



Socioemotional Wealth as a competitive advantage for families in business

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Why me?

NEXT GEN, 4th
generation



**Director, IE Center for Families
in business**

Professor, Entrepreneurship and
Family Business



Pdh in Economics ,

Thesis on Corporate Governance in family Firm

How my journey started...



SHAREHOLDERS (Principal)

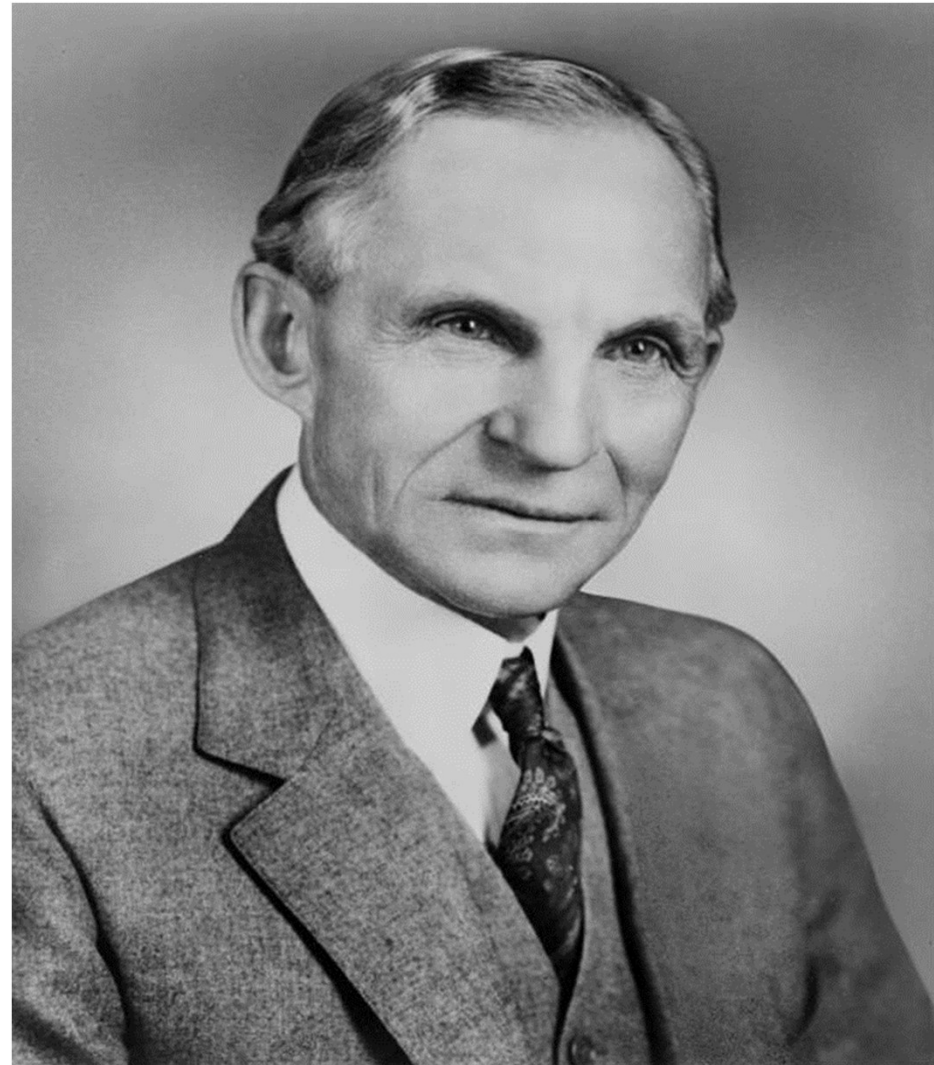
- Diversified Portfolio
- Rational decisions
- Maximize firm value

MANAGERS (Agent)

- Rational decisions
- Maximize BONUS + SALARIES

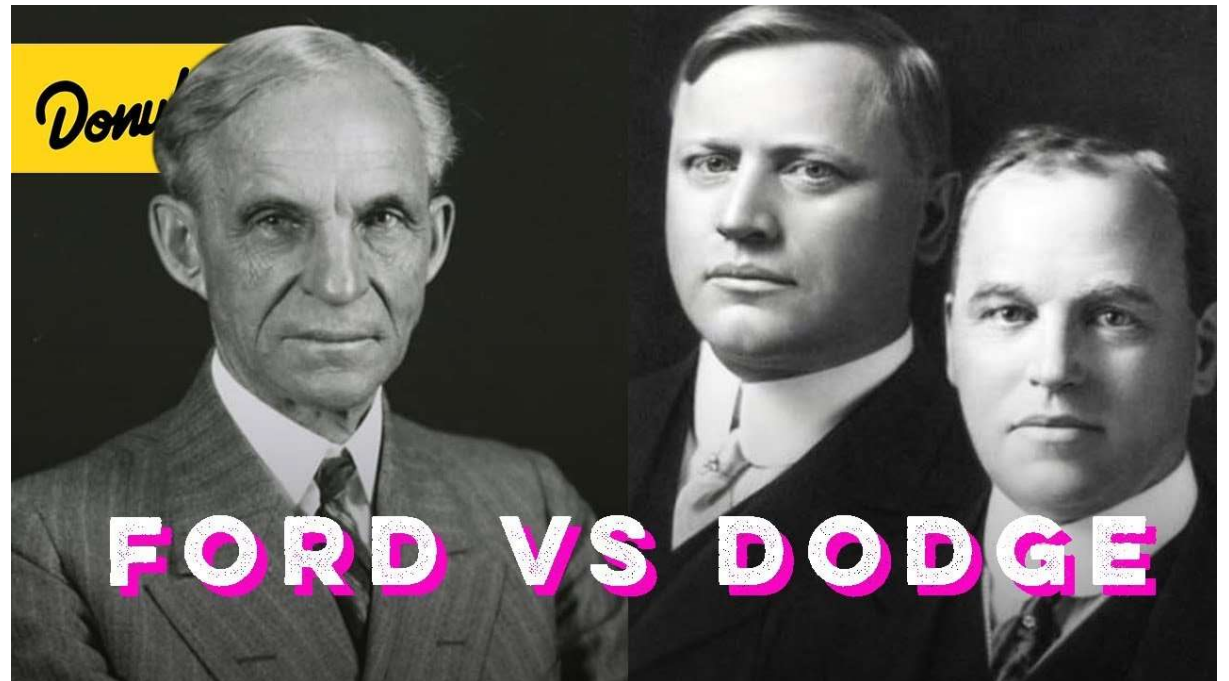
1929. Dodge v. Ford Motor Co

- In 1916, Henry Ford, sought to end special dividends for shareholders in favor of massive investments in new plants
- *“My ambition is to employ still more men, to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes”.*
- *doing “as much good as we can, everywhere, for everybody concerned . . . and incidentally to make money.”*



1929. Dodge v. Ford Motor Co

- **Minority shareholders objected to this strategy:**
- *“as it was based on the decision was based on Henry Ford’s idiosyncratic preferences about doing social good for workers and customers as opposed to making the most money for shareholders.”*



2010. HERMES vs LVMH

The thing is, he can launch a takeover bid tomorrow at 400 euros per share and he will not get one share from the family.

It's not a matter of money. It's a matter of family pride and the pride of being the sixth generation, and now the seventh..

Patrick Thomas.
Hermes CEO



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

-- Punch Sulzberger

The New York Times





*".... I assure you that I shall only feel satisfied
when I have managed, with concrete results,
to guarantee you and your children a safe and
tranquil future*

Michele Ferrero

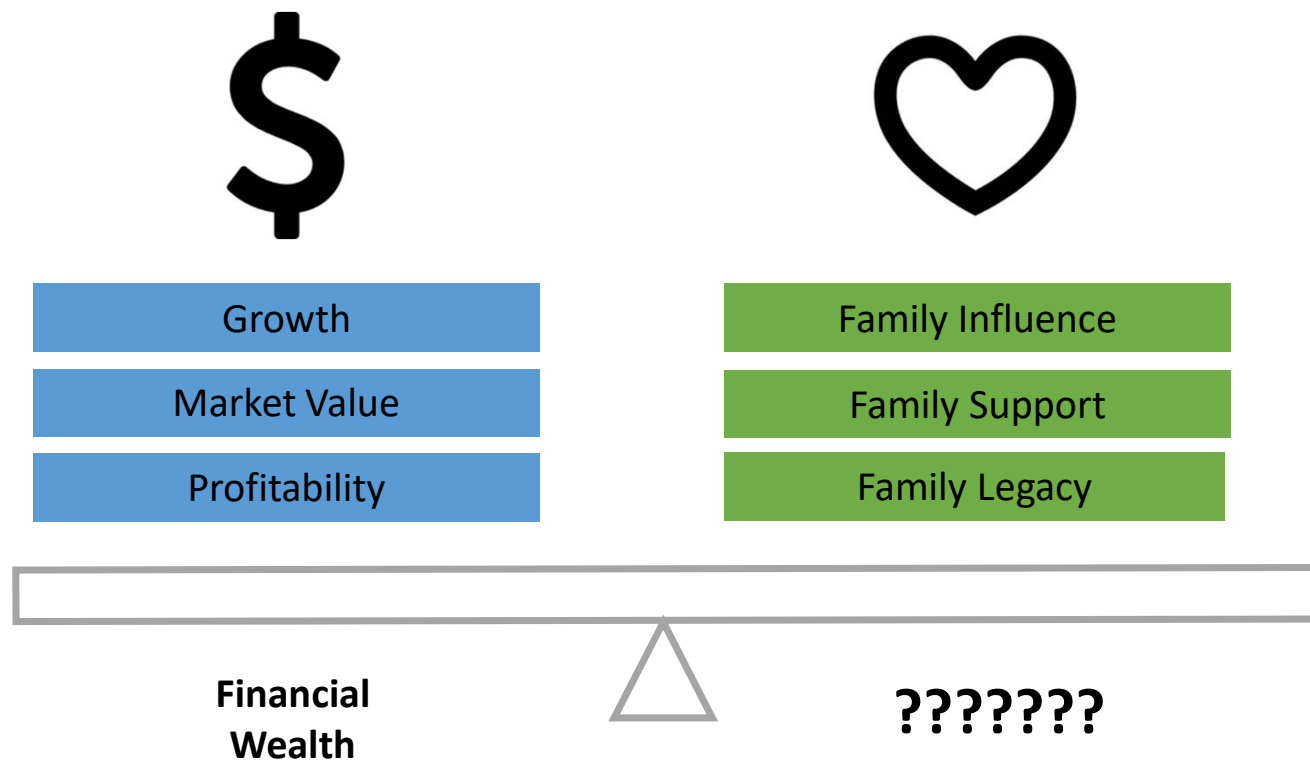
When he took over the family business after his
uncle passed away in 1957

FERRERO

Looking for the
“essence” of
families in
Business!



Creating value across 2 different dimensions





Socioemotional Wealth

- ✓ Benefits that family shareholders obtain from **non-economic aspects** of the company
- ✓ Stock of “**affective value**” that a family gets from its position as a blockholder in a company

-- Gómez-Mejia *et al.* (2007) ;
Berrone, Cruz, Gómez-Mejia
& Larraza-Kintana (2010)

F



FAMILY CONTROL AND INFLUENCE

Preservation of family control and independence are important goals for my family business.

I



IDENTIFICATION

Family members have a strong sense of belonging to my family business

B



BINDING SOCIAL TIES

My family business is very active in promoting social activities at the community level.

E



EMOTIONAL ATTACHEMENT

Emotions and sentiments often affect decision-making processes in my family business.
In my family business, affective considerations are often as important as economic considerations.

R



LEGACY (renewal of family bonds)

Continuing the family legacy and tradition is an important goal for my family business.

Successful business transfer to the next generation is an important goal for family members



CONTROL
4.13



IDENTIFICATION
3.97



LEGACY
3.86



**EMOTIONAL
ATTACHMENT**
3.77

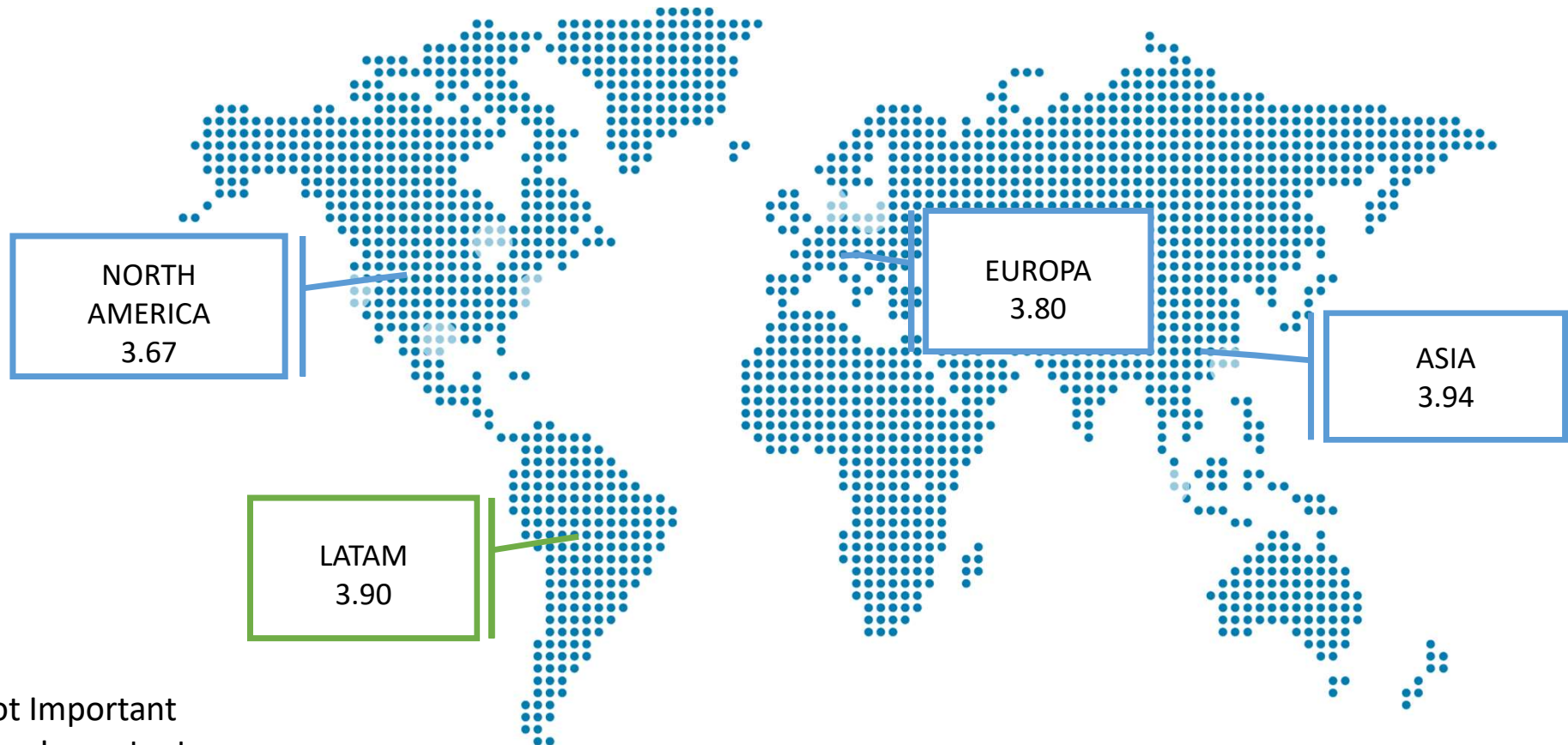


SOCIAL TIES
3.66

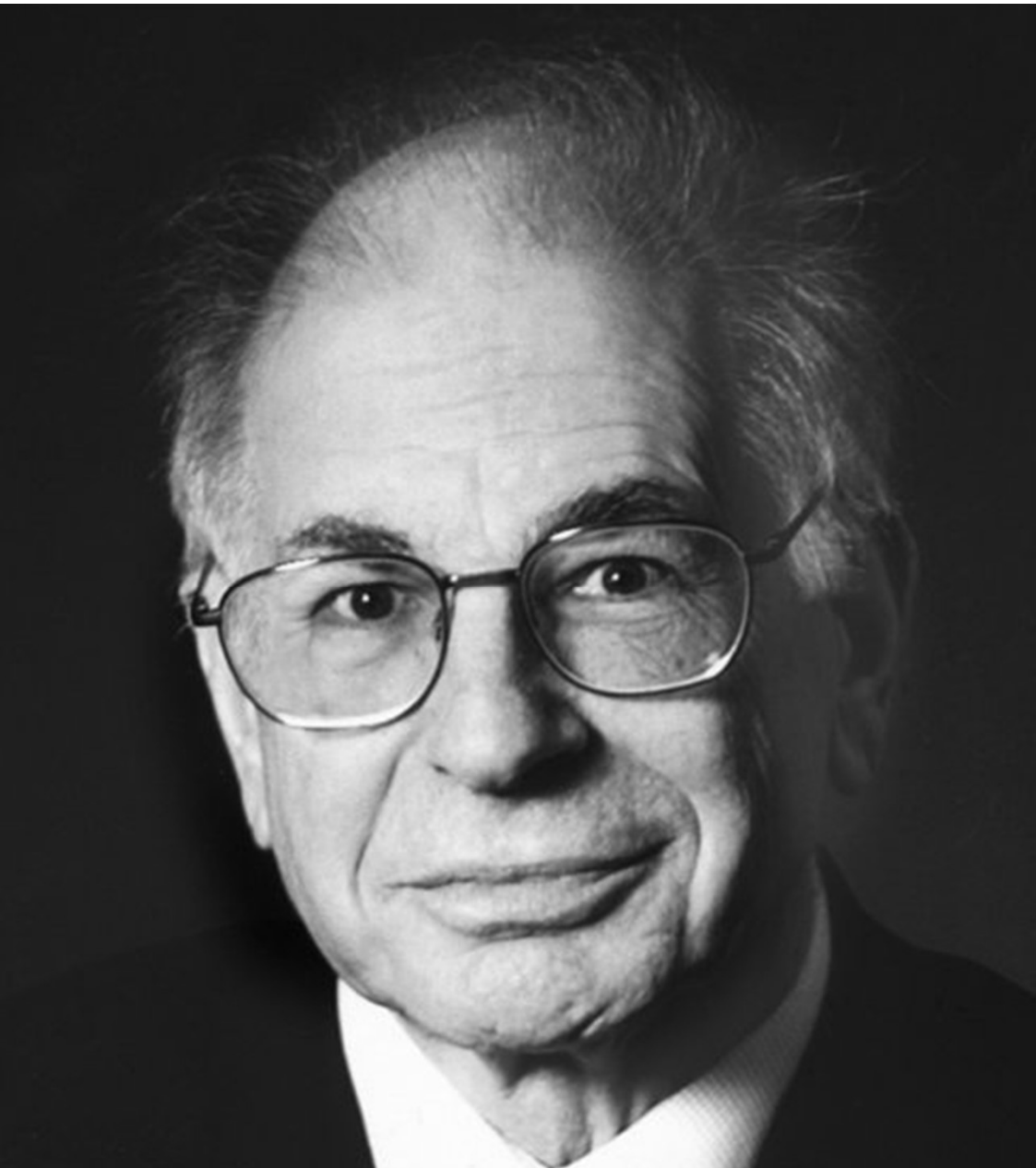
1 : Not Important
5 : Very Important

SEW by Region

SEW Average
3.88



1 : Not Important
5 : Very Important



**Pr. Daniel
Kahneman**

THE NOBEL PRIZE

What would you do?

- ✓ **OPTION 1**- 100% probability of gaining 3000 euros
- ✓ **OPTION 2** - 80% probability of gaining 4000 euros and 20% of not gaining anything



What would you do?

- ✓ **OPTION 1:** Loss of 3000 euros
- ✓ **OPTION 2:** 80% probability of losing 4000 euros and 20% of not losing anything





**80% probability of
increasing your profits
by 50% next year... but**

- ⇒ Sell 40% of the family firm to a private equity
- ⇒ Sell 51%?
- ⇒ Create a conflict with your siblings?
- ⇒ Jeopardize the family reputation?



**How much risk would
you take to save your
patrimony?**

Family owners are rational!! (and they are not risk averse)



**Generating
Financial Wealth**



AND

**Preserving
SEW**



Increasing popularity

- 2013 Research impact award from the Academy of Management Entrepreneurship division
- More than 23.000 references to “Socioemotional Wealth” in Google Scholar
- More than 1000 published articles that included Sew as a keyword



**In search of the “holy grail” : Is
SEW a competitive advantage
for families in business?**

Value creation in European Family Business (2001-2010)

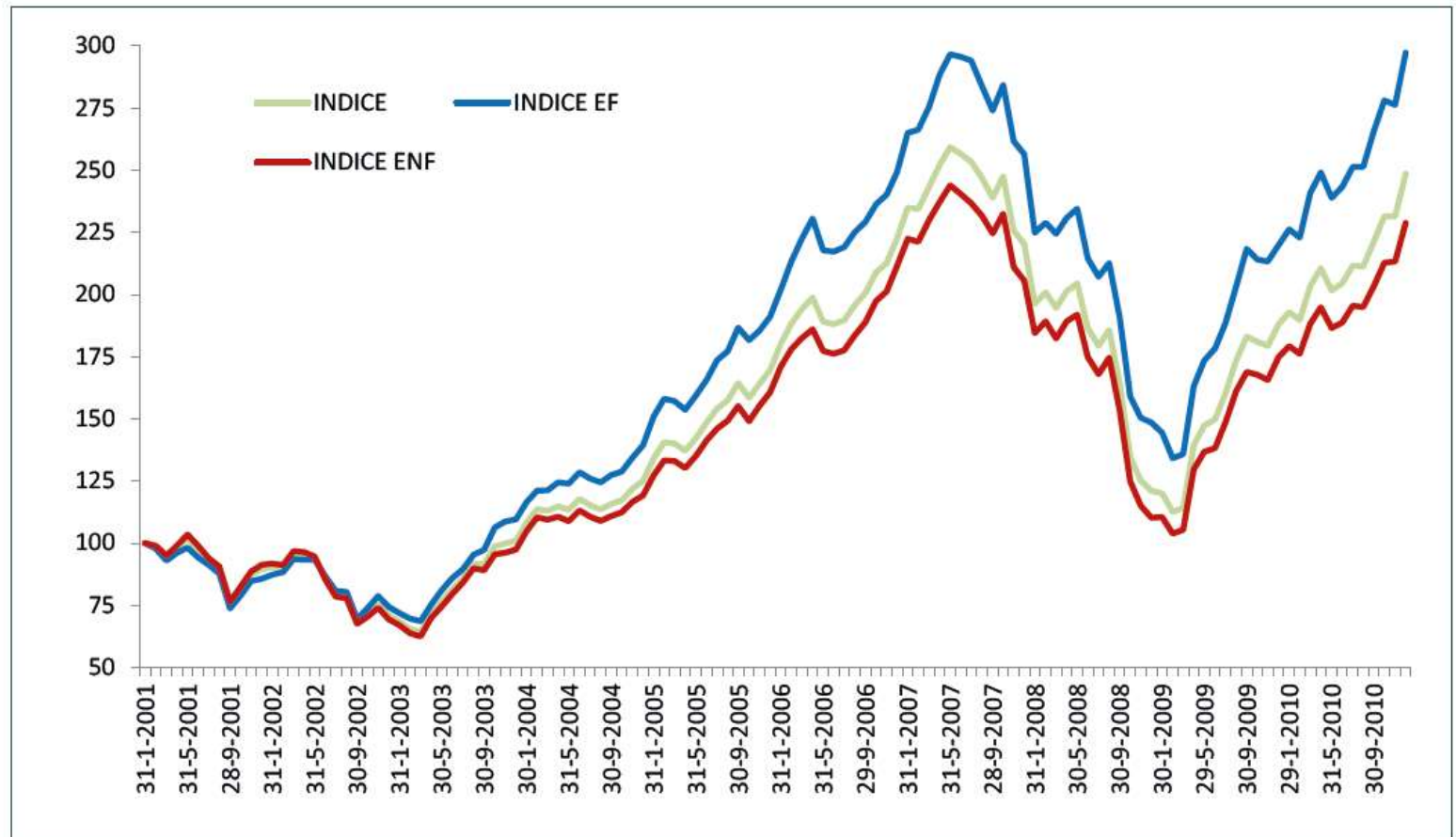


The Family Premium

 **BancaMarch**

 **ie** BUSINESS SCHOOL

Source: Cruz & Nuñez, 2013. La creación de valor en la empresa familiar cotizada.



Rentabilidad Anual Compuesta

EF

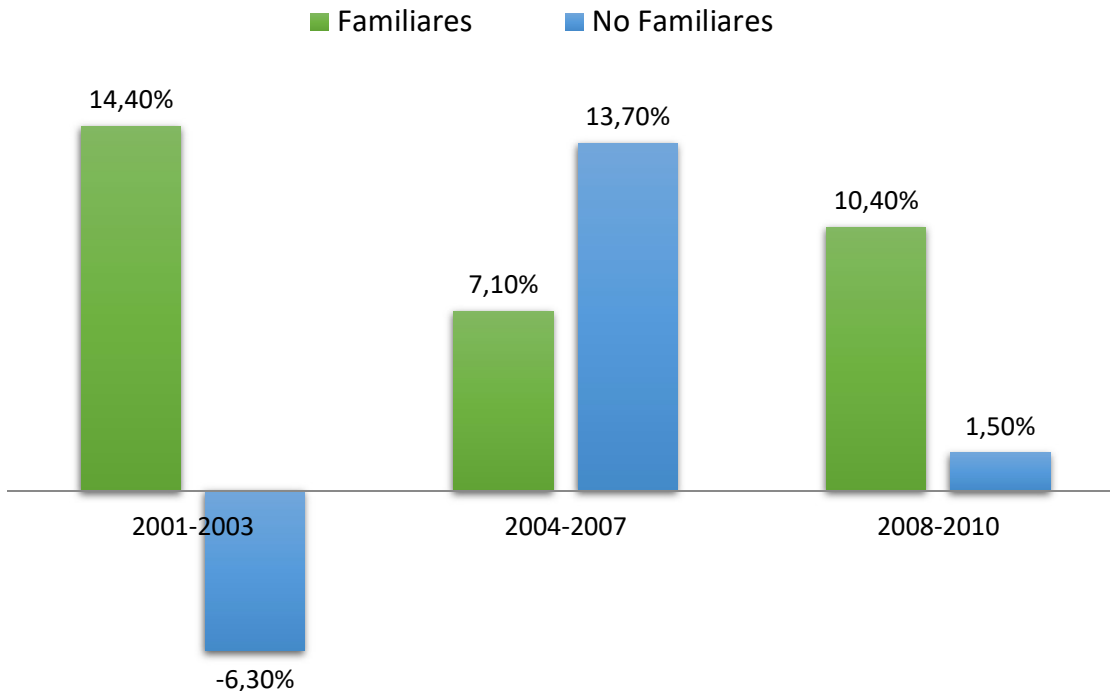
11,61%

ENF

8,70%

Resilient in Hard Times

Employment Growth



Investment in Fixed Assets (2001-2010)



The "key" role that Spanish family businesses played during the crisis, for their ability to create and maintain employment and for being able to continue investing in a high-risk environment

Francisco Ribera, Chairman, Gestamp

White Paper

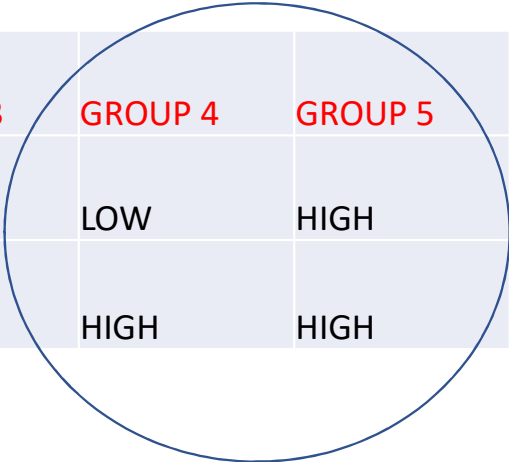
Cristina Cruz
Laura Jiménez



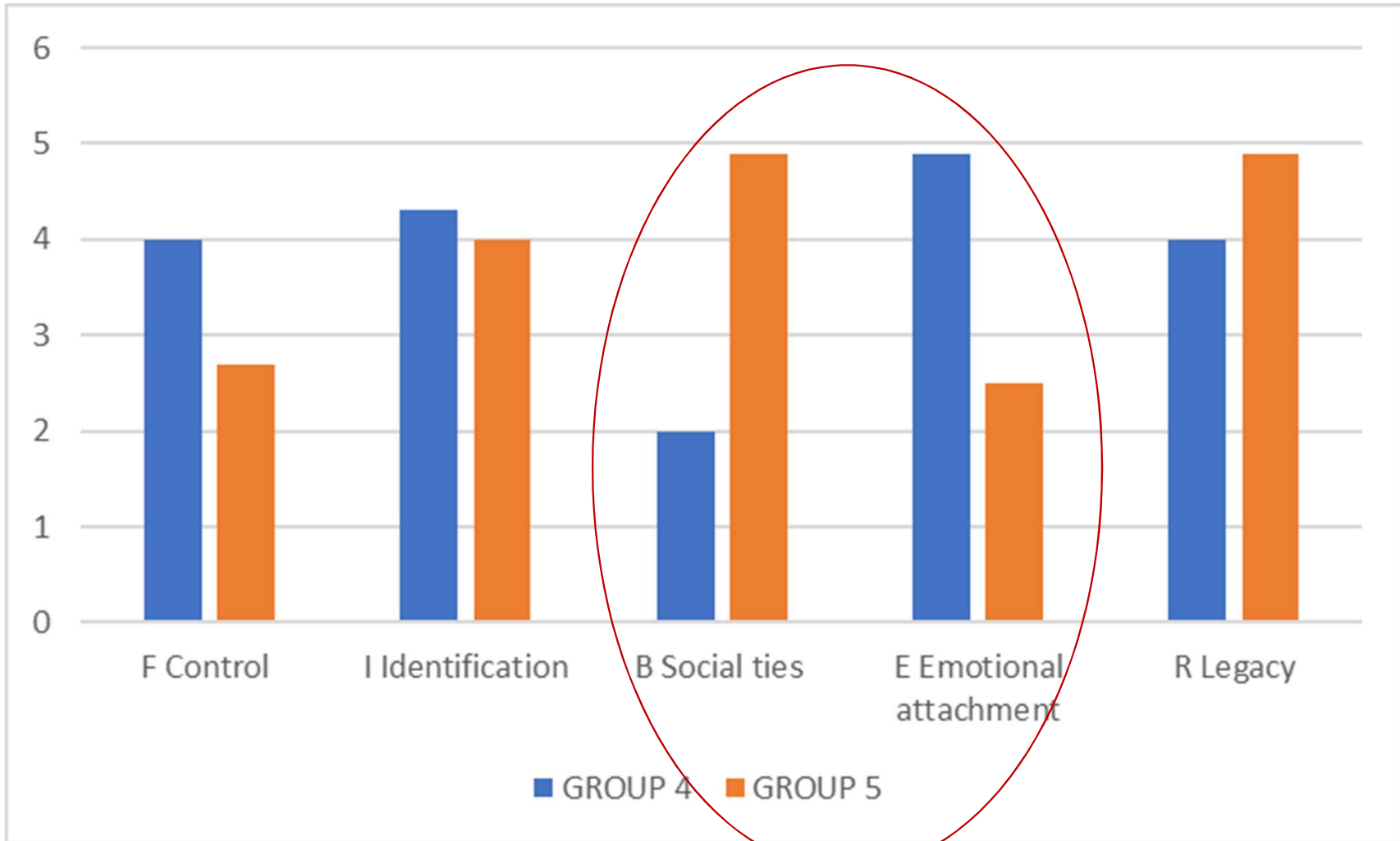
Latin American Entrepreneur Families: How to increase cross-generational potential?

How do SEW and FW relate to each other?

	GROUP 1	GROUP 2	GROUP 3	GROUP 4	GROUP 5
FINANCIAL WEALTH	AVERAGE	AVERAGE	LOW	LOW	HIGH
SOCIOEMOTIONAL WEALTH	AVERAGE	AVERAGE	LOW	HIGH	HIGH



- Survey to more than 300 business families in LATAM
- SEW is needed to create FW
- Having high SEW does not ensure FW creation



The “bright side” of SEW:

Strong stakeholder relationships

“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



The “dark side” of SEW:

Emotional attachment

In 1998, LEGO manufactured more parts than those needed to make a Boeing

“Values have made this company too undisciplined”

-- Jorgen Krudstorp – Ex CEO



The old mindset



CONTROL

How can we
grow while
keeping
control?



How can we grow
while maintaining
family unity?



GROWTH

The new mindset



CONTROL

How can we
create value
across
generations?

From the *family
business* to the
family in business



How can we
maintain family
cohesión?



GROWTH

What to be transfer in a generational transition process ?



**FAMILY
CONTROL**



**FAMILY
VALUES**



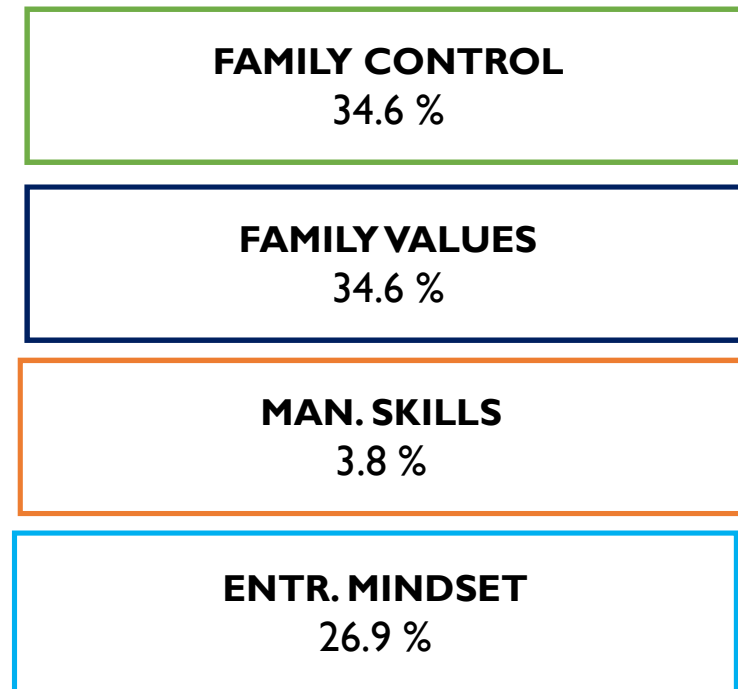
**ENTREPRENEURIAL
MINDSET**



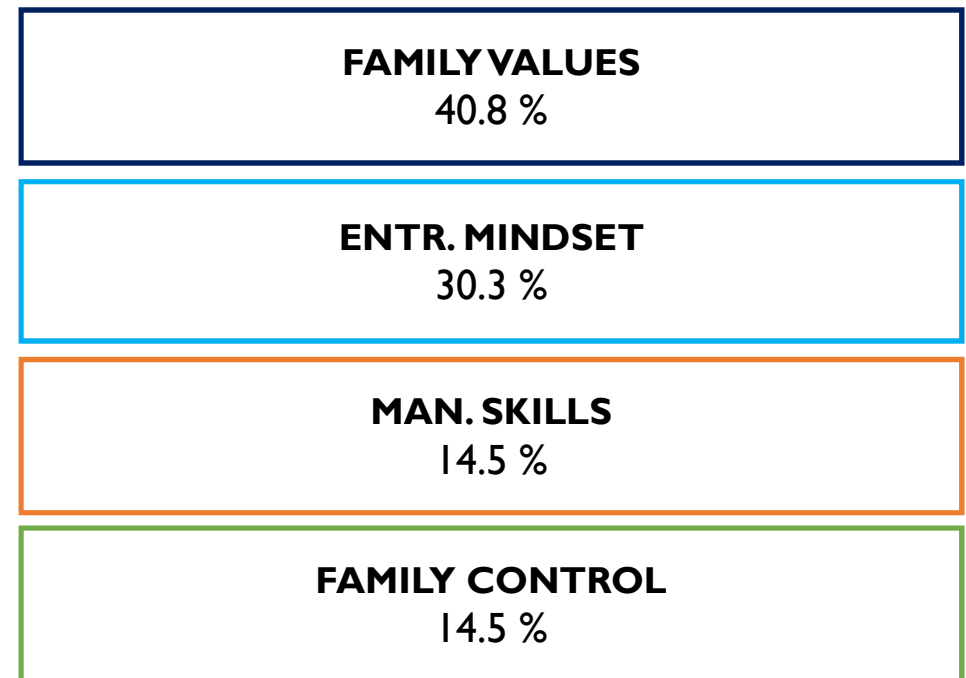
**MANAGEMENT
SKILLS**

A different meaning of legacy

GROUP 4



GROUP 5



The Mulliez' “galaxy”

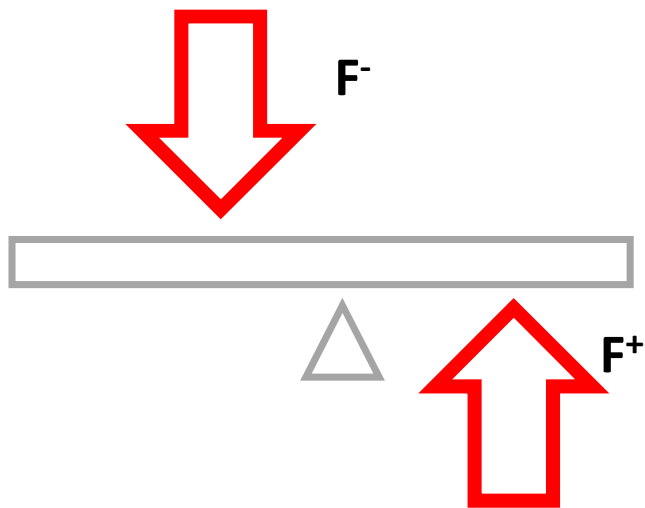


- 300 000 + employees
- **> 700 FAMILY MEMBERS**



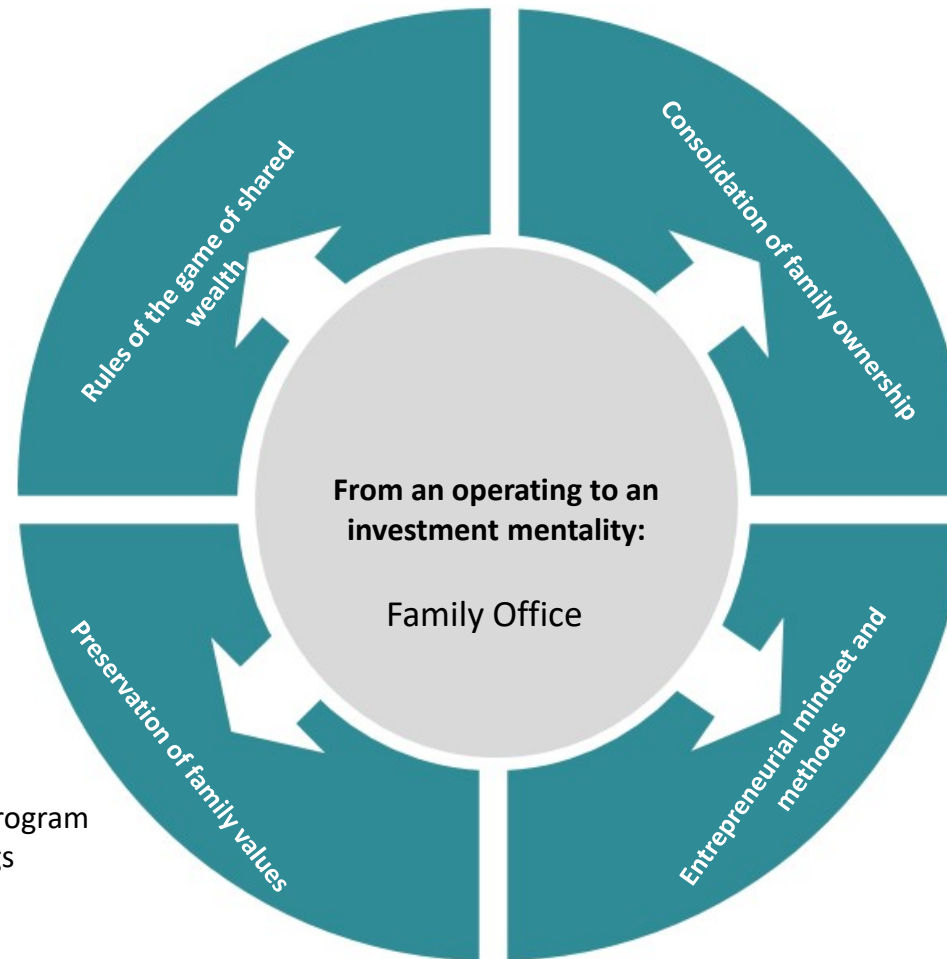
The real challenge–

- How can a family in business keep family assets from becoming liabilities to their growth?
- How to transform our SEW into competitive advantages?



Toolsets

- Family Governance
- Family Protocol
- Shareholder Agreement



- Holding
- Other vehicles

- Investment Strategy
- Family Fund
- Seed Family Capital

- Philanthropy program
- Family Meetings

Source: Cruz, C. and Jimenez, L. 2018. Transferring wealth while keeping ambition alive. IE-Credit Suisse White Paper

SUCCESS: *The art of managing paradoxes* —————

“

*Preoccupation with striking the right balance between passion **and** reason, between prudence **and** audacity, between innovation **and** tradition...*

-- Experience to Expertise
Lombard Odier (2009)



SOLVING A PROBLEM VERSUS MANAGING A PARADOX!!!!



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