Social entrepreneurship & Family firms

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 not only. They are also associated with a revolution in finance and are at the head of a new set of practices: investing for return and impact. But why are prominent business families engaging on this path? And what are the behavioral mechanisms leading to it? In our research, we find that individuals in business families use impact investing to build their own identity by either *building on*, *reshaping*, or *deconstructing* their family's legacy.

Probing one's legacy: the journey towards impact investing among business families' members

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In 2007, the Rockefeller family gathered experts from the business and the social sector to explore new ways of investing that would create positive externalities for 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 entrepreneurial dynasties 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 ten business families leading the field of impact investing in Europe.

What we find is that in each family, one member was responsible for the impact investing initiative and their journey towards impact investing was a journey of building their own identity and probing their family's legacy. Impact investing is an interesting mirror for business families as it responds to the balancing act they have come to be 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. What we find is that members of business families may have two contrasting views on their family which seem to be directly linked to their identity building process as individuals and fuel their engagement in impact investing. In the first one, the individual sees *coherence* in the way their family has been balancing financial and non-financial considerations and recalls 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 builds 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"*. In contrast, individuals may find their way towards impact investing through a growing discomfort they feel towards the incongruence of their family 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. Growing up in a banking family, one of our participants knew he didn't want to become a banker in the traditional profit-maximization way 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 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. This was illustrated by one of our participants who decided to sell the family business to set up an impact fund, as he 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? A 180 degrees type of different company?*".

These three ways represent three possible journeys through which business families' members may engage in impact investing, by either building on, reshaping, or deconstructing their legacy. As impact funds advise or work with them, considering the legacy and identity building process these individuals are going through should hopefully lead to more fruitful impact investments and benefit society at large.

Note: The business families mentioned in the article's summary 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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