

IMPACT INVESTING & ESG

Transforming Legacy Family Enterprises for Sustainable Development

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From FFI Practitioner

In this week's edition, *FFI Practitioner* explores several conditions that promote sustainable development strategies in family enterprises. Thank you to Pramodita Sharma, Sanjay Sharma, and Caroline Seow for this article that provides an overview of the "3Cs" and the "3Ps" of family enterprise sustainability conditions and highlights examples from their recent book, *Pioneering Family Firms' Sustainable Development Strategies*.

The sustainability agenda is deeply embedded in many flourishing family enterprises that have focused on people, communities, and land long before the 1987 report *Our Common Future*¹ made its case that sustainable development must *meet the needs of the present without compromising the ability of future generations to meet their own needs*. Founders such as Yvon Chouinard of outdoor clothing manufacturer Patagonia² have demonstrated since the 1970s that an unwavering focus on responsible stewardship and minimizing negative environmental impacts can lead to a financially successful business. Other business leaders such as Ray Anderson³ of the Interface carpet tile manufacturer proved that it is possible to reimagine and transform a business built purely on economic principles by integrating sustainability into its core operations for increased financial success. These are but two of the many examples of businesses that are either founded on sustainable development principles or pivoted to transform themselves for sustainable development.

Family enterprises that embark on the sustainability journey by focusing on environmental preservation, social justice, and responsible governance (ESG) enjoy tangible and reputational advantages. Adopting an ESG lens on the business has the potential to lead to innovations that not only generate efficiencies and cost reductions but profitable new product ideas and businesses. These enterprises earn the social license to operate from legislators, activists, and non-governmental organizations (NGOs) concerned with societal justice and environmental preservation. Talented next-generation family and non-family members are attracted and motivated to contribute to such workplaces.

The Starting Point and the Pathway

The *Better Business, Better World* report⁴ suggests the integration of United Nation's *Sustainable Development Goals* (SDGs) by businesses will open up economic opportunities exceeding US\$12 trillion and create over 380 million new jobs by 2030. While many family business leaders are familiar with this report and are eager to embark on a sustainability journey, the starting point and pathway are unclear. The questions faced by family enterprises and their advisors are:

How to transform a legacy business built purely on economic principles into one that embeds societal and environmental values into core operations, while continuing to generate economically robust outcomes? What are the triggers of, and defining moments along, this journey?

To understand the practical pathways for such a transformation by business families, our recent book, *Pioneering Family Firms' Sustainable Development Strategies*,⁵ offers a granular view of the sustainable development strategies and journeys of fifteen business families: in their first to ninth generation of family leadership; in industries ranging from mining and heavy manufacturing to organic foods and personal care products; and from different parts of the world.⁶

A critical analysis of the sustainability strategies of family enterprises highlights three necessary success conditions for the *business family*—*Control, Commitment and Continuity* (3Cs)—and three for the *family enterprise*—*Purpose, Professionalism and Partnerships* (3Ps).



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The 3Cs

Three necessary conditions for business families to amplify the sustainable development strategies are:

- ***Control to make strategic decisions and investments.*** As patient investments of time and resources are essential to integrate the sustainability mindset into family businesses, the '*one ship, one captain*' mantra holds true in all cases studied, regardless of whether they are led by controlling owners, sibling partners, cousins, members of two or three generations, or even third generational descendants of two unrelated founding families. Each finds their own unique way to empower the dominant owners to make strategic choices and investment decisions with a longer time horizon for returns.
- ***Commitment to embed sustainable development principles in core operations.*** In addition to the ability to commit significant resources, progress toward embedding sustainable development practices into core operations can only be made when the controlling family leaders unequivocally believe both in the grand societal challenges being faced and in the opportunities these challenges present for the business. Some may feel a moral obligation to leverage their business as a force for good, while others may view it as a strategic opportunity of doing well while doing good.

For example, concerned about the prospects of malnutrition and starvation by 2050 due to food shortages facing the world given the limited availability of arable land and growing population, the **Nelson family of Kemin Industries** of the US considers it a moral duty to use their talent and resources to invent usable solutions for both human and animal nutrition. Similarly, **Biofilter** of Hungary used circular economy principles to find strategic solutions to prevent the disposal of food waste into the land and waterways, while at the same time building an economically robust business and opening a new industry sector in their country.

- ***Continuity of the operational business beyond the tenure of incumbent generation/leader.*** At early stages, the returns from sustainable business investments may be unpredictable, slower, and lower than traditional business models. Confronted with high and risky investments, family business leaders profiled in this book faced existential uncertainties in the form of emerging doubts. Some battled lucrative offers from hungry corporations eager to capitalize on the innovative solutions they had developed, but their unwavering focus on transgenerational continuity persisted.

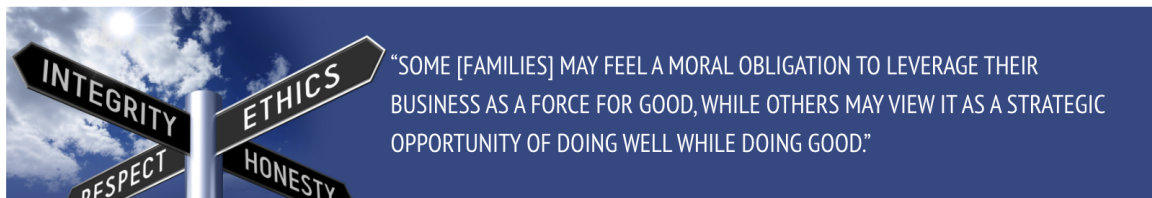
Signaling transgenerational continuity aspirations, **Mark Purbrick, the fourth-generation leader of a well-regarded green winery in Australia, Tahbilk**, noted that the market value of the business was of no significance to him as he is simply the caretaker of the business for future generations.

The 3Ps

Three facilitating factors of family enterprises to amplify the sustainable development strategies are:

- ***Purpose to achieve sustainable development goals.*** As national targets and regulations related to the seventeen SDGs gain traction in various countries, family business leaders are beginning to leverage their operational know-how and to align their value chains to deliver on these broad areas of impact. These goals have the potential to re-energize the core values of their legacy families and fuel their enterprises with a purpose-driven culture for future success.

The Royal Van Wijhe Verf, Dutch manufacturer of paints and coatings since 1916, has embraced sustainability through innovation in each generation. While their understanding of sustainability has evolved with each generation from business survival in the first, to focus on people and community in the second, and integration of environmental considerations in the third, so has their target of innovations. The incumbent family leaders are investing heavily to develop ecologically friendly products with the lofty aim of ensuring that all ten million buildings in their country use durable paints made from bio-based renewable materials using a circular-economy process.



- ***Professionalism embedded in accountability of self and others.*** This professionalism is essential to spark rapid and continuous innovation of the enterprise. Family leaders in our study included a mix of aeronautical and mechanical engineers, nutritional and environmental scientists, and management professionals. In addition to professional educational training, each spent a few years understanding and experiencing how organizational systems and structures can be used to scale impact. The collaborative phase between generations often extended beyond three decades, enabling the building of distinctive competitive advantages. With the removal of pressures for hurried baton-passing between generations, family businesses find intriguing ways to gain professional expertise in unfamiliar areas while engaging next-generation members.

For instance, **State Garden Inc., of Olivia's Organics** in the US charged the young adults of their fourth generation to work under close guidance of highly capable and experienced non-family managers to identify areas where technological solutions could be embedded into their operations and identify the best experts in the industry to help them to implement these solutions.

In **Griffith Foods**, a US food ingredients manufacturer from Illinois, the overlap period between the third and fourth generation extended over several decades. This provided Brian Griffith with opportunities to join his parents on business trips to understand their operations in different parts of the world, gain professional education, and work outside the family business in a large company before joining the business family's overseas operations. When he eventually took charge of the company, he was familiar with its possibilities and confidently accelerated their sustainability initiatives.

- **Partnerships with multiple stakeholders.** Strategic partnerships play a significant role in each family business studied. Family leaders positioned themselves strategically and found efficient ways to stay informed about the varied perspectives both internal and external to their companies. This information resulted in authenticity in their contributions to industry associations, regional governance, academic institutions, and charitable endeavours. Innovative ideas from both employees and external stakeholders were supported.

For example, third-generation leaders of **Jebsen & Jessen** of Singapore worked closely with Torsten Ketelsen, the entrepreneur who developed the concept of recycling garnet, to scale his operation and integrate it into their global consortium of their companies. Anu Pudumjee of **Thermax India**, a second-generation leader, invested significant time and effort to help regional and national leaders understand the climatic challenges for their country and help develop related practices and policies.

Every family featured in the *Pioneering Family Firms' Sustainable Development Strategies* is unique. We invite readers to immerse themselves in these entrepreneurial journeys and draw inspiration from the sustainability principles that they embody, just as they might embark on new ventures or transform legacy businesses to deliver greater impact for all stakeholders.

References

¹World Commission on Environment and Development (1987). *Our Common Future* (Brundtland Report), vol. 383, Oxford, UK: Oxford University Press.

²Chouinard, Y. & Stanley, V. (2012). *The Responsible Company: What we Learned from Patagonia's First 40 Years*. Patagonia Books.

³Anderson, R. (1998). *Mid-Course Correction: Toward a Sustainable Enterprise: The Interface Model*. Second edition published in 2019 by Chelsea Green Publishing, VT.

⁴Business and Sustainable Development Commission (2017). The *Better Business, Better World* report.

⁵Sharma, P & Sharma, S. 2021. *Pioneering Family Firms' Sustainable Development Strategies*. Edward Elgar Academic Publishing.

⁶Note: Four of these families are active participants of the Polaris project of Family Business Network (FBN), a global movement supporting the sustainability journey of family businesses.

About the Contributors



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