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## Family businesses need to focus on sustainability

### Family businesses that fail to demonstrate their sustainability efforts and values are creating a potential business risk, a new study from [PwC](#) reveals.

Family-owned businesses risk falling behind in demonstrating how they are supporting the needs of society and the environment.

A new survey of more than 2,800 family businesses worldwide, including Ireland, revealed that while more than half (55pc) of global respondents saw the potential for their business to lead on sustainability, only 37pc have a defined strategy in place.

The survey suggests family businesses have weathered the pandemic relatively well. Less than half (46pc) expect sales to fall despite the pandemic and survey respondents felt optimistic about their business' abilities to withstand and continue to grow in 2021 (64pc) and 2022 (86pc).

### Prioritising sustainability and social purpose

European and American businesses are lagging their Asian counterparts in their commitment to prioritising sustainability in their strategy. 79pc of respondents in mainland China and 78pc in Japan reported 'putting sustainability at the heart of everything we do' compared to just 23pc in the US and 39pc in the UK. Larger businesses and those owned by later generations also buck the trend, with greater focus on sustainability.

This reluctance to embrace sustainability comes despite the fact that family owned businesses are highly likely to see a responsibility to society.

More than 80pc engage in proactive social responsibility activity, and 71pc sought to retain as many staff as possible during the pandemic. Nor is it a function of economic pessimism - less than half (46pc) expect sales to fall despite the pandemic and survey respondents felt optimistic about their business' abilities to withstand and continue to grow in 2021 and 2022.

Instead, the issue is an increasingly out-of-date conception of how businesses should respond to society, with 76pc in the US and 60pc in the UK placing greater emphasis on their direct contribution, often through philanthropic initiatives, rather than through a strategic approach to ESG (Environmental, Social and Governance) matters.

Family businesses are also somewhat insulated from the investor pressure that is currently pushing public companies to put ESG at the heart of their long-term plans for commercial success.

“It is clear that family businesses globally have a strong commitment to a wider social purpose,” said John Dillon, leader of PwC Ireland’s Entrepreneurial & Private Business practice.

“But there is a growing pressure from customers, lenders, shareholders and even employees, to demonstrate a meaningful impact around sustainability and wider ESG issues. Many listed companies have started to respond but this survey indicates that family businesses have a more traditional approach to social contribution.

“Family businesses around the world must adapt to changing expectations and, by failing to do so, are creating a potential business risk. This is not just about stating a commitment to doing good, but setting meaningful targets and reporting that demonstrate a clear sense of their values and purpose when it comes to helping economies and societies build back better.”

In Ireland, PwC’s 2020 Next Generation (NextGen) Family Business survey highlighted that a third (33pc) of respondents did not perceive any change was needed to their family business sense of purpose.

“This is surprising in a time of such uncertainty and challenge. At the same time, Irish and global family business leaders see a clear link between a sense of value and purpose and business success. All indications are that ‘purpose’ is an undervalued resource,” said Dillon.

## **Family firms behind digital curve**

Even though 80pc of global family businesses adapted to the challenges of the COVID-19 pandemic by enabling home working for employees, there are also concerns about their overall strength when it comes to digital transformation.

62pc of respondents described their digital capabilities as ‘not strong,’ with a further 19pc describing it as a work in progress.

Yet here there are clear generational differences: 41pc of businesses that describe themselves as digitally strong are 3rd or 4th generation, and Next Gens have taken an increased role in 46pc of digitally strong businesses.

“It is a concern that family businesses are lagging behind the curve,” said Ronan Furlong, partner in PwC’s Entrepreneurial & Private Business Practice.

“There is clear evidence that having strong digital capabilities enables agility and success and that they have a similar enthusiasm for sustainability.

“In particular, family businesses should consider how they can engage the experience and fresh insight of Next Gens when it comes to prioritising their digital journey.

“In Ireland, PwC’s 2020 NextGen survey revealed that 93pc of Irish NextGens said that having a strategy fit for a digital age is a priority. While they recognised that technology is a top driver for change, few regarded technology skills as particularly relevant. In the context of digital transformation, having the digital skills are critical to move the dial.”

## **Professional governance**

While global family businesses report good levels of trust, transparency and communication, the survey highlights the benefits of a professional governance structure.

While 79pc say they have some form of governance procedure or policy in place, the figures fall dramatically when it comes to important areas: just over a quarter state they have a family constitution or protocol, while only 15pc have established conflict resolution mechanisms.

“Family harmony should never be taken for granted – it’s something that must be worked on and planned for, with the same focus and professionalism that’s applied to business strategy and operational decisions,” said Mairead Harbron, director of PwC Ireland’s Entrepreneurial & Private Business Practice.

“In Ireland, PwC’s 2020 NextGen survey found that almost all (98pc) respondents said that professionalising and modernising management practice should be a clear focus for the business. However, one third (33pc) admitted that the governance rules in their family business prevented them from having the impact they would like within the business.”

“There are growing concerns from regulators around the world about family business succession, especially with a third of 1st, 2nd or 3rd generation businesses expecting the next generation to become majority shareholders in the next five years.

“It is therefore vitally important that businesses take a lead on ensuring they have formal processes in place they can ensure stability and continuity in the long run,” said Harbron.

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