

# White Paper

Cristina Cruz  
Laura Jiménez



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

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## White Paper

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

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### Authors

#### Cristina Cruz

Professor and Chair, Department of Entrepreneurship

#### Laura Jiménez

Research Assistant, Department of Entrepreneurship

With the collaboration of Horacio Arredondo, Executive  
Director of the Family Business Center, Universidad  
Adolfo Ibáñez (Chile)

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### Credit Suisse AG

Paradeplatz 8

8070 Zurich

Switzerland

[www.credit-suisse.com](http://www.credit-suisse.com)

The aim of this White Paper is to help business families create value over generations and to become families with strong transgenerational potential. In order to do this, it must first be determined what sets these business families apart. After evaluating over 200 surveys conducted with members of Latin American business families, the investigation concludes that being a family with strong transgenerational potential requires the generation of not just financial wealth, but also socioemotional wealth. This requires achieving a "dual balance," which involves 1) finding the right balance between exploiting existing resources and exploring new business opportunities (ambidextrous organization), and 2) balancing the various aspects of socioemotional wealth to ensure they serve to provide competitive advantages.

Secondly, this white paper assesses the obstacles that prevent other business families from achieving this dual balance. To do so, it classifies different types of business families since these obstacles will vary depending on the type of business family. First, there are families with moderate transgenerational potential – highly efficient families, highly entrepreneurial families, and highly emotional families – that have not found the right balance despite being capable of producing some financial wealth and maintaining certain socioemotional goals. On the other hand, we have the families with low transgenerational potential, which do not have a defined strategic direction and do not keep any of their socioemotional stock except for family control.

Lastly, this white paper assesses the best practices from the perspective of family/business/equity that have enabled families with strong transgenerational potential to achieve this dual balance. Based on these best practices and the types of business families identified, it establishes several recommendations to help all business families enhance their transgenerational potential, i.e. their capacity to create value over generations.

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# Introduction

Creating long-term economic value is the great challenge facing every business, whether family-controlled or not. This challenge is affected by constant changes in the environment. Markets change, consumers change, institutional environments change, and this forces firms to redefine their business models in a process of continual adaptation. This is why concepts such as innovation and entrepreneurial mindset have become mainstays of business discussions in recent years. Nonetheless, intense competition also puts pressure on the delivery of a unique value proposition, supported by operational excellence defined by ever lower cost structures.

In this competitive landscape, business leaders must be able to guide their firms through what might, at first glance, seem a contradiction: honing their current competitive advantage while also challenging it in search of new sources of value creation. In other words, seeking the right balance between implementing the mechanisms necessary to manage existing assets more professionally and fostering an entrepreneurial mindset within the firm. This balance between exploitation of existing resources and exploration of new wealth opportunities lets their firms be “ambidextrous”: successful in stable periods but able to adapt to and/or anticipate changes in the environment.

Achieving the right balance between exploration and exploitation—becoming an “ambidextrous firm”<sup>1</sup>—has become the great challenge for firms in the twenty-first century. This strategic imperative may be relevant to all firms, but it is indispensable to the head of a family firm, since family proprietors’ transgenerational vision situates long-term value creation as the cornerstone

of their business strategy. Therefore, entrepreneurial families must make their firms ambidextrous: they must pursue operational excellence without neglecting to drive innovation to create value across generations.

That is not all, however. Besides the challenge of creating financial wealth, entrepreneurial families face the challenge of preserving their socioemotional wealth,<sup>2</sup> which includes noneconomic aspects such as passing down the founder’s legacy or maintaining family control of the firm. This socioemotional wealth, as we shall see in the White Paper, gives firms important competitive advantages. However, too much emphasis on some of these socioemotional goals can endanger the continuity of the entrepreneurial family.<sup>3</sup>

Twenty-first century entrepreneurial families thus face an ambitious challenge: creating financial wealth and preserving socioemotional wealth. This is achieved through a “dual equilibrium,” which must be able to balance, on the one hand, a strategic direction that combines exploration with exploitation to generate financial wealth, and on the other, an equilibrium between this financial wealth and the preservation of socioemotional wealth. Only entrepreneurial families that attain this dual equilibrium can be considered families with high transgenerational potential:<sup>4</sup> entrepreneurial families that can generate value across generations.

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<sup>1</sup> O’reilly III, C. A; Tushman, M. L. “Organizational Ambidexterity: Past, Present, and Future” *Academy of Management Perspectives* (2013), 27(4), 324–338

<sup>2</sup> Gomez-Mejia, Luis R; Cruz, Cristina; De Castro, J.2011. “The bind that ties: Socioemotional wealth preservation in family firms.” *The academy of management annals* 5.1 (2011): 653-707

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<sup>3</sup> Gómez-Mejía, Luis R., et al. “Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills.” *Administrative science quarterly* 52.1 (2007): 106-137

<sup>4</sup> Cruz, Cristina et al. “A conceptual model of transgenerational entrepreneurship in family-influenced firms” *The STEP research project* (2006)



Based on the above, the goal of this *White Paper* is to answer these questions:

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### The challenges of “dual equilibrium”

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*What challenges do families face when trying to achieve “dual equilibrium”?*

*What distinguishes entrepreneurial families that achieve dual equilibrium (high- transgenerational potential families)?*

*What are the main obstacles that keep the other families from achieving dual equilibrium?*

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### Best practices

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*What are the best practices of families with high transgenerational potential, i.e. families that achieve dual equilibrium?*

*What are the recommendations so that the other families can achieve dual equilibrium?*

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To meet this goal, we have surveyed 200 Latin American entrepreneurial families and interviewed more than 50 Latin American families (see Appendix O).

For several reasons, Latin America is an ideal context for analyzing the challenges of dual equilibrium that face entrepreneurial families. First, it is a business environment with tremendous uncertainty. This uncertainty is caused partly by the frequency and impact of economic cycles and partly by political changes, which complicates medium- and long-term decision-making, and by institutional aspects such as fragilities and rigidities in legal systems, lack of access to financing, and corruption, which make it complicated to do business in Latin America.

Nonetheless, it is precisely this uncertain environment that creates unique opportunities for entrepreneurship and innovation (exploration). These opportunities have not gone unnoticed by many international firms, which have invested in the region in search of superior returns on investment. This also has an impact on firms from the region, which must compete not only with their Latin American peers but also with firms with greater financial resources. In that context, the need to hone their current competitive advantages (exploitation) also becomes a relevant strategic imperative.

Hence the need for Latin American firms to be flexible, but at the same time efficient and effective. It also means that Latin American entrepreneurial families need to find dual equilibrium as fast as possible, so they can become families with high transgenerational potential.





# The challenges of “dual equilibrium”

## *First challenge for entrepreneurial families:* Balancing exploitation and exploration to create long-term financial wealth

Regardless of whether a business is family-controlled or not, firms may opt to focus their strategy, and by extension their resources, on achieving two types of action:

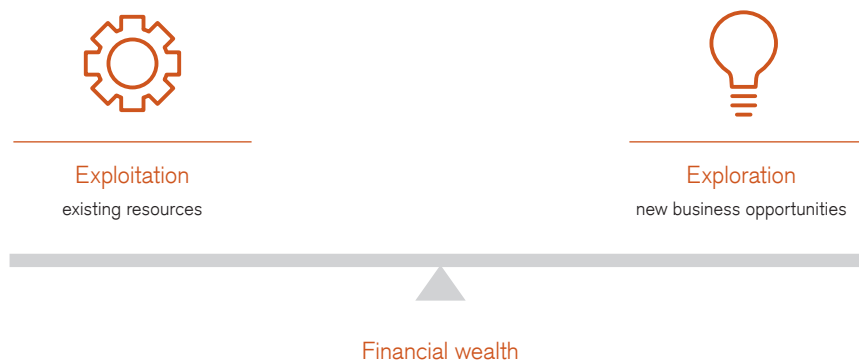
**Exploiting** the known, refining the competitive advantages of their core business to become ever more efficient and productive.

**Exploring** the unknown, innovating with new products, new markets, or both, with the goal of anticipating changes in the environment and establishing new business lines to increase competitiveness.<sup>5</sup>

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Figure 1. Financial wealth (Exploitation vs. Exploration)<sup>1</sup>

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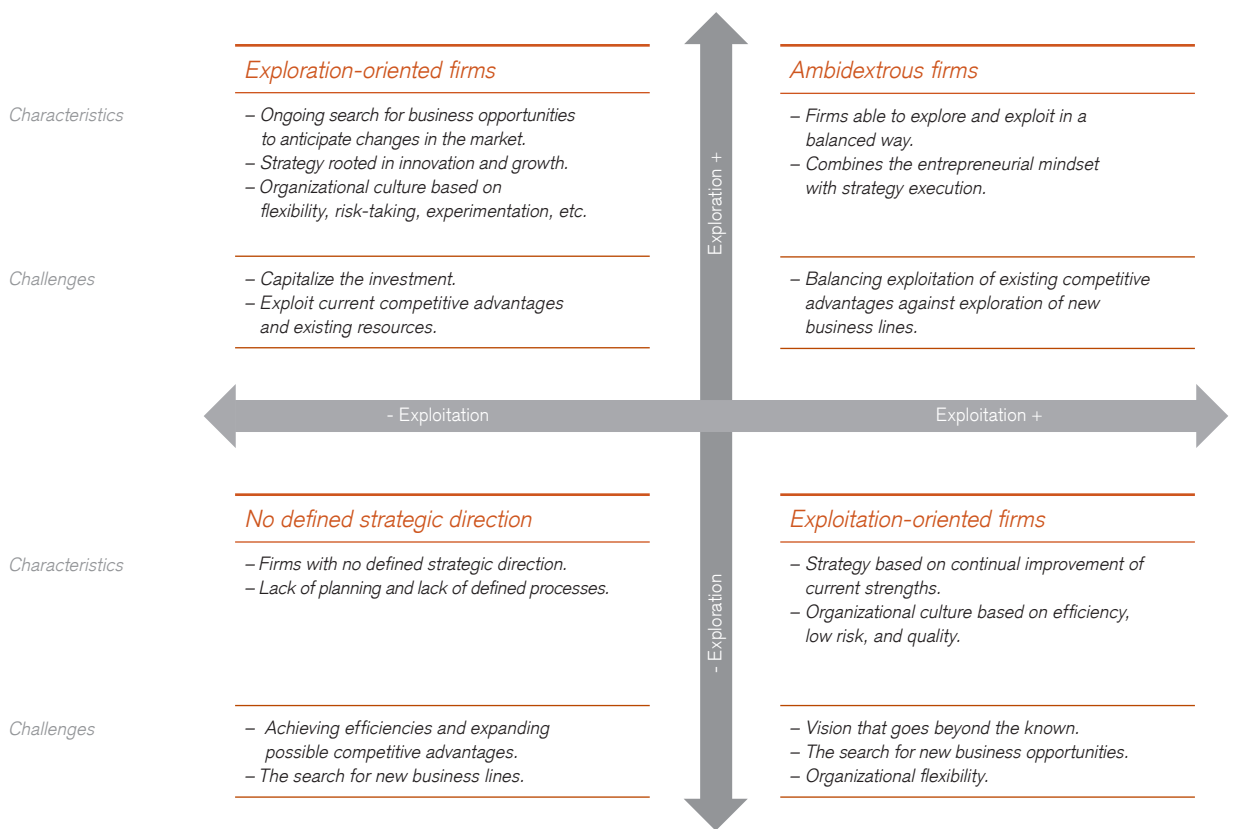
<sup>5</sup> O'reilly III, C. A; Tushman, M. L. "Organizational Ambidexterity: Past, Present, and Future" *Academy of Management Perspectives* (2013), 27(4), 324–338

<sup>1</sup> Source: Authors' work.

As a result, a business strategy may be more focused on the search for new business opportunities (exploration), on honing current competitive advantages (exploitation), or on a combination of the two (see Figure 2).

Creation of long-term financial wealth is possible through a business strategy that can strike a balance between exploitation and exploration. As Figure 2 shows, this balance is complicated, since implementing each action requires different business structures and requires leaders with very different abilities. Firms that can address this dilemma and find a strategy that balances, on the one hand, continual improvement of current strengths (exploitation) and, on the other, the search for new business opportunities (exploration) are known as ambidextrous firms.<sup>6</sup>

Figure 2. Characteristics and challenges of firms based on their strategic direction<sup>2</sup>



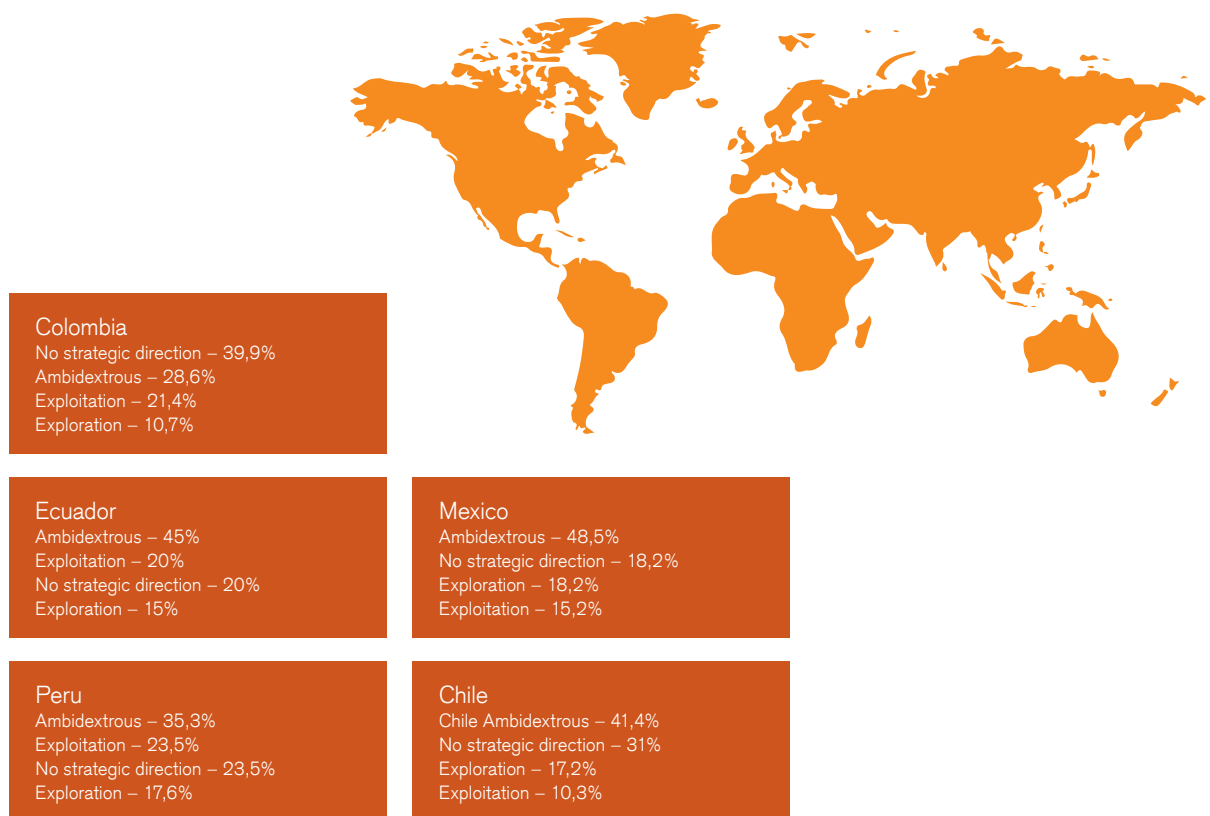
<sup>6</sup> Junni, P., Sarala, R. M., Taras, V., & Tarba, S. Y. "Organizational Ambidexterity and Performance: A Meta-Analysis" Academy of Management Perspectives (2013), 27(4), 299–312

<sup>2</sup> Source: Adapted from O'reilly III, C. A; Tushman, M. L. "Organizational Ambidexterity: Past, Present, and Future" Academy of Management Perspectives (2013), 27(4), 324–338.

To learn how Latin American family firms balance their exploration and exploitation activities, the surveyed parties were asked a series of questions that measure their firms' strategic direction (Appendix 1A).

An analysis of their replies reflects important variations between different Latin American countries regarding the strategic direction of their family firms (see Figure 3). This reinforces how important it is to know the economic and social specifics of each country when designing strategies intended to create value for entrepreneurial families.

Figure 3. Strategic direction of family firms in Latin America<sup>3</sup>



<sup>3</sup> Source: Authors' work based on a survey of 200 Latin American entrepreneurial families.



# Second challenge for entrepreneurial families

## Balancing the achievement of economic and socioemotional goals

The goal of entrepreneurial families goes beyond just obtaining financial earnings. As already mentioned in the White Paper “Transferir el patrimonio sin matar la ambición” [Transferring wealth without killing ambition],<sup>7</sup> through family firms, entrepreneurial families also seek to achieve another type of goal, such as transmitting the founder’s legacy, providing jobs for family members, retaining control of the firm, and maintaining the family’s reputation. Recent research refers to such goals collectively as socioemotional wealth. Families’ desire to preserve their socioemotional wealth<sup>8</sup> defines their strategic decision-making.

Figure 4 reflects the dimensions that make up this socioemotional wealth (FIBER model<sup>9</sup>).

Figure 4. Dimensions of socioemotional wealth (FIBER model)

- 
- F** **Family control and influence**  
The family’s desire to exercise control and influence over the company’s decision-making

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  - I** **Identification of family members with the firm**  
Family members’ strong sense of identification with the firm

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  - B** **Binding Social Ties**  
Strong emotional ties within the family and between the family and the firm

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  - E** **Emotional attachment of family members**  
Strong emotional ties within the family and between the family and the firm

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  - R** **Renewal of family bonds through dynastic succession**  
The family’s strong desire for continuity and passing the firm down to future generations as a legacy
- 

<sup>7</sup> Cruz, C. Jiménez, L. “Soluciones para familias empresarias: transferir el patrimonio sin matar la ambición”. Credit Suisse-IE White Paper (2016)

<sup>8</sup> Gómez-Mejía, Luis R., et al. “Socioemotional Wealth and Business Risks in Family-Controlled Firms: Evidence from Spanish Olive Oil Mills.” *Administrative Science Quarterly* 52.1 (2007):106–137

<sup>9</sup> Berrone, P; Cruz, C; Gomez-Mejia, L. “Socioemotional Wealth in Family Firms Theoretical Dimensions, Assessment Approaches, and Agenda Future Research.” *Family Business Review* 25.3 (2012): 258–27  
Second challenge for entrepreneurial families. Balancing the achievement of economic and socioemotional goals 13/

To measure socioemotional wealth and its dimensions, the survey included the questions shown in Appendix 1B. The answers to these questions reflect the fact that every family is different depending on the importance it gives to each aspect of socioemotional wealth.

Thus, Figure 5 again shows that Latin America is a very diverse region, because the importance that entrepreneurial families place on socioemotional wealth and on each of its dimensions varies by country. This is why finding out each family's socioemotional goals is very important.

Figure 5. Socioemotional Wealth and its dimensions in Latin American entrepreneurial families<sup>4</sup>



<sup>4</sup> Source: Authors' work based on a survey of 200 Latin American entrepreneurial families.





For any entrepreneurial family, preservation of socioemotional wealth is vital<sup>10</sup>. The inclusion of these socioemotional goals in strategic decision-making gives firms important competitive advantages, contributing to the creation of financial value. For example, the desire to pass down a legacy helps strengthen the company's long-term direction, while the family's sense of identification with the firm can help bolster the company's image in the market. However, if socioemotional goals play an excessive role in

strategic decision-making, they can become a competitive disadvantage, destroying value instead of creating it. For instance, a strong desire to maintain family control over decisions can encourage nepotism and hinder the attraction of outside capital, limiting growth of the business.

Table 1 summarizes the effects of the dimensions of Socioemotional Wealth as competitive advantages and competitive disadvantages.

Table 1. Dimensions of socioemotional wealth as Competitive Advantages and Disadvantages<sup>5</sup>

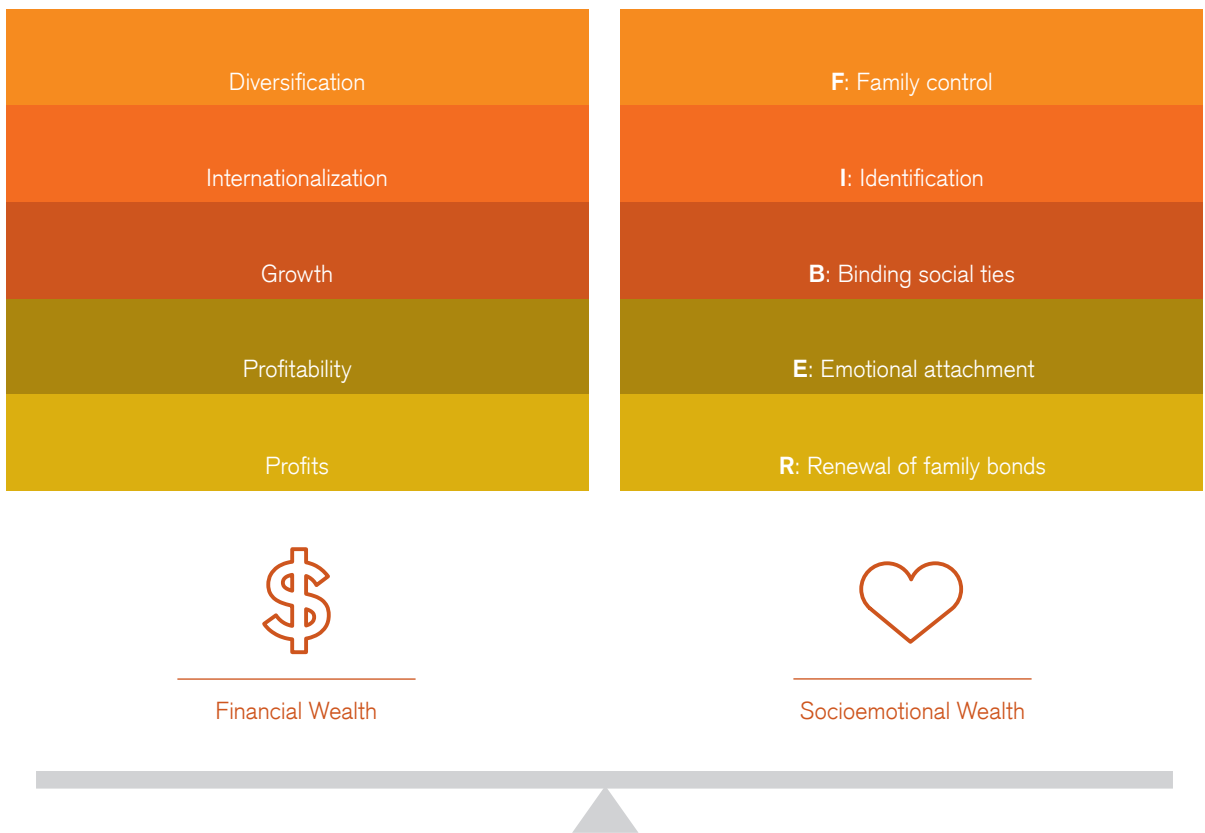
<i>Competitive Advantages</i>	<i>Competitive Disadvantages</i>
<b>F (Family control) The family's desire to exercise control and influence over the company's decision-making</b>	
<ul style="list-style-type: none"> <li>- Strong leadership</li> <li>- Agile decision-making</li> <li>- Shared vision</li> </ul>	<ul style="list-style-type: none"> <li>- Limited strategic thinking</li> <li>- Difficulty attracting outside talent</li> <li>- Risk aversion</li> <li>- Underdeveloped governance</li> </ul>
<b>I (Identification) Family members' strong sense of identification with the firm</b>	
<ul style="list-style-type: none"> <li>- Shared vision</li> <li>- Company's reputation</li> <li>- Family's commitment</li> </ul>	<ul style="list-style-type: none"> <li>- Blurred line between business decisions and family decisions</li> <li>- Inertia</li> <li>- Difficulty letting go of unproductive assets</li> </ul>
<b>B (Binding social ties) The family's desire to establish lasting relationships with internal and external stakeholders (employees, clients, suppliers, etc.)</b>	
<ul style="list-style-type: none"> <li>- The firm's reputation and visibility</li> <li>- Long-term relationships</li> <li>- Trust-based contractual relationships</li> </ul>	<ul style="list-style-type: none"> <li>- Absence of meritocracy</li> <li>- Lack of professionalization</li> <li>- Resistance to change</li> </ul>
<b>E (Emotional attachment) Strong emotional ties between the family and the firm</b>	
<ul style="list-style-type: none"> <li>- Family cohesion</li> <li>- Business culture based on the family's values</li> <li>- Trust-based contractual relationships</li> </ul>	<ul style="list-style-type: none"> <li>- Family interests take precedence over business interests</li> <li>- Non-objective, highly emotional decisions</li> <li>- Lack of professionalization</li> </ul>
<b>R (Renewal of the Family Bonds) The family's strong desire for continuity and passing the firm down to future generations as a legacy</b>	
<ul style="list-style-type: none"> <li>- Long-term vision</li> <li>- Transmission of the family's values</li> <li>- Incorporating new generations</li> </ul>	<ul style="list-style-type: none"> <li>- Risk aversion</li> <li>- Loss of short-term investment opportunities</li> </ul>

<sup>10</sup> Gómez-Mejía, L; Cruz, C; Berrone, P; De Castro, J. "The Bind That Ties: Socioemotional wealth preservation in family firms" The Academy of Management Annals (2011)



Therefore, the second great challenge facing entrepreneurial families lies in preserving their socioemotional wealth and ensuring the optimal mix of dimensions of that wealth to provide competitive advantages (Figure 6).

Figure 6. Financial wealth vs. socioemotional wealth<sup>6</sup>



<sup>5,6</sup> Source: Authors' work.



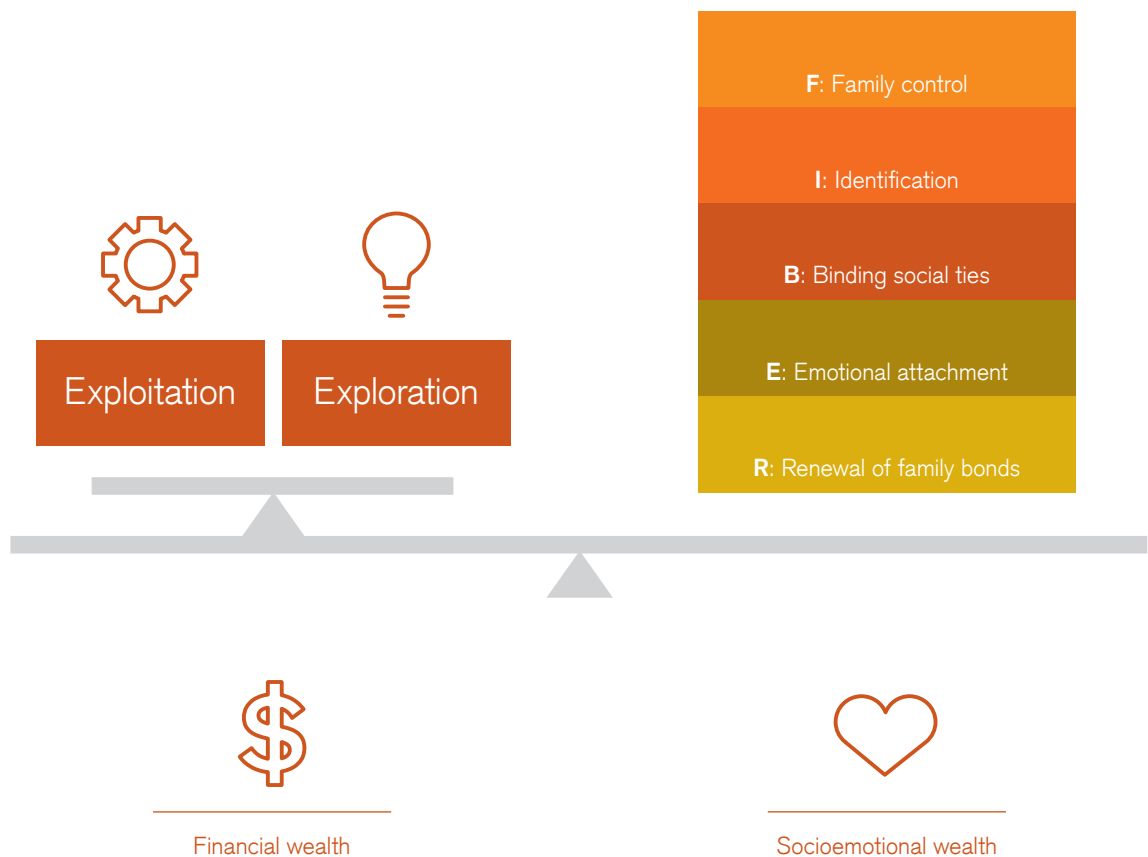
# The great challenge: creating value across generations

## The “dual equilibrium” of entrepreneurial families.

Entrepreneurial families therefore face the challenge of creating value in two dimensions: financial wealth and socioemotional wealth. To achieve this, they must be able to reach a “dual equilibrium”: on the one hand, finding the right balance between exploitation and exploration to

create financial wealth (turning their firms into ambidextrous businesses), and on the other hand, striking the right balance between the various dimensions of socioemotional wealth to provide competitive advantages (Figure 7).

Figure 7. The “dual equilibrium” of entrepreneurial families.<sup>7</sup>



<sup>7</sup> Source: Authors' work.

Families that achieve this dual equilibrium are those that can be considered “families with high transgenerational potential”: families that have the potential to create value in both dimensions—financial and socioemotional—across generations.

To identify families with high transgenerational potential, we have analyzed whether it was possible to identify homogeneous groups of entrepreneurial families based on how they face the challenge of creating financial and socioemotional value.<sup>11</sup> This analysis found five distinct groups of entrepreneurial families (for a detailed analysis of the process that established the different groups, see Appendix 2).

The analysis shows, first of all, important differences among the five groups regarding the value created in the two dimensions. As shown in Table 2a, the entrepreneurial families in Group 5 are those that have generated the most financial wealth compared to their competitors in the last five years,<sup>12</sup> and are also the families that give the most importance to socioemotional wealth.<sup>13</sup> Conversely, the Group 3 families generated the least financial wealth and place the least value on socioemotional wealth. Notably, the Group 4 families, despite placing great importance on preserving socioemotional wealth, have not been able to create financial value.

Table 2a. Importance of financial and socioemotional wealth in groups of entrepreneurial families

	<i>Group 1</i>	<i>Group 2</i>	<i>Group 3</i>	<i>Group 4</i>	<i>Group 5</i>
Creating financial wealth	Medium	Medium	Low	Low	High
Preserving socioemotional wealth	Medium	Medium	Low	High	High

<sup>11</sup> We grouped them using a cluster-based statistical technique. Cluster analysis seeks to create classifications in which individuals in the same cluster are as similar to one another as possible while each cluster is as dissimilar to the other clusters as possible.

<sup>12</sup> See Appendix 2: Chart 11a “Last five years’ growth compared to the competition”

<sup>13</sup> Socioemotional wealth was measured based on the questions in Appendix 1b.

The cluster analysis also confirms that the only firms that meet CHALLENGE 1—achieving a balance between the thorough exploitation of existing resources and thorough exploration of new business opportunities (ambidextrous organization)—are the firms in Group 5 (Table 2b). Conversely, the firms in Groups 3 and 4 do not meet this challenge, for the lack of a defined strategic direction, this means low levels of exploitation and exploration.

Table 2b.Challenge 1: Balance between exploitation and exploration in groups of entrepreneurial families

<i>Challenge 1</i>	<i>Group 1</i>	<i>Group 2</i>	<i>Group 3</i>	<i>Group 4</i>	<i>Group 5</i>
Importance of exploitation	High	Low	Low	Low	High
Importance of exploration	Low	High	Low	Low	High

Analysis also shows major differences between the groups regarding the combination of their socioemotional goals, in other words, differences in how they face CHALLENGE 2 (Table 2c). Since the firms in Group 5 are the ones that generated the most financial wealth, we can conclude that what characterizes this group of families is an optimal mix of socioemotional goals that lets them turn socioemotional wealth into a source of competitive advantages. Table 2c shows that this combination involves giving great importance to identification, binding social ties, and renewal of family bonds, and moderate importance to family control and emotional attachment.

For the families in Group 4, though they place high importance on preserving socioemotional wealth, their mix of socioemotional goals is very different from that of the Group 5 families, as emotional attachment has considerable weight. This combination has a negative effect on creation of financial wealth and becomes a competitive disadvantage for the entrepreneurial family.

Table 2c. Balance among socioemotional wealth dimensions in groups of entrepreneurial families

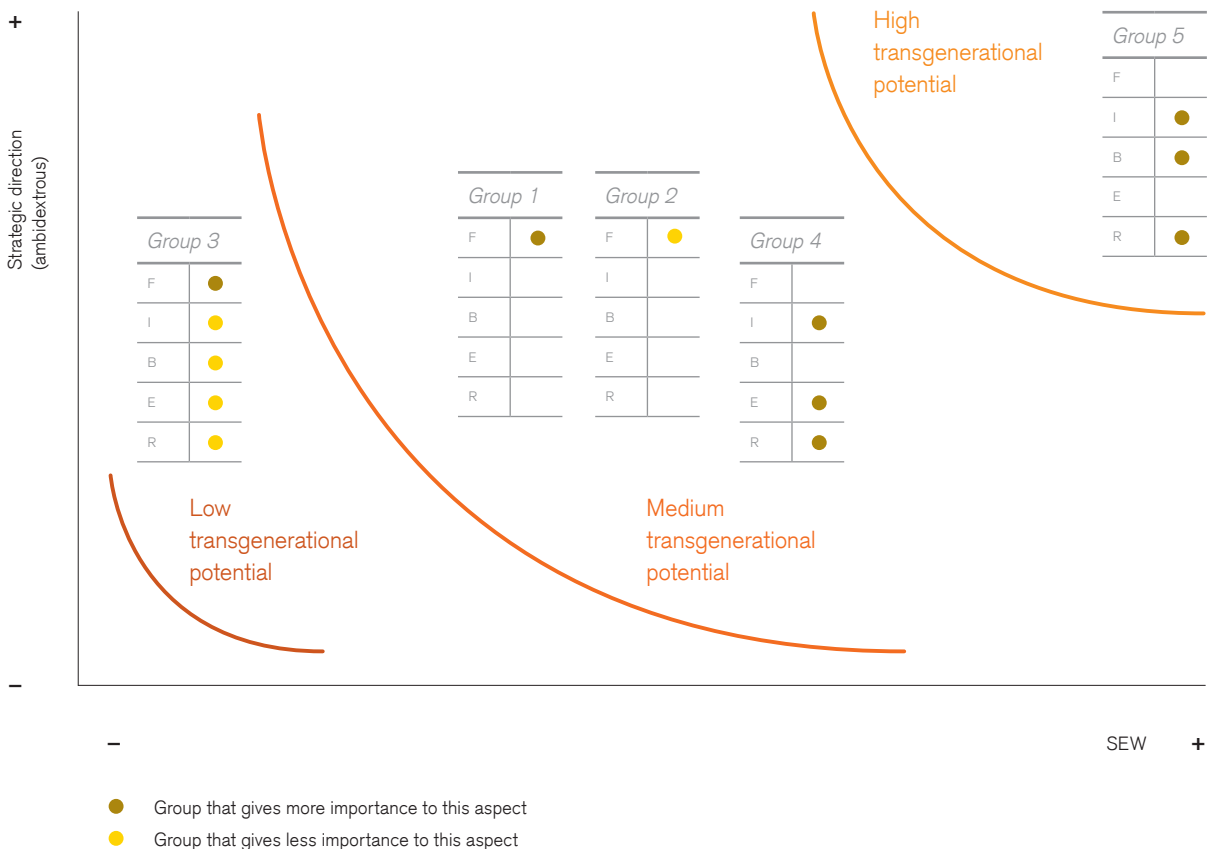
	<i>Grupo 1</i>	<i>Grupo 2</i>	<i>Grupo 3</i>	<i>Grupo 4</i>	<i>Grupo 5</i>
Importance F (Family control)	High	Low	High	Medium	Medium
Importance I (Identification)	Medium	Medium	Low	High	High
Importance B (Binding social ties)	Medium	Medium	Low	Medium	High
Importance E (Emotional attachment)	Medium	Medium	Low	High	Medium
Importance R (Renewal of family bonds)	Medium	Medium	Low	High	High

Based on this analysis, we can conclude that Group 5 families are the only ones able to achieve dual equilibrium and therefore are the only ones that can be considered families with high transgenerational potential: entrepreneurial families with a high capacity to create value across generations.

Conversely, the Group 3 entrepreneurial families did not achieve dual equilibrium, for they lack a defined strategic direction (low tendency towards exploration and exploitation) and the only socioemotional element they give much importance to is family control. Therefore, their ability to create value across generations is low, and they thus have low transgenerational potential.

Figure 8 shows that the entrepreneurial families in the other groups (1, 2, and 4) have medium transgenerational potential, for although they have been able to generate financial wealth and preserve a certain stock of socioemotional wealth, the lack of balance between the two identified challenges threatens the creation of long-term value.

Figure 8. Entrepreneurial families' transgenerational potential<sup>8</sup>



<sup>8</sup> Source: Authors' work.

# Types of entrepreneurial families

Based on each group's transgenerational potential, we can establish a typology of entrepreneurial families, as described below:

## High transgenerational potential

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Group 5

Families with high transgenerational potential



- They maintain a suitable balance between exploring new business opportunities and exploiting existing resources (ambidextrous family firms)
  - They give much importance to preserving socioemotional wealth, highlighting the following aspects:
    - There is a strong identification between the family and the firm
    - They give great importance to establishing lasting relationships with the company's internal stakeholders (employees) and external ones (clients, community, etc.)
    - There is a strong intent to pass the legacy down to the next generation
  - Maintaining control of family firms is important, but it is not a foremost part of strategic thinking
  - The entrepreneurial family serves the family firm, not the other way around, and therefore emotional influence on decision-making processes is limited
- 

## Medium transgenerational potential

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Group 1

Medium transgenerational potential



- They adopt a traditional strategy, based on exploiting their current competitive advantage. Though in the short term this strategy may be profitable, an emphasis on exploitation over exploration can pose a risk to long-term value creation
  - Innovation is difficult for these families since the most important aspect of their socioemotional wealth is maintaining family control of the firms, a control that could be threatened if the family decides to invest in the search for new opportunities
  - The family's strong influence on the operation of family firms makes it hard to develop strategic thinking among the family proprietors
  - The emphasis on family control makes it hard to attract talent from outside the family
- 

Group 2

Highly entrepreneurial families



- They are characterized by a tendency towards exploration, prioritizing the search for new business opportunities over refining their core competitive advantages. This generates a great deal of risk, since the entrepreneurial initiatives are not supported by a clear competitive advantage
  - Family control of businesses is not an end in itself, since they understand that entrepreneurship involves letting go of nonproductive assets in search of new assets
  - Despite the positive aspects of this strategy, the other elements of socioemotional wealth (other than the desire for continuity) are low, and so if faced with a lack of familial cohesion, the entrepreneurial family may end up losing its identity as a family and jeopardize continuity of the family firm
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Group 4

Highly emotional families

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- They lack a defined strategic direction and have low levels of exploration and exploitation
  - There is a strong emotional attachment between the family and the firm. The family firm serves the entrepreneurial family, prioritizing the family's well-being over achieving financial goals
  - They are families that identify strongly with the firm and have a strong desire to pass the legacy down to future generations. However, at the same time, they are very inward-looking families, in which the desire to establish relationships with stakeholders is the lowest element of their socioemotional wealth
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## Low transgenerational potential

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Group 3

Families with low transgenerational potential

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- They lack a defined strategic direction and have low levels of exploration and exploitation
  - Their stock of socioemotional wealth is low in all dimensions except the desire to maintain control in the family's hands
  - Without identification, renewal of family bonds, or other socioemotional aspects, it is hard for these families to continue jointly creating long-term value
-



# Best practices

## How do families with high transgenerational potential achieve equilibrium?

Previous research showed that families with high transgenerational potential are those that can achieve dual equilibrium. How, though, do they achieve this dual equilibrium? This section answers that question.

It will do this, first, by analyzing the entrepreneurial families that answered the survey, and then by presenting a real example of a family with high transgenerational potential.<sup>14</sup> Then, using the White Paper “Transferir el patrimonio sin matar la ambición”<sup>15</sup> as a point of reference, the section presents the best practices that have let these families reach dual equilibrium. These practices, classified in terms of family/company/assets, are:

Actions designed to generate a family vision, business mission and asset strategy of the entrepreneurial family – **Mindset**

Tools and mechanisms implemented to achieve transgenerational potential – **Toolset**

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<sup>14</sup> To keep the example anonymous, all identifying information about the entrepreneurial families has been changed

<sup>15</sup> Cruz, C. Jiménez, L. “Soluciones para familias empresarias: transferir el patrimonio sin matar la ambición”. Credit Suisse-IE White Paper (2016)

# Case: Atlas Group



ATLAS was founded in 1967 when Marcos decided to open a small bakery in his native city. ATLAS started with just two employees and minimal financial resources. Today, ATLAS is the country's largest supermarket conglomerate. From the start, Marcos put all his effort into honing the business's competitive advantage: high-quality food. At the same time, the founder was aware that in order to grow and face the competitive market, he needed to explore new business opportunities. Therefore, in 1980, Marcos partnered with a national investment group to form the country's first fast-food chain, which soon became a nationwide iconic brand. In 1998, Marcos and his partners sold the chain to an American group, which has continued to expand the brand internationally.

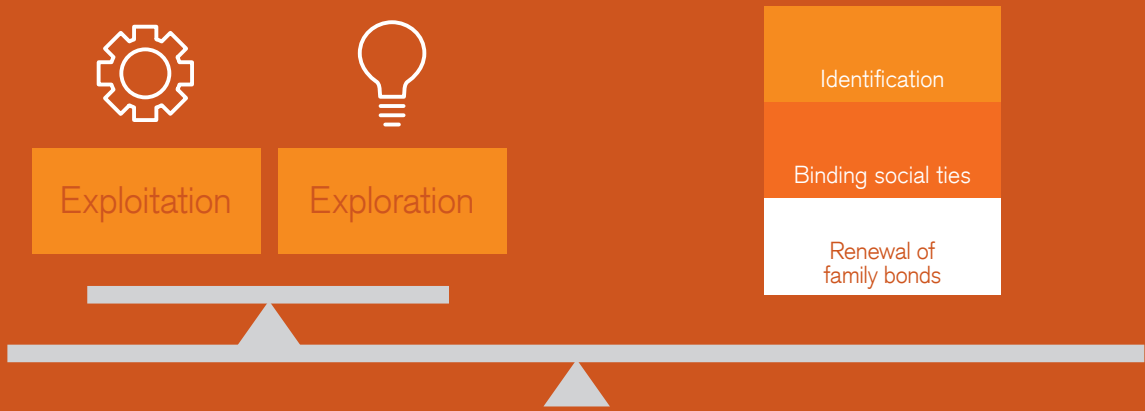
Marcos has three children (Esteban, Gonzalo and Andrea). They were all involved in the business from an early age but Marcos insisted that each of them work elsewhere for a time and return only if they really wanted to, if they were qualified, and if the business needed them. Today, Esteban and Andrea work at ATLAS, while Gonzalo, after earning a doctorate, pursued a career in academia.

A few years ago, on the advice of a prestigious law firm, Marcos began to transfer the shares and leadership of the group and began the process of developing a Family Protocol. Today, each of the children owns 20% of the shares, and Marcos and his wife the other 40%. The group's current CEO is Marcos's eldest, Esteban. Marcos has become the Chairman of the Board. This Board, which includes his three children, has an independent director, an expert consultant on family firms. His daughter Andrea heads the Marketing Department. Marcos's wife, who has followed the company's progress closely, heads the Family Council.

Marcos's children inherited their father's entrepreneurial spirit, and together they have started to expand the group internationally and launched a new business line (gourmet shops). This project began two years ago and has been a great success. This business was approved by the Investment Committee of the Family Office. The Family Office manages the Atlas family's assets. After selling the restaurant chain, Marcos realized that managing assets was different from managing a business, and both he and his family lacked the necessary knowledge to manage their own assets, so he decided to set up a Family Office and surround himself with expert financial advisors.

Marcos has eight grandchildren, whom he proudly walks through the ATLAS supermarkets and stores. Marcos would like all of them to join the business, but realizes that this could create problems. Therefore, the business's Protocols include very clear rules for new generations.

The ATLAS group turns 50 this year, and the Family Council has organized ATLAS DAY. The whole family and the ever-loyal employees will be there for a tribute to Marcos and the ATLAS brand. During that event, Marcos wants to highlight everything they have managed to create together so far, while also analyzing the challenges they must meet as a family firm in order to keep creating value together in the future.



Financial wealth



Socioemotional wealth




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## Family

<i>Mindset</i>	–	<b>Family vision</b> Transgenerational vision (ability to create value across generations)
<i>Toolset</i> <sup>16</sup>	–	<ul style="list-style-type: none"> <li>– Generational transition process that trains owners, not necessarily managers</li> <li>– Entrepreneurial mindset of new generations (e.g. through Family Seed Capital)</li> <li>– Ongoing training of members of the entrepreneurial family</li> <li>– The family's identification with the project beyond the business (for example, through philanthropic programs)</li> <li>– Existence of meeting forums (e.g. a Family Council) to foster a shared family vision and promote transmission of the family's values</li> <li>– Rules of the game for the shared assets (e.g. Protocol and Shareholders Agreement)</li> <li>– Distinction among the various family members' roles and responsibilities</li> </ul>

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## Firm

<i>Mindset</i>	–	<b>Business Mission</b> Ambidextrous strategic direction based on exploiting existing resources and exploring new growth opportunities
<i>Toolset</i>	–	<ul style="list-style-type: none"> <li>– Strategy based on the family group's competitive advantages</li> <li>– Continual adaptation of the competitive advantage depending on clients' needs, overcoming "family inertia"</li> <li>– Seeking business opportunities by leveraging the group's synergies</li> <li>– Ongoing communication with key non-family stakeholders (employees, suppliers, investors, etc.)</li> <li>– A culture of error tolerance but with very strict oversight systems</li> <li>– Long-term strategic planning but with clearly defined profitability targets</li> <li>– Strategic concentration of resources, disinvesting from nonproductive assets</li> <li>– Meritocratic compensation systems, aligned with strategic goals</li> <li>– Independent units for exploitation and exploration. Under a single company, each unit has different goals and processes</li> <li>– Mentoring programs to develop future leaders</li> <li>– Professionalization of governance bodies</li> <li>– Adding non-family professionals who will make business decisions in line with the family's values, uncoupled from familial emotions</li> <li>– Gradual handover of control to the next generation</li> <li>– Early incorporation of the new generations into the family business (internships), but at the same time, selection based on objective criteria (abilities, training, professional experience, etc.)</li> </ul>

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## Assets

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<i>Mindset</i>	–	<b>Asset Strategy</b> Investment mindset
<i>Toolset</i>	–	Awareness of the asset map
	–	Separation of business and family assets
	–	Asset consolidation (holding company, trust, etc.)
	–	Existence of an investment philosophy
	–	Investment policy based on the family's risk-return profile and investment goals
	–	Periodic review of investments and investment goals
	–	Asset management through financial advisors and/or Family Offices

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<sup>16</sup> To learn more about Family Governance, Shareholder Protocols and Agreement, philanthropy programs, Family Seed C. Jiménez, L. "Soluciones para familias empresarias: transferir el patrimonio sin matar la ambición". Credit Suisse-IE White Paper (2016).





# How can the other entrepreneurial families become families with high transgenerational potential?

Entrepreneurial families must develop a set of actions to be able to achieve dual equilibrium and thus be able to create value across generations. Using families with high transgenerational potential as a reference point, these actions will be different for each typology identified. (To learn more about the characteristics of the families without high transgenerational potential, see Appendix 4.)

Below is a case study of each of the families of medium and low transgenerational potential, and the actions they must carry out to become families with high transgenerational potential.<sup>17</sup>

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<sup>17</sup> The actions proposed for each type of entrepreneurial family are recommendations, since each family faces its own particular challenges. These challenges must also be analyzed to find a global solution.

# Highly efficient families: Transporter



In 1980, Fernando Ramos and his sister Victoria founded a firm focused on the manufacture and sale of luggage and travel bags, TRANSPORTER. From the start, through the use of technology and cutting-edge materials, TRANSPORTER luggage was recognized for its high quality (durability, shock resistance, and ease of movement). In their eagerness to maintain product quality, the siblings have constantly invested in improving the production process, turning TRANSPORTER into an internationally prestigious brand.

Fernando (aged 70) and Victoria (65) have devoted their whole lives and all their energies to the business, and now, as the only proprietors, they remain involved in all business decisions. Fernando is the CEO of the firm and Victoria runs the Design and Production department. At present, Fernando's son (José, 32) works in the Sales and Marketing department, and Victoria's two children (Gonzalo, 31 and Ramón, 27) work in the Finance department. The cousins get along very well and since childhood they have been closely involved in the business.

In recent years, competition has intensified (lower-cost production, knockoffs, etc.), and though TRANSPORTER's sales have stayed stable, its market share is slipping. In that context, the founders' strategy is to remain committed to what they have always known how to do: hone their competitive advantage to continue manufacturing high-quality luggage.

The second generation shares the founders' vision but believes that further growth will require fostering the spirit of innovation that characterized TRANSPORTER's first decades. To achieve this, they have developed a growth plan based on new designs using new materials and incorporating technology into suitcases, making it easier to track luggage. They say the plan will modernize the company's image, attracting younger buyers who do not currently identify with TRANSPORTER.

Fernando and Victoria value the new generation's entrepreneurial spirit, but believe the company's competitive edge lies precisely in what they know how to do well and not in copying what others are starting to do. Neither of them knows about technology, and how can they know whether the suggested new materials will allow the same quality? So far, both have been very successful at keeping everything under their control. Is it really necessary to change?



## Exploitation

competitive advantage:  
high-quality luggage

Fernando and Victoria's  
tight control over  
TRANSPORTER



Financial wealth



Socioemotional wealth

Family

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- |         |  |
|---------|--|
| Mindset | <ul style="list-style-type: none"><li>- <b>Family vision</b><br/>Creation of transgenerational vision as an entrepreneurial family:<ul style="list-style-type: none"><li>- Understanding the family legacy as something that goes beyond control of current assets</li><li>- Narrowing the gap between what the current generation wants to preserve (family control) and what the new generations demand (entrepreneurial mindset).</li></ul></li></ul>   |
| Toolset | <ul style="list-style-type: none"><li>- Family reflection process:<ul style="list-style-type: none"><li>- What has been the basis for our success as an entrepreneurial family?</li><li>- Is the family control model the best way to guarantee success in the future?</li></ul></li><li>- Training of future owners, not necessarily managers</li><li>- Carrying out training activities so future owners know the rights and responsibilities associated with being an owner rather than a manager</li><li>- Fostering an entrepreneurial mindset among the new generations, through programs that assess and financially support new business initiatives (for example, using Family Seed Capital).</li><li>- Fostering the family's identification with the project beyond the business (for example, through philanthropic programs)</li><li>- Setting up forums for communication among family members to promote creation of a family vision (e.g. a Family Council).</li><li>- Establish rules of the game for the shared assets, allowing the family to define each family member's roles and responsibilities in the different domains (family/firm/assets).</li></ul> |
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Firm

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- |         |   |
|---------|---|
| Mindset | <ul style="list-style-type: none"><li>- <b>Business Mission</b><br/>Achieving an ambidextrous strategic direction:<ul style="list-style-type: none"><li>- Reducing the family's influence over business operations</li><li>- Fostering an entrepreneurial culture that encourages exploration</li></ul></li></ul>   |
| Toolset | <ul style="list-style-type: none"><li>- Continuing to exploit the competitive advantage as a family group to bolster the brand's value</li><li>- Creating a work methodology based on the search for new markets, products, etc. (design thinking, customer discovery, etc.)</li><li>- Fostering open innovation and the development of partnerships with other firms, suppliers, etc.</li><li>- Seeking intrapreneurs between the family and the non-family employees</li><li>- Implementation of compensation systems tied to goals that foster innovation</li><li>- Implementation of efficient monitoring systems that can help the family lose its fear of giving up control</li><li>- Gradual handover of control from the current generation to:<ul style="list-style-type: none"><li>- New generations so they can learn hands-on management of the company's assets and start to take part in decision-making.</li><li>- Non-family professionals who can contribute a strategic vision consistent with the family's values.</li></ul></li></ul> |
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## Assets

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### *Mindset*

- **Asset Strategy**  
From operational mindset to investment mindset:  
Creating an investment mindset among members of the entrepreneurial family
- 

### *Toolset*

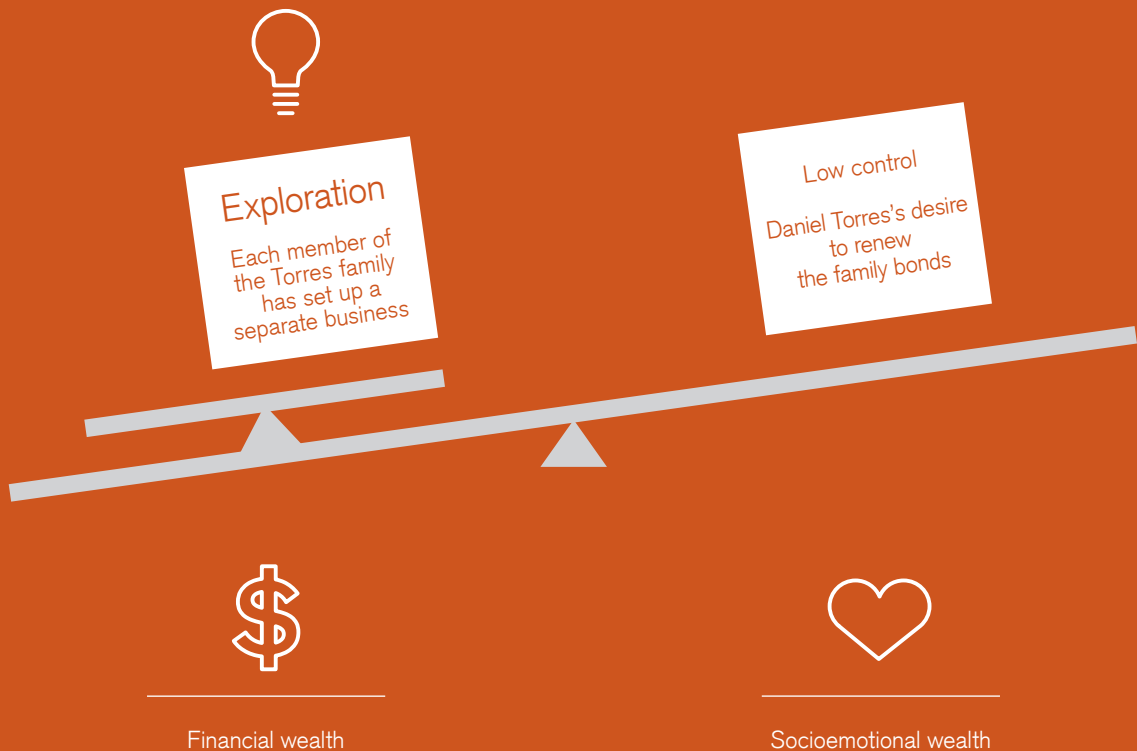
- Taking stock of the risks of having concentrated assets, taking into account the snapshot of the family's assets and the examples of other entrepreneurial families
  - Separation of business assets from family assets to reduce risk aversion
  - Developing an investment policy based on the family's risk-return profile
  - Given the conservative profile of these families, developing a family asset roadmap that lets the family reduce operational risk
  - Seeking financial advisors to help make investment decisions that reduce the risk from concentration of assets
-

# Highly entrepreneurial families: Torres family



The Torres family is very entrepreneurial. Daniel Torres (60) founded a pharmaceutical firm in 1989 after earning a degree in pharmaceutical sciences. Five years later, his wife Elena (57), who is passionate about fashion, opened a children's clothing store, which was sold to a textile conglomerate two years ago. Daniel and Elena have transmitted this entrepreneurial spirit to their two children: Daniel Jr. (30) and Alicia (28). Though young, both have started their own businesses. Daniel Jr. opened his own restaurant, specializing in Mediterranean food, and his sister Alicia a dental clinic. Both Daniel Jr. and Alicia received startup financial support from their parents.

Daniel would like his pharmaceutical business to stay in the family. However, he realizes it will not be easy, as both Daniel Jr. and Alicia have their own projects. Moreover, neither of his children feels a sense of identification with the pharmaceutical firm, and Daniel has never conveyed to them his desire for it to be a family legacy. Daniel would like to know what his children want to do in the future and if they would like to "join forces" to create one business group with several business lines but a single competitive advantage: the family. Will his children share his idea of renewing the family bonds to the firm?



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## Torres family's best practices "From individual dream to a shared vision"

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### Family

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Mindset	<ul style="list-style-type: none"><li>- <b>Family vision</b> Creation of transgenerational vision as an entrepreneurial family:<ul style="list-style-type: none"><li>- Foster identity as an entrepreneurial family</li><li>- From individual dream to shared project</li></ul></li></ul>
Toolset	<ul style="list-style-type: none"><li>- Family reflection process: Do we want to create value as an entrepreneurial family or, conversely, is it preferable for members or branches of the family to pursue separate projects?</li><li>- If the family does wish to continue creating value jointly, it must:<ul style="list-style-type: none"><li>- Foster activities that help define the entrepreneurial family's values and the transmission of those values to new generations.</li><li>- Define the family vision and shared goals while also being able to let members pursue their individual projects</li><li>- Create forums for family communication through which the family can be informed about changes in their shared businesses and generate a sense of belonging among the new generations</li><li>- Foster the family's identification with the project beyond the business (for example, through philanthropic programs)</li></ul></li></ul>

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### Firm

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Mindset	<ul style="list-style-type: none"><li>- <b>Business Mission</b> Achieving an ambidextrous strategic direction: Investing in the search for a competitive advantage as a family group</li></ul>
Toolset	<ul style="list-style-type: none"><li>- The search for synergies among the family's various businesses</li><li>- Strategic concentration of resources in higher-return investments, disinvesting from nonproductive assets</li><li>- Setting up a systematic process to explore new business opportunities based on market criteria rather than the family's needs</li><li>- Consolidating assets into efficient structures (holding company, trust, etc.)</li><li>- Formation of a group-level Board of Directors to make investment decisions about the portfolio of businesses</li><li>- Professionalization of governance</li></ul>

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### Assets

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Mindset	<ul style="list-style-type: none"><li>- <b>Asset Strategy</b> From operational mindset to investment mindset: Professional management of a diversified portfolio</li></ul>
Toolset	<ul style="list-style-type: none"><li>- Separation of business assets from family assets</li><li>- Developing an investment policy based on the family's risk-return profile</li><li>- Preparing a family asset roadmap that leverages the advantages of diversified assets to seek products that are more profitable</li><li>- The search for financial advisors to help maximize return on investment</li></ul>

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# Highly emotional families: Hacienda Ramírez



The Ramírez family has owned the Hacienda Ramírez since 1830. This ranch has great historic value given its origins in the colonial era. It also has immense sentimental value, since it has belonged to the same family for more than five generations. From the start, the 990-acre ranch has focused on its livestock business, generating abundant income for the family.

Today, Alejandro Ramírez (62), a member of the sixth generation of the family, owns a 60% share in the Hacienda and works there. The other 40% of the property is owned by his two daughters—Lorena (30) and Ana (25)—who have been in contact with the ranch constantly since childhood. The Ramírezes are very close and the ranch has always been their family's gathering place.

Across three generations, the ranch has served the family well, contributing to their economic well-being and their family unity. Its profits are always split among the family. Through dividends, Alejandro wants his daughters to have the same quality of life that he had and wants them to be able to continue their training.

The problem is that over the past five years, despite the ranch's prestige, its economic performance has stalled. The lack of professionalization and the high staff turnover together with limited investment in technology have generated debate within the family about how to manage the ranch in the future. After several meetings, the family is sure they want to maintain the family legacy and to do this, they may need to disengage from the Hacienda emotionally and try to find new, more productive business activities. But they are also sure that this will not be easy, since it means overcoming strong inertia that has guided the family throughout its more than 150 years in business.



Financial wealth



Socioemotional wealth



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### Family

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Mindset	–	<b>Family vision</b> Creation of transgenerational vision as an entrepreneurial family: Putting the entrepreneurial family at the service of the business project
Toolset	–	Family reflection process: <ul style="list-style-type: none"><li>– From "How does the business give value to the family?" to "How does each member of the entrepreneurial family bring value to the family group?"</li><li>– How is it possible to turn family cohesion into a competitive advantage for the entrepreneurial family?</li></ul> <ul style="list-style-type: none"><li>– Establishing rules of the game for the shared assets to reduce the role of emotions in decision- making</li><li>– Leverage family unity to develop joint actions beyond the business operations (e.g. philanthropy programs)</li><li>– Development of family meetings and/or Family Governance mechanisms (Family Council) to update the family about the business and to raise their awareness of the rights and responsibilities that go with being a shareholder versus a manager.</li><li>– Fostering an entrepreneurial mindset among members of the entrepreneurial family while ensuring preservation of the family's values</li></ul>

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### Firm

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Mindset	–	<b>Business Mission</b> Achieving an ambidextrous strategic direction: From managing emotional assets to profitable assets
Toolset	–	<ul style="list-style-type: none"><li>– Developing a strategic plan that identifies the competitive advantage of the family firm and promotes the search for new business opportunities</li><li>– Establishing measurable goals using profitability parameters based on that plan</li><li>– Fostering relationships with non-family stakeholders</li><li>– Professionalization of governance bodies</li><li>– Implementing mechanisms such as a Board of Directors that can include non-family members who make business decisions in line with the family's values but uncoupled from family emotions</li><li>– Transforming family unity and commitment into a competitive advantage that bolsters brand value and innovation</li></ul>

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### Assets

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Mindset	–	<b>Asset Strategy</b> From operational mindset to investment mindset: Asset management focused on separating business assets from family assets
Toolset	–	<ul style="list-style-type: none"><li>– Developing an investment policy based on the family's risk-return profile</li><li>– Preparing the family asset roadmap allowing these families to make investment decisions</li><li>– The search for financial advisors to help the family invest non-emotionally</li></ul>

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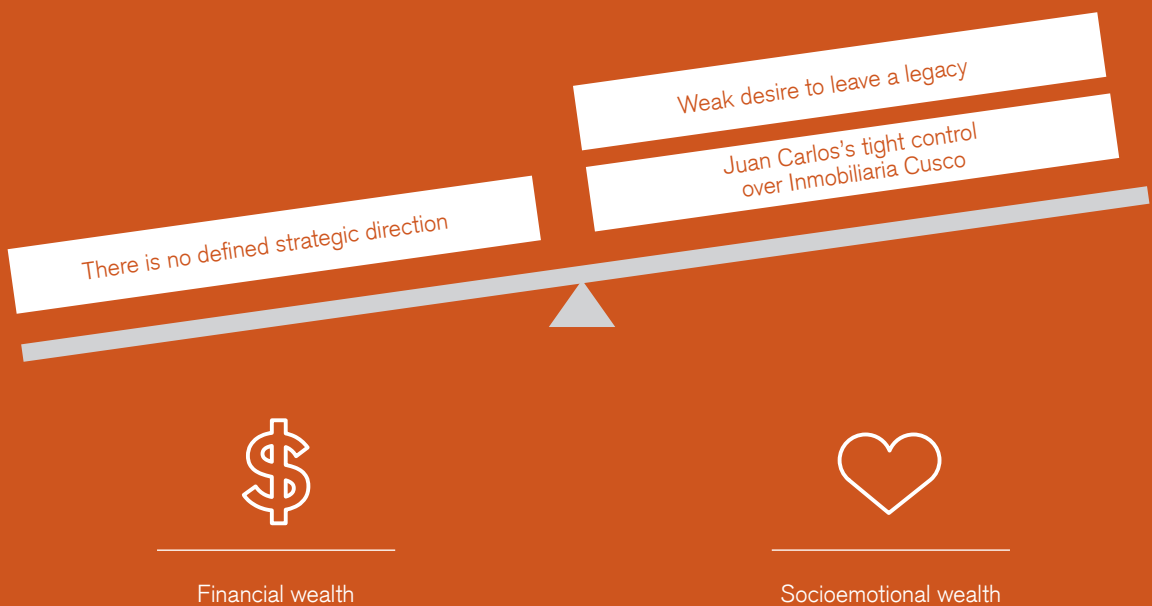
# Families with low transgenerational potential: Inmobiliaria Cusco



Tomás Rivas (77) founded the property company INMOBILIARIA CUSCO in 1968, specialized in building and selling exclusive homes. Tomás knew the sector well but given his delicate health, three years ago he had no choice but to transfer ownership and management of the business to his only son, Juan Carlos (40). Juan Carlos had never worked in real estate, since after graduating with a degree in journalism he focused on building up his career as a reporter. He had recently been fired from the local paper where he had been working for ten years, and so, moved by a desire to start over, he decided to run the business. Though not interested in that industry, gradually Juan Carlos discovered a passion for leading a project and “being his own boss.” Following his father’s example, Juan Carlos took a traditional, autocratic approach.

Nonetheless, INMOBILIARIA CUSCO no longer has the reputation it once had, which evaporated the moment Tomás retired. Clients knew Tomás but not the firm. As a result, for the first time in its history, INMOBILIARIA CUSCO went into red numbers three months ago. At a dinner at a recent real estate fair he attended, a competitor who was a friend of his father asked Juan Carlos what his plan was to revitalize the company and what he saw as the firm’s future. Juan Carlos confidently answered the first question by saying he did not intend to make big changes, since he was certain that the market would change soon and that sales would rise again.

The second question, however, made him pensive: What were his long-term plans for CUSCO? Juan Carlos wants to continue controlling the firm’s operations to ensure his own financial security and that of his parents, but he had never actually talked with his father about his long-term vision for the firm. Maybe it was time for that conversation.



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## Family

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Mindset	–	<b>Family vision</b> Creation of transgenerational vision as an entrepreneurial family: <ul style="list-style-type: none"><li>– Creating a family legacy beyond the assets under the family’s current control</li><li>– Building the family’s commitment to and identification with the shared project</li><li>– Fostering an entrepreneurial mindset in the family</li></ul>
Toolset	–	Family reflection process: <ul style="list-style-type: none"><li>– Why do we want to move forward together?</li><li>– Do we really have a competitive advantage as a family group?</li></ul> – Setting up meeting areas where the family can discuss their aspirations for their shared businesses, the values they want to pass down, and each family member’s role in the family firm <ul style="list-style-type: none"><li>– Planning generational transition with the aim of training owners, not necessarily managers</li><li>– Fostering an entrepreneurial mindset in the entrepreneurial family</li><li>– Fostering the family’s identification with the project beyond the business (for example, through philanthropic programs)</li></ul>

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## Firm

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Mindset	–	<b>Business Mission</b> Achieving an ambidextrous strategic direction: <ul style="list-style-type: none"><li>– Developing a long-term corporate vision</li><li>– Limiting the family’s influence over strategic decision-making</li></ul>
Toolset	–	Diagnosing the current status of the family businesses and the market <ul style="list-style-type: none"><li>– Setting clearly defined profitability targets</li><li>– Identifying the family firm’s competitive advantage</li><li>– Investing in technology to optimize existing production processes</li><li>– Seeking new business opportunities by fostering intrapreneurship between non-family employees and family members</li><li>– Implementation of compensation systems tied to goals that foster innovation</li><li>– Gradually passing control to new generations so they can learn hands-on management of the company’s assets and start to take part in decision-making.</li><li>– Adding non-family human capital to bring in a strategic vision in line with the family’s values</li><li>– Professionalization of governance</li><li>– Fostering relationships with key non-family stakeholders</li></ul>

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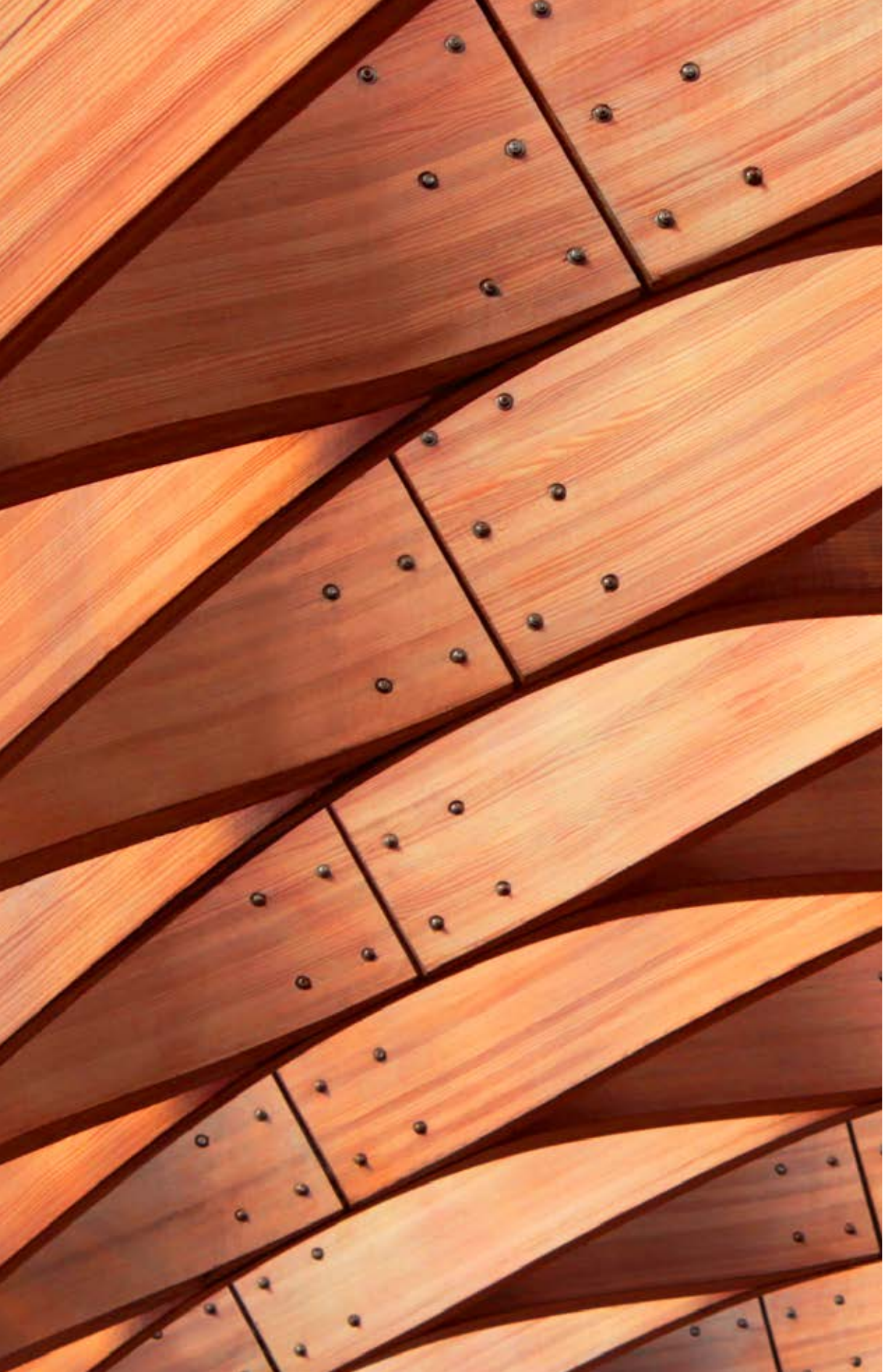
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## Assets

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Mindset	–	<b>Asset Strategy</b> From operational mindset to investment mindset: Asset management focused on separating business assets from family assets
Toolset	–	Separation of business assets from family assets <ul style="list-style-type: none"><li>– Developing an investment policy based on the family’s risk-return profile</li><li>– Preparing the family asset roadmap allowing these families to take stock of their assets</li><li>– Seeking financial advisors to help make profitable investment decisions</li></ul>

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# Conclusions

The impetus for this white paper is the importance of business families in Latin America and the complexity of their markets, and it is intended as a guide for any business families that hope to be successful in highly uncertain environments.

The white paper concludes that the families that have best managed to increase their equity value in this region are the ones that have been able to balance the creation of financial value with preserving the families' socioemotional aspects that provide the companies with a competitive advantage. As such, this white paper proposes that achieving this "dual balance" is the key challenge for business families nowadays.

In this white paper, we have shown that this is a very delicate balance since overlooking or overemphasizing any one of these aspects could jeopardize the future of the business family. By classifying the types of business families, this study enables any family to readily identify its challenges when it comes to achieving this dual balance based on the type of family that it identifies with the most. Once these challenges have been identified, the study provides several recommendations on how to successfully tackle them.

Upon closer inspection of the business families with the most transgenerational potential, it was found that they have turned the issue of simultaneously addressing both financial and emotional aspects into the "art of managing paradoxes" by focusing on finding a balance between aspects that seem contradictory at first but are actually complementary. As such, successful business families have managed to combine business models blending innovation with tradition on the one hand and generational transition processes that foster entrepreneurship and family ties among the new generations on the other. By doing so, they have also managed to become unsurpassable among their competitors. The best practices identified among these families suggest that the key to successfully managing these paradoxes lies not only in introducing several toolsets for these business families. It also requires a mindset change that allows them to create a transgenerational vision among the family members, an ambidextrous strategic direction in their companies, and a mindset of investing in their equity. An all-inclusive and balanced approach to the components of family, company, and equity – in terms of both mindset and toolset – is necessary to become a family with strong transgenerational potential. Creating value from one generation to the next is not an easy task, and even less so in settings like those found in Latin America. We thus hope that this white paper helps business families enhance their transgenerational potential and provides their advisers with guidance on the right tools for tackling the challenge of "dual balance" in each case.

# Appendix 0

## Research methods and descriptors

### Research methods

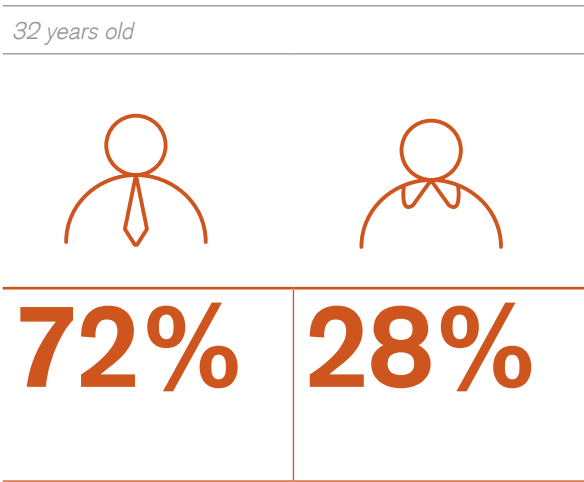
A survey was conducted in order to prepare this White Paper. The survey was sent to 350 members of Latin American entrepreneurial families, and 200 replies were received. The deadline for replies was three months.

<i>Response time</i>	<i>Surveys sent</i>	<i>No. of replies</i>
<b>3</b> <i>months</i>	<b>350</b> <i>surveys sent to members of LATAM entrepreneurial families</i>	<b>200</b> <i>responses</i>

We also conducted interviews with 50 Latin American families to better interpret some of the survey results.

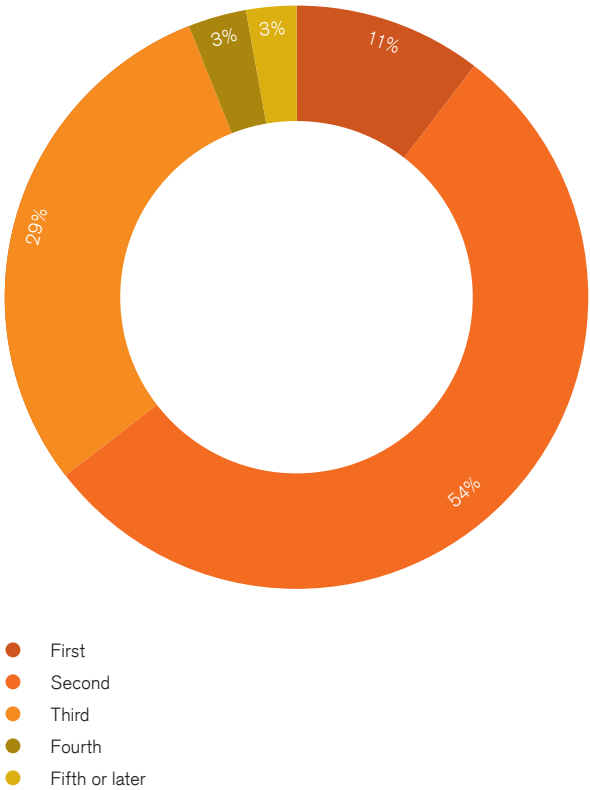
Characteristics of survey respondents

**Gender and age.** 72% of respondents are male and 28% female. The respondents' average age is 32.



**Generation.** Most respondents are members of their family firm's second or third generation: 54% and 29% respectively.

Chart 1. Respondents' generation

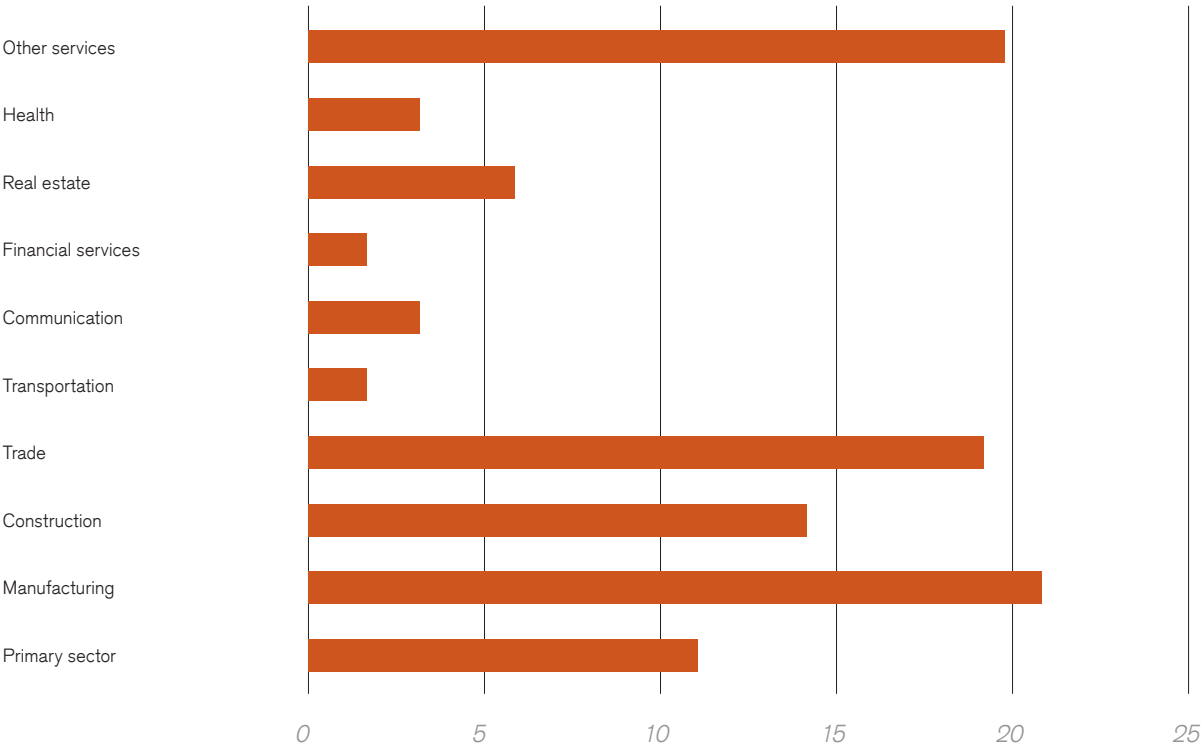


**Professional experience.** The respondents have an average of 5 years' professional experience in the family group and 4 years outside the group.

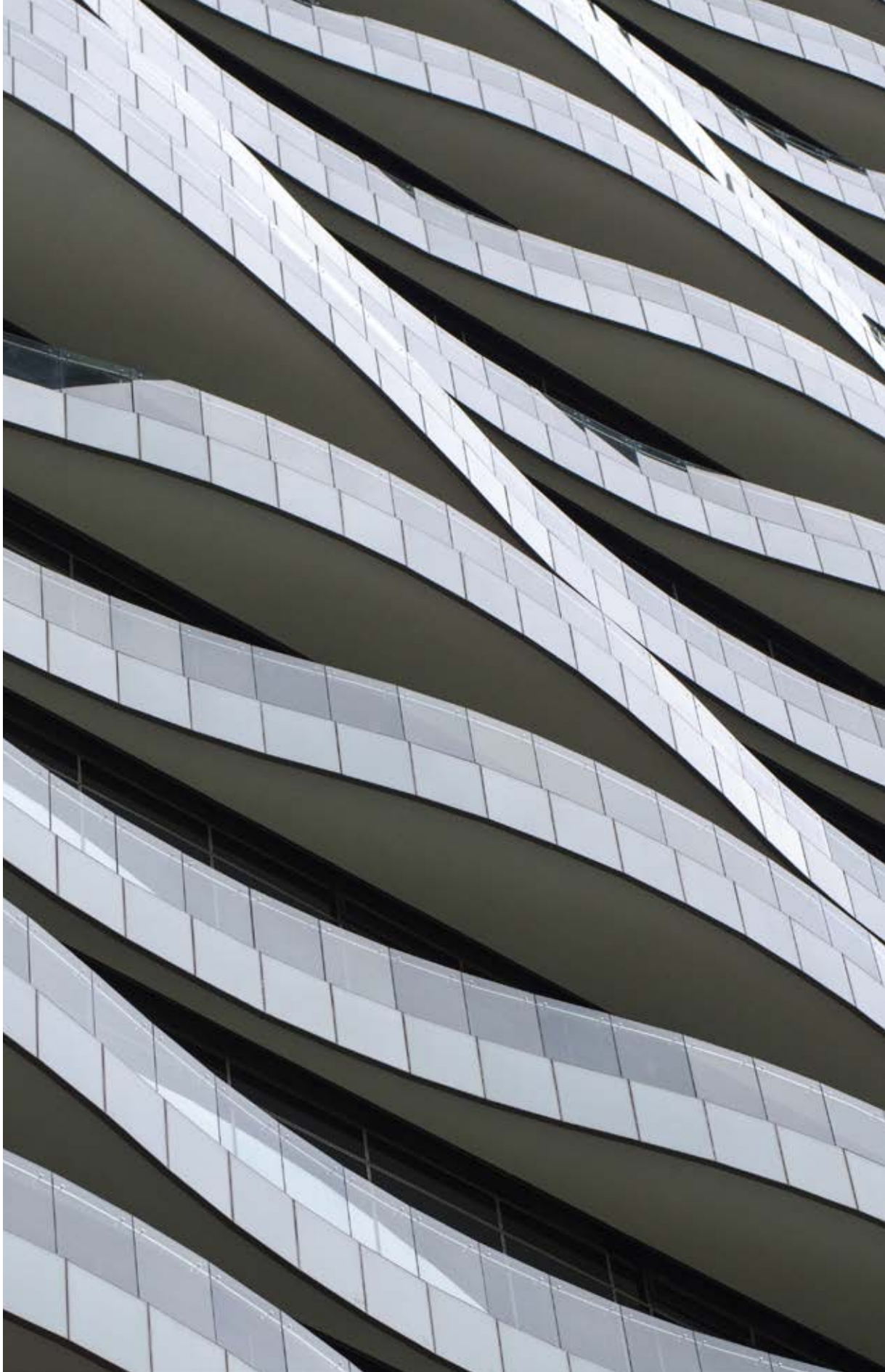
In the family group	Outside the family group
5 years	4 years

**Sector.** Most of the respondents' family groups focus primarily on manufacturing (21%) and secondarily on wholesale or retail trade (19%).

Chart 2. Business sector







# Appendix I

## Surveys to determine “dual equilibrium”

### 1A Survey - Strategic direction (exploration and exploitation)

To measure the strategic direction of Latin American family firms, respondents were asked to rate the questions in Figure 9 on a scale of 1 to 5, with 1 meaning “strongly disagree” and 5 “strongly agree”:

Figure 9. Survey - Strategic direction

*My family firm / group...*

Exploration	Exploitation
Actively seeks new technological innovations	Is committed to improving quality and reducing cost
Bases its success on its ability to explore new technologies	Focuses its efforts on improving the reliability of its products and services
Creates innovative products and services for the firm	Strives to increase the automation of its operations
Ventures into new market segments	Constantly surveys its clients' satisfaction
Actively seeks new groups of consumers	Seeks to improve the range of products or services to keep current clients happy
Creatively seeks to meet the consumer's needs	Seeks to increase the existing client base

## 1B Survey - Socioemotional wealth and its dimensions

To measure the socioemotional wealth of Latin American family firms and their respective dimensions (under the FIBER model), respondents were asked to rate the questions in Figure 10 on a scale of 1 to 5, with 1 meaning "totally disagree" and 5 "totally agree":

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Figure 10. Survey - Socioemotional wealth and FIBER dimensions

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1 How much do you agree with the following statements about the scope of your family's control and influence in your family firm / group of companies?

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- Most of the shares in our family firm are held by members of my family
  - In our family firm, the members of my family control the company's strategic decisions
  - In our family firm, most senior management positions are held by members of my family
  - In our family firm, senior managers are appointed by members of my family
  - The governing body / board of directors (if any) consists primarily of members of my family
  - Maintaining independence and control within our family firm is an important goal for my family
- 

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2 How much do you agree with the following statements about how your family members identify with your family firm / group of companies?

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- The members of my family have a very strong sense of belonging in the family firm
  - The members of my family feel that the family company's success is part of their own success
  - In my family, being part of the family firm helps define who we are
  - The members of my family are proud to tell other people that they are part of the family firm
  - Customers usually associate my family's name with the products and services of the family firm
  - Our family firm means a lot personally to the members of my family
-

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3 How much do you agree with the following statements about the social links of your family firm / group of firms?

- Our family firm is very active in promoting social activities in the community
- In our family firm, the non-family employees are treated like part of the family
- In our family firm, contractual relationships are generally rooted in trust and reciprocity
- Building strong relationships with other institutions (other firms, associations, government actors, etc.) is important to our family firm
- Supplier contracts are based on long-term relationships with our family firm

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5 How much do you agree with the following statements about the *preservation of family ties* in your family firm / group of firms?

- Preserving the family tradition and legacy is an important goal for our family business
- My family members are less likely to evaluate their short-term investments
- It is unlikely that members of my family would consider selling the family business
- Successful generational transition is a primary goal in my family firm

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4 How much do you agree with the following statements about the emotional attachment of your family members?

- Emotions and feelings usually affect the decision-making processes in our family firm
- Protecting the well-being of members of my family is critical to us, regardless of each member's personal contributions to the business
- In our family firm, emotional ties between members of the family are very strong
- In our family firm, emotional considerations are generally as important as financial considerations
- Strong emotional ties among our family members help us maintain a positive self-image
- In our family business, the members of my family feel affection for one another



# Appendix II

## How do the different groups deal with “dual equilibrium”?

First challenge – Balance between exploitation and exploration

Figure 11a shows that the Group 5 families are the ones that have grown in both sales and in market share and profits while the Group 3 families are the ones with the least growth.

Figure 11b shows that only Group 5's strategic direction has a good balance between exploration and exploitation,

meaning that only the Group 5 families have family firms that can be considered ambidextrous. The Group 1 families favor exploitation while the Group 2 families prioritize exploration. The other groups, 3 and 4, have no defined strategic direction since their exploitation and exploration levels are below average.

Figure 11a. Last five years' growth compared to the competition

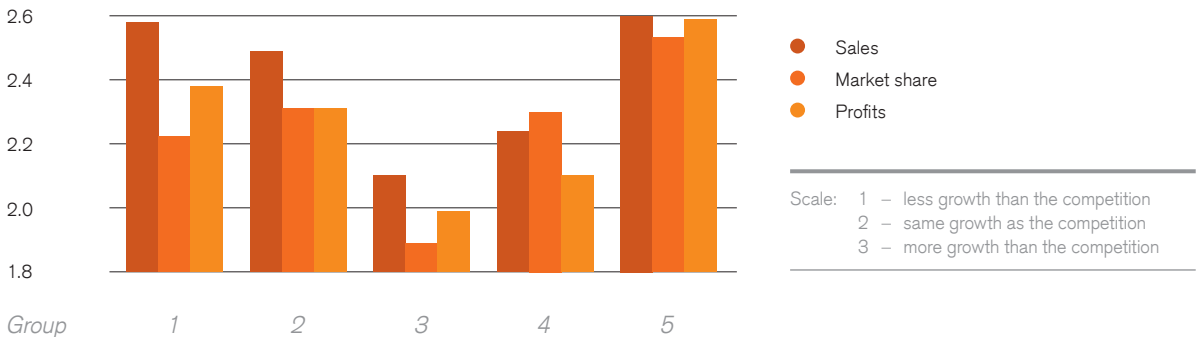
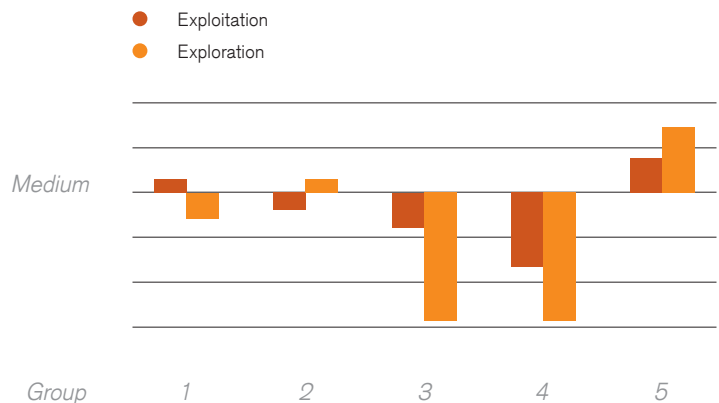


Figure 11b. Strategic direction

Medium	Exploitation	Exploration
Scale of 1 to 5		
Group 1	3,95	3,22
Group 2	3,82	3,46
Group 3	3,67	2,22
Group 4	3,24	2,23
Group 5	4,29	4,04



Second challenge – Balance between economic and socioemotional goals

Figure 12 shows that socioemotional wealth is more important to the families in Groups 4 and 5 and less important to the families in Group 3.

However, Figure 13 shows clearly the variation among entrepreneurial families regarding the different components of socioemotional wealth. For example, the desire for control is very low for the families in Group 2 and high for Groups 1 and 3. The Group 4 families give the most value to the dimension of emotional ties. And these families, along with Group 5, are the ones that put the strongest emphasis on renewing the family bonds.

Figure 12. Socioemotional wealth by group Scale of 1 to 5

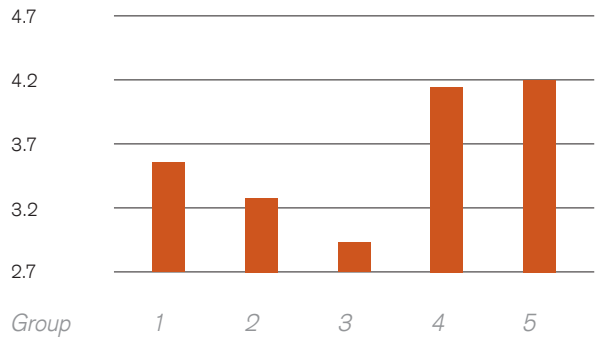
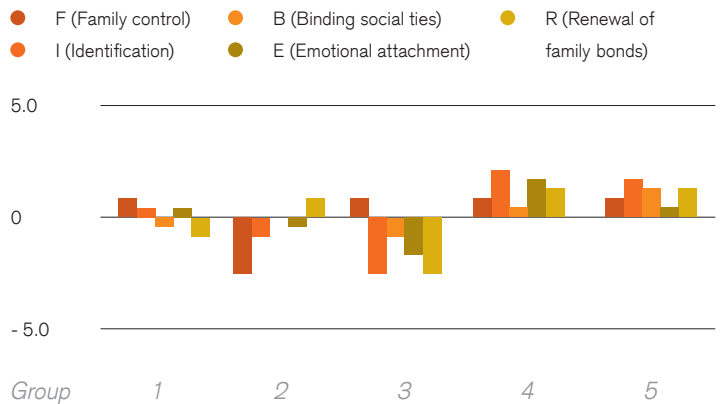


Figure 13. Dimensions of socioemotional wealth by group

Medium	F	I	B	E	R
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Scale of 1 to 5

Group 1	4,6	3,8	3,2	3,9	3,0
Group 2	2,6	3,3	3,3	3,5	3,9
Group 3	4,6	2,3	2,8	2,8	2,3
Group 4	4,4	4,4	3,4	4,3	4,2
Group 5	4,4	4,4	4,0	3,8	4,4



## Appendix III

# What practices distinguish entrepreneurial families with high transgenerational potential from other entrepreneurial families?

### Business strategy

The business groups of families with high transgenerational potential are highly diversified in terms of business sector. The business groups of families with low transgenerational potential have barely any sectoral diversification.

Figure 14. Percentage of business groups that have sectoral diversification

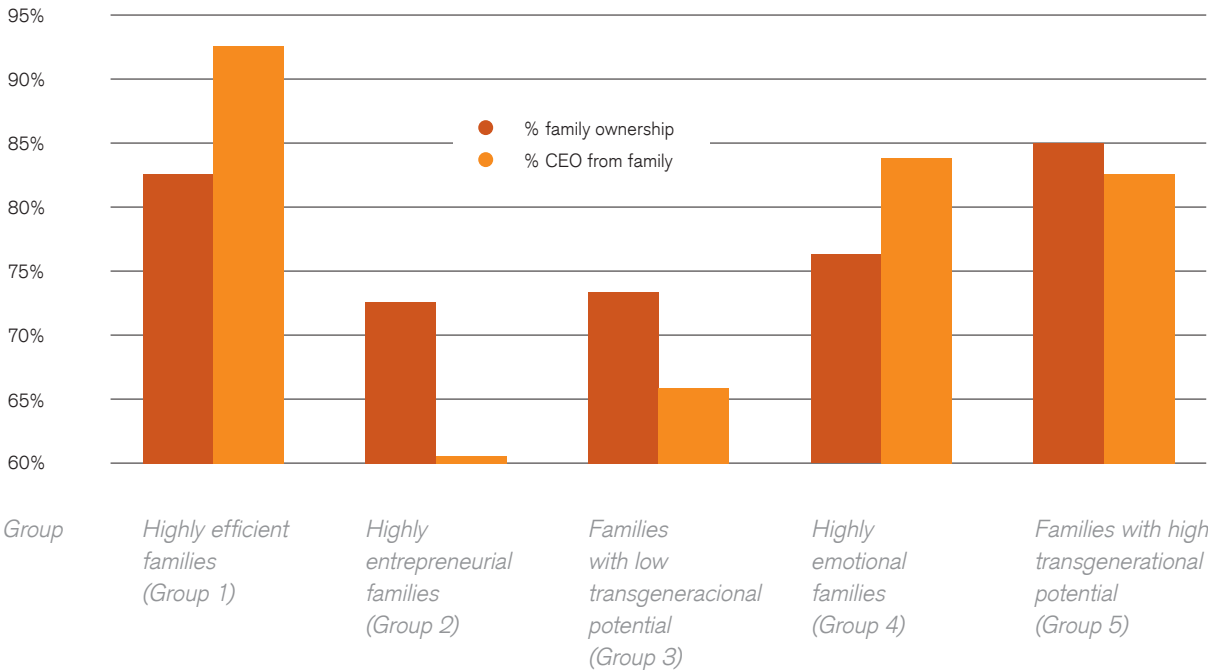
<i>Highly efficient families (Group 1)</i>	<i>Highly entrepreneurial families (Group 2)</i>	<i>Families with low transgenerational potential (Group 3)</i>	<i>Highly emotional families (Group 4)</i>	<i>Families with high transgenerational potential (Group 5)</i>
<b>59%</b>	<b>57%</b>	<b>33%</b>	<b>65%</b>	<b>61%</b>



### Family influence

Families with high transgenerational potential maintain medium influence over the firm. There is less such influence in highly efficient families, but greater than the influence of highly entrepreneurial families.

Chart 3. Family influence in the firm



## Planning generational transition

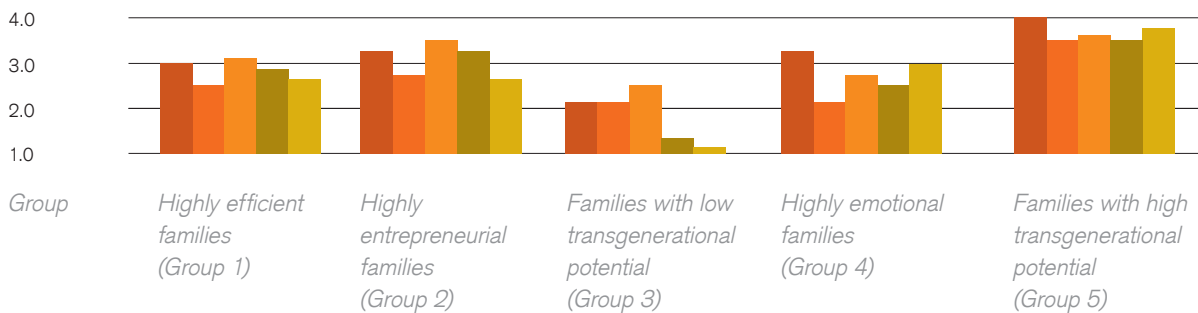
Families with high transgenerational potential are the entrepreneurial families with the greatest intent to pass down a legacy to the next generation (96% of the families), compared to 63% among families with low transgenerational potential.

Chart 4. Percentage of families with intention of familial succession

<i>Highly efficient families (Group 1)</i>	<i>Highly entrepreneurial families (Group 2)</i>	<i>Families with low transgenerational potential (Group 3)</i>	<i>Highly emotional families (Group 4)</i>	<i>Families with high transgenerational potential (Group 5)</i>
<b>81%</b>	<b>79%</b>	<b>63%</b>	<b>90%</b>	<b>96%</b>

On the other hand, families with high transgenerational potential are those most likely to plan the generational transition process, since they are the families that give the most importance to the various criteria to consider in that process, as indicated in Chart 5. Once again, the families with low transgenerational potential are the ones that put the least importance on the various aspects of the transition process.

Chart 5. Planning the generational transition process



- Setting criteria to determine which family members can opt for a position in the family firm
- Implementing mechanisms to measure the performance of future leaders
- Ensuring that future leaders have experience outside the family firm
- Implementing mechanisms promoting the next generation's involvement in decision-making
- Setting criteria about who can own shares in the family firm

## New generations' vision

Additionally, as Figure 15 reflects, the new generations of families with high transgenerational potential are those that place the most importance on passing down the family's values and entrepreneurial mindset and those that place least importance on passing down family control.

To collect this data, the respondents were asked to rank the importance of transmitting the following factors from one generation to another, from most to least important: 1) entrepreneurial mindset, 2) the family's values, 3) family control, and 4) management skills.

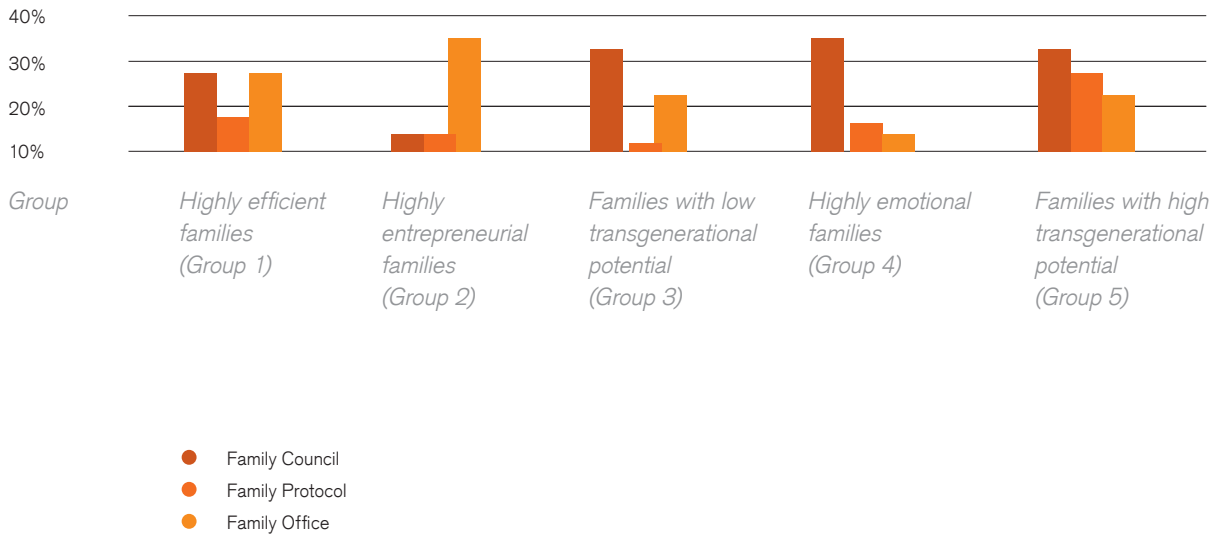
Figure 15. Ranking of factors to pass down

<i>Highly efficient families (Group 1)</i>	<i>Highly entrepreneurial families (Group 2)</i>	<i>Families with low transgenerational potential (Group 3)</i>	<i>Highly emotional families (Group 4)</i>	<i>Families with high transgenerational potential (Group 5)</i>
Family's values <b>32,3%</b>	Family's values <b>33,3%</b>	Family control <b>33,3%</b>	Family control <b>34,6%</b>	Family's values <b>40,8%</b>
Mgt. skills <b>25,0%</b>	Entrepreneurial Mindset <b>29,2%</b>	Mgt. skills <b>33,3%</b>	Family's values <b>34,6%</b>	Entrepreneurial Mindset <b>30,3%</b>
Entrepreneurial Mindset <b>25,0%</b>	Mgt. skills <b>20,8%</b>	Family's values <b>16,7%</b>	Entrepreneurial Mindset <b>26,9%</b>	Mgt. skills <b>14,5%</b>
Family control <b>17,9%</b>	Family control <b>16,7%</b>	Entrepreneurial Mindset <b>16,7%</b>	Mgt. skills <b>3,8%</b>	Family control <b>14,5%</b>

## Family governance mechanisms

Lastly, regarding the governance mechanisms put in place by entrepreneurial families to regulate the family's involvement in the business, Chart 6 shows that compared to other entrepreneurial families, those with high transgenerational potential have a more balanced presence of the various mechanisms

Chart 6. Family governance mechanisms



# Appendix IV

## Summary of entrepreneurial family characteristics Appendix IV

	<i>MEDIUM transgenerational potential</i>	
	<i>Highly efficient families</i>	<i>Highly entrepreneurial families</i>
Strategic direction	Exploitation	Exploitation
Socioemotional wealth	Medium	Medium
F (Family control)	High	Low
I (Identification)	Medium	Medium
B (Binding social ties)	Medium	Medium
E (Emotional attachment)	Medium	Medium
R (Renewal of family bonds)	Medium	Medium
Size of the business group (no. of companies)	Medium	Medium
Sectoral diversification of the business group	Medium	Medium
Intention to pass down the business to the next generation	Medium	Medium
Importance of succession planning	Medium	Medium
<i>Most important aspect to pass down to the next generation</i>	Family's values	Family's values
<i>Least important aspect to pass down to the next generation</i>	Family control	Family control
Family corporate governance mechanisms	Combination of mechanisms	Family Office

	<i>LOW transgenerational potential</i>	<i>HIGH transgenerational potential</i>
<i>Highly emotional families</i>	<i>Families with low transgenerational potential</i>	<i>Families with high transgenerational potential</i>
No strategic direction	No strategic direction	High levels of exploration and exploitation
High	Low	High
Medium	High	Medium
High	Low	High
Medium	Low	High
High	Low	Medium
High	Low	High
Medium	Small	Large
High	Low	High
High	Low	High
Low	Low	High
Family control	Family control	Family's values
Management skills	Entrepreneurial mindset	Family control
Family Council	Family Council	Combination of mechanisms

# Resources

Below is a list of resources that can provide more information about the topics covered in this *White Paper*.

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## Articles

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Berrone, P; Cruz, C; Gomez-Mejia, L. "Socioemotional Wealth in Family Firms Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research." *Family Business Review* 25.3 (2012):258–27

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Cruz, Cristina et al. "A Conceptual Model of Transgenerational Entrepreneurship in Family-Influenced Firms" *The Step Research Project* (2006)

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Gómez-Mejía, Luis R., et al. "Socioemotional Wealth and Business Risks in Family-Controlled Firms: Evidence from Spanish Olive Oil Mills." *Administrative Science Quarterly* 52.1 (2007):106–137

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Gomez-Mejia, Luis R; Cruz, Cristina; De Castro, J.2011. "The bind that ties: Socioemotional wealth preservation in family firms." *The academy of management annals* 5.1 (2011): 653-707  
Gómez-Mejía, Luis R., et al.

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Junni, P., Sarala, R.M., Taras, V., & Tarba, S.Y. "Organizational Ambidexterity and Performance:A Meta-Analysis" *Academy of Management Perspectives* (2013), 27(4), 299–312

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O'Reilly III, C.A; Tushman, M.L. "Organizational Ambidexterity:Past, Present, and Future" *Academy of Management Perspectives* (2013), 27(4), 324–338

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## Credit Suisse White Paper

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Cruz, C. Jiménez, L. "Soluciones para familias empresarias:transferir el patrimonio sin matar la ambición".*Credit Suisse-IE White Paper* (2016)

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# Collaborators

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# Authors

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## Cristina Cruz

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Cristina Cruz is Academic Director of the Entrepreneurship Department at IE Business School and teaches Entrepreneurship and Family Business at that institution. Professor Cruz holds a doctorate in economics from Carlos III University of Madrid (doctoral thesis on Corporate Governance in Family Firms), completed the Executive Development Program in Family Business at IE, and has a BA in International Economics from Manchester University.

The results of her research—dealing primarily with entrepreneurship and family businesses—have been published in leading international academic journals including the “Academy of Management Journal,” “Administrative Science Quarterly,” “Journal of Business Venturing” and “Entrepreneurship Theory and Practice.” In recognition of this research work, in 2010, IE Business School honored her with its Research Excellence Award, granted to the school’s best researchers.

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## Laura Jiménez

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Laura Jiménez has a bachelor’s degree in Business Law, Administration and Management from the Universidad Francisco de Vitoria in Madrid. After working for a time in the legal department at Deloitte, she joined IE Business School as a research assistant in the Entrepreneurship department, where she worked on several projects related to family business and entrepreneurship.

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