



Institute for
Family Business
with UCG

Family Business Challenges

Promoting Sustainability



The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

The publisher

About the IFB Research Foundation with UCG

The IFB Research Foundation with UCG is a charity (no. 1134086) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.

- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities, including the IFB Research Foundation Annual Lecture.

About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family business sector. The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk

Promoting Sustainability

1 Defining the challenge

Sustainability has various different meanings for family businesses. Crucially, it's about managing transitions and overcoming family company vulnerability when handing down the business to the next generation. But it's also about making the most of the firm's inherent advantages when it comes to the wider sustainability agenda – promoting economic, environmental and social responsibility.

Governance and succession. Successfully transitioning from family-owned and run to family-owned and professionally managed is often the critical step for family companies. We discuss this aspect of a sustainability strategy elsewhere in the IFB *Challenges* series, including guidance on:

- **Building an inter-generational consensus on succession** as a way of preparing for, and hedging against the risks of handing down the business.
- **Establishing a meritocratic approach to management** by treating family and non-family members on a similar basis, and not making business decisions for family reasons.
- **Becoming proactive on governance** – setting up strong corporate and family governance systems that actively regulate and manage the family's involvement in its business.
- **Maintaining a family-wide commitment to continued ownership** via an ownership structure that provides sufficient capital and also exit routes for family members who no longer wish to be owners.

Making the most of sustainability as a core principle. Because of their long-term horizons, family businesses have an advantage when it comes to delivering sustainable value

creation. With their inherent understanding of legacy they focus instinctively on long-term sustainability – both their own as a business and also in a preference for solutions that promote economic, environmental and social responsibility (see Exhibit 1).

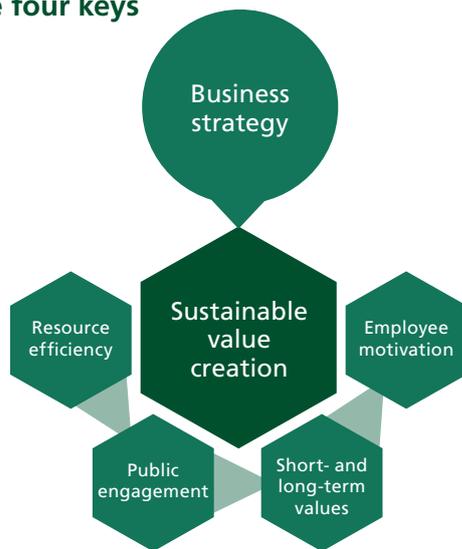
Exhibit 1: Andrew Wates – retired Chairman of Wates Group, the UK fourth generation construction business – on sustainability

“Families instinctively focus on inter-generational transition. Contemplating what shape of business you want to pass on comes quite naturally. This makes you think about risk, competencies and markets. Sustainability is not an added extra, but an integral part of how families do business. There are practical aspects of long-termism around financial gearing, risk analysis, and people and team development that rise to the top of the agenda when you break away from chasing short-term results.”

Source: Ernst & Young with FBN International (2012) *Built to Last: Family Businesses Lead the Way to Sustainable Growth*. London: EYGM Limited, p.28.

Taking a leadership role in driving this agenda can help generate exceptional performance by family businesses. The challenge they face is to maximise competitive advantage in the context of their own operations, strategies and relationships. Promoting sustainability means managing economic, environmental, social and governance responsibilities while being held accountable to the firm's stakeholders. And for family businesses, the commitment they make to their stakeholders – shareholders, customers, suppliers, employees, the local community and society at large – often stretches out for decades and across generations.

Exhibit 2: Sustainable value creation – the four keys



Source: Institute for Family Business with M Institute (2012) *Sustainable Value Creation*. London: Institute for Family Business.

Creating and sustaining long-term value.

A helpful framework for managing the challenge involves breaking down sustainable value creation into four components (see Exhibit 2):

- 1. Resource efficiency, including utilisation of natural capital and other resources.** This is evaluated not just via financial metrics but also in terms of environmental impacts, depletion of resources and materials security.
- 2. Employee relations and the 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 the right employees.
- 3. Engagement with public forums and governments on sustainability issues.** More companies are starting to work together in cross-industry bodies that promote the sustainability agenda.
- 4. The interplay between 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 vision for their organisation – where they are going and what they are seeking to achieve.

Performance measurement. There's an opportunity for businesses to incorporate “softer”, non-financial metrics for sustainability, including the impact of human, social, intellectual, manufactured, natural and family capital – the deep emotional attachment that a family has to its business.

2 Actions to consider

- On financial sustainability, set up a succession and continuity planning process that promotes long-term family vision, ownership and the stability of your business.
- On the broader sustainability agenda, look for ways to improve how you balance short-term performance objectives with long-term family business goals.
- Promote family efforts to “give back” to the community and to build social goodwill.
- Develop skills that help your business move beyond initiatives towards enduring, mainstream sustainability.
- Analyse how your business is involved in multiple value chains and how risk management supports sustainability in different contexts.
- Develop strategies to better engage employees and other stakeholders in the company's sustainability efforts.
- Examine the different types of resources that are in use in your business – sustainable and natural forms of capital rather than just financial or physical assets.

Case study: OCS Group

Chris Cracknell, CEO of fourth/fifth generation facilities and services group OCS, devotes a lot of thinking time to sustainability. One of Britain's largest privately owned companies, generating revenues of £827 million and managing some 90,000 people around the world, OCS was founded by Chris's great grandfather, Frederick Goodliffe, and its history demonstrates some of the challenges of family ownership.



OCS Chief Executive, Chris Cracknell

The group started life in 1900 as the New Century Window and General Cleaning Company, but when Goodliffe's three sons took over they diversified into hotels and manufacturing, and it was not until the late 1980s that these businesses were sold and activities refocused on business support services.

Following Chris's appointment as CEO in 1996, the first external non-executive directors joined the board and family governance was upgraded, transforming OCS from family-owned and run to family-owned and professionally managed. "We've worked hard to achieve this more sustainable business model," explains Chris, "operating resolutely as a meritocracy, but at the same time preserving our family culture, ethics and style."

And it's these family values that also underpin the group's commitment to a sustainable future – building a business for the long term, while recognising the environmental, social and governance responsibilities to customers, staff and the wider communities within which it operates.

Chris promotes "conscious capitalism" at OCS, and spearheads efforts to reduce environmental impacts and improve social well-being. He is particularly proud when new ways are discovered of putting something back into the communities in which the group does business. Their charitable foundation in Thailand, for instance, works with OCS staff to raise money for local causes, including school scholarships for underprivileged children in rural areas and educational infrastructure funding. In the UK the group works with SportsAid, helping the next generation of British athletes to succeed.

For Chris, it all comes back to the core values that his family brings to the business: "We're shaped by our family values and they've influenced how we think and act as a business", he explains, "and it's that stable, long-term culture that I believe gives family companies a real advantage when it comes to promoting the sustainability agenda."



3 Resources

Articles and reports

Sustainable Value Creation

Published in October 2012 by the IFB Research Foundation with M Institute (and downloadable from www.ifb.org.uk).

This IFB white paper sets out an agenda for embedding sustainable value creation principles into the family business. The report, supported by family business case studies, includes the “four keys” model for sustainable value creation.

What You Can Learn From Family Business: Focus on Resilience, Not Short-Term Performance

Nicolas Kachaner, George Stalk and Alain Bloch (2012) *Harvard Business Review*, November, pp.1–6.

The authors argue that family businesses tend to be managed with resilience and sustainability in mind, and this influences their strategies on seven key issues – costs, capital expenditure, debt, acquisitions, diversification, overseas expansion and talent retention.

Examining the Relation Between Ethical Focus and Financial Performance in Family Firms: An Exploratory Study

E. O’Boyle, M. Rutherford and J. Pollack (2010) *Family Business Review*, December, Vol. 23 no. 4, pp.310–326.

An academic study (using a sample of 526 family businesses) highlighting the link between family involvement and a firm’s ethical focus, and showing that increased ethical focus predicts increased financial performance.

The Five Attributes of Enduring Family Businesses

McKinsey & Company (2010) *McKinsey Quarterly*, January.

Focusing on financial rather than social sustainability, this article examines the keys to long-term success, centring on professional management and keeping the family engaged as committed and capable owners.

Books

Managing for the Long Run: Lessons in Competitive Advantage From Great Family Businesses

D. Miller and I. Le Breton-Miller. Boston MA: Harvard Business School Press (2005).

Linking to a worldwide review of enduring, family-run organisations, the authors discuss the unconventional success strategies of these businesses and the extent to which their strategies can be adopted by other family companies.

Video

Available on YouTube are Cranfield’s Professor David Grayson on **Is Sustainability Important for Business?** (published by the Family Business Network) and John Elkington, an authority on corporate responsibility and sustainable development, discussing **Sustainability in Family Business** (published by the IFB).

Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:
Owners and the Board

Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers

Family business succession

- Engaging the Next Generation
- Planning Succession

Family business wealth

- Selling the Family Business

Growing successful enterprises
for generations to come

Institute for Family Business

32 Buckingham Palace Road

London SW1W 0RE

Tel **020 7630 6250**

Fax **020 7630 6251**

www.ifb.org.uk