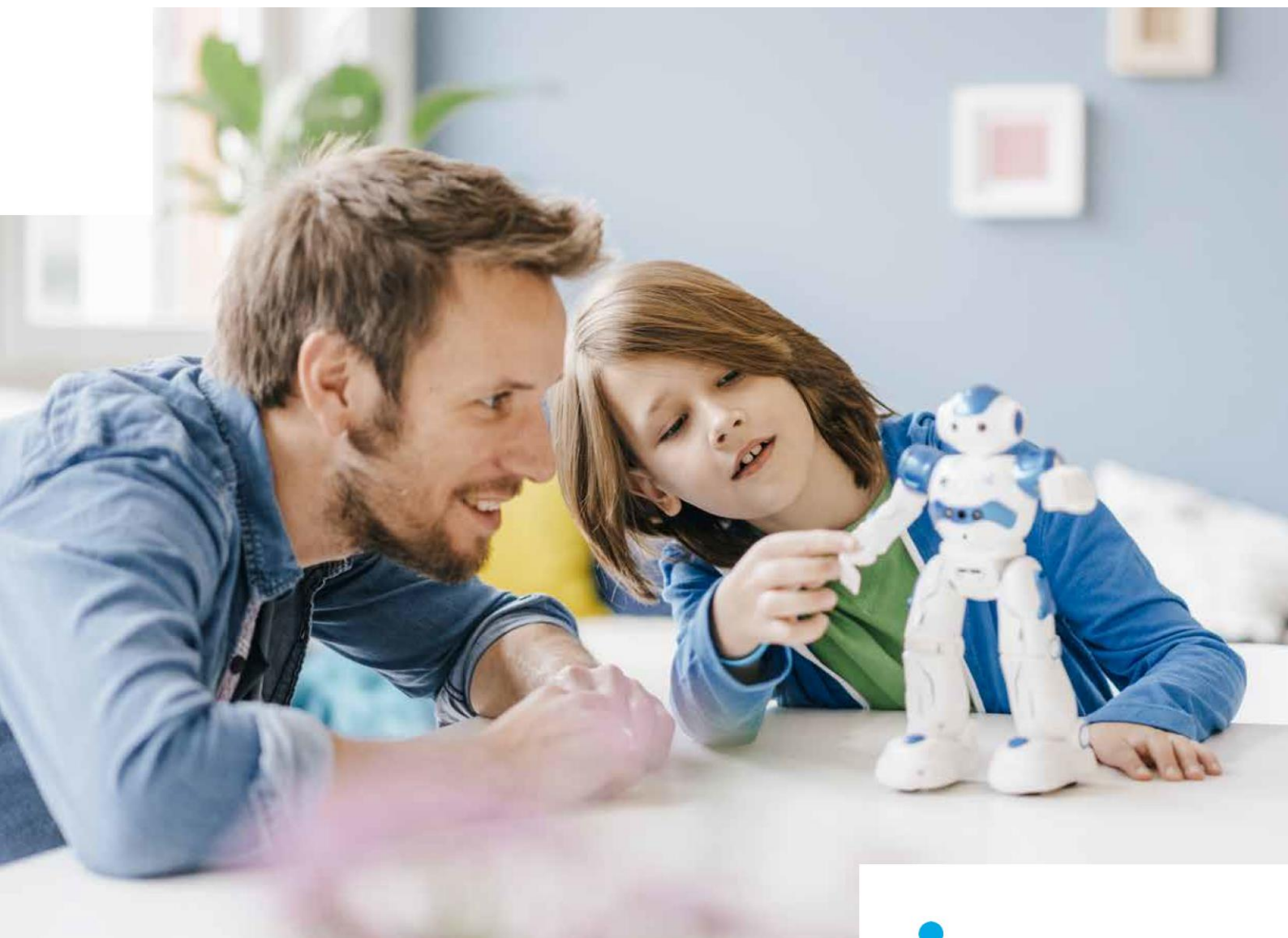


# The social impact of business families in Latin America



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# Executive Summary

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The objective of this White Paper is to help Latin American business families maximize their social impact. Based on a survey of 150 Latin American business families as well as in-depth interviews with various philanthropic experts, the White Paper reveals the traits distinguishing the social action of business families in LATAM, characterized by the integration of three dimensions: the family, the company and the community.

The White Paper establishes distinct “philanthropic business family” profiles, depending on how each family combines these three dimensions and analyzes the most appropriate instruments for channeling social action in each of the identified typologies.

The White Paper also analyzes the “degree of maturity” of social investment of Latin American business families. To do so, the current method used to manage the philanthropy of the surveyed families is compared with the practices characterizing the “new philanthropy” at a global level. The results reveal a growing trend towards an increased professionalization of social investment by business families, with significant differences between the distinct types of philanthropic families that have been identified.

Finally, the White Paper identifies the main barriers to social investment for business families, and based on numerous success stories analyzed in the study, offers a series of “good practices” to help families successfully overcome these challenges.

# I. Foundations



# 1 Objectives

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Latin American countries have a long tradition of charitable and voluntary activities, in which the Church and international cooperation agencies have played a significant role, due to the considerable inequalities existing in this region and the lack of a tradition of welfare state<sup>1</sup>. Over recent decades, however, more resources invested in the generation of social impact in Latin America have come from the business world, with business families serving as essential participants in the philanthropic scene<sup>2</sup>. Despite this importance, the nature of the business families means that they are often low profile, anonymous philanthropists. Therefore, the **first objective of this White Paper is to enhance the contribution of business families on the generation of social impact in the region.**

In previous<sup>3</sup> White Papers, we have shown that in order to achieve effective management of family wealth it is necessary to gain in-depth knowledge of the unique features and motivations behind the business families. Following this same logic, we realize that it is impossible to effectively manage family philanthropy without first determining what motivates families to engage in it as well as their principal challenges when carrying it out. So, the **second objective of this White Paper is to analyze the distinctive features of family philanthropy in the region.**

Additionally, and in line with the global trend, over the past decade, we have observed that Latin America is quite dynamic in the area of social impact. Several initiatives are converging in what has been called a Fourth Sector, a new niche that combines the best of the three sectors

traditional (businesses, governments and NGOs). With these initiatives, we are witnessing a “revolution” of philanthropic activity extending beyond the traditional charitable model towards a more strategic philanthropy that integrates social objectives with business methods to achieve more inclusive<sup>4</sup> economic growth. A study conducted by the *World Economic Forum* reveals that global business families are becoming top players in this new philanthropy<sup>5</sup>. **The third objective of the White Paper is to analyze the extent to which the philanthropy of Latino business families follows this global trend and if so, what characterizes this “new family philanthropy” in Latin America.**

To achieve these objectives, we have conducted a survey of 150 philanthropic Latin American business families. We have also conducted over 20 in-depth interviews with leading families in the region in terms of social impact creation.

The ultimate goal of this research is to analyze whether or not Latino business families in fact take full advantage of their potential to generate lasting social impact. So, in the second part of the White Paper, we offer **a series of recommendations and “best practices” to help business families to achieve this.**

1 Sanborn, C., & Portocarrero, F. (2003). Philanthropy truly exists in Latin America. Paper presented at: Prehuman Foundation and Ford Foundation International Seminar, November 17-20.

Vives, A., & Peinado-Vara, E. (2011). Corporate Social Responsibility in Latin America (No. 33 330).

2 Davidson, A. & Rocha, R. (2018). The impact investing landscape in Latin America, Trends 2016-2017. Retrieved from <https://lavca.org/impact-investing-rep/the-impact-investing-landscape-in-latin-america-trends-2016-2017/>

3 Cruz, C., Jiménez, L. Solutions for business families: transferring wealth without destroying ambition. White Paper Credit Suisse-IE (2016), Cruz, C., Jiménez, L. How to create value over generations: Best Latinamerican Practises.

4 Aninat, M., Fuenzalida, I. & Guez (2017). Impact investments in Chile - Market and investment variables. *Center for Philanthropy and Social Investment, Adolfo Ibáñez University.*

5 Drexler, M., & Noble, A. (2014). Impact investing: a primer for Family Office. *World Economic Forum.*

## 2 According to business families, what is philanthropy?

The term “philanthropy” has multiple connotations, both in Anglo-Saxon and Latin American traditions. While some use the concept to refer exclusively to the offering of donations to third parties (in money, property, time or a combination of the three), others use it in a broader sense, challenging the dissociation that has traditionally existed between activities of the third sector and those of the business world<sup>6</sup>. Thus, the term “corporate philanthropy” is frequently used to refer to philanthropic action carried out by companies, which has generated a debate as to the difference between this type of philanthropy and the company’s so-called Corporate Social Responsibility (CSR).

In addition, over recent years, a new way of approaching philanthropy that comes closer to the concept of investment has developed, requiring philanthropists to act efficiently in order to maximize their social impact. In contrast to more traditional philanthropy, a sort of “strategic philanthropy” is considered<sup>7</sup>. In line with this more strategic philanthropy, an investment philosophy that seeks returns on capital has become popular. It goes beyond the strictly economic sphere, while also pursuing the sustainability of a social project. This form of hybrid investment, known as “impact investment,” is sometimes included under the umbrella of philanthropy or social investment.

Given the variety of terms and approaches used for the concept of philanthropy, instead of using a restrictive definition that could limit the depth of the answers obtained, we chose to directly ask the business families about their philanthropic actions, obtaining the following list of responses:

---

Donations from members of the business family

---

Voluntary actions by members of the business family

---

Corporate Social Responsibility Programs of family group companies

---

Creation of social enterprises by members of the business family

---

Investments with financial returns in projects that generate social impact

---

Working on projects with communities with which the family or company has ties

---

**Source** Author’s own creation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

<sup>6</sup> Dietlin, L. (2010). Transformational philanthropy: Entrepreneurs and nonprofits. *Jones & Bartlett Learning*.

Ochstädter, A. K., & Scheck, B. (2015). What’s in a name: An analysis of impact investing understandings by academics and practitioners. *Journal of Business Ethics*, 132(2), 449-475.

<sup>7</sup> For an in-depth look at the concept of Strategic Philanthropy, see White Paper CSR Asia, 2016. “Strategic philanthropy: Unlocking Entrepreneurial Potential”

Most of the families surveyed admit to being involved in more than one of the above actions, suggesting that they are aligned with the global tendency to adopt a holistic conception of social impact generation, which ranges from traditional philanthropy (donations and volunteering), through company CSR and the creation of social enterprises, to the realization of impact investments. For this reason, the White Paper highlights the importance of addressing family philanthropy in a global way, considering the activities of family entrepreneurs as a whole, rather than looking at those activities on an individual family basis, or by the companies to which they belong<sup>8</sup>.

In line with this holistic vision, for the purposes of this report, we will use the term “family philanthropy” to refer to all actions that generate social impact and are carried out by a business family. However, as will be detailed in the “best practices” section (see page 36), we recognize that, in the taxonomy that is generally accepted by experts, the term philanthropy refers exclusively to actions of a more charitable nature (donations of money, time or goods).

<sup>8</sup> Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A review of literature. *Family Business Review*, 29(1), 121-141.

# 3 “The family effect”: What distinguishes philanthropic business families?

As mentioned in previous<sup>9</sup> White Papers, the “essence” of an entrepreneurial family lies in its interest in generating not only financial, but also socioemotional wealth (SEW). Socioemotional Wealth includes all non-economic objectives pursued by family business owners (e.g., passing on the founder’s legacy, employing family members, maintaining control over the business, and/or maintaining the family reputation). The desire of business families to maintain this Socioemotional Wealth (SEW) results in certain unique traits, including, for example, long-term vision and a strong identity between the company and its shareholders. Research has found that these unique traits favor the involvement of business families in actions related to the generation of social impact in general<sup>10</sup> and that contribute to greater CSR of the companies they control<sup>11</sup>.

Through the FIBER<sup>12</sup> Model, in the White Paper “Transferring wealth without destroying ambition”, we measure the importance that business families give to this SEW in different regions of the world. Our results suggest that entrepreneurial families in LATAM (along with Asian ones) gave more importance to social-emotional aspects.

As Figure 1 shows, this importance is even greater for the subsample of Latino business families involved in philanthropic activities, that is, for the families sampled in this study.

**Figure 1: Socio-emotional wealth**

Scale from 1 to 5. 1 means “barely important” and 5 means “very important”.

|   |   | Philanthropic business families | Business families in LATAM |
|---|---|---------------------------------|----------------------------|
| F | Family control and influence                  | 4.26                            | 4.12                       |
| I | Identification of the family with the company | 4.12                            | 3.98                       |
| B | Importance of social ties                     | 3.92                            | 3.70                       |
| E | Importance of emotional ties                  | 4.37                            | 3.81                       |
| R | Importance of the legacy                      | 4.36                            | 3.87                       |
|   | <b>Medium</b>                                 | <b>4.21</b>                     | <b>3.90</b>                |

**Source** Author’s own preparation based on data from the survey completed by 150 members of LATAM business families between the months of November and December 2018.

<sup>9</sup> Cruz, C., Jiménez, L. Solutions for business families: transferring wealth without destroying ambition. White Paper Credit Suisse-IE (2016), Cruz, C., Jiménez, L. “How to create value over generations: Best Latinamerican Practices”.

<sup>10</sup> Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A literature review. *Family Business Review*, 29(1), 121-141.

<sup>11</sup> Cruz, C., Larrazza-Kintana, M., Garcés-Galdeano, L., & Berrone, P. (2014). Are family firms really more socially responsible?. *Entrepreneurship Theory and Practice*, 38(6), 1295-1316.

<sup>12</sup> 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

Within the different dimensions of FIBER, philanthropic families score much higher than the other Latino business families in achieving objectives related to the creation of social ties and the preservation of the legacy, with these two objectives typically being considered closely related to family<sup>13</sup> philanthropy.

Based on these results, we conclude that the “essence” of the business family turns its members into “natural philanthropists”<sup>14</sup>, as their own identity as business families predisposes them to achieve non-economic objectives (the preservation of a legacy, the construction of social links with their interest groups, etc.) that favor the generation of social impact.

This natural tendency towards philanthropy is also reinforced by their position as majority (and in many cases sole) shareholders of their business group, since, as a recent *World Economic Forum*<sup>15</sup> study explains, high net worth individuals (as well as Family Offices) have great flexibility when it comes to allocating funds to different projects, since they are accountable only to family members. Therefore, they are more likely to take risks and can choose to finance projects that align with their family values and/or generate social impact, regardless of their financial return.

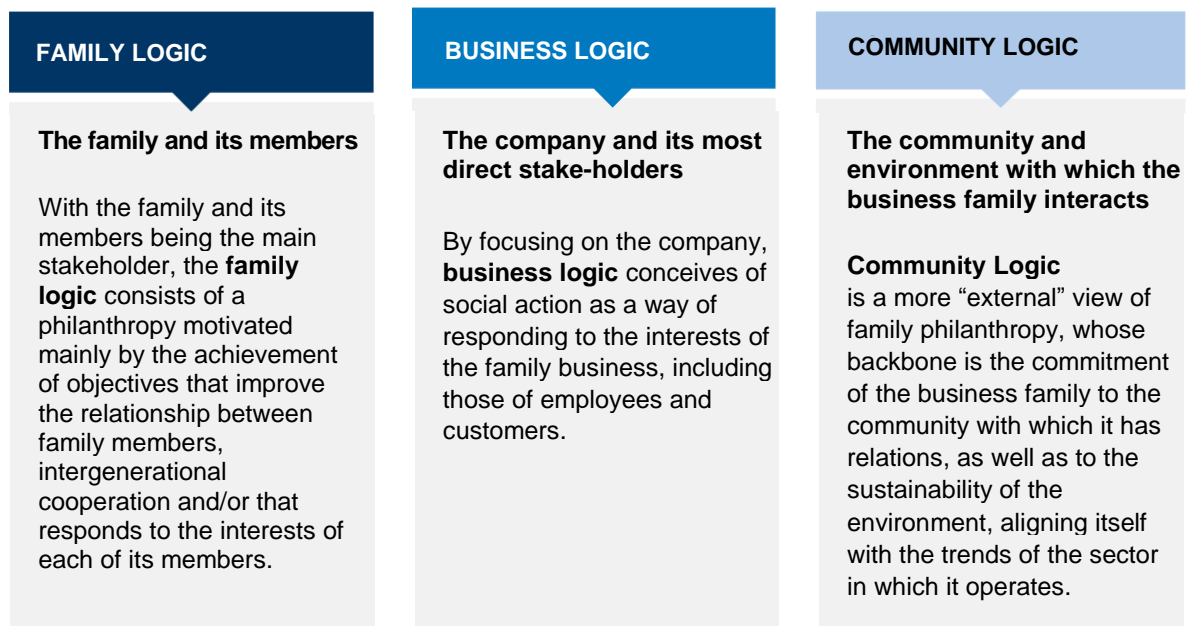
<sup>13</sup> Idem, 4.

<sup>14</sup> Breeze, B. (2009). Natural philanthropists: Findings of the family business philanthropy and social responsibility inquiry. *Institute for Family business*

<sup>15</sup> Drexler, M., & Noble, A. (2013). From the margins to the Mainstream: Assessment of the Impact investment sector and Opportunities Engage Mainstream investors. World Economic Forum and Deloitte Touche Tohmatsu.

# 4 What are the motivations of philanthropic families?

The participants in the survey assessed the reasons why their business family engages in philanthropic activities, which are summarized in Figure 2. Through a statistical technique called factor analysis, we attempt to identify whether or not there is a “common logic” that allows us to group these motifs into homogeneous categories. The analysis indicates the existence of three distinct “logics” that underlie the incentive driving business families to take actions that generate social impact. Each of these “logics” focuses on responding to the needs of a different interest group through philanthropy.



By measuring the importance of each of these logics (scale of 1 = not very important, 5 = very important), it is observed that all of the respondents combine the three in one way or another when defining what moves them to engage in philanthropic actions. In other words, since a business family must simultaneously look after the interests of the family, the business and the environment in which it operates, family philanthropy differs from individual philanthropy and corporate philanthropy in two fundamental ways:

- The presence of a family logic
- Multidimensionality, i.e. the combination of three logics: **Family Logic**, **Business Logic** and **Community Logic**.

However, it is important to emphasize that, as Figure 3 indicates, community logic prevails over the other two. In other words, the philanthropy of business families is mainly motivated by commitment to their external stakeholders. Family logic comes second, with the satisfaction of the interests of the company and its immediate stakeholders (business logic) being the least valued by philanthropic business families.

**Figure 2: Motivations of philanthropic business families**

| FAMILY LOGIC                      | BUSINESS LOGIC                    | COMMUNITY LOGIC  |
|-----------------------------------|-----------------------------------|--|
| Preserving the family legacy      | Improving customer satisfaction   | Commitment of the family to the community in which it is located |
| Strengthening family cohesion     | Improving employee satisfaction   | Concern for environmental sustainability                         |
| Religious and/or moral conviction | Improving the business reputation | Following industry best practices                                |
| Educating NEXT GENs               | Obtaining economic benefits       |  |
| Transmitting family values        | Obtaining tax benefits            |  |

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

**Figure 3: Multidimensionality of family philanthropy**

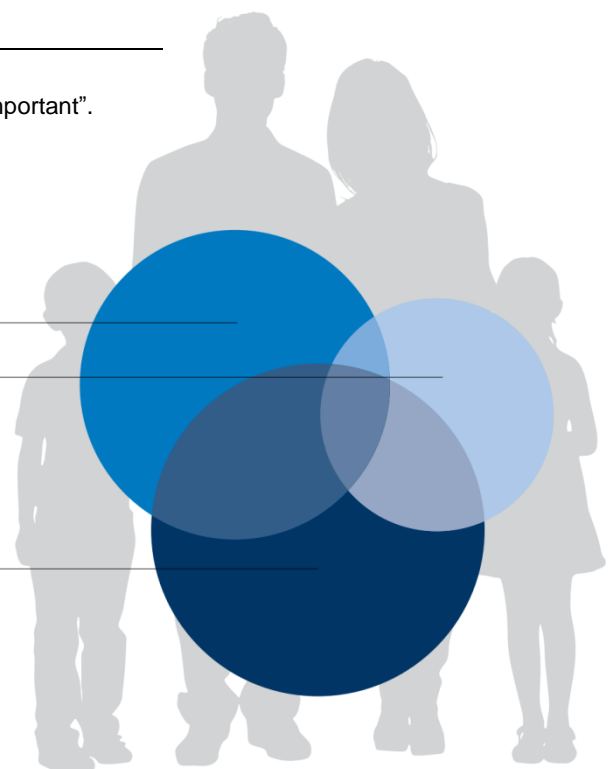
Scale from 1 to 5. 1 means "barely important" and 5 means "very important".

Family logic  
**3,46**

Business logic  
**2,61**

Community Logic  
**3,70**

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.



Based on the interviews conducted, we can clearly see how families combine these three logics in articulating their discourse on philanthropy:

“ We see the foundation and CSR programs as very important tools for family members to identify with what we do.

“ Getting involved in environmental improvement issues led us to meet actors whom we would never have met through our micro-insurance, micro-finance, and other businesses, and that benefited our companies.

“ Our family has an enormous interest in improving the country and the community.

FAMILY LOGIC



BUSINESS LOGIC



COMMUNITY LOGIC

Fernando Cortés  
BOLIVAR DAVIVIENDA Foundation

“ We decided to create the Frisa Foundation, a corporate foundation, in an attempt to maintain our values, and one of the fundamental principles of the company: “to share success” with employees, suppliers, shareholders and the community. Until the creation of the foundation, the company was unsure of how to keep this principle alive. The foundation also served as a mechanism for the integration of the new generation that was not directly involved in corporate management and as a way to preserve the legacy of my parents.

FAMILY LOGIC



BUSINESS LOGIC



COMMUNITY LOGIC

Carmen Garza T  
FRISA Foundation

# 5 Are all families the same?

## Typology of philanthropic business families

The combination of **family logic + business logic + community logic** is the hallmark of the philanthropy of family entrepreneurs. However, not all families combine these logics in the same way. Depending on the relative importance that they place on each logic when defining family philanthropy, four types of business families may be distinguished (See Table 1):



### **Dynastic families:**

#### **The guardians of the legacy**

Like the other families in the study, philanthropy in dynastic families responds, above all, to a logic of external stakeholders, with interests focused on commitment to the community and the environment. But what distinguishes these families is the importance of **family logic** in their philanthropic decisions, motivated mainly by the family members' religious or moral convictions and/or their desire to preserve the legacy and involve the new generations.



### **Investment families:**

#### **Transactional philanthropists**

This category includes those families in which the **business logic** is more important than for the rest of the sample. For these families, aside from their commitment to the environment and the community, the generation of social impact is conceived as an investment through which the family expects to obtain economic benefits, reputational gains and/or improvements in employee and customer satisfaction.



### **Community families:**

#### **Committed to the environment**

In these families, the community logic - that is, the logic of the external stakeholders - is far superior to the other two. The main reason why they engage in philanthropic actions is to attend to the communities and the environment in which they operate, beyond the benefits that this involvement may provide to the family (which they place in second place) and to the company and its direct stakeholders (to which they grant a relatively low importance compared to the rest).







### **Hybrid families:**

#### **Heterogeneous Philanthropists**

This category groups together families in which no logic stands out from the others.

**Table 1: Typology of philanthropic business families**

|                 |   |  |   |   |
|-----------------|---|--|---|---|
|                 |  <b>Dynastic Families</b><br>The guardians of the legacy |  <b>Investing families</b><br>Transactional philanthropists |  <b>Community Families</b><br>Committed to the environment |  <b>Hybrid families</b><br>Heterogeneous philanthropists |
| Family logic    | HIGH  | MEDIUM   | MEDIUM  | MEDIUM  |
| Business logic  | LOW   | HIGH   | LOW   | MEDIUM  |
| Community Logic | MEDIUM  | MEDIUM   | HIGH  | MEDIUM  |
|                 | 39.7%   | 13.2%  | 27.9%   | 19.1%   |





**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

As the percentages in Table 1 reveal, most of the families surveyed fall within the typology of **dynastic** and **community families**.

In order to validate the typology, we ask families what benefits they expect to receive from the social investment made. As we expected, the prevailing logic in each case conditions the anticipated benefits.

- or **dynastic** families, the anticipated benefits of the social investment center around the stakeholder “family”, seeking gains in family cohesion and the involvement of NEXT GENs.
- In the case of **investing** families, economic and reputational benefits are expected to satisfy the interests of the company, customers and employees.
- **Community** families seek, above all, to generate social impact.

**Figure 4: Anticipated benefits of social investment**

|  |   |   |  |
|--|---|---|--|
|  <b>Dynastic Families</b> |  <b>Investing families</b> |  <b>Community Families</b> |  <b>Hybrid families</b> |
| Increased involvement of the NEXT GENs   | Greater economic returns  | Generation of social impact   | Sustainability of the family business  |
| Improvements in family cohesion  | Reputational benefits   | Satisfaction from the duty fulfilled  | Reputational benefits  |

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between the months of November and December 2018.

# 6 What mechanisms are used by philanthropic business families?

As seen in section 2, business families adopt a holistic view of philanthropy, since philanthropy can be carried out through different actions ranging from pure donation to the creation of social enterprises. Despite this holistic view, business families do not give equal importance to all means of generating this impact.

Figure 1 shows a clear preference among families for direct involvement in projects with the communities with which they have links. In other words, in line with the predominance of **community logic** as the backbone of philanthropy, **business families are above all “local heroes”<sup>16</sup> focused on working with the communities with which the family and the company have ties.**

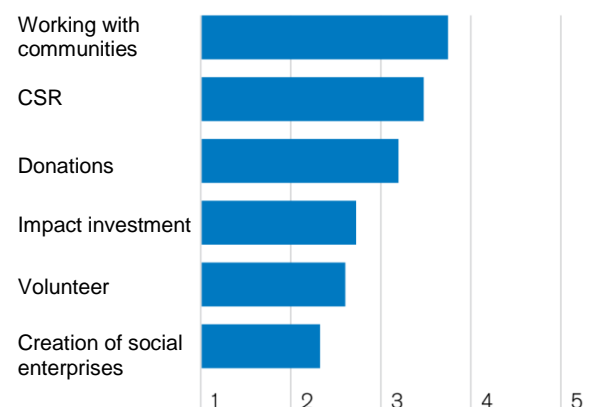
Secondly, it highlights Corporate Social Responsibility as the most frequently used action for philanthropy<sup>17</sup>. This opens an important debate on whether CSR should be considered part of philanthropy, since the global trend is to consider CSR as an indispensable requirement that legitimizes business<sup>18</sup> activity. On the other hand, the philanthropy is more voluntary. Entrepreneurial families do not appear to distinguish between the two, which is logical given the strong link between family and business. However, as we will analyze in the “best practices” section, this lack of separation between the two concepts could result in certain opportunity costs.

Two forms of philanthropy that are also being incorporated by business families are impact investment and the creation of social enterprises. The first represents a concept of philanthropy as an investment, aimed at generating social or environmental impact on the community, as well as an economic return for the investor.

Today, Latino business families grant a relative importance to this option, behind the more traditional philanthropy actions (e.g. donations). The second, the creation of social enterprises is less frequently used in our sample, although as we will mention later, it is an alternative considered by the NEXT GENs when they do not share the familiar vision of philanthropy and it represents a tool of corporate entrepreneurship that can support the growth of the business group. In line with the global boom, as shown in section 7, it is expected that the importance of these two new forms of philanthropy will increase in the near future for Latino business families.

**Graph 1: Actions of philanthropic business families**

Scale from 1 to 5. 1 means “barely important” and 5 means “very important”.



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

<sup>16</sup> Breeze, B. (2009). Natural philanthropists: Findings of the family business philanthropy and social responsibility inquiry. *Institute for Family business*

<sup>17</sup> Monteiro, H., Kisol, M., & Woods, M. K. (2011). Trends in private social investment in Latin America. *Institute for the Discovery of Social Investment*.

<sup>18</sup> Knowledge at Wharton (2012). From Fringe to Mainstream: Companies Integrate CSR Initiatives into Everyday Business. Retrieved from <http://knowledge.wharton.upenn.edu/article/from-fringe-to-mainstream-companies-integrate-csr-initiatives-into-everyday-business/>

Entrepreneurial families must choose the most appropriate type of instrument to carry out these actions. This choice is based on two dimensions. On the one hand, they must decide whether they wish to engage in philanthropy through the family or the corporate sphere. On the other, they must decide whether they wish to create an ad-hoc instrument for this purpose (specific) or if they are going to use pre-existing means (generic). The following matrix classifies instruments based on how these two dimensions are combined and reflects which actions are carried out primarily through them:

**Figure 5: Mechanisms used by philanthropic business families**

| Mechanism       | Family  | Corporate   |
|-----------------|---|---|
| <b>Generic</b>  | <b>Individual Actions</b><br>Donations<br>Volunteering                                | <b>Family business</b><br>CSR<br>Works with the community |
|                 | <b>Family Office</b><br>Impact investment   |   |
| <b>Specific</b> | <b>Family Foundation</b><br>Work with the community<br>Donations<br>Impact investment | <b>Corporate Foundation</b><br>CSR<br>Donations           |

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

At a family level, and as a generic tool, families can first channel philanthropy more informally through the individual actions of their members. This instrument is related to a more traditional concept of philanthropy - understood as charity and closely linked to the personal interests of each individual.

That is why it focuses mainly on actions related to donation and volunteering acts by family members.

Second, they can also channel it more strategically through the Family Office, should it exist. When the Family Office is involved in philanthropic issues, in line with its role as the family asset manager, it does so mainly through investment in projects in which it expects to receive an economic return as well as social impact (impact investment).

When the family wishes to separate philanthropy from business, but conceives it as a project for the entire family, it can opt for the family foundation. While there are a wide variety of family foundations, these independent institutions are primarily characterized by having assets from various family members who are also involved in their governing and management<sup>19</sup>. As seen in Figure 5, the foundation carries out various actions, including direct involvement in projects of the community where it operates, donation making and impact investment. On the other hand, and with regards to corporate instruments, business families can channel their philanthropy directly through the family business. In this case, the business group directly supports projects related to the community in which it operates. But also, according to the families surveyed, the family business engages in philanthropy through its Corporate Social Responsibility programs. Finally, they can create a corporate foundation, as a mechanism designed specifically for family philanthropy, while legally linked to the business group.

Coherent with their integral vision of philanthropy, business families combine different mechanisms in order to carry out their social actions. However, the family business stands out as the main channel that is used.

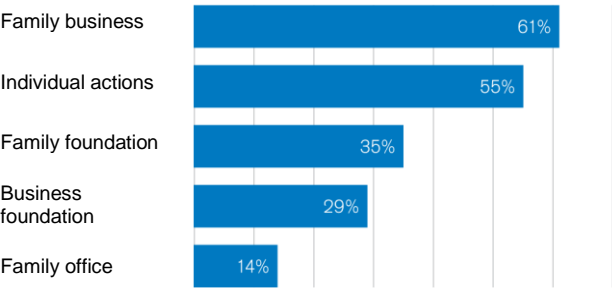
<sup>19</sup> Moody, M., Lugo Knapp, A., & Corrado, M. (2011). What is a family foundation?. *The Foundation Review*, 3(4), 5.

Again, this is explained by the existence of a strong family identification with the company. They then point to the individual actions of family members as the most important. Thus, despite the boom in business and family<sup>20</sup> foundations (used by 35% and 29% of the families in the sample respectively), the philanthropy of Latin American business families still tends to be carried out through generic instruments.

Again, we see how the families view of philanthropy conditions the type of instrument that they use to engage in this philanthropy.





As Figure 6 indicates, although the family business is the most frequently used mechanism by all families, **dynastic** families channel their philanthropic action mainly through the actions of family members, and when they decide to create an ad hoc mechanism for the same, they do so through the creation of a family foundation. On the contrary, **investment** and **community** families opt for the creation of a business foundation and the latter also use the Family Office (if existing) as an instrument to channel their philanthropy. Finally, **hybrid** families, in line with their heterogeneous nature, do not have a clear preference and tend to combine both family and business mechanisms.

**Graph 2: Types of mechanisms used by business families**



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

**Figure 6: Mechanisms used by type of family**

| <div>  </div> <div> <b>Dynastic families</b> </div> | <div>  </div> <div> <b>Investing families</b> </div> | <div>  </div> <div> <b>Community families</b> </div> | <div>  </div> <div> <b>Hybrid families</b> </div> |
|--|---|---|--|
| <div> 1. Actions individual<br/> 2. The Company familial<br/> 3. Foundation familial<br/> 4. Family Office </div>                      | <div> 1. The Company familial<br/> 2. Foundation entrepreneurial </div>   | <div> 1. The Company familial<br/> 2. Actions individual<br/> 3. Foundation entrepreneurial<br/> 4. Family Office </div>                  | <div> 1. The Company familial<br/> 2. Actions individual<br/> 3. Foundation entrepreneurial </div>                                     |

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between the months of November and December 2018.

20 Pharoah, C., Walker C., & Hutchins, E. (2018). Foundations giving trends 2018. Report published by the Association of Charitable Foundations, London.

# 7 How do business families manage philanthropy?

The evolution of philanthropy from “passive charity” to more “strategic” philanthropy has led to a shift among the actors involved in the way they manage their philanthropic activities. This more strategic approach to philanthropy may be visualized by five dimensions:

- The need to attract the proper talent, which has become one of the great challenges faced by those attempting to create social impact
- A trend towards more open philanthropy, involving alliances with various participants in the social investment ecosystem
- A greater tendency to “plan” philanthropy, through strategic plans that formally reflect its objectives
- Greater use of instruments to measure the social impact created
- A prioritization of actions related to impact investment and the creation of social enterprises

Next, we shall analyze the extent to which Latin American business families are responding to these trends when managing their philanthropy.

## 7.1 Who leads the philanthropy in the case of business families?

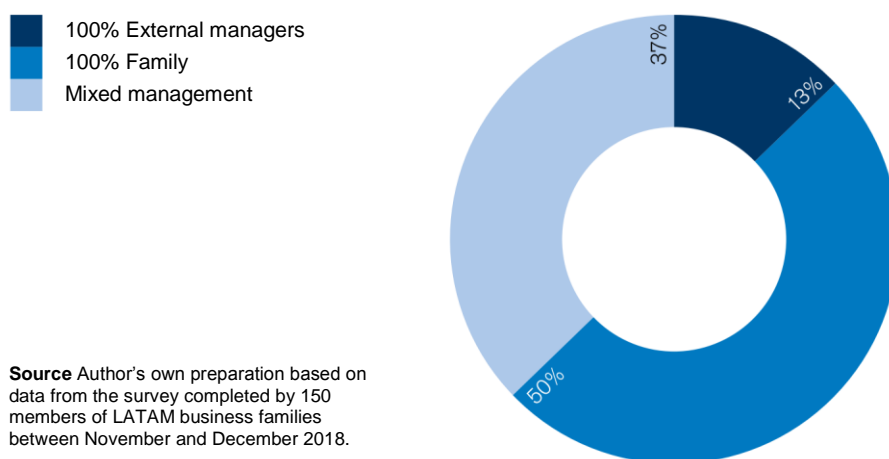
Given the nature of philanthropic activity, its leaders must be capable of balancing the creative tensions inherent in their role: operational and advocacy capacity, analytical and leadership capacity, results orientation and social vocation. Finding individuals possessing all of these qualities is not easy.

In business families, the simultaneous presence of economic and social-emotional goals are daily tensions faced by family members, making them “natural leaders” to manage the contradictions inherent in philanthropy. But the growing professionalization of social action leads to an increased sophistication in its management, and many families are choosing to add external experts in social impact to their management teams. As seen in graph 3, 50% of the surveyed families add external professionals to execute their philanthropic investments.

The analysis by categories reveals interesting differences in this management. For example, **community** families include the highest proportion of mixed teams, made up of family members and professionals. Furthermore, these are the families in which more family members who are not active in the management of family businesses join the team to manage philanthropy efforts. So, to manage their philanthropy focused on “external stakeholders”, they are more likely to turn to talent “outside of the family and outside the company”.

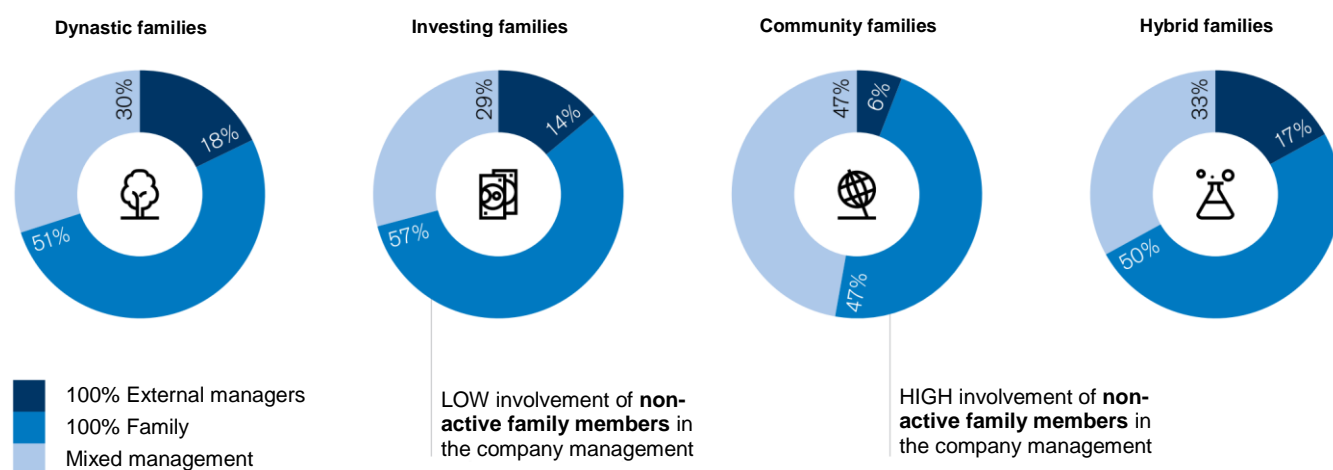
This management model is contrary to that of **investment** families, which are those that include fewer external professionals and also those that include fewer family members who are not active in the management of the family business. It is therefore a management “within the family and the company”, which is consistent with their strong desire for control (which makes them very reluctant to delegate control of the strategic actions that they carry out, including philanthropy), and with their view of philanthropy as an additional tool to ensure the business group’s sustainability.

**Graph 3: Management of philanthropy between family members and outsiders**



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

**Graph 4: Management of philanthropy between relatives and outsiders by type of family**



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

## 7.2 What alliances do philanthropic business families make?

The presence of increasingly complex and persistent social problems has resulted in the need to attempt to create “systemic change”, that is, to identify organizations and individuals who are already working to solve a problem and to help them, joining forces to achieve their common<sup>21</sup> objectives. Thus, philanthropy is evolving towards the establishment of alliances with diverse participants. The presence of these alliances results in numerous synergies that make the difference between an individual philanthropic project and an initiative that seeks a collective and lasting impact on a given area or population.

“

We develop alliances with local and national government, local and national NGOs, foundations and other corporations. We are a multi-current foundation.

**Fernando Cortés**  
BOLIVAR DAVIVIENDA Foundation

The relevant role played by foundations in this sense is shown in graph 5, which reveals the alliances most used by business families. We observe the clear preference of philanthropic families in Latin America to ally with foundations (73% of the sample), as opposed to other types of alliance-forming, such as with universities and NGOs (the second most important, preferred by 37% of the sample), or governmental alliances (with which “only” 20% of those surveyed engaged in).

“

Where's the education specialist? Where's the health specialist? You have to look for and select them. I think it is important to identify those who are tackling these issues so that we can add our efforts to theirs.

**Susana Coppel**  
COPPEL Foundation

Our study indicates that business families are not strangers to this trend, and that they tend to collaborate with a wide range of participants such diverse areas as social, educational, governmental, corporate and family: a large majority (66%) of respondents carries out their philanthropic activities with more than 3 different allies.

“

A word of advice: ally yourselves with the government. It allows you to work together to make a greater impact on society. It is a huge challenge that permits the joining of public and private efforts for the common good.

**María del Rosario Carvajal Cabal**  
CARVAJAL Foundation

21 Walker, J. (2017). Solving the world's biggest problems: Better philanthropy through systems change. *Stanford Social Innovation Review*.

Four factors are frequently used to explain this increased family preference to ally with foundations:

1. an increased facility to collaborate with foundations that share their vision, and/or with families that understand the idiosyncratic needs of a business family;
2. the reluctance of business families to leave the world of foundations and to expose their philanthropic activity to the public;
3. a mistrust of the government and
4. a limited tradition of collaboration between the NGO sector and the business community.

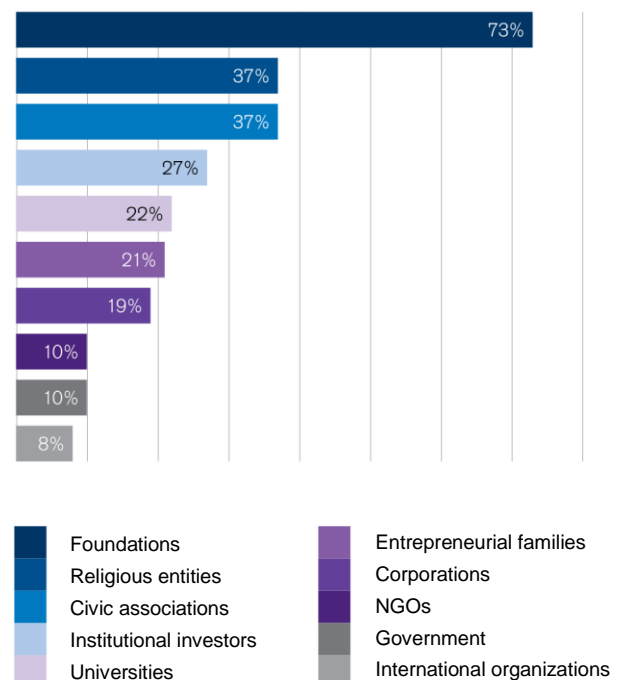
However, our interviews with experts suggest another possible interpretation of this: according to these experts, there is a growing trend in Latin America towards the creation of the so-called “second floor foundations” by business families. A first-floor or first-level foundation is an organization that works directly with the beneficiaries. Unlike these, the second-floor or second-level entities devote most of their efforts and resources to supporting the social programs of other entities, creating alliances between entities or organizations that engage in direct actions in a territory. In other words, they are foundations that function as umbrellas between similar entities or those with similar objectives. Thus, instead of indicating a lack of openness of the philanthropic business families, the high proportion of alliances with foundations actually reflects a growing orientation towards the “systemic change” generation.

“

As a second-tier foundation, we are not involved in field operations, but we seek to generate impact models that can help other businesses to achieve greater social impact. We fall between the foundation and the think-tank.

**Daniel Uribe**  
CORONA Foundation

**Graph 5: Alliances used by philanthropic business families**







**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

Figure 7 shows how the dominant logic that motivates social action conditions not only the mechanism used (as shown in section 6), but also the type of alliances created to generate social impact. Given their focus on the family as the primary interest group, the **dynastic** families are more likely to collaborate with religious entities and other business families to generate social impact, while the **community** families tend to rely more on civic associations and NGOs. It is also logical to observe how **investment** families, given their focus on the business group, are the most likely to rely on other corporations when engaging in philanthropic actions.

### 7.3 Do business families regulate philanthropy through formal plans?

According to the global trend to engage in more strategic philanthropy, which subject philanthropic activity to the same processes and standards of the company<sup>22</sup>, it is increasingly common to discuss the need to develop strategic philanthropy plans. Despite this increasingly widespread discourse, this is still a rare practice among Latin American business<sup>23</sup> families, with only 24% developing formal plans to regulate philanthropy. It is interesting, however, that a much higher percentage (37%) regulates this philanthropic activity through family<sup>24</sup> protocol.

**Figure 7: Alliances most used by each type of family**

|  <b>Dynastic families</b> |  <b>Investing families</b> |  <b>Community families</b> |  <b>Hybrid families</b> |
|--|---|---|--|
| 1. Foundations   | 1. Foundations  | 1. NGOs   | 1. Universities  |
| 2. Religious entities  | 2. Civil associations   | 2. Foundations  | 2. Foundations   |
| 3. Other business families   | 3. Other business families  | 3. Civic associations   | 3. Government  |
|  |   |   | 4. Institutional investors   |

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

“Family philanthropy is very informal. We don't handle philanthropy the way we handle our businesses. We donate and don't ask many questions. And this is irresponsible, I believe, since “giving” makes you responsible.

**Susana Coppel**  
COPPEL Foundation

22 Centre for charitable giving and philanthropy (2012). *Philanthropy and a Better Society*. Cass business school, city university London. Retrieved from <http://www.philanthropy-impact.org/report/philanthropy-and-better-society>

23 Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A review of literature. *Family Business Review*, 29(1), 121-141.

23.Breeze, B. (2009). Natural philanthropists: Findings of the family business philanthropy and social responsibility inquiry. *Institute for Family business*

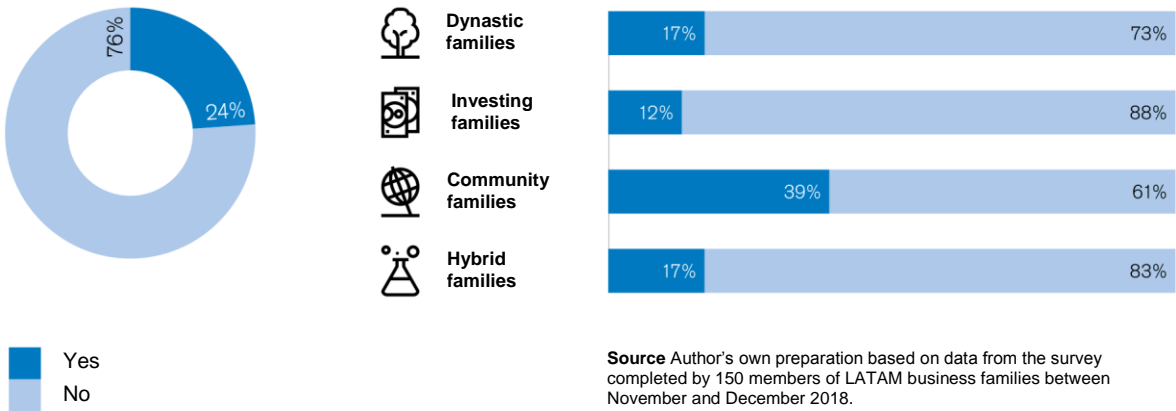
23 McKinsey (2015): Gaining strength through philanthropy: How emerging-market families can make a difference.

24 The Family Protocol is the “set of rules of the game agreed upon by a business family to ensure the sustainability and harmony of the family group. To learn more about family protocol, see the White Paper: Cruz, C. and Jimenez, L. “Soluciones para familias empresarias: Transferring wealth without destroying ambition”.

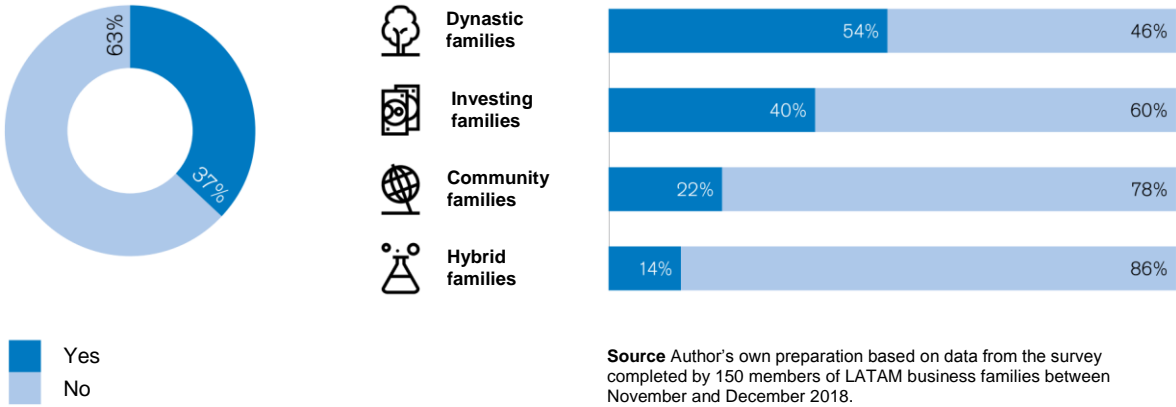
Analysis by family typologies permits a better understanding of these differences between business families in relation to whether or not they plan philanthropy and what type of plans they make. As Figure 6 shows, **community** families are by far the ones who are more likely to create the most strategic philanthropic plans, in line with their main objective of generating social impact and their increased interest in measuring it.

In contrast, the presence of strategic plans is much lower in **dynastic** families and **investors** and when these families regulate philanthropic activity they tend to do so mainly from the family protocol. Since family protocol is perceived as an instrument to ensure family sustainability, regulating philanthropy as part of it makes sense for these families, whose ultimate goal is to transmit values and legacy through philanthropy (**dynastic** families) or to improve the competitiveness of the family business (**investing** families).

Graph 6: Do philanthropic business families have a Philanthropy Strategic Plan?



Graph 7: Do business families regulate philanthropy through a Family Protocol?



#### 7.4 Do business families measure the social impact generated by their philanthropy?

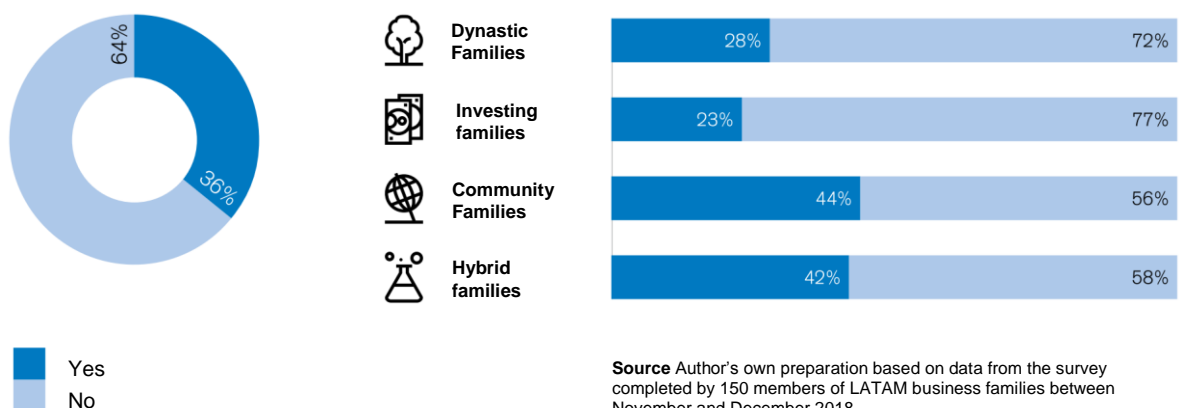
The need to measure the impact generated by the social action has become common discourse for defenders of the most strategic philanthropy, although the difficulty of finding adequate measures to do so and the costs associated with this measurement result in a reluctance to implement these tools.

Only 36% of the business families have a system implemented to measure this social impact, although as Figure 8 indicates, this percentage is higher for **community** and **hybrid** families than it is for **dynastic** and **investment** families. **Dynastic** families and **investors**, having internal stakeholder logic, may not feel obliged to measure the impact of their philanthropic activity. As we will see in the “best practices” section, the lack of a measurement system may result in a missed opportunity to improve and increase their impact and legitimacy as social actors.

“ We attempt to measure our social impact as best as possible. However, there are many variables that we cannot control, and measurement can be difficult and costly depending on the area we wish to measure.

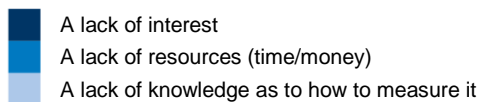
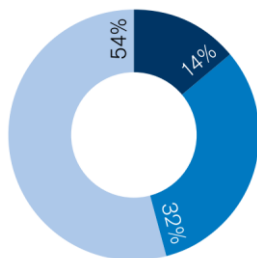
**Fernando Cortés**  
BOLIVAR DAVIVIENDA Foundation

**Figure 8: Does your family measure the impact of your philanthropic activity?**



The small percentage of families that do not measure the social impact of their philanthropy is not due to a lack of interest in doing so, but rather, as Figure 9 indicates, a lack of knowledge as to how to do so. This difficulty is faced not only by philanthropic families, but by the entire social<sup>25</sup> sector.

**Graph 9: Why doesn't your family measure social impact?**



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

“Measuring our impact is a real challenge. We hired one organization and then another, to help us develop means, yet we continue to have doubts as to how to do it.”

**Carmen Garza T**  
FRISA Foundation

<sup>25</sup> Ebrahim, A., & Rangan, V. K. (2014). What impact? A framework for measuring the scale and scope of social performance. *California Management Review*, 56(3), 118-141.

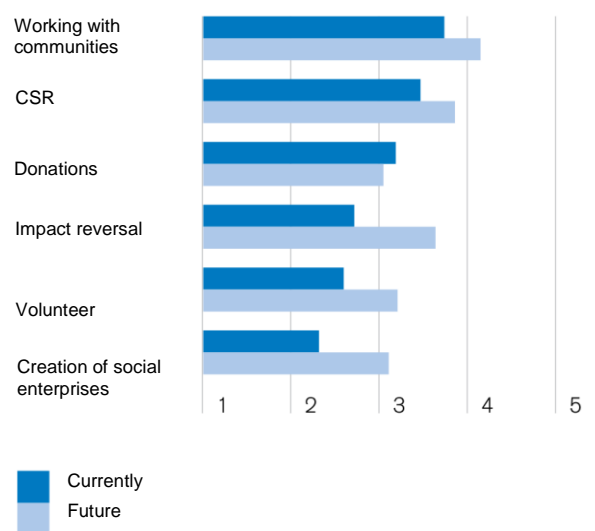
### 7.5 Is the importance of impact investment and the creation of social enterprises growing in business families?

In order to analyze whether Latino families are following the global trend of reducing their involvement in traditional philanthropy and giving greater importance to impact investments and the creation of social enterprises, we asked families to assess the desired future importance of the actions described in Figure 1 (Figure 10). The results leave no room for doubt: the only item that families wish to reduce are donations, whereas the actions that they wish to promote the most are precisely those that represent the most modern aspects of social impact generation: impact investment and the creation of social enterprises.

It is also important to note that this change in how shares are prioritized does not differ by category, although given the more transactional nature of impact investment and the creation of social enterprises; it is natural for **investment** families to be those having the most interest in increasing their presence in this type of shares.

**Graph 10: What importance does your business family wish to place on the following actions in the future?**

Scale from 1 to 5. 1 means “barely important” and 5 means “very important”.

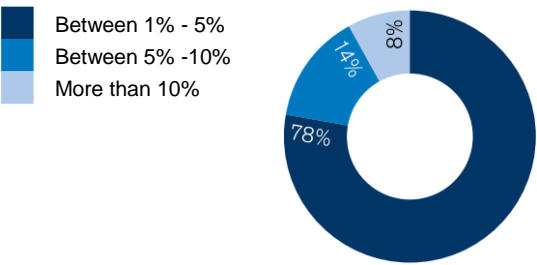


**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

# 8 How do business families finance philanthropy?

The majority of those surveyed spend between 1% and 5% of the family's wealth on activities related to philanthropy, although as graph 11 shows, in some cases this percentage exceeds 10%. The most "generous" business families are those of the **dynasties** and **communities** typologies, with 11% and 16% of the cases respectively, in which families contribute more than 10% of their patrimony to philanthropy. This is not the case for the **investment** and **hybrid** family categories (Table 2). This increased "generosity" of **dynastic** and **communal** families' vis-à-vis the rest is also reflected in their view of future philanthropy resources. In the overall sample, 68% of the families claim to intend to increase these resources, while 32% wish to maintain this percentage. None of them claim to want to cut back on philanthropy funds. This is a positive sign and suggests the growing interest of Latin American business families in philanthropy in a region where they have traditionally devoted relatively small proportions of their wealth to social<sup>26</sup> investment.

Graph 11: What percentage of wealth is devoted to philanthropy?

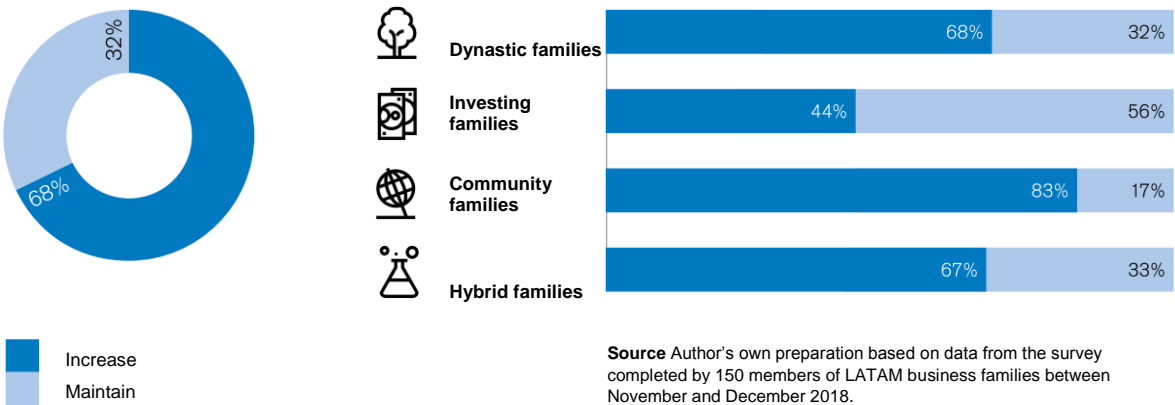


Source Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

Table 2: Percentage of families devoting over 10% of their wealth to philanthropy

|  | Dynastic families | Investing families | Community families | Hybrid families |
|--|-------------------|--------------------|--------------------|-----------------|
|  | 11%               | 0%                 | 16%                | 0%              |

Graph 12: Does your family wish to increase the resources devoted to philanthropy?



Source Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

26 EY Study Centre (2016). Family Business philanthropy report.

As shown in Figure 12, this percentage varies considerably between categories, with 83% planning to increase their spending on philanthropy for **community** families and 44% for **investment** families.

The relatively small proportion of **investing** families considering increasing their social investment contrasts with the popularization of the shared value theory in the business world - which suggests that companies can maximize profits while generating positive impact<sup>27</sup> - Therefore, this new paradigm does not appear to be a determining factor in the growing participation of Latin American business families in philanthropy. Rather, we observe how concern for the community and the desire to pass on a legacy continue to be the main driving forces behind social work.

As for the origin of these funds destined to philanthropic activities, the majority come from the profits of the companies that they own (or from the patrimonial investments that they make) and/or from the individual contributions of family members. Only in a small percentage of the philanthropic activity is financed through the **endowment** of a foundation.

- 
1. Profits derived from business activities
  2. Individual contributions from family members
  3. Returns on equity investments
  4. Foundation endowment
- 

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

<sup>27</sup> Porter, M. E., & Kramer, M. R. (2011). The big idea: Creating shared value. Harvard Business Review. January-February, 1-17.

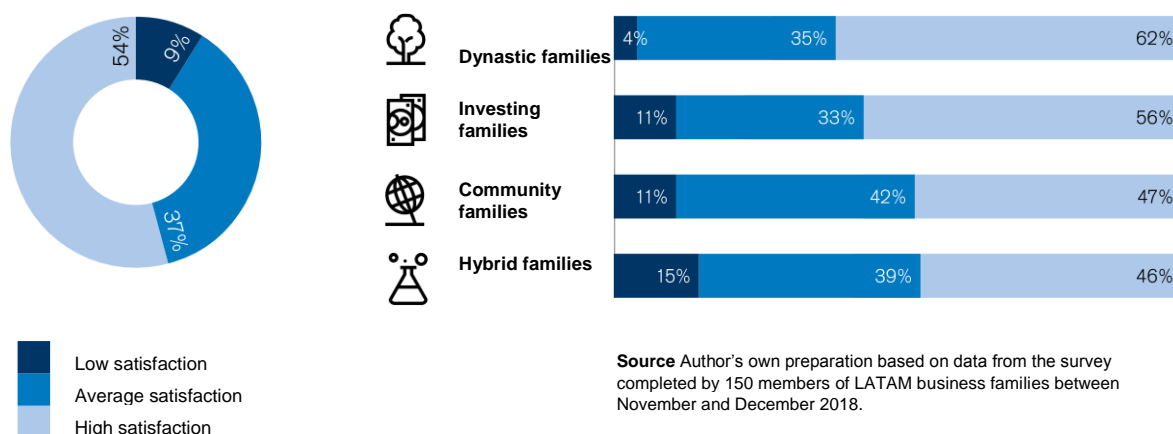
# 9 What are the main challenges faced by business families in terms of creating social impact?

To better understand the challenges faced by business families, we must first measure their current level of satisfaction with the social investment that they make. The majority (54%) are very satisfied with their philanthropic activity (score of 4 or higher on a scale of 1 to 5). But once again, the typologies hide some interesting differences between families, with much higher percentages of very satisfied families being found in the case of **dynastic** families as opposed to **community** families .

Our data indicates that the benefits derived from philanthropy are more tangible when presented in terms of a familiar logic as than when formulated in terms of creating impact on the community. In the case of **community** families, it is possible that their focus on creating social impact and their proximity to the beneficiaries of philanthropy (for example, the local community), makes them much more critical of the social investment made, resulting in a lower degree of satisfaction. Similarly, in the case of **hybrid** families, the lack of a prevailing logic and their desire to try to satisfy all stakeholders through philanthropy may explain their low level of satisfaction.

To better understand what may be limiting family satisfaction with their philanthropic activity, we asked them about the obstacles that hinder this work, with the most notable being those related to a lack of time, ignorance of the process and lack of institutional support. Second, two types of barriers have been identified, some related to family obstacles (such as a lack of a common vision or a desire to limit the family's public exposure) and others related to the lack of clear tools to measure the social and/or economic impact of philanthropy. Finally, they grant relatively little importance to the lack of economic resources as an obstacle to philanthropy and to the lack of conviction with regards to its effectiveness.

**Graph 13: How satisfied are you with your philanthropic activities?**

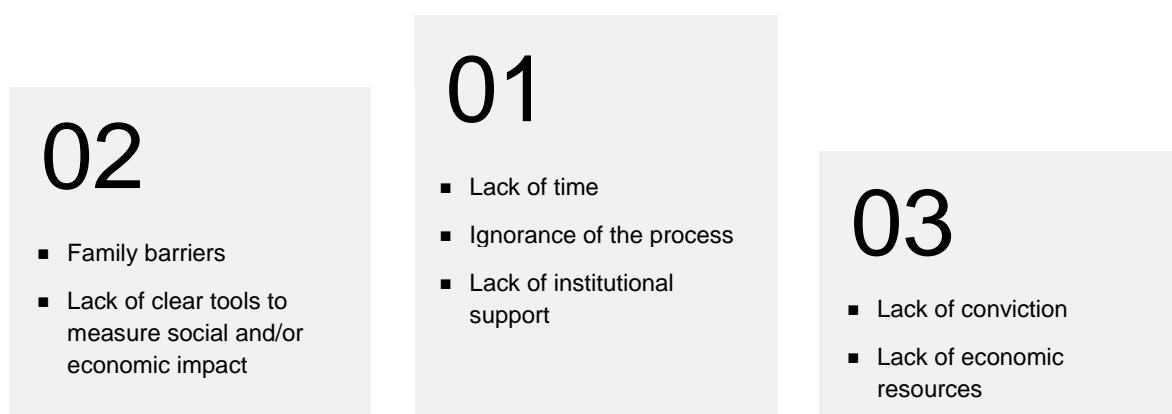


“  
Before we had very little visibility as to where our donations went - we gave little money, but to over 1000 institutions (which, in all, represented a lot of money), and we didn't know if it was going to alleviate issues of poverty, education, etc. There was no way to evaluate or measure the impact of our donations, and that was very frustrating.

Susana Coppel  
COPPEL Foundation

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**Figure 8: What are the main obstacles faced by your business family when implementing philanthropic activities?**







**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

Once again, this vision hides some major differences between the types of business families:

- When considering social investment as a means of preserving the legacy, **dynastic** families fear over-exposure of the family to public opinion as a result of social investment. This desire to limit the family's public exposure is only perceived as a major obstacle for this type of families. Likewise, for **dynastic** families, the lack of family involvement is a barrier to potential social investment.
- The more transactional logic that dominates in the case of **investment** families explains why, for these families, a lack of economic resources is perceived as an obstacle to social investment to a much greater extent than for the rest of the families.
- In the case of **community** families, in line with their dominant logic of satisfying the interests of the community and the environment, their most noteworthy barriers include a lack of clear ways to measure social impact and a lack of institutional support to help maximize this impact.
- For **hybrid** families, which lack a prevailing logic, their greatest obstacle to engaging in philanthropic activities is the lack of a common vision by family members.

**Figure 9: Obstacles by family type**

| <br><b>Dynastic families</b>                        | <br><b>Investing families</b>        | <br><b>Community families</b>                          | <br><b>Hybrid families</b>            |
|--|---|---|--|
| <ul style="list-style-type: none"> <li>■ Desire to limit the family's public exposure</li> <li>■ Lack of family involvement</li> </ul> | <ul style="list-style-type: none"> <li>■ Lack of economic resources</li> <li>■ Lack of institutional support</li> </ul> | <ul style="list-style-type: none"> <li>■ Lack of institutional support</li> <li>■ Lack of clear means to measure social impact</li> </ul> | <ul style="list-style-type: none"> <li>■ Lack of a common vision of the business family</li> <li>■ Lack of time</li> </ul> |

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

# 10 The vision of the NEXT GENs

Younger members of business families (NEXT GENs or *millennial* generation) are another important element to examine when considering philanthropy in business families in Latin America. First, this generation differs in many ways from previous generations. They have experienced periods of unprecedented prosperity and economic crisis. They have witnessed social and political challenges and problems on a global scale. They also represent a truly global generation; they share experiences that transcend cultural and geographic barriers.

Finally, they see technology as an integral part of their lives. These elements undoubtedly influence their view as individuals and entrepreneurs and, hopefully will also influence their view of family philanthropy.

Thus, millennials are characterized by a desire to reconnect their work with a purpose, and they often view the company as a tool to change the world. According to some studies<sup>28</sup>, millennials have a considerably different investment profile than their predecessors: on the one hand, they reveal a relatively high skepticism towards investments in the capital markets, whilst on the other; they are willing to assume greater risk and a lower level of financial return to invest in companies that generate a positive social impact. In addition, a Spectrum Group study indicates that 45% of all wealthy millennials wish to use their wealth to help others<sup>29</sup>. The “wealth transfer” potential of NEXT GENs represents a unique opportunity that should be taken advantage of by philanthropic business families in Latin America.

Next, we will analyze how the NEXT GENs differ from first generation Latino business families, which we call “SENIOR GENs”.

“ The NEXT GENs have a much more extensive and less “regional” view of philanthropic activities. It may be strategic to involve them in the planning and operation of the organization.

**María del Rosario Carvajal Cabal**  
CARVAJAL Foundation

28 Emerson, J. y Norcott, L. (2014). The Millennial Perspective: Understanding Preferences of the New Asset Owners. *Stanford Social Innovation Review*.

29 SpectrumGroup (n.d.). Millennial investors want their wealth to help others, lack confidence managing finances. Retrieved from: [https://spectrem.com/Content\\_Press/May-28-2013-Press-Release.aspx](https://spectrem.com/Content_Press/May-28-2013-Press-Release.aspx)

An analysis of graphs 14 and 15 indicates that, while NEXT GENs are generally less satisfied with family philanthropic activity, the percentage of them who want to increase the resources allocated to this activity in the future is higher than in the case of the older generations.

In other words, they want to do more philanthropy, but they also want to change the traditional way of doing it.

Among the changes demanded by these NEXT GENs, it is especially important to place a greater emphasis on impact investments as opposed to more traditional forms of philanthropy, and less importance on alliances with religious institutions.

For these new generations, philanthropy as charity is obsolete, and above all, they seek direct involvement in creating real, measurable and lasting impact.

“

My father and I did not have the same views on social investment, and neither my father nor my family were interested in the causes that I was interested in. His focus is more on the religious causes that he supports through donations. On the other hand, it was very clear to me that I wanted to create my own company.

**Samuel Azout**  
Social Enterprise Football with Heart

**Graph 14: Percentage of respondents that are very satisfied with the philanthropic programs developed**



■ NEXT GENs  
■ SENIOR GENs

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

**Graph 15: Percentage of respondents who wish to increase the resources that they devote to philanthropy**



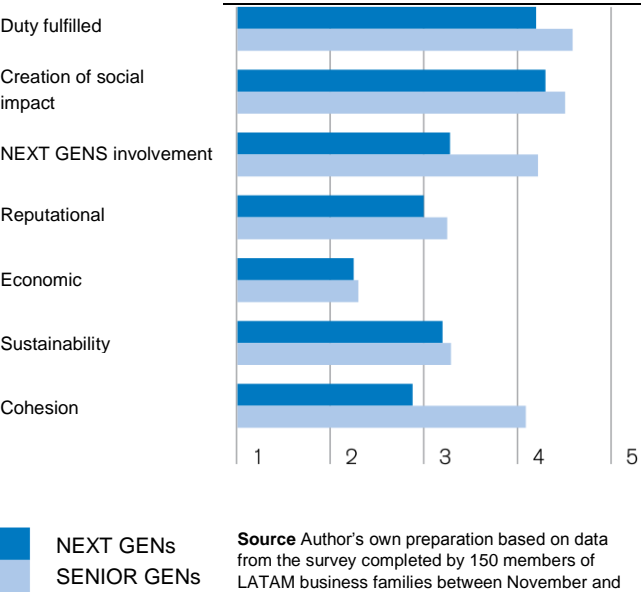
■ NEXT GENs  
■ SENIOR GENs

**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

In line with the lower satisfaction of the NEXT GENS, they generally offer a poorer assessment of the benefits of philanthropy as compared to older generations. In fact, it is interesting to note that the “family” benefits derived from philanthropic action, such as the cohesion or integration of these NEXT GENS, are, comparatively speaking, those that receive the poorest assessment by the NEXT GENS, as opposed to the SENIOR GENS, generations. This should lead families to reflect upon the extent to which these benefits provided by family philanthropy are not being suitably passed on to future generations.

**Gráfico 16: Benefits of philanthropic activities for NEXT GENS and SEN GENS**

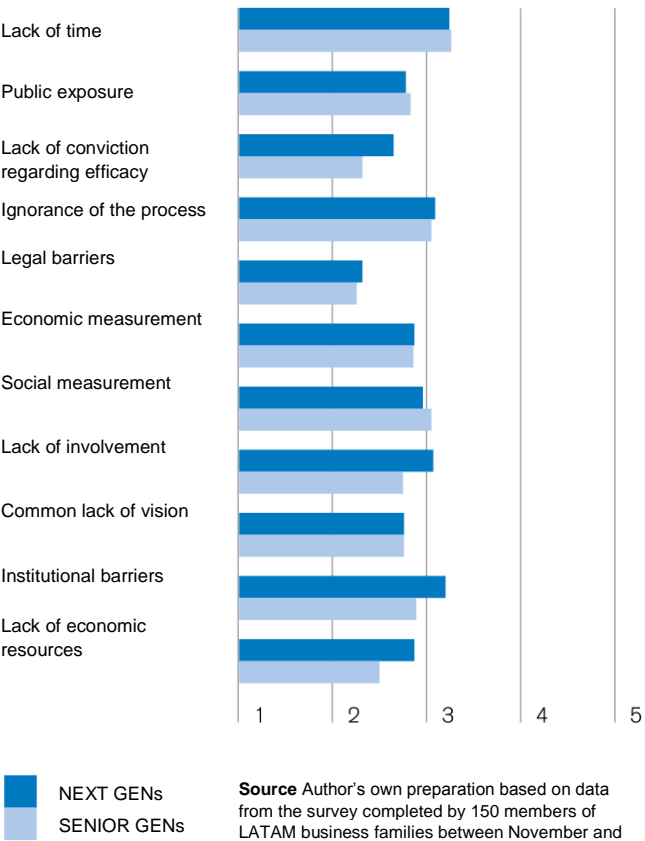
Scale from 1 to 5. 1 means “barely important” and 5 means “very important”.



By comparing the importance given to the different obstacles to engaging in social action by the generations, we also obtain interesting data to categorize this new generation of philanthropists. In general, they perceive larger barriers to philanthropic activity than older philanthropists, but comparatively, lack of time is less important, as is the desire to limit public exposure. This is of interest, since it indicates a tendency to practice more “visible” philanthropy in a region where traditionally, business families considered philanthropy as something to be kept anonymous.

**Graph 17: Obstacles to philanthropic activities for NEXT GENs and SENIOR GENs**

Scale from 1 to 5. 1 means “barely important” and 5 means “very important”.



## II. Best practices



# A Best practices

---

The inherent complexity of family philanthropy means that, despite the natural predisposition of business families to engage in social investment, it is difficult for many families to know where to begin and what steps to take to achieve lasting social impact. Based on the research conducted in this study, we summarize, in five steps, the actions that a family should take to maximize its social impact.

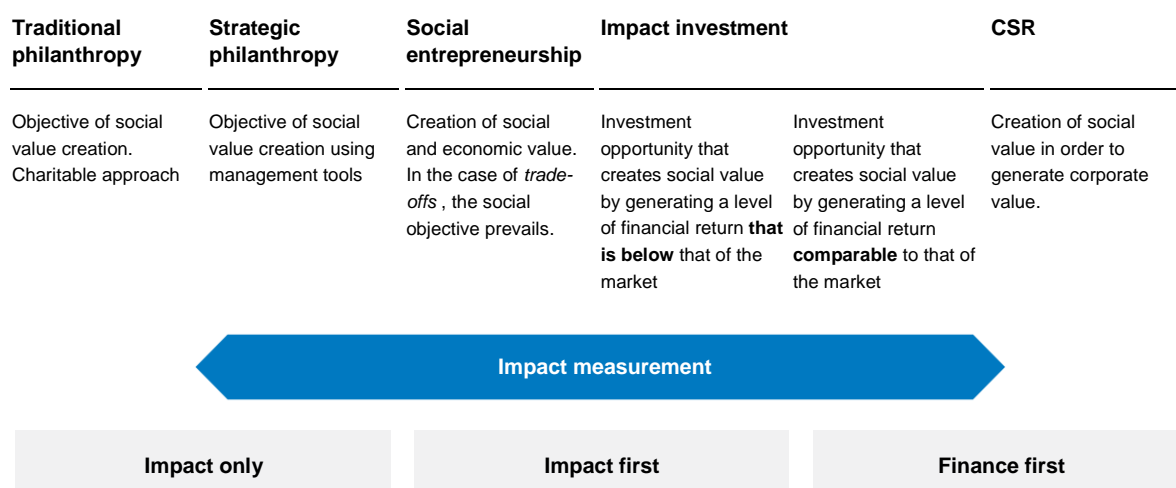
- 
- |        |  |
|--------|--|
| Step 1 | Understanding the set of activities involved in generating social impact |
|--------|--|
- 
- |        |   |
|--------|---|
| Step 2 | Defining the family's vision of social investment |
|--------|---|
- 
- |        |   |
|--------|---|
| Step 3 | Determine appropriate actions and mechanisms to carry out social investment |
|--------|---|
- 
- |        |   |
|--------|---|
| Step 4 | Measure and assess the impact of actions at the three levels (Family, Business and Community) |
|--------|---|
- 
- |        |                                       |
|--------|---------------------------------------|
| Step 5 | Communicate the social impact created |
|--------|---------------------------------------|
-

# Step 1

## Understand the set of activities involved in creating social impact

Resolving the debate as to what social impact generation entails is the first step to achieving lasting and effective social impact. And perhaps also the most complicated, since experts still fail to agree on the use of appropriate terminology to refer to all of these actions that generate social impact. Although, in accordance with the responses of the surveyed, we have used the term family philanthropy throughout the White Paper to refer to all of the impact-generating actions of a business family, we do not agree with this terminology.

In line with recent trends, we recommend that families use the term “social investment” in reference to the umbrella that encompasses the entire continuum of activities that generate social impact, ranging from traditional philanthropy to CSR. And, above all, to make a good distinction between these continuums of activities, since behind each of them, distinct philosophies exist as to how to generate social impact which business families should know in order to choose the orientation that best suits their profile and particular expectations. To help families in this way, we have drawn this continuum as follows.



Source prepared by the authors based on EVPA (2018)<sup>30</sup>, Bridge venture fund and Aninat, Fuenzalida and Guez (2017)<sup>31</sup>

30 EVPA (2018). The EVPA survey 2017/2018. Investing for impact. *European Venture Philanthropy Foundation*. Retrieved from <https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-the-evpa-survey-2017-2018>  
 31 Aninat, M., Fuenzalida, I. & Guez (2017). Impact investments in Chile - Market and investment variables. *Center for Philanthropy and Social Investment, Universidad Adolfo Ibáñez*.

To the left of the continuum are those initiatives that only seek to meet social needs by adopting a somewhat charitable approach (traditional philanthropy). Next, we find actions that apply knowledge and tools from the business world, to achieve these philanthropic objectives in a more efficient and effective way. Thus, these are actions that place greater emphasis on measuring social results, adjusting the decisions to allocate funds according to their achievement of the same. We call this strategic philanthropy. Both actions are known as **“Impact only”** philanthropy.

A second category consists of the social investments **“Impact first”** which, while seeking the creation of economic value in addition to social value, continue to consider the latter as their primary objective. This is the case with the creation of social enterprises and those impact investment initiatives that generate a lower return than the market return. Finally, in the **“Finance first”** (economic benefit as a priority) we find those social actions that, although they contribute to reducing a social problem, focus on the benefits provided to the investor. This category includes impact investments that create financial return comparable to that of the market, as well as CSR policies whose benefits are generated indirectly.

## Step 2

# Defining the family's vision of social investment

Once social investment is understood as a continuum, in order to make the right decision as to where to situate themselves within it, business families must agree on what they want to achieve through social investment. That is, they must decide on their vision of family social investment.

The three-dimensional nature of this vision (which combines the three logics: family + community + business) can lead families to experience one of the most common problems of participants involved in social impact: a lack of focus on their social investment. By attempting to respond through social investment to the interests of family members, the company and its stakeholders, and those from the area where it operates, business families may end up with an overly extensive view of social investment, excessively diversifying their causes and reducing the social impact generated. This lack of focus is evident in hybrid families which highlight a lack of common vision as one of their main obstacles, standing out as the families that are the least satisfied with philanthropy.

“ There are many needs and one cannot meet all of them. For a few years, we carried out operations in different parts of the country, and then we focused on local and regional areas. You have to give refusals, have focus and be consistent in the defined scopes.

**María del Rosario Carvajal Cabal**  
CARVAJAL Foundation

The creation of specific mechanisms to carry out philanthropy can help and better focus philanthropy by forcing families to reflect on the purpose of the foundation or social enterprise to be created. In order to achieve a “focused” vision that maximizes the potential of families to generate social impact, we recommend a “Roadmap of your social investment”. In this roadmap (more flexible than a strategic plan, but with the same philosophy), the family should base its reflections on five fundamental<sup>32</sup> questions:

### Figure 10: Process of reflection on the vision of social investment

Why do we want to engage in social investment? (The Logic motivating the business family)

What social change do we wish to achieve? (The cause you are going to focus on and the objectives that you wish to achieve)

How do you believe the desired social change will take place? (The strategy and operational plan to follow)

Who will your partners be when it comes to creating this change? (Alliances to be made)

How will we measure progress? (Impact measurement indicators)

32 Adapted from: “Your philanthropy roadmap2. Rockefeller Philanthropy advisor.”

Carrying out this type of planning, which would tend towards a more strategic philanthropy that seeks to maximize the impact created, should not be difficult for business families, as they plan strategies on a daily basis and efficiently allocate resources in their role as managers of the family businesses. Therefore, we recommend that families move away from the “informality” that currently exists in the management of their social investment (due to the low percentage of companies planning social investment) and apply their knowledge of business management when planning the social investment strategy.

“ The family protocol regulates the governance of the Corona Foundation. It is specified that the foundation be run by an external member of the family, elected by the Family Council in a very clear selection process. It also regulates the operation of the Board of Directors of the foundation, consisting of family members and external. Finally, we also rely on strategic validation every five years with the participation of external consultants, the family council and the family assembly.

**Daniel Uribe**  
CORONA Foundation

“ Doing good costs money, and people don't want to pay to become professionals. Donations are necessary, but for Mexico to improve, we must professionalize our philanthropy. That is why we have decided to create a community foundation, together with other partners, in order to advise other business families on how to organize their philanthropy.

**Carmen Garza T**  
FRISA Foundation

To help this “Roadmap” materialize, the business family's governing bodies (Assembly and Family Council<sup>33</sup>) play a fundamental role as meeting places for business families to discuss these issues related to family investment. It is also important that this Roadmap for social investment be in line with the vision and objectives of the Family Protocol where it exists. In fact, as we have seen from the survey, many families already regulate social investment in their Family Protocols.

<sup>33</sup>The Assembly and the Family Council are governance institutions of the business family. To learn more about family governance bodies, see the White Paper: “Solutions for business families, transferring wealth without destroying ambition.” Cruz, C. and Jimenez, L. (2016).

Finally, a specific challenge related to the definition of social investment in business families is the special interest that these families must place on the new generations when establishing this vision. The family logic that defines the social investment of these families includes benefits related to the involvement of these new generations in the family project. However, our results show that this benefit is not highly valued by the NEXT GENs and that overall, they are less satisfied with the social investment made by their families. To this we must add the interest of the NEXT GENs in increasing the resources allocated to this investment, as well as their desire to change how it is carried out. All of this suggests the need to align the vision of the business family with a new social investment philosophy that characterizes this new generation<sup>34</sup>.

“ In order to take advantage of the contribution of the new generations, it is necessary to appropriately structure their participation in the philanthropy of the business family, adapting this philanthropy to the new logic and to the Ethos of the Millennials. In this sense, it is necessary to provide them with a decision-making space that is their own and that allows them to contribute their vision, since the new generations are interested in much more emerging themes, and those that are often not a priority in the traditional family visions (such as environmental conservation).

**Magdalena Aninat**

Director of the Center for Philanthropy, UAI, Chile

<sup>34</sup>To better understand what actions should be taken to involve NEXT GENs in family philanthropy, see the White Paper developed by The Institute for Philanthropy for Credit Suisse: "Funding as a family: Engaging the NEXT GENs in family philanthropy"

## Step 3

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# Decide on appropriate actions and mechanisms to carry out social investment

The family vision of social investment will result in a specific type of action being taken and the corresponding mechanisms to implement it. The objective of this phase will be to provide the selected actions and mechanisms with internal coherence to avoid inconsistencies, ensuring that the whole system is in line with the vision.

Based on the results of the study, we highlight three important points that should be reflected upon by the families when choosing their actions and social investment mechanisms:

### 3.1 The distinction between philanthropy (family and/or corporate) and CSR

When positioning themselves on the social investment continuum, business families must be especially careful to distinguish between CSR and corporate philanthropy.

If the distinction between the two terms is blurred for many social investors, it is even more so in the case of business families, since the strong identification of the family with the company makes it difficult for them to distinguish between those actions aimed at improving the company's competitive situation and mitigating business risks (which would form part of CSR) from those of a more altruistic nature, which would form part of corporate philanthropy.

Why is this distinction important? It is true that the two terms are not mutually exclusive, but by confusing those companies may be making bad use of their resources. In addition, the confusion between these terms may call into question the family's corporate philanthropy due to its lack of authenticity. Stakeholders may perceive this philanthropy as merely a way to improve the competitiveness of the family business.

By advocating this distinction, we are not suggesting that business families do not have to do strategic philanthropy. There is nothing wrong with using philanthropy to improve the competitive context of the family business. But in doing so, they should distinguish between these actions and those forming a part of a sustainable development strategy aligned

with business objectives (CSR), although there is a growing tendency to seek synergies between the two.

Maximizing these synergies requires a much more disciplined method of planning and allocating resources to social investment than that which currently exists. But it is worth the effort since undoubtedly, it will make the philanthropic activities of a family business much more effective.

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In my opinion, it is necessary to differentiate fully between family social contributions and company CSR programs, in order to avoid conflicts of interest, although synergies may exist, such as concern for the environment, etc. Furthermore, the company has a much shorter-term or ad hoc nature for the business life cycles, whereas family social contributions tend to be more long-term.

**Magdalena Aninat**

Director of the Center for Philanthropy, UAI, Chile

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The CSR of companies and the Corona Foundation are two totally different aspects and I think it should be so. The foundation manages resources and decisions whose purpose is to generate incidences in public policies, high-impact models - and is not to prioritize territories that the company considers [as may be the case of CSR programs]. Independence is also important in order to maintain a neutral role in alliances with government, other companies, etc.

**Daniel Uribe**  
CORONA Foundation

### **3.2 The role of impact investment and the creation of social enterprises.**

The strong interest of NEXT GENs in hybrid models (i.e. those aiming to achieve financial profitability while contributing to solving social and environmental challenges) makes the creation of social enterprises and impact investment a particularly attractive action.

Given the growing importance of Family Offices as instruments of wealth management for business<sup>35</sup> families, and their desire to align their family values with investment decisions, FOs are becoming major participants in impact investment. Although the trend is still incipient in Latin America, more and more families include projects in their investment portfolios that generate both social and economic value.

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Something is changing in the region. Large alliances are being created to attempt to promote impact investment with new actors. We are investing in impact bonds as the first mechanism to make impact investment.

**Daniel Uribe**  
CORONA Foundation

<sup>35</sup>The Economist (December 15, 2018). Investing and the super-rich - How the 0.001% invest. *The Economist*.

In the case of social entrepreneurship, and based on the desired objective, families may contribute in different ways: on the one hand, they may limit themselves to engaging in more “tactical” support, through the financing or mentoring of the entrepreneur, and in order to keep the new generation involved in the family and its social investment. On the other hand, they can get involved in the social enterprise as a way of internally developing new means of innovation and business growth. In this case, we would be facing a new type of “corporate entrepreneurship,” which is being resorted to by many companies across the globe<sup>36</sup>. In fact, the benefits derived from social entrepreneurship often involve the creation of a new source of income, sometimes resulting in a new corporate culture that may result in long-term competitive advantages<sup>37</sup>. In this sense, the business families that choose this instrument should view social entrepreneurship as a strategic investment, and not only as a philanthropic activity. This implies not only bringing financial and human capital to the chosen “cause”, but often involves mobilizing more resources and capabilities of the business group to successfully carry out the new entrepreneurial<sup>38</sup> initiative.

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**Social entrepreneurship means taking the best of each of the three sectors to create a fourth sector: the muscle of government in order to scale the impact, efficiency and innovation of the private sector, and grassroots community knowledge of the social sector.**

**Samuel Azout**

Social Enterprise Football with Heart

However, it is important to stress that, despite the advantages of business creation and impact investment; some experts have expressed their concern that excessive emphasis on these actions will divert the focus from the creation of social and environmental impact. In other words, a large part of “new philanthropists” may be putting return before impact for society as a whole<sup>39</sup>. This trend could lead to the depriving of financing for those social initiatives or enterprises that, despite their great potential for social impact, do not meet the traditional investment criteria in terms of financial rate of return. Hence the call by these experts for an extension of the concepts of “risk” and “return”, to incorporate the same non-economic elements.

Given their long-term vision and natural ability to integrate social-emotional and financial wealth, Latin American business families are especially well situated to take the lead in this shift in focus. Since they do not have financial profitability as an objective, business families can play a fundamental role in this sense, by assuming lower rates of return than other types of investors, or even to provide the seed capital necessary to start a project in the form of a donation. In addition, thanks to these idiosyncratic features, business families can inject “patient capital”, i.e. long-term capital, into early stage investment projects, into the resolution of social problems that require long maturation times or as collateral in impact investment funds.

36 Prahalad, C. K., & Krishnan, M. S. (2008). *The new age of innovation*. McGraw-Hill Professional Publishing.

37 Kanter, R. M. (2012). How Great Companies Think Differently? *NHRD Network Journal*, 5(1), 1-12.

38 Mirvis, P., Herrera, M. E. B., Googins, B., & Albareda, L. (2016). Corporate social innovation: How firms learn to innovate for the greater good. *Journal of Business Research*, 69(11), 5014-5021

39 Nair, V. (November 29, 2012). How enterprise philanthropy can unleash the potential of impact investing. *The Guardian*.

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The current trend in the philanthropic sector is to encourage innovation. We wish to find the ultimate solution to maximize philanthropic resources. That's great, but there are also proven high-impact programs and strategies that need resources to scale, and they don't require as much innovation. I recommend identifying the best NGOs and civil associations in your country on this area, meeting with them and listening to their proposals. Upon deciding which organizations or programs to support, trust the organization, since they are the experts.

**Shoshana Grossman**  
Foundation I WANT, I CAN

In this sense, we once again emphasize the role that may be played in the future by the Family Offices, which in the U.S.A. can play the same role. The US has already begun participating in new social investment formulas, collaborating, for example, with organizations such as RSF Social Finance in the creation of a “patient” and “risk-sharing” social investment fund<sup>40</sup>.

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What are needed in the social investment sector are intermediaries, experts and networks that help donor organizations to give better, as well as to help beneficiaries to receive better. Donors have to learn to invest, not only in a final project, but also in these intermediaries, and to work towards strengthening the sector - although it may not be as attractive as investing in final projects.

**Alejandro Álvarez and Jose Ruiz de Munain**  
International Venture Philanthropy Center (IVPC)

<sup>40</sup>Fram, S. (July 23, 2018). The Next Step in Impact Investing: Breaking the Shackles of Extractive Thinking. *Stanford Social Innovation Review*.

### 3.3 The creation of alliances or how to create systemic impact.

A recurrent narrative is found in a variety of interviews with experts and business families: The family launches a social initiative and pours money; effort and enthusiasm into making it grow. Its initial achievements arrive, through the involvement of family members, collaborating with civil society agents, and improving the lives of its beneficiaries. However, after this initial phase, and as they get to know the social problem more closely, they realize that they face a very complex problem with distinct ramifications, when they are attacking them from a reduced angle. This assessment may explain the relatively low satisfaction rates reported by some of the surveyed families, despite the significant impact on their respective communities.

How to achieve a satisfactory result that is both feasible and affordable? The answer lies in recognizing that partial and simple solutions usually focus on symptoms arising from a social problem, but rarely succeed in solving or eradicating that problem in a sustainable way. In order to do this, it is necessary to develop a holistic solution, which attacks the set of underlying causes of the problem<sup>41</sup>.

This, in turn, is only possible if the business family is able to join forces with those actors in the ecosystem that are directly or indirectly related to the problem in question. By doing so, one would be alienating oneself with a growing trend towards the creation of strategic alliances in the social sphere.

This is the case of second-tier foundations (as we have analyzed in section 7.2.), but it is also the case of collaborations that increasingly unite corporations, foundations and NGOs, social enterprises, and government entities to offer a holistic solution to a complex problem.

“ Many families are accustomed to supporting a different cause or organization each year in order to have more impact. But this is not a good practice if you wish to generate real and lasting change; if you want to achieve change in human development, 2, 3 or even 4 years are necessary. In addition, a yearly donation does not contribute to the stability of an organization. If you donate to an organization and you can assure them that they will receive your support for 3 or 4 years, you will create much greater social impact.

**Shoshana Grossman**  
Foundation I WANT, I CAN

41 Shore, B., Hammond, D., & Celep, A. (2013). When Good Is not Good enough. *Stanford Social Innovation review*, Fall 2013, 40-47.

## Step 4

# Measure and evaluate the impact of actions at three levels (Family, Business and Community)

Measuring impact has become a necessary condition for legitimizing an organization's social investment vis-à-vis its stakeholders. Despite its growing use by social investors in Latin<sup>42</sup> America, measurement continues to be a challenge for business families in this region. Our study indicates that most of these families do not measure the social impact generated by their philanthropic activities, mainly due to a lack of knowledge and resources to do so. These are some of the main shortcomings that we have detected in our sample, so we recommend that business families pay special attention to this.

In addition to its importance as a tool for evaluating its social actions and legitimizing external stakeholders, it also highlights the importance of measuring impact in order to ensure the commitment and buy-in of the millennials. Given the skepticism that characterizes this generation, it is essential to establish impact measurement tools, since they will allow for clear expectations to be established regarding the potential trade-offs that may exist between impact maximization and financial<sup>43</sup> return.

This leads us to the question: How can impact be measured in the most efficient way? Carrying out an impact assessment in accordance with international standards is quite costly and complex, and we should add that there is no consensus on the most appropriate methodology to be used. To reduce these obstacles, family entrepreneurs may use the methodology developed by the European Commission and EVPA (European Strategic Philanthropy Association)<sup>44</sup>. This methodology follows the five steps described below:

### Figure 11: Measurement Methodology

Specify the objectives of each social project. What social problem do you want to answer?

Stakeholder analysis, including beneficiaries and other stakeholders related to the problem to be solved

To make measurements, the family can be guided by the "SMART" criteria (Specific, Measurable, Achievable, Realistic, Timely). Measurement instruments must be simple, effective, replicable and, above all, adapted to the type of social investment project carried out.

Verification and impact assessment

Monitoring and reporting

In addition to the complexity of measuring social impact, compared to other types of social investors, business families must also take on the challenge of attempting to measure how their social investment affects the achievement of family objectives, such as: improved social cohesion or the involvement of new generations. Is it possible to measure this? Family business research proposes several scales to measure family goals. The most recently used is the FIBER<sup>45</sup> scale.

42 Davidson, A. & Rocha, R. (2018). The impact investing landscape in Latin America, Trends 2016-2017. LAVCA. Retrieved from <https://lavca.org/impact-investing-rep/the-impact-investing-landscape-in-latin-america-trends-2016-2017/>

43 Aninat, M., Fuenzalida, I. & Guez (2017). Impact investments in Chile - Market and investment variables. *Center for Philanthropy and Social Investment, Universidad Adolfo Ibáñez*.

44 For more information on EVPA, consult its latest report on the organization's website. <https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-the-evpa-survey-2017-2018>

45 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

## Step 5

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# Communicate the social impact generated

The more traditional concept of philanthropy as the prevailing charity in Latin America until recently, the general mistrust of institutions, as well as the negative perception of wealth generation, for decades now have created low-profile family social investment. This contrasts with the more media-based philanthropy practiced in other regions, especially in Anglo-Saxon countries, where the philanthropist and his/her causes are largely visible.

Our results suggest that even today, for many families (and especially for dynastic families), public exposure is perceived as a barrier to social investment. We believe that it is necessary to change this social perception and make families aware that it is necessary for them to be visible, so that they understand the scope of this family contribution to society, and above all, so that it generates a contagious effect and encourages many others to make social investments. The greater visibility of these investments is also increasingly demanded by NEXT GENs.

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As a family, we used to be very low profile and didn't see “communication” as very prudent. But now, encouraged by the NEXT GENs, we begin to see the communication of the foundation as a means for us to reach our goals, involve society and find new allies.

**María del Rosario Carvajal Cabal**  
CARVAJAL Foundation

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What I see is that business families, as well as businesses at LATAM, become increasingly uncomfortable with giving only one check, and no longer thinking about their social impact. They've moved away from a paternalistic vision. It is interesting that they are already encouraged not to have such a low profile, but to come out and present what they do with their philanthropic resources - for business families, it may be seen by the fact that they give the family name to their foundation.

**Magdalena Aninat**  
Director of the Center for Philanthropy, UAI, Chile

When designing their communication strategy, business families have to consider three dimensions:

1. Internal Communication, i.e., the mechanisms developed by social investment managers to ensure efficient coordination between them, a good flow of information between the various project stakeholders, and above all, good information exchange between people, and a smooth decision-making process. In the case of business families, this communication has two distinct aspects:

- A. It must ensure that members who are not active in the management of social investment (paying attention to the NEXT GENs) are informed and have a say, in order to achieve the desired objective of fostering family cohesion.

- B. It must ensure effective communication between social investment managers and family group managers, in order to avoid inconsistencies in the implementation of the family vision in both areas (social and business investment, etc.)

Once again, in order to achieve this effective communication, the governing bodies of the business family play a fundamental role as communication elements for the family and the company.

2. Project Dissemination or promotion and awareness actions developed during the life cycle of the project to promote its visibility and with local and global impact. It is important to bear in mind that by communicating the results of a project, the family's vision of social investment is also being conveyed. In this sense, business families can take advantage of NEXT GENS' management and preference for social networks that, while transmitting a "fresh" vision of philanthropy, engage these young people, making them feel proud of belonging to what the family has achieved.
3. Results Dissemination. The dissemination of the project's results includes the actions foreseen to make materials, methodologies or any intellectual production that are of interest for future actions available. Among the activities that families can carry out in this sense are the creation of open access Internet spaces to enable the interaction of the public with the studies or materials developed through the projects to participation in relevant forums or events.

In this sense, the role that networks specialized in social investment play as platforms to promote the collaboration of organizations from different sectors that are committed to creating a greater social impact, as well as a place for the exchange of knowledge among all these actors, is quite relevant.

“ Belonging to a social investment network can be a strong tool to access proven methodologies and metrics, to learn from best practices in the sector, to extend their alliances, to know the best place to invest or place their resources - but also the networks must be located and present in the donor country or region - and not have their headquarters in New York or Madrid, for example. Contexts are very local - you must be present

Alejandro Álvarez and Jose Ruiz de Munain  
International Venture Philanthropy Center (IVPC)

# B Case studies

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The above recommendations are valid for all business families, although the importance of implementing them will largely depend upon the type of family involved. As an example of how to apply these general recommendations to the particular case of each type of philanthropic family developed in this White Paper, we present three case studies. Each family represents a philanthropic family typology (dynastic family, investor and community). In each case, the challenges faced by each family in carrying out its philanthropic activity are analyzed and various solutions to these challenges are proposed.



## The Hernandez Family

Dynastic families “guardians of the legacy”

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History of the company group In 1950, the Hernández family founded a company in the automotive sector in the city of Cartagena de Indias, Colombia. What began almost 60 years ago as a small company, is currently a top business group in the Latin American automotive sector.



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History of philanthropy



Isidoro Hernandez, founder of the company, often collaborated with the Catholic Church by donating money to various causes that it supported. Like his wife, Catherine, he was a man of deep religious convictions and considered these donations to be a part of his duty. The money reverted to the local communities and although Isidoro was not fond of receiving publicity on these issues, everyone recognized the work that the Hernández’s were doing to help those most in need.

When the second generation began to join the company, their children, especially Maria, their “right arm” but also the most “rebellious” and the only one of their four children who did not work in the company, began to question these donations and, as part of the debate regarding the Family Protocol development, she proposed that they reflect on each of their visions of philanthropy.

As a result of this debate, they decided to regulate philanthropy in their Family Protocol, defining its mission, objectives and scope. And to make it a reality, Mary and her brothers proposed the creation of a family foundation to their father, to serve as his legacy for future generations. Isidoro thought it was a great idea and he agreed, on the condition that the foundation devote itself to what had always been his great concern: the education of his country’s youth. This is how the “EDUCA” foundation was created.

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Challenges of the Hernández’s



Although the family has always tried to involve the new generations in the activities of the foundation, over recent years Mary has observed a certain discouragement amongst the younger ones. In family assemblies, they increasingly question the impact generated by the donations and alliances they make and the “slowness” with which the foundation operates.

At the last assembly, one of their nephews, who recently graduated with an MBA, presented them with a social enterprise project that he is developing, devoted to improving the employability of the most underprivileged. The discussion as to whether or not the family should invest in this particular project sparked a debate about what the “new vision of family philanthropy” should be now that the third generation was more involved.

Mary recalled how 20 years previously, this debate had culminated in the creation of the family foundation. What were the steps to be followed now?

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Solutions for the Hernandez Family



- Discuss the family vision of social investment at the next Family Assembly meeting
- To propose the realization of a Roadmap for social investment that reflects this vision
- To study methodologies that measure the real impact of the work carried out by the foundation to date
- Reflect on what alliances should strengthen the foundation in order to streamline its management and improve the scope of its social impact
- Develop a formal communication plan to inform the family about the social investments made
- Analyze the possibility of allocating part of the investments made by the Family Office to impact investment
- At the next Family Assembly, discuss the possibility of carrying out a “Support Program for Family Entrepreneurship”, which encourages the creation of businesses by family members



## The Montero Family

Investor families "transactional philanthropy"

History of the company group



In 1940, the Montero family founded a hotel in the city of Santiago de Chile. Currently, the Montero family owns one of the largest and most prestigious hotel groups in Latin America. The family is in its third generation and all family members identify strongly with the company that bears their surname. Each of the three branches of the family leads one of the three business units that make up the group: real estate, the hotel chain and the tour operator.

History of philanthropy



The aim of the Montero family is to keep the control of the "Montero Group" in the hands of the family in order to keep the legacy of its founder alive. In line with the values of the founder and in honor of this legacy, they have always been committed to socially responsible business management. In fact, the "Montero Foundation" is an evolution of the employee scholarship program that was created by the founder in the 1950s. When the second generation decided to give these programs greater visibility, they agreed to create a corporate foundation devoted to improving the employability of young people in Chile. As explained in the Family Protocol, the entire family participates as volunteers in the foundation activities at least once a year

Montero family challenges



The complexity of the tourism sector and the need to compete globally forced the Montero's to open their capital to an external investor two years ago, with 33% of the capital. At a corporate level, the results after the capital opening have been quite satisfactory, since the investor has provided not only capital, but also increased professionalism and accountability in the group's activities.

However, to everyone's surprise, investors question the work carried out through the foundation and the resources allocated to it. For the investor, the company should further strengthen its CSR policy and remain in line with what other companies in the sector are doing to invest, for example, more in renewable energy for hotels and in improving recycling efficiency.

The members of the Montero family have always considered philanthropy as another mechanism to strengthen the group's image, but the investor's argument had made them reflect: Should they continue to strengthen the foundation or should they offer more support to CSR? Were the two actions so different? How else could they maximize their social impact?

Solutions for the Montero family



- Define the family vision of social investment at the next Family Assembly
- To carry out the Roadmap of social investment with special emphasis on the distinction of the activities of the foundation of the CSR of the company
- Review the current CSR strategy to identify areas for improvement and possible synergies with the foundation's objectives
- Completely separate the CSR investment from the resources allocated to the foundation.
- Review the foundation's budget, considering the possibility of increasing family member participation



## The Flores family

Community families "committed to the environment"

History of the business group



The Flores family, from Mexico, decided 40 years ago to exploit their cocoa-producing farm. It currently buys cocoa from about 50 small-scale producers throughout the country, focusing on exporting cocoa internationally and creating new business units that cover the entire value chain.

The business group "CACAO MEX" is led by the second generation, but also receives assistance from external professionals. Together they have managed to diversify the group and explore new business opportunities. The Flores family is a top business in the community in which they operate. As a result, they have been able to establish very close and trusting relationships with farmers and their families.

The family has decided to limit entry into third-generation group companies, since its vision as a business family is that what is important is not to transmit control to these generations, but the entrepreneurial mentality of its founders. As a result of this vision and probably the strict entry requirements, today none of the six third-generation adult members have any interest in joining the group. But they all receive training as responsible shareholders.

History of philanthropy



Its proximity to the country's rural communities made the Flores family strongly committed to the sustainability of the environment in which it operated, allocating more than 10% of the company's profits to work related to improving these communities. Advised by a team of experts from the social sector, 10 years ago they decided to formalize these works with the creation of a foundation, the "Fundación Fruto Bendito". The foundation works hand in hand with NGOs and civic associations on a variety of initiatives that support farmers and their families.

Challenges of the Los Flores family



As a result of its participation in an international agro-food congress, the Hernandez family is approached by a multinational company that proposes to work together to help farmers manage their crops more efficiently and achieve sustainably through the use of very innovative technology. While this would mean refocusing a significant portion of resources on this new partnership, the multinational insists that only through a large-scale project will they be able to contribute to a substantial improvement in the situation of farmers, and therefore, of their families and the community as a whole.

In taking the proposal to the Council, the family division has become evident, since while some agree with this statement, others believe that behind these large projects there is "a lot of marketing and little real work". In addition, they found it very worrisome that, when discussing this topic at the Family Assembly, the young people were not very aware of the philanthropic activity of the family foundation, although most had heard very positive things about the multinational and were impressed by its innovative approach.

The managers of the Foundation are at a crossroads. On the one hand, they are aware that the time has come to change their approach: the latest results of the impact assessment carried out have not been very positive since, although their projects are creating a positive impact on the community, this impact remains below what is expected. On the other hand, they are reluctant to open the door to "strangers," especially after having had a hard time building trust with the NGOs with which they collaborate, and which up to now, have focused on helping them to implement their philanthropic vision. How would these local entities react to their alliance with the multinational? Would this alliance help achieve your goals regarding family philanthropy? Was the multinational correct in that it was the only way to generate the social impact that it was seeking?

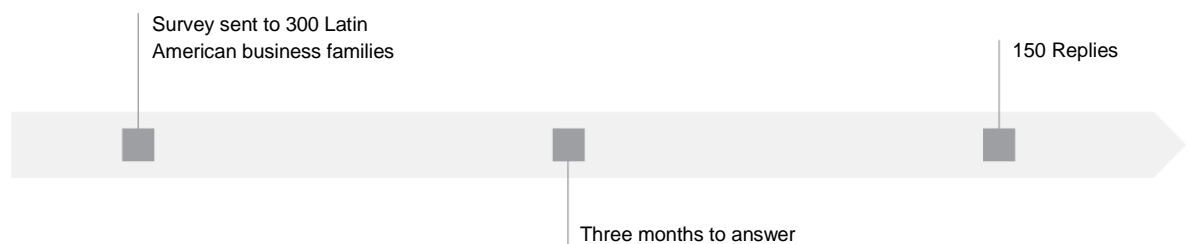
Solutions for the Hernandez Family



- Work to achieve a shared vision regarding social investment
- To propose the realization of a Roadmap for social investment that reflects this vision
- To study methodologies that measure the actual impact of the work carried out by the foundation to date
- To carry out research on the "best practices" of the sector and on the opportunity presented by the multinational
- To develop a communication plan that serves to make all of the social investment that the family is making more visible, both to internal and external stakeholders.
- To seek out potential alliances between the foundation and the new business opportunity raised by the multinational.
- To meet with civic associations and NGOs they work with to discuss how to integrate them into the multinational's proposal.

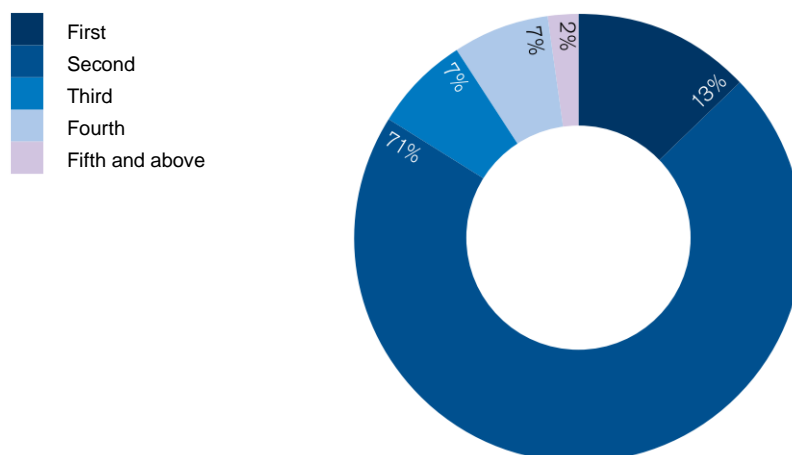
# Annex: Research methodology and descriptions

To carry out the study, a survey was conducted in order to find out about the social and/or environmental impact activities carried out by business families in Latin America. The survey has been sent to 300 members of LATAM's business families, through the network of contacts of IE Business School's Families in Business Centre, between November and December 2018. The deadline for replying was three months, obtaining 150 replies.



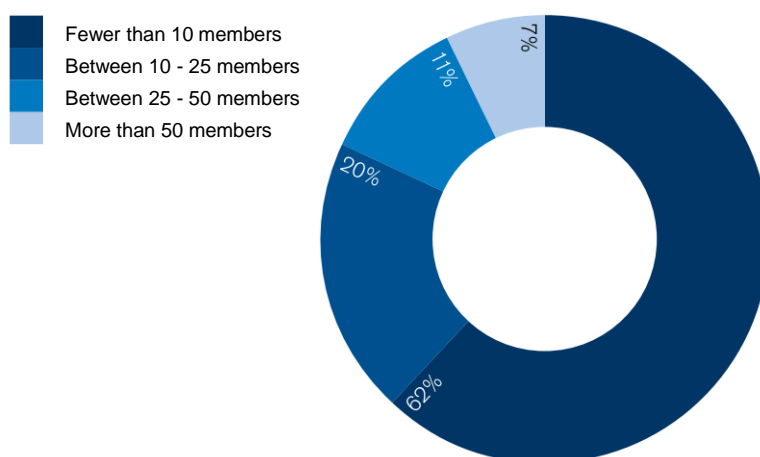
A series of interviews were also held with a group of philanthropic business families, as well as with philanthropy specialists with the aim of better interpreting some of the survey results and better understanding family philanthropy. In total, some 20 in-depth interviews were carried out with foundation managers, Family Offices, social entrepreneurs and experts in philanthropy.

- **Gender:** 74% of respondents are men while 26% are women. The average age is 48.
- **Generation:** The majority of those surveyed are members of the first and second generation of their family businesses, 13% and 71% respectively.



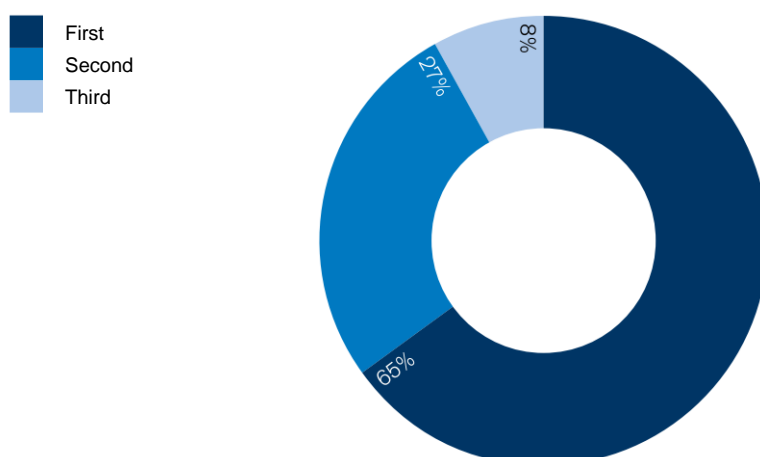
**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

- **Family size:** 62 % of those surveyed belong to families with less than 10 members. 31% of those surveyed belong to families with between 10 and 50 members. Finally, 7% belong to families with more than 50 members.



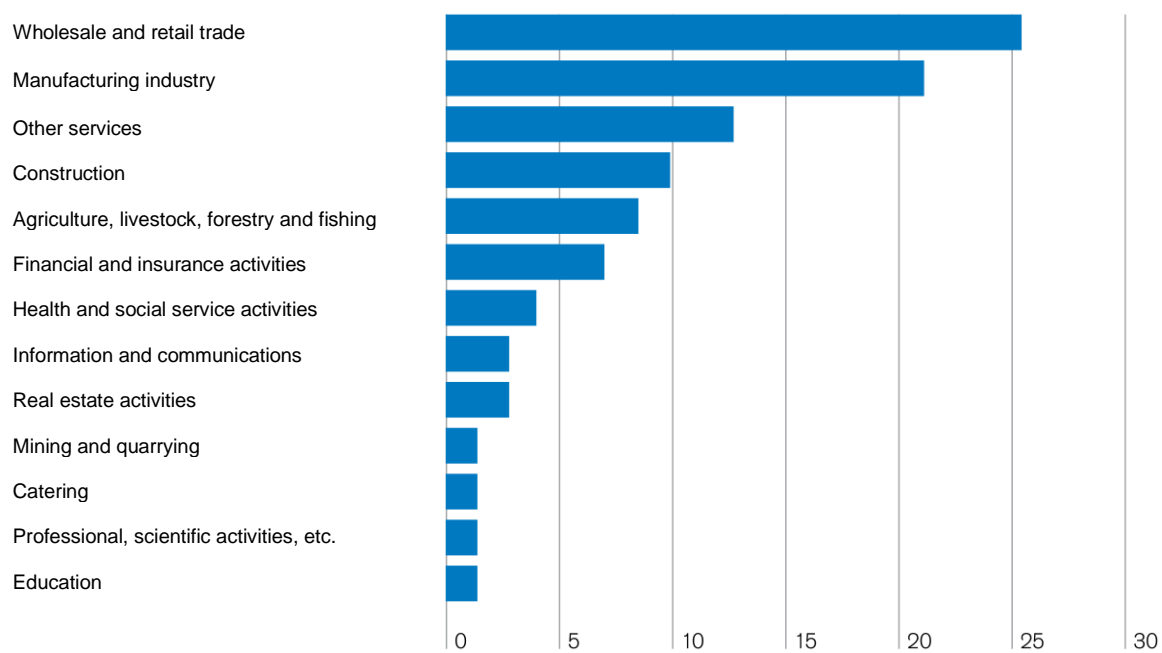
**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

- **Generation that initiated philanthropy:** In most of the business families surveyed, the first generation began the philanthropic activities (65 %).



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

- **Sector** Most households are engaged first, in wholesale and retail trade (26%), second, in manufacturing (21%) and third, in construction (10%).



**Source** Author's own preparation based on data from the survey completed by 150 members of LATAM business families between November and December 2018.

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