership or board position at the time or within the previous five years.

Among the wide-ranging, passionately voiced responses, **two clear themes emerged**:

First, despite the uniqueness of families and the intimacy of ethics, there was clear convergence around three broad ethical priorities for large family firms: the business, the family, and the societal context in which both are embedded. Some families prioritise only one of these areas; others prioritise two or even all three.

Second, when considering how to put their ethical priorities into practice, particularly in the face of dilemmas and trade-offs between different priorities, family principals tended to rely on narratives that were grounded in the past, drawing on family history for guidance about what action to take in the present.

On their own, these narratives did not necessarily create accountability for making decisions that aligned with the family's current ethical priorities. To bridge this accountability gap, we provide a set of questions at the end of this document that business-owning families can ask themselves to clarify their own ethical priorities, and to ensure that these priorities can endure long into the future.

Family principals adopted three main ethical stances when describing the purpose of their business: business first, family first, or broadly beneficial.





Dr Sarah McGill

Sarah is a Senior Research Writer at the Skoll Centre for Social Entrepreneurship and the editor of Ownership Project Insights. She has a DPhil from the University of Oxford and specialises in translating research findings into publications for practitioner audiences in finance, business, and government. Sarah is also a second-generation shareholder and principal of her family's business, which has operations in the US and Europe and is focused on sustainable resource management.



Dr Bridget Kustin

Bridget is an economic anthropologist and Senior Research Fellow at Oxford Saïd, where she is Director of the global research Initiative, Ownership Project 2.0: Private Capital Owners and Impact. Her research, teaching, and consultancy focuses on family ownership, wealth, trusts, intergenerational transfer of property, and forms of collective and shared ownership, particularly in comparative perspective between the Global North and Global South.



Professor Marya Besharov

Marya is Professor of Organisations and Impact, Academic Director of the Skoll Centre for Social Entrepreneurship, and Principal Investigator of Ownership Project 2.0. Her research and teaching focus on leadership, social impact, and hybrid organisations. She engages with leaders and organisations worldwide to help them manage competing demands of social impact and financial performance.

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Ethical priorities of family principals: Three broad approaches



Family principals have a long list of roles and responsibilities that are both professional and deeply personal. On the professional side, the family principals in this research held a variety of different leadership roles in the business: 31% were Board Chair or Vice Chair, 22% were CEO or President, 19% were Managing Director, and 17% were a Board Member. The remaining 11% held an assortment of other roles, including founders, majority owners, Family Council members, and those with a bloodline or generational position (such as the first-born). Twenty-seven percent of the interviewees held two or more formal leadership positions. On the personal side, the family principals we interviewed also held positions of influence within their families, and they expressed a sense of responsibility to account for their family's needs, and to act on their behalf, in the context of the business.

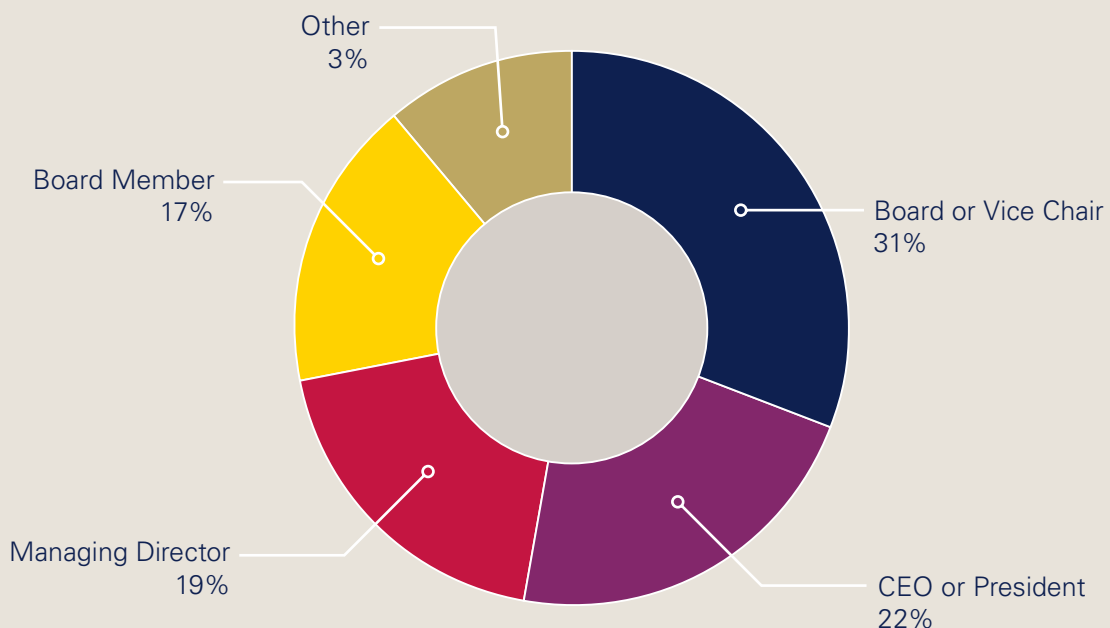
These multiple professional and personal roles come with a wide range of responsibilities – including employee wellbeing, customer satisfaction, and shareholder returns, as well as family members'

standard of living, interpersonal harmony, or stewarding a legacy. And for the wider world, responsibilities can be toward one's local community, home country, or the environment.

How do family principals prioritise these different responsibilities, particularly when they come into conflict? To shed light on this question, the research team asked family principals about the purpose of their business and their family ownership using a variety of questions to account for differences in terminology. For example, 'purpose' can also mean 'mission', 'ultimate goal', 'business objective', 'driver', or 'the reason we do what we do'.

They found **three main ethical stances that family principals adopted when describing the purpose of their business: business first, family first, or broadly beneficial.** About half of the interviewees focused on just one ethical priority, but the other half viewed two or even all three priorities as equally important.

Figure 2: Roles held by interviewees



Business first

Business-first principals discussed a wide range of considerations related to the operations, impact, or financial performance of their firm. Strikingly, many of these interviewees focused not on responsibilities to shareholders, but on responsibilities to other stakeholder groups.

For example, roughly one-third of principals prioritised customers. As one interviewee explained: 'The main purpose of the business is to make the customers happy.' Another group emphasised the importance of enabling clients to work more effectively; and in turn, create positive impact themselves.

Another one-third focused on a duty of care for their staff, describing employees as 'part of the DNA' of their business or explaining that 'job creation is the core of why we do business.'

By contrast, less than one-quarter saw growth as their business's main purpose. Those who did adopted a systems perspective to justify their thinking. As one interviewee explained:

'At core we are a capitalist enterprise ... [A]t a philosophical level I honestly believe that capitalism provides ... if run well, if run wisely, the most goods and services for the most people.'

Another interviewee focused on profitability over the long term:

'We again would like to make sure that we have onboard shareholders who do not sell and buy the shares every five minutes, but some people who do it in the long term. And we do that by talking about the long term ... we will not guarantee an increase in value every quarter; but in the long term, we will do better.'

That 'shareholder capitalists' were significantly outnumbered by 'stakeholder capitalists' is significant. It suggests family business principals believe their commitment is not primarily to the bottom line. That said, only one respondent explicitly described the freedom to take a long-term financial perspective – another common belief about family business – as instrumental to their firm's purpose.

Family first

Principals whose ethical priorities centred on the family focused on family wealth, family unity, and family legacy. About one quarter of principals explained that family wealth meant not only maintaining the standard of living for current generations of owners, but also providing for future generations:

'...what I want from the company now is ... some security for my kids and my lifestyle maintained as it is still, wealth and a major source of income.'

Almost another quarter of the interviewees described the family business as a 'point of focus' for uniting individual family members. As one principal explained:

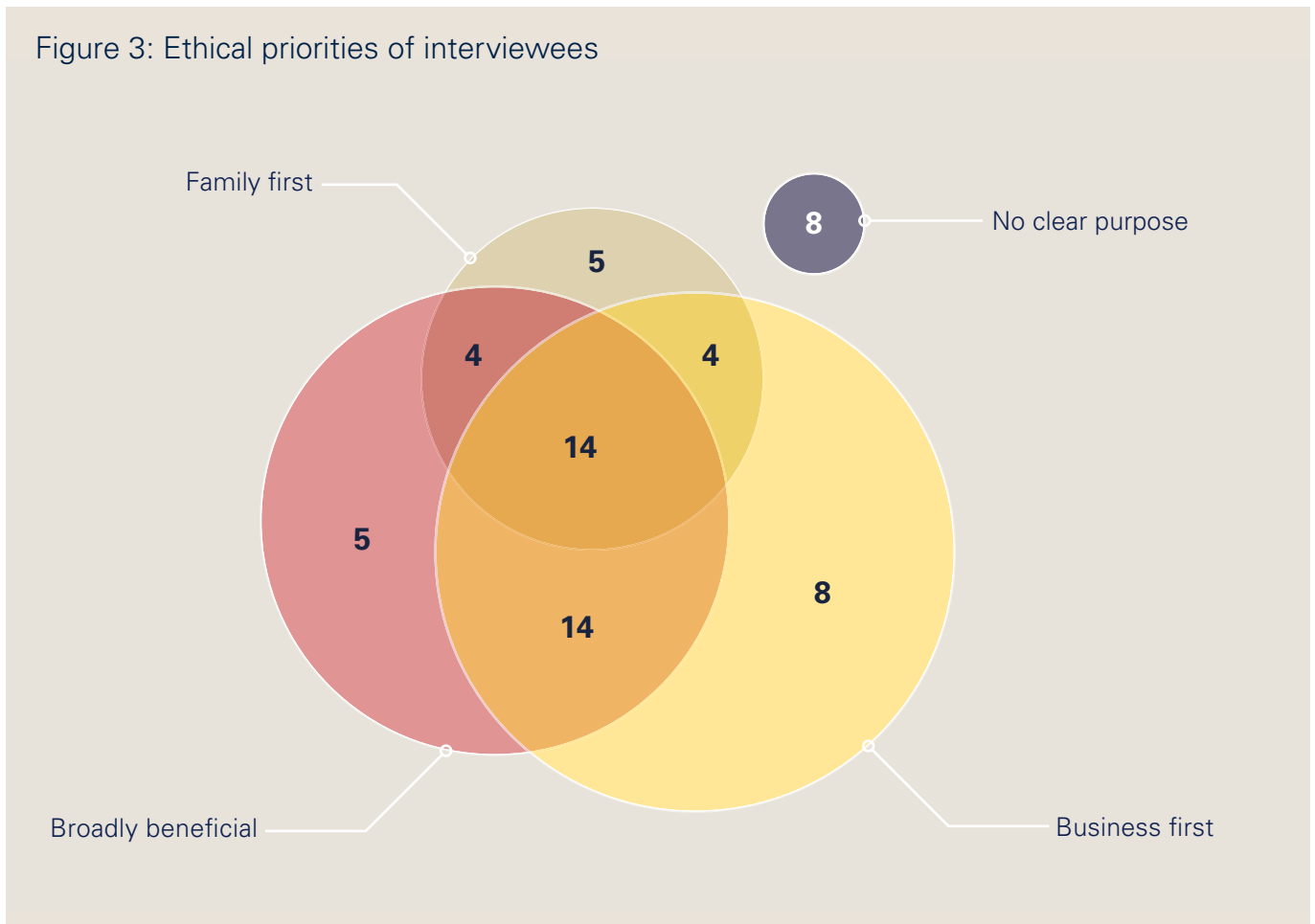
'One purpose is ... to provide financial means to the shareholders and the family but also ... the various values by which we want to live, and one of them was actually holding the family together. ...[It is] a point of focus that actually enables more positive family interactions.'

About one in ten interviewees mentioned securing the family's legacy as a key ethical driver, noting, for example:

'We look at ourselves as stewards and guardians of this great legacy and the notion of building and often passing along [the business] in a better form to be a stronger business in the next generation.'

Many business-first principals focused on responsibilities to stakeholders other than shareholders. By contrast, less than one-quarter saw growth as their business's main purpose.

Figure 3: Ethical priorities of interviewees



Broadly beneficial

Nearly half of the interviewees discussed societal or environmental responsibilities, generally focusing on the communities and societies in which they operated. One principal explained:

'The business [is] supposed to drive the values that we want to see in the world.'

Another noted:

'We're engaged stewards of a family enterprise which blends wealth creation for the owners with social and environmental responsibility.'

And a third principal stated:

'The mission that we have is how we can help to feed everybody but from a nutritious and a responsible and sustainable system.'

Half of this group saw their businesses as playing a key role in the development of their home country or region. As one principal explained:

'Our purpose has to be around making the world a better place by rewriting the African narrative.'

However, environmental commitments did not stand out: fewer than one in five principals described environmental sustainability as core to the purpose of their business. Moreover, some of those who did mention environmental commitments suggested it was one of several priorities, noting, for example:

'Our default position is to own and hold these businesses and to run them within this constrained simultaneous equation of healing rates of the Earth and wellbeing of man.'

Putting ethical priorities into practice: The role of narratives



Whether family principals prioritised just one area – the business, the family, or the broader society in which both were embedded – or viewed two or even all three as equally important, they all faced challenges in putting these priorities into practice.² If making customers happy is the ‘reason for [the firm’s] existence,’ as one interviewee described, what happens when a product line needs to be discontinued? If employees are ‘part of the DNA’ of a firm, what happens when closing a factory or an acquisition necessitates job losses? And if both family legacy and employee wellbeing are core purposes of the business, as they were for one family principal interviewed, how do you justify to non-family shareholders the importance of protecting employees’ interests, especially in the face of financial pressures?

Reputational concerns often guided how family principals addressed these dilemmas. Reputation carries unique weight for family principals as they are personally exposed to reputational considerations in ways that other family members, who can live beneath the radar of public scrutiny, are not. It is not surprising, then, that reputation emerged in the interviews as a strong factor informing principals’ ethical decisions: interviewees variously explained how it provided social legitimacy for their business, helped them build trust with different stakeholders, or motivated the pursuit of ‘broadly beneficial’ goals.

But preserving and enhancing reputation alone was not a sufficient guide to putting ethical priorities into practice. Family principals also relied on narratives as they grappled with the dilemmas of putting their ethical priorities into practice.³

Narratives allow people make sense of complex world. Narratives guide action. As one contemporary philosopher put it: ‘I can only answer the question “What am I to do?” if I can answer the prior question “Of what story or stories do I find myself a part?”’³

Family businesses almost always have narratives they tell about themselves and the history of the business – narratives that offer guides as to the family’s ethical priorities, and how to put those priorities into practice.

Family principals also relied on narratives as they grappled with the dilemmas of putting their ethical priorities into practice.

The interviews surfaced a variety of different types of narratives that family principals tell themselves to inform their ethical priorities, but all narratives had one thing in common: they drew on family history for guidance about what action to take in the present.

In some cases, the past was used construct principles, rules, or norms that guided ethical decisions in the present. For example, one interviewee stressed how important their employees have always been to the family firm: when their family firm acquires a new company, they never make any of its staff redundant. Even though they have hired hundreds of smaller companies over the past few decades, the costs of all those new staff members seem to be secondary to how the family treated them:

‘We always tend to choose a method in which...the people relationship will not be affected.’

In this family principal’s narrative, a rule was formed based on a set of precedents: the family is most concerned about preserving its relationship with its employees in the present, based on a precedent that emerged from past actions. The future consequences of adhering to this rule for other parts of the business – notably the balance sheet, and by extension the family’s wealth – are presumably managed away.

Another interviewee referenced family history to explain why their business prioritises investing in their home region. This family and their firm see their purpose as maintaining ‘a very strong connection with the community because my father and his brothers were born in this region.’ As the principal elaborated:

2. Some firms will have less scope to consider multiple priorities than others depending on their corporate form. Publicly listed firms will find stricter guidance from reporting requirements, and discipline from investors to focus on the bottom line. By contrast, private companies face less regulatory scrutiny as well as less pressure to maximise short-term profits.

3. MacIntyre, A.C. (2007) *After virtue: a study in moral theory*. University of Notre Dame Press. p.216.



'When they started the second business of the group one of their criteria was to look for something that they could do here, look for some resources in the region because they wanted to stay here and invest here.'

As with the prior example, the family principal expressed their motivation for community and regional development in the present by referencing a precedent that originated in the past – in this case, with the previous generation of leadership.

In other cases, the past was used not so much to set a strict precedent but rather as a basis for identifying the kinds of outcomes or goals that the family business would pursue in the present and the future. Consider the narrative of a family principal who described how their business helped to create a national social protection system in the 19th century. These past actions guided the family business to contribute to national reconstruction after World War II, and to continue supporting social cohesion today:

'In the [200-plus] years of our... family-owned business, we have had individuals who were outstanding and who did do something remarkable... [They] created a significant social system that has evolved today, but back in [the 19 century], they created a social system where the workers and the employer would contribute a financial part of their salaries and a complementary contribution for a pension fund... in the last 50 years there are a couple of individuals who said, "OK, we're going to rebuild the entire business after World War II; our plants were destroyed." So yes, they just gave [away] a ton so that within the teams, within the environment, they went for it.'

All family principals' narratives had one thing in common: they drew on family history for guidance about what action to take in the present.



Questions for action



While past-oriented narratives can help guide action today and into the future, the research team found that they were often used to rationalise or justify actions that did not necessarily match the family's current ethical priorities. On their own, they did not create accountability for making decisions that align with the family's ethical priorities.

To navigate the ethical dilemmas that arise for large family businesses more effectively, we encourage family principals to build new ethical narratives – narratives in which the past is used as 'a compass rather than a map,' making it relevant to the present.⁴ We also encourage principals to create formal accountability mechanisms to bind their businesses, their families, and themselves to the priorities they hold dear.

The following questions offer a starting point for both building new ethical narratives and creating accountability mechanisms. We hope they prove useful for business-owning families to continue to clarify, refine, and enact their priorities and values.

We encourage family principals to build new ethical narratives – narratives in which the past is used as 'a compass rather than a map,' making it relevant to the present.

- What 'stock' stories do you and your family tell about your business? How do they inform your values?
- What stories need to be revised or updated, so that they reflect the realities of the present?
- If the family principal were to step down tomorrow, would you be able to continue upholding the aspects of your business of which you are proudest?
- What kinds of formal accountability mechanisms could you build for each of your priorities?
- What mechanisms could serve to safeguard multiple ethical priorities at once?
- Are you as proud of what your family business has done in recent years, and what you plan to accomplish in the next few years, as you are of your family history?

4. Gulati, R. (2022) To see the way forward, look back. *Harvard Business Review*, November-December 2022. Available at hbr.org/2022/11/to-see-the-way-forward-look-back





Ownership Project 2.0: Private Capital Owners and Impact is housed in the Skoll Centre for Social Entrepreneurship at Saïd Business School, University of Oxford. The Project leverages the Skoll Centre's convening power, network, and capacity to translate and disseminate research findings to a broad public audience.

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