

Enlightened Investment in Times of Crisis

Dr. Bridget Kustin, Dr. Mary Johnstone-Louis and Professor Colin Mayer CBE FBA

Conduit member [Dr. Mary Johnstone-Louis](#), along with colleagues [Dr. Bridget Kustin](#) and [Professor Colin Mayer CBE FBA](#), reflect on the role of family-owned companies when it comes to building a sustainable and just world post-COVID.

In the wake of the pandemic, the UK's asset management trade body, the [Investment Association](#) (the IA), [wrote a letter](#) to the Chairs of FTSE 350 companies stating how its members would like to see companies responding to the crisis wrought by Covid-19. It stated that investment institutions would support companies by temporarily cutting dividends, reducing executive pay, issuing new equity (possibly without existing shareholder rights), holding shareholder meetings in unconventional forms, and delaying publishing their financial results.

By normal standards these are radical suggestions; but these are abnormal times. The reason given for these proposals was the wish of asset managers as stewards of British companies to support UK Plc and the wellbeing of citizens and societies facing unprecedented challenges. It sought to do this through promoting well-run companies that “take a long-term view of how they treat their employees, communities, suppliers, pension savers and customers”.

This response of institutional investors can be compared with another group that is thinking carefully about their role as shareholders of corporate equity – family owners of large companies. They are a particularly interesting comparison if only because [family ownership is the most significant form of share block holding around the world](#). Even in the [largest listed companies](#), families are the dominant holders of significant blocks of shares in nearly all countries, with the UK being one of the few exceptions.

Points of focus for family owners

[The Ownership Project](#) at the Said Business School, Oxford University has engaged with owners of some of the largest family businesses with revenues in excess of \$1 billion around the world. Many are in their fourth generation of operations, representing more than 100 years of business continuity. They reveal three issues as being their primary focus of attention in this crisis.

The first is their employees – their security, and health and wellbeing, including the preservation of their employment and income. Some families have stated that they are willing to forgo dividend payments if that is what it takes to support their employees.

The second is continuity. Strikingly for some of the largest, most prominent, and longest standing businesses in the world, they are concerned about the survival of their organisations. In many cases they, like so much of business, face [existential threats](#) in current circumstances. If these businesses fear for their survival, it is not difficult to imagine the degree of threat confronting the vast majority of family businesses, which are for the most part the smallest not the largest companies in the world.

The reason continuity is so important is that enduring families generally tend to regard their businesses as being [here for the long-term](#). It is not unusual for family owners to articulate a strong sense of responsibility to their forebearers, who strove to create their businesses, and to their descendants, to whom they wish to bequeath them. The commitments they offer their employees and other stakeholders are often given – tacitly or explicitly – on the understanding that business-owning families are invested for the duration. At its best, this perspective is therefore truly long-term; not just in the sense of the next five or ten years but [intergenerationally](#).

The third focus of large family owners is on their communities and societies. What typically distinguishes family owners from their institutional investor equivalents is that their name is on the tin, and if not explicitly then certainly inside it. In many cases, families cannot hide behind the anonymity of dispersed shareholders and a long chain of investment owners, managers and advisors. They are prominent not just within their firms but outside them in their communities and societies as wealth-holders, and, one hopes, as taxpayers. In the best-case scenario, this instils a strong sense of responsibility of family owners to their communities as well as their employees.

How do we hold owners accountable?

In essence, family owners often regard their employees and local communities as part of their extended families. Not all are by any means paragons of virtue. On the contrary, some illustrate the worst abuses of business practice observed anywhere in the world. That reflects the power that holders of large blocks of shares can exert for good or ill and the particular responsibility that rests on them to demonstrate the former.

However, the advantage that institutional investment in public equity markets has over family ownership and private equity more generally is its transparency. There is a greater accountability of institutions in public markets to their investors, regulators and society at large than in private markets. That is a significant factor behind the initiative of the IA in writing to company chairs – it is not only families who are concerned about their reputation and standing in society.

These issues speak to the central questions of ownership. How do different types of owners exercise their rights and responsibilities, and leverage forms of influence that are available to them? Which ownership attributes reliably lend themselves to the management of assets in ways that mitigate negative externalities and reduce harm to people and planet? How can such attributes be adopted by other types of owners? Building a sustainable post-COVID-19 future will require addressing public, governmental and financial support for forms of ownership that, in particular conditions and jurisdictions, create or otherwise profit from problems of people and planet.

Ownership is often [not straightforward](#). IA members [are not owners](#). They are managers – intermediaries, agents – acting on behalf of others, the investors whose investments they manage. Even those referred to colloquially as ‘asset owners’, such as pension funds, are not technically owners because they are acting on behalf of their ultimate beneficiaries –

you and me and the millions of other savers and pensioners. Research demonstrates that very few of us savers and pensioners feel much responsibility for the thousands of companies in which we are invested, for example, through index funds.

Responsible ownership as a key to a sustainable future

Family owners are subject to many important critiques. It is impossible to suggest that all business-owning families of substantial entities across the globe live up to the laudable aspirations of stakeholder-focused, community oriented long-termism. However, a dispersed shareholding stock market does not have owners who take responsibility for their companies in the same way that families can. The initiative that the IA has taken in writing to UK company chairs in such considered terms is therefore particularly welcome; it places its members on a par with the most enlightened family owners.

Exceptional circumstances wrought by COVID-19 are hastening pre-existing efforts to redraw relationships of responsibility between corporations, stakeholders and investors. The new [UK Stewardship Code](#) is one such example of an effort to define a new balance to address pre-COVID-19 crises: climate change, the future of work, stalled social mobility and intractable poverty among the working poor. This pandemic has made clear that the time for radical change is now. Ownership is a key to this change, and to a better future for generations to come.

Bridget Kustin, Mary Johnstone-Louis and Colin Mayer write from their work with [The Ownership Project](#) and [Oxford Programme on Responsible Ownership](#) at the [University of Oxford's Said Business School](#).