FAMILY BUSINESS CHALLENGES

No. 15

PROMOTING SUSTAINABILITY

Practical guidance for family business owners and managers

SECOND EDITION
Family Business Challenges

No.15 Promoting Sustainability

Section 1. INTRODUCTION

Sustainability in family businesses is often seen as relating to stewardship, focusing on the responsible governance and management of the business and handing down ownership to the next generation (see the “Developing Stewardship” Challenge in this series). Family business stewardship is about building, nurturing and passing down an enhanced legacy to future generations.

Business sustainability in more general terms is often defined as being purpose-led. It concerns how firms, including family-owned companies, manage their financial, social and environmental risks, obligations and opportunities, or ‘triple bottom line’. Driven by global mega-trends (e.g. resource scarcity) it is aligned with the notion of purpose-driven businesses – i.e. firms that are committed to a principled approach to doing business (see Exhibit 1).

Exhibit 1: Purpose and potential

“Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.”

Long-term horizons support sustainability.

Family businesses potentially enjoy an advantage when it comes to delivering sustainable value creation. With their inter-generational perspective, family firms focus on the long-term and are inclined towards strategies that further social and environmental responsibility (See the “Embedding Long-Term Orientation” Challenge).

Trust in business cannot be taken for granted.

Family firms are often associated with trusted brands (see the “Branding the Family Business” Challenge). However, well-reported instances of irresponsible behaviour among a few UK businesses in recent years have undermined public trust in business in general. So, it is more important than ever for family firms to work to increase trust whenever and however they can (see Exhibit 2).

Exhibit 2: Every business needs to be “trust aware”

“Businesses are in a unique position to help people feel better about the future by giving them a sense of job and financial security as well as proof of their own commitment to fair play.”

Sustainability is an ongoing commitment.

Family businesses have to work hard to attract talent, build credibility and achieve high performance. Their commitment to stakeholders – their customers, suppliers, employees, the local community, society at large and their shareholders – can stretch out across generations (see Exhibit 3).

Exhibit 3: What does sustainability mean for my family business?

“In the simplest terms, a sustainable business is one that contemplates a time horizon of decades not quarters. It operates to be socially fit for purpose, recognising the benefit of providing goods and services that generate wider social as well as economic value. A sustainable family business has to be built on an operating model that renews rather than depletes resources, that balances the will to grow with the need to conserve, that provides stability whilst adjusting...
rapidly to changing market conditions. With that longer view may come a stronger sense of stewardship; care for employees and other stakeholders that reflects the values of loyalty and responsibility, as well as sensitivity to the social and environmental footprint of the business. Not being driven solely by the demands for shareholder return, a family business has more freedom to develop its vision and design its strategy from these key principles.”


Creating and sustaining long-term value. A framework for building understanding and managing this challenge involves breaking down sustainable value creation into four components (see Exhibit 4):

1. **Resource efficiency and utilisation of natural capital.** This is evaluated in terms of environmental impacts, depletion of resources and materials security, not just via financial metrics.

2. **Employee motivation and development of people capital.** The best employees want to work for companies they believe in. Sustainability can be a powerful differentiator for family businesses in attracting and retaining employees.

3. **Public engagement and working with government and other bodies on sustainability issues.** Companies are working together with bodies that promote the sustainability agenda and the critical roles that businesses need to play.

4. **Balancing long-term objectives and short-term performance.** The best family businesses have the ability to drive performance in the short term, balanced by a clear sense of long-term vision for their organisation.

**Exhibit 4: Sustainable value creation – four key pillars**


Meeting the imperatives of the present without compromising the needs of the future. Family business leaders can access and participate in a variety of initiatives to help inform and guide their sustainability agendas. For example:

- **Sustainable Development Goals (SDGs):** In 2015, the United Nations adopted the 2030 Agenda for Sustainable Development, defined by 17 SDGs that place business centre-stage, and in particular family enterprises. With their intrinsic inter-generational perspectives, family firms are seen as natural advocates for a more responsible capitalism.

- **UN Global Compact.** The Compact translates the SDGs into business actions and innovation. It incorporates ten principles (covering responsibilities on human rights, labour, environment and anti-corruption) into tangible strategies, policies and procedures.

- **World Business Council for Sustainable Development Factor10 programme.** Corporate leaders see the business and societal value of strategies to re-use and recycle resources, moving towards a “circular economy”. Factor10 helps firms identify and remove barriers and...
create scalable solutions.

- **B Corporation certification.** “B Corp” firms are certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability and transparency. By voluntarily meeting these standards, certified B Corps offer a positive vision of a better way to do business. The B Corps movement is growing internationally, covering more than 30 countries.

- **Family Business Network (FBN) “Polaris” programme.** FBN members have pledged to promote a business model that will sustain present and future generations (see Exhibit 5). FBN has partnered with B Lab to customise its benchmarking tool for family businesses, measuring and enhancing company practices, driving sustainability performance and improving business impacts.

**Exhibit 5: The Family Business Network Pledge for a Sustainable Future**

- **For our people:** We pledge to do all that we can to create and nurture workplaces and working cultures where our people flourish.
- **For our communities:** We pledge to be responsible global citizens making positive contributions to the communities that we work and live in.
- **For the environment:** We pledge to search for ways to have a positive ecological impact and contribute to a flourishing environment.
- **For future generations:** We pledge to share our values and long-term aspirations with future generations.


**Putting purpose into profit.** The sustainability agenda is closely aligned with family business values. The sense of higher purpose that marks out successful family businesses resonates with today's millennial generation, who seek meaningful work with purpose-driven firms committed to a principled approach to doing business.

**Mutuality emphasises the fair distribution of the burdens and benefits of a firm's activities.** Mutuality aims to create shared and lasting positive benefits across stakeholders through an organisation's activities. There is increasing evidence that companies that operate with mutuality to the fore are stronger and more sustainable (see Exhibit 6).

**Exhibit 6: The “Economics of Mutuality”**

“The Economics of Mutuality [is] a ground-breaking management innovation, the purpose of which is to recast business as a force for good for people and planet … [demonstrating] that when businesses ensure all stakeholders thrive, when they enact new performance metrics and new management practices (with the intention to mobilize and generate human, social and natural capital along with financial capital) they can be more successful than businesses that focus on just their shareholders and just on their financial performance.”

**Source:** Bruno Roche, Chief Economist, Mars Inc. (available at: www.weforum.org/people/bruno-roche).

**Corporate social responsibility (CSR) relates to policy as a self-regulatory mechanism whereby a business monitors and ensures it is acting in compliance with the spirit of the law, ethical standards and national or international norms. CSR is sometimes seen as positive public relations, maintaining high ethical standards to reduce business and legal risk by taking responsibility for corporate actions.**

**Sustainability should permeate organisational thinking and become part of the family firm’s vision and strategy. It requires leadership to foster a culture and understanding of sustainability, and to weave sustainability practices into the fabric of the enterprise, integrating them into business thinking, planning and operations. Applying a sustainability lens across the business encourages an interrelated, holistic perspective.**

**Promoting a sustainable business culture.** For many family firms, enlisting a champion from within the family is productive. Someone who is motivated about the possibilities arising from this agenda can push forward new business models and rally stakeholders so that the sustainability vision for the organisation reaches wide and deep, throughout
Delivering benefits across the organisation. Clarity of purpose on sustainability helps family firms recruit the best talent, strengthens bonds with customers and communities, and delivers benefits to the organisation. Marketing sees it as signalling brand differentiation and growth; HR values employee engagement and retention; finance embraces the future-proofing of the business; operations values increased productivity and resource efficiency; while the leadership team can leverage purpose to inspire and mobilise everyone in a way that pursuit of profit alone never can.

Engaging family members and potential future shareholders. For many business families, putting purpose at the forefront impacts not only sustainable value creation for the firm but also encompasses areas such as family education, philanthropy, investments and reputation. Leaders should encourage a “parallel path” to engage family members not actively involved in the business, so they can participate in the sustainability agenda in ways that complement what is happening in the business, foster family cohesion and strengthen emotional ownership.

Section 2. ACTIONS TO CONSIDER

- What is our strategy for building a family enterprise committed to sustainability?
- Have family members explored and developed awareness of the impact our company has on our communities, society and the environment?
- Have we benchmarked the performance of the company in terms of sustainability and, related to this, explored how to improve our competitive advantage?
- How open are we to new ideas and to expanding the role of the family company in building a more sustainable future?
- Have we developed a written statement that articulates our values on business, societal and environmental sustainability?
- How do we engage family members not actively involved in the business who may want to have a voice and role in ensuring a sustainable approach to doing business?
- Should we enlist a “champion” from within the family – an individual with a solid understanding of and commitment to sustainability, and who will galvanise stakeholders?
- How can we inspire employees to play key roles improving our firm’s social, environmental and economic impacts?
- What’s the best approach to managing the tensions that exist in our firm’s strategic decision-making, between driving short-term performance balanced by a focus on the long term?
CASE STUDY: Macphie Limited

In 2015, Macphie Ltd, the UK’s leading independent food ingredients business, became one of the first companies in the country to achieve B Corporation certification. The B Corp movement is a global community of independently verified companies who are using the power of business to address social and environmental issues. Macphie’s certification acknowledges its commitment to social and environmental ethics, transparency and accountability.

Now a third generation family enterprise, Macphie was established in 1928 as a bakery wholesale business in Glasgow with a staff of six people. It moved into bakery and food ingredients manufacturing in 1954 before relocating to the Glenbervie Estate in 1973, which has been in the Macphie family since the 13th century. Today, the company’s product range is used by bakers, chefs and food manufacturers globally. It employs more than 300 people and, in 2017, had a turnover of £53.9 million.

“We're passionate about corporate social responsibility and sustainability”, says Chairman Alastair Macphie. “We invest time, resources and money to work proactively to help the environment and build meaningful links with community groups, charities and education. It’s been a key part of who we are over many decades and it will continue to be at the heart of everything we do.”

The Macphie sustainability agenda is closely aligned with family business values and strong governance. Around ten years ago the family decided to codify its vision and values, creating a family constitution that delineates the family’s relationship with its business. The central element of this governance structure is the Family Council, tasked with oversight of the family’s social, educational and business activities.

This clarity of purpose has served to accelerate the firm’s ability to embed CSR and sustainability at the heart of its strategy.

“We were the first manufacturer to process food ingredients using green energy created by locally sourced wood chips,” explains Alastair, “and in 2014 we erected two wind turbines to provide energy for the main manufacturing site. These two projects alone reduced our CO2 emissions by over 10,000 tonnes per year. We also treat all effluent on site.”

Bringing the local community together is also a priority, whether by helping build flood defences, supplying defibrillators in remote areas or sponsoring the local football team. More than “feel good” projects, these initiatives are seen as tangible investments that deliver clear business benefits over both the short and long term.

The company’s values have been widely circulated and ensure family and employees are working towards the same goals. The business invests in its people through a variety of training and development programmes, including personal development for roles within or outside the business. As well as a generous set of employee benefits, each employee is entitled to two days of paid leave each year to volunteer for a charity or good cause of their choosing. Retired employees are supported by the Employee Trust, and all employees can apply for a university or college bursary for themselves or members of their family.

Employees are given a voice in the future of the business through their Employee Forum, which is ultimately tasked with holding management accountable for their key decisions. Sustainability activities are regularly communicated within the business, showcasing achievements in the environment and community, and this ethos and culture serves to attract and retain employees, clients, suppliers and other stakeholders.

The accolade of B Corp status marked an important milestone in the company’s sustainability journey, and is a considerable source of pride for Alastair and the firm’s employees: “B Corp mirrors many of our philosophies and long-standing policies,” he says, “and it represents a movement close to all our hearts. We’re working to build a family business focused on long-term sustainability, creating positive benefits for all our stakeholders.”

Alastair Macphie
Executive Chairman
Section 3. RESOURCES

Articles and reports

Sustainable Value Creation

This white paper sets out an agenda for embedding sustainable value creation principles into the family business. The analysis, supported by case studies, includes the “four keys” model for sustainable value creation: 1. Resource efficiency, including utilisation of natural capital and other resources; 2. Employee relations and the development of people capital; 3. Engagement with public forums and governments on sustainability issues; and 4. The interplay between long-term objectives and short-term performance.

Triple Bottom Line

An introduction to author and adviser John Elkington’s concept of the “triple bottom line” (TBL). The first bottom line is the traditional measure of corporate profit; the second is the bottom line of a company’s “people account” – a measure of how socially responsible an organisation has been throughout its operations; and the third is the bottom line of the company’s “planet” account – a measure of how environmentally responsible it has been. The TBL aims to measure the financial, social and environmental performance of the corporation over a period of time. Only a company that produces a TBL is taking account of the full cost involved in doing business.

Economics of Mutuality Backgrounder

The economics of mutuality (EoM) is a critique of theories that insist the sole purpose of business is shareholder profit maximisation. In this review of pilot programmes initiated by Mars Inc., the authors explain how risks and benefits of EoM and Mutuality in Business models can be shared between everyone engaged in a business.

Model Behavior: 20 Business Model Innovations for Sustainability

This report explores business model innovation in the context of sustainability. The authors analyse 20 innovative models, aiming to better understand which new business models are emerging, where innovation is happening, and how both new and established companies are experimenting to embed sustainability into the underlying structure of their businesses.

Transforming our World: The 2030 Agenda for Sustainable Development

The full text of the 17 UN Sustainable Development Goals (SDGs) adopted on 25 September 2015. Each goal includes specific targets to be achieved by 2030.

Assessment tools

UN Global Compact Management Model

The Global Compact translates UN SDGs into tangible business strategies, policies and procedures, and this tool helps companies push forward their sustainability initiatives. Comprising six management steps, it guides companies through the process of formally committing to, assessing, defining, implementing, measuring and communicating a corporate sustainability strategy.

Polaris Impact Assessment: Gauging your Family Business’s Social and Environmental Performance
Family Business Network and B Lab (available at: www.fbn-i.org/polaris-impact-assessment/).

The Polaris Impact Assessment (PIA) is a version of B Lab’s Impact Assessment, customised for family businesses. The assessment guides family firms through three steps: 1. Getting a baseline (assessing performance on employee, community
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Simon Perry, Author. Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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Books

A Guide to Polaris: Inspiring Family Businesses to Find True North

Subtitled "A Sustainable Future for People, Community, the Environment and Future Generations", the guidebook presents a holistic approach to sustainability, encompassing economic, environmental, social and cultural dimensions. It provides a “roadmap”, featuring: 1. Awakening (of family business leadership); 2. Alignment and awareness (where leadership is aligned and people become aware of what’s at stake); 3. Activation (energising family members, employees and other stakeholders); and 4. Advocacy (where family members, employees and other change agents help to redefine the way business is conducted, for this and future generations).

Polaris Resources Kit: Tools and Inspiration for Building a Sustainable Family Business

The Resources Kit introduces the UN SDGs and discusses how family businesses can make a positive contribution to these goals. Tools and practical steps are provided, designed to enable measurement and improvement, followed by case studies highlighting family firms’ hands-on experiences as they redefine the way they do business. The final section argues that sustainability is now the key driver of innovation.

The B Corp Handbook: How to Use Business as a Force for Good

The author, a B Corporation owner, is well placed to share insights and advice on building better businesses and meeting B Corp certification standards. He argues that these businesses are helping to restore the environment, create high-quality jobs and build stronger communities, all while generating solid financial returns.

Family Business Challenges

The Family Business Challenges second edition series includes 18 guides covering three areas:

Family business dynamics
No.1 Understanding Family Business
No.2 Maintaining Family Values
No.3 Developing Stewardship
No.4 Engaging the Next Generation
No.5 Planning Succession

Family business governance
No.6 Building Family Governance
No.7 Managing Differences
No.8 Fostering Responsible Ownership
No.9 Strengthening Family Communication
No.10 Professionalising the Board
No.11 Enhancing Communication with the Board
No.12 Employing Advisers

Family business management
No.13 Fostering Entrepreneurship
No.14 Embedding Long-term Orientation
No.15 Promoting Sustainability
No.16 Maximising People Capital
No.17 Branding the Family Business
No.18 Selling the Family Business
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The IFB Research Foundation’s vision is to be the UK’s centre of excellence for practitioner-oriented family business research. The IFB Research Foundation works closely with its parent organisation, the Institute for Family Business, a not-for-profit membership association.

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