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Family businesses have an opportunity to lead on ESG

Family businesses dominate key sectors of the economy. If they make environmental, social, and governance issues a priority, they can change the world.

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Family businesses have the potential, the resources, and the market position to lead sustainable transformations in the many key global industries they dominate. And they possess distinctive advantages that enable them to act. Family businesses tend to be values-led, with long-term investment goals because they're less beholden than public companies to the pressures of the quarterly reporting cycle. Their primary goal is to protect a legacy for the generations to come. By embracing environmental, social, and governance (ESG) issues, they can increase their impact across sectors and geographies.

This is not wishful thinking. More than one-fifth of the global shipping industry is run by a handful of family-owned businesses. In automotive, just 36 families control companies that account for 55% of the total global market. Look across other sectors; large family-owned businesses dominate retail clothing, engineering and construction (see graphic, next page). This presents a tremendous opportunity for positive change.

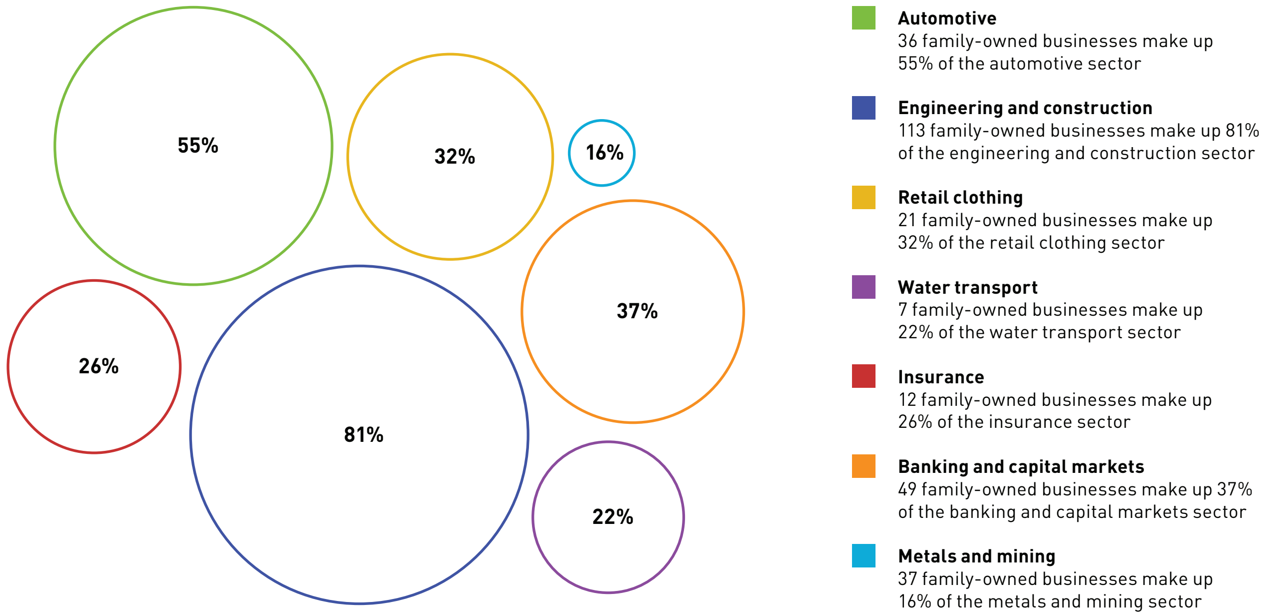
Some family businesses are already stepping up to lead on ESG by integrating these goals into their operations. But, according to PwC's Family Business Survey 2021, the majority of respondents have yet to grasp that the impulse to do well by society needs to be embedded in the business's operations—rather than separated out as traditional philanthropy. According to the survey, overwhelming majorities of family business owners are prioritizing expanding into new markets (82%) and improving digital capabilities (80%), while only 39% rank sustainability and ESG as top priorities.

Family business leaders are realizing their potential contributions can have a

Family-owned businesses dominate key sectors

Large family-owned businesses make up a large share of sectors that have an important role in reaching ESG goals.

Global market share of family-owned business in selected industries and the number of companies that make up this share



Source: PwC analysis based on data from The World's Top 750 Family Businesses Ranking, Family Capital, 2020 (percentages rounded)

startling effect on the future of the planet, particularly if they collaborate with one another.

Take chocolate production. The issues of child labor and the poverty of small cocoa farmers in less-developed countries have been in the headlines for more than a decade, touching most major brands, and resulting in ongoing legal action by activists. In 2016, however, the chocolate maker Barry Callebaut—a 110-year-old family concern based in Zurich, Switzerland, whose ingredients are present in one out of four chocolate and cocoa products sold around the world—launched "Forever Chocolate," aiming to achieve 100% sustainable chocolate by 2025. Five years on, it's made significant progress on several aspects of sustainability: for example, in 2019–20, the company reported an 8.1% reduction in carbon emissions, trained close to 95,000 cocoa farmers on child labor awareness, and sourced 100% sustainable cocoa for its global gourmet brands.

Then there's coffee: a US$160 billion industry that employs more than 25 million families of farmers globally. In 2018, a collaboration funded by two direct competitors—Ilycaffè and Lavazza—led to the public release of the first fully open-access coffee arabica genome sequence. The aim? To help the entire coffee industry value chain, from farmers to brands, prepare for the challenges springing from climate change.

Punching above their weight

To explain why family business could play such an outsized role in furthering ESG goals, it's useful to look at the wider ESG landscape. The move to embrace sustainability is already a seismic shift for businesses, powered by massive expectations from stakeholders, ambitious commitments from governments, and a tidal wave of capital investment. ESG funds, for example, attracted a record $51 billion of net new money from investors in 2020, more than double the amount the previous year. Large publicly held corporations and governments, through both sticks (regulations) and carrots (targeted subsidies) are reshaping the way business operates. And indeed, many corporations are stepping up: they are making commitments to reduce carbon emissions and sourcing electricity from renewable resources; they are making their boards more diverse and publishing sustainability reports.

But today, such actions are just table stakes. To build trust and secure their futures, businesses must go further and build ESG into all aspects of their business: their reporting, strategy, and transformation plans. And family businesses are uniquely positioned and incentivized to do so for a couple of key reasons. First, they are more trusted than any other sectors. Some 67% of respondents in the Edelman Trust Barometer's 2020 report said they trusted family businesses, compared to just 58% who trust public companies—making family businesses the most trusted type of enterprise. (Governments and the media came in last.)

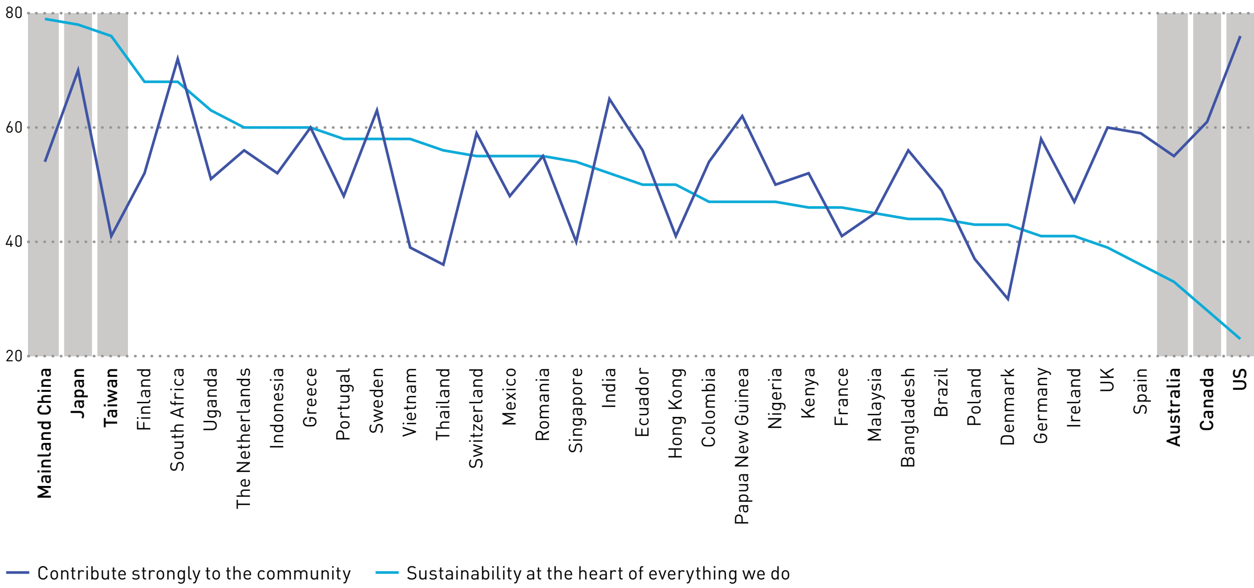
Second, their deeply held values and shared commitment to contributing to society are hard-wired. Taking care of their workforce and communities, for example, have long been part of their DNA, dating back to well before formal ESG commitments became a global trend.

But the internalization of ESG will make a big difference. And we are beginning to see that, particularly in Asia. In our latest family business survey, more than 75% of businesses in China, Japan, and Taiwan said they put sustainability at the core of everything they do, compared to just 23% in the US and 28% in

Stark regional differences

Family businesses in countries around the world view their contributions to society very differently. In Asia, family businesses focus on putting sustainability at the heart of their operations; in Western developed economies, the priority is giving back to the community.

Percent of respondents, by country



Source: PwC's Family Business Survey 2021

Canada (see chart above). Businesses in Western economies, and especially in North America, prioritized giving back to the community—a shorthand commonly used to describe more traditional philanthropy.

Doing well by doing good—and building a better future

It's time for family businesses to turn their long-term approach into concrete actions on ESG that are part of everyday operations. Profit and purpose are not contradictions but, as many studies have shown, part of a successful business strategy. André Hoffmann of the family behind pharmaceutical giant Roche Holding is a leading and long-standing ESG advocate and driving force behind nature-based solutions, solving societal problems in ways that are inspired and supported by nature. Hoffmann recently said: "If you destroy nature to make a profit, then you are creating the problem that you then try to solve with philanthropy. So you need to be much better at sensibly making money rather than making money at all costs." In many ways, doing so is also a matter of corporate survival.

If companies act collectively to drive sustainability in industries where family businesses have great influence, the impact could be significant. It's not about anti-competitive behaviors, but about getting all moving in the same direction at the same time. And we think this is achievable—the coffee genome sequencing is one example. Many family business leaders are members of networks of other family-owned businesses from the same sector. These forums, in which members regularly exchange views and share experiences, can act as catalysts for change.

In fact, family businesses have no choice but to accelerate their public commitment to ESG. Those that fail to act will miss the substantial benefits associated with ESG. As Haldor Topsøe Holding chairman Jakob Haldor said, "If you don't embed sustainability in everything you do, you will find yourself out of business, whatever sector you are in. It's just a matter of when."

Family businesses that take a strategic and collaborative approach to ESG will get much more than a warm glow from making a positive difference. By behaving in line with their long-term purpose, values, and perspective, they'll also generate greater business value and deeper trust among consumers and business partners. Put simply, there's no contradiction between profit and purpose. The world's leading family firms have a golden opportunity to step up to the plate together on ESG. It's an opportunity they should take as matter of urgency—for the good of the planet, the good of humankind, and their own future success. +

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