Family firm focus:

How family businesses are demonstrating sustainable leadership

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Sustainability means meeting our own needs without compromising the ability of future generations to meet their own. It also involves ensuring that natural, social, and economic resources are utilized and employed in ways that result in continued, sustainable prosperity. To a great degree, family businesses in particular are ideally suited to a 'sustainable' concept, being created and maintained with future generations in mind, and balancing economic prosperity with the protection of legacy.

As non-family businesses face the challenge of balancing and reflecting competing stakeholder demands made by shareholders, consumers, suppliers, employees, regulators, and capital providers, family businesses may be better able to manage their stakeholder expectations and quickly develop their strategy around their inherent purpose: building business for successive generations. Certainly, a perception of family businesses is that they were built organically around people and the environment and profitably, at least in the first generation. This ecosystem fits well with the inclusivity demanded of today's companies towards wider stakeholders and considerations for the environment[1].

The role of family businesses in the global economy is surprisingly significant; companies that are owned and controlled by families account for two thirds of all businesses, 70-90 % of annual global GDP, and 50-80% of jobs in most countries[2]. Decisions made by family businesses therefore can have a great impact.

Against a backdrop of concerns globally regarding climate change, an increase in pollution, a depletion of resources, and societal change, awareness and actions on sustainability initiatives is becoming increasingly important. Sustainability is an umbrella term for a wider range of business activities to support the future prosperity of a company, involving the development of governance processes to support the long-term strategic direction, identifying both risks and new opportunities, increased information collation and reporting, and capital raising initiatives. All of this should reflect the central purpose of the business.

Certainly, family firms are becoming more aware of their contribution to the sustainability debate. In particular, the Family Business Network partnered with the United Nations Conference on Trade and Development (UNCTAD) to jointly develop the global initiative Family Business for Sustainability Development and the Family Business Sustainability Pledge. This focused on mobilizing business families and their firms to embed sustainability into their business strategies by helping them to integrate sustainability into their conventional business models[3].

In the Middle East, a recent survey by Deloitte confirmed that many family businesses were considering the sustainability agenda with 51% of surveyed companies confirming that such issues were being discussed at board level and 41% having already identified key risks to business with regards to sustainability. Interestingly, the idea that family businesses are more people and environment-focused than listed companies was supported by the question - What are your priorities ranked highest to lowest with people, purpose, planet, and profit? - being the ranking reported back[4].

Whilst sustainability risks feature high on the agenda, the opportunities presented by significant environmental and social changes should not be overlooked. Those companies that adapt best to sustainability see opportunities in new products and markets, operational cost reductions, strengthening of supply chains, and reputational enhancement. Building both risks and opportunities into a sustainability strategy together with definable goals, and in alignment with the business vision and strategy, is key to the successful implementation of sustainability within an organization.

However, family businesses in the Deloitte survey tended not to have recognized these benefits as only 21% had identified opportunities and only 18% had constructed a sustainability strategy, created incentives, and devised targets[5]. Nevertheless, it is a short step from discussing sustainability at the board level and then moving forward to develop a strategy.

"Whilst non-family businesses struggle to embed a sustainable strategy alongside business strategy, because of their inherent strengths and succession structure, family businesses are more able to merge the two so there is a single sustainable business strategy." - Scott Whalan, Financial Advisory Family Enterprise Leader, Valuation & Modeling Partner.

As a starting point, many companies benefit from aligning their business strategy with the United Nations Sustainability Development Goals (UNSDG) which provides an excellent framework together with key performance indications that help to develop targets and report progress. From this approach, business initiatives will quickly develop, bringing changes to governance and reporting.

Whilst family businesses may be ideally suited to bringing in change quickly, society is demanding increased transparency of operations reflecting their concerns for companies' impact on the environment and society. To survive, family businesses will need to be comfortable with increased levels of scrutiny and accountability. And although they may not have the regulatory driven sustainability reporting requirement that listed companies are increasingly facing globally, family businesses that are seeking to raise capital or sell off assets will have to face questions regarding their sustainability strategy, and awareness of risks and opportunities will increasingly be raised as part of ESG (environmental, social, governance) due diligence and fund-raising discussions.

Driven by increasing sustainability awareness and activism by investors, many asset management firms are adopting responsible investment principles in their transactions. The United Nations Environment Programme Finance Initiative (UNEP FI) backed organization, the PRI (Principles for Responsible Investment), has over 3,826 signatories representing $121 trillion of assets under management[6]. Each signatory commits to the incorporation of ESG issues into their investment analysis and decision-making processes, being active owners and incorporating ESG issues into their ownership policies and practices, and seeking appropriate disclosure on ESG issues by the entities in which they invest.

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Similarly, the UNEP FI backed organization, the PRB (Principles for Responsible Banking), is a framework designed to bring purpose, vision, and ambition to sustainable finance. Over 270 banks representing over 45% of banking assets worldwide have now joined this movement for change[7].

Some family-owned businesses are actively embracing sustainable (or green) finance and playing to their strengths of family, legacy, and sustainability, and attracting the green investment dollar. In 2021, Majid Al Futtaim, the leading family-owned shopping malls, communities, retail, and leisure pioneer across the Middle East, Africa, and Asia, signed its inaugural $1.5 billion Sustainability-Linked Loan (SLL), a financial instrument secured primarily on ESG related performance. Previously, in 2019, Majid Al Futtaim was listed as the world's first benchmark corporate Green Sukuk and the first issued by a corporate in the region. It was valued at USD 600 million with a tenor of ten years to fund environmentally friendly projects[8].

In a world where awareness and action on sustainability is becoming more important, it is becoming clearer how family businesses that effectively adapt their internal processes with an eye on the development of legacy and succession, while demonstrating strong sustainable leadership, are more likely to withstand future challenges and identify future opportunities. We will watch with interest as Middle East family businesses, in particular, position themselves as custodians of the future.

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Endnotes

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