Family Business: A Voice for Change in Sustainability

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IMD Vision

Challenging what is and inspiring what could be, we develop leaders who transform organizations and contribute to society.

IMD Mission

Founded by business executives for business executives, we are an independent academic institution with Swiss roots and global reach. We strive to be the trusted learning partner of choice for ambitious individuals and organizations worldwide.
Family firms hold a unique position in advancing the sustainability agenda. As businesses that have been forged with future generations in mind, they constantly balance performance against legacy and this crucial equilibrium is central to sustainability.

The need to move to sustainable business models is becoming clearer every day. In today’s world – one in which climate tipping points have been breached and societies around the world are calling for more equity – shareholders can no longer be the sole beneficiaries of value creation. Today, people and planet must also be considered in every strategic decision a leadership team makes.

For family businesses, such inclusivity was often embedded in the founding principles of the first generation. Their ecosystems have been organically built around people and environment, as well as profitability. Doing well by doing good is embedded in their DNA.

The family perspective naturally compels a long-term view to be brought into strategy. That long-term focus provides family firms with a crucial anchor point for key decision-making on strategic reinvention in order to secure the organization for successive generations. Some are already investing in innovation, partnership and positive disruption to align with the changes that governments, policymakers and consumers are increasingly calling for. Answering that call can safeguard both continuity and succession.

A broader stakeholder view and a long-term strategic perspective are among the myriad strengths that family businesses can share with the wider business community as it begins to engage with the sustainability agenda in clear, measurable ways. We encourage and welcome the drive to place purpose at the heart of transformation.

IMD encourages its diverse and talented thought community to share their valuable insights and achievements. By using such real-world, real-impact successes to nourish new thinking and new directions, we can continue to strive towards the sustainable success of all the stakeholders our businesses serve.
The Role of Family Business Boards in Sustainability

Barbara Kux, Vice Chairperson and member of the board at Firmenich, Henkel, Grosvenor Group and Pargesa Holding and Sameh Abadir, Professor of Leadership and Negotiation at IMD and Director of the IMD-Pictet Sustainability in Family Business Award

**SA:** Barbara, your career is unique and you have seen lots of different business models. Can you give us a brief definition of sustainability?

**BK:** Well, I checked this morning and the number of Google hits for definitions of sustainability is currently 724 million and I think it is growing. My point of view in business has always been to look at the 3Ps: profit – people – planet and synchronize them. Profit has always and will always be there because we want to create value for shareholders. I think the people aspect has always been there as well, and in family companies more than others. The third one is the big one, the new one. That is planet. In my view whenever you make a decision, whenever you build strategy, make an acquisition, hire someone, consider those 3Ps.

**SA:** Are boards really interested in sustainability?

**BK:** In my board work I have been seeing reactions to Greta [Thunberg]. And she is a controversial figure – the opinions range from positive to negative, respectful and suspicious. But she has brought a much greater awareness on the topics. Looking from a marketing cycle AIDA perspective – awareness, interest, desire, action – today awareness and interest are clearly there for boards, top managers, companies, family and publically listed companies. I think the
desire to action is there, too. Companies that are more successful say yes we have to do it. Action is the weak part because very small numbers of companies are actually making it happen.

Interestingly recent research has shown that 65 percent of companies have sustainability as a management topic, but 22 percent think the board cannot deal with it in a conclusive way. So it is there in the agenda, but our board is not helping to further it. A recent study by Mazars showed that 53 percent of boards see a business case for sustainability. That means 47 percent of boards do not see a business case for an interest in sustainability. So it is inconclusive but in general the interest is there.

So why should a board be interested in sustainability? Well, investor interest worth $30 trillion is there, whether they are family or non-family. ESG is an increasing demand and if you are a public company, you need investors. Then we have 60 percent of millennials who want to join a company with a good sustainability program. And money and titles and cars – they do not care for those; they go for the purpose and sustainability. Then you come to consumers and they have apps such as ToxFox that mean they just have to scan a product in a supermarket and get a conclusion on Substances of Very High Concern (SVHCs) and an immediate option to send a complaint to the company. Then there is a huge opportunity presented by the green market. Today it is worth $3 trillion and by 2025 it is projected to grow to $6 trillion. So there are reasons to engage with sustainability at board level.

**SA:** There is the idea that values should be non-negotiable and strategies can be negotiable. Should boards move sustainability to a non-negotiable value and see everything else as a negotiable priority?

**BK:** It is very important that sustainability is embedded in values. Typically in family-owned companies values are more important. You have fourth or fifth-generation members and they want to continue with those values. I was head of sustainability at Philips 15 years ago. The way to move things with values was to create a business intention. At the time Philips was introducing LED lighting that emitted 30 percent less CO2. So we focused
on growing the LED business to fulfill our sustainability agenda. So, identify what I call the 'green sweet spot' and focus on it and use it to accelerate the business. Values must be kept but promote them through the business.

**SA:** I was once told if you miss a tipping point, you live to regret it. Is sustainability is huge tipping point?

**BK:** It is absolutely true. Look at the automotive industry in Germany – they missed electric cars. Elon Musk just announced an electric car factory in Germany. However, millennials don’t want cars. They want a mobility service, they do not need status symbols. They want to do good for the future. They have realized we cannot go on as we have. We are using the resources of 1.7 planets. I have not yet found the engineer who can create a new planet. We are limited. From August 2, 2019 we began living off the natural resources (air, water, wood) of our kids and grandkids. We have to do something about it.

**SA:** You have seen lots of family businesses. What advice can you give them to give them quick fixes, easy tweaks? Also, is sustainability a culture-specific phenomenon?

**BK:** Well, first the culture question. I grew up in a Swiss German village. We walked 30 minutes two or three times a day. We were separating garbage, we composted in the garden. We do have a cultural-upbringing that is aligned with sustainability.

The second point is on quick fixes. I have to tell you, sustainability and quick fixes are not compatible. But what can companies do? Well, the first thing is companies must ask is it really part of our DNA? Is it truly embedded? In family companies, I have found it is always part of it. They always cared for the environment and people and they always look at long term. The second thing is to look at the materiality matrix. This is a simple two-axis matrix that balances the priorities of board leadership alongside the priorities of stakeholders. You can map anything from climate change to health or the ageing population or emerging markets on it and identify the green sweet spots or risks. Once you do that you can make sustainability part of strategy – not a separate strategy but central with aim to build competitive advantage. Next is the long-term horizon. Sustainability has a time axis, we must look at things in the long term, which is great for family firms. Here you can also introduce KPIs. And finally you have to consider your position as a role model, as a board.

**SA:** Which boards do you think are great role models?

**BK:** All the boards I am involved with are all very much advanced in sustainability already. There is learning to be had from other industries – especially fast moving consumer goods. Anything that touches consumers is advanced; it has to be, so learn from them.
Questions from the floor

Q: We can make incremental changes or radical changes. Based on your experience what is the sense of urgency shared on boards?

BK: I do not see urgency as yet and that is what Greta [Thunberg] has drawn attention to. A sense of urgency is required but de-carbonization is a long-term goal. We could solve two-thirds of the CO2 problem with existing technology. That is amazing. So regulatory action is needed to advance the change.

Q: What is your advice on getting boards more aware of natural science tipping points on climate change and biodiversity? How can we work collectively bearing in mind that we have a decade left to act?

BK: It is a big question. We cannot do it by order or law – you can try but people ultimately have to see the logic and move according to conviction. The new EU Commission and the World Business Council are exposing boards and wider stakeholders to these conversations. But to accelerate maybe the World Business Council has to make it a conference topic.
Award Winner Announcement & Presentation

Session led by Sameh Abadir; Marta Widz, Head of SIFBA Evaluation Committee at IMD and Marie-Laure Schaufelberger, Group Stewardship Officer at Pictet Group

The IMD-Pictet Sustainability in Family Business Award celebrates family businesses that stand out in work and commitment to sustainability.

Jointly developed by IMD and Pictet, this year marked the award’s inauguration. It was conceived to mark the efforts of family companies that leverage their strategic talents towards addressing and furthering the sustainability agenda.

Outlining the award’s intent, Sameh Abadir, IMD Professor of Leadership and Negotiation, spoke of the importance of businesses that develop a sound knowledge base, practices skills and change behaviors, internally and externally with sustainability at their core.

“Sustainability can be defined as linking your business performance and society’s performance – you cannot do one without the other,” he said.

Five jury members considered 15 eligible nominations from a pool of 60. These were organizations that had successfully
undertaken the first succession from first to second-generation ownership and were large enough to be active beyond the home market.

The assessment process was co-created with IMD’s research team to ensure that a clear framework was articulated within which unbiased analysis and feedback could occur. Extensive research and interviews were undertaken with each contender, as well as reputational checks to ensure a comprehensive view was gathered. Jury members then read through the analyses, discussed their findings and voted anonymously for one nominee.

Firmenich, the world’s largest privately held flavors and fragrances company, was selected as the outstanding winner of this year’s award selection.

“Firmenich’s sustainability credentials are exemplary and have been applauded by the judging panel as the company is actively delivering on its ambitious sustainability goals,” said Rémy Best, managing partner of the Pictet Group.
Firmenich: Inclusive capitalism is key to sustainability
Gilbert Ghostine, CEO, Firmenich

Gilbert Ghostine, the first non-family CEO of Firmenich in its 125-year history, said sustainability is embedded in the company’s core principles. The recognition of the IMD-Pictet award was the result of Firmenich’s visionary shareholders for whom sustainability has remained a continual conversation, he said.

Ghostine outlined Firmenich’s approach as being one of “inclusive capitalism”. This, he said, enabled it to have a positive impact on people, communities and environment in the 100 countries it operates within.

For its active stewardship of an inclusive and diverse workforce, the company is one of only seven across the world to have received Global EDGE Certification for gender equality. Its executive committee is 40 percent female; seven nationalities are represented out of its eight executive members and, despite having an employee base that is 40 percent female, 44 percent of its leaders are women.

In October 2019, Firmenich was also the recipient of Ethical Corporation’s Responsible Business Award for its efforts on inclusivity and diversity. More than two percent of its global workforce is differently abled and has made a significant contribution to the company with their unique skills sets.

Firmenich signed its first charter on sustainability in 1991 and published its first sustainability report in 2006. In 2015, at COP21, it crafted and announced its most ambitious environmental goals to accelerate its sustainability agenda.

Today the business expects to run its entire global operations on 100 percent renewable electricity by 2020. It has decoupled its growth from its carbon footprint. Since 2015, its volume output grew by 18 percent and its carbon footprint decreased by 30 percent. This year, Firmenich was awarded a triple-A rating for climate, forestry and water by CDP – one of only two companies in the world out of the 7000 rated by CDP.

The organization takes a hands-on approach to supply-chain ethics – from supporting the farming communities it buys from by paying a five percent premium on natural ingredients to local cooperatives that serve local needs, be they community dispensaries or schools.

The company is committed to having a positive impact on ‘big-picture’ issues. Its scientific expertise has been leveraged to address global health concerns. Its work with the Bill and Melinda Gates Foundation has improved the sanitation facilities of communities in South Africa and India. Its TastePRINT technology can reduce sugar by 100 percent.

“Leadership in the 21st century requires leaders to focus on different priorities – driving performance, transforming business and doing it with purpose. Performance matters but ethics, values, social-environmental impact matters too – these three pillars have equal weight in our strategy. It is not about short-term value creation for shareholders, it is about long-term stakeholder value creation,” said Ghostine.
World café: Interactive discussions addressing key challenges in sustainability and family business

Moderated by Natalia Olynec, Sustainability Partner at IMD and Matthew Crudgington, Associate Director at IMD Global Family Business Center

The Forum’s focus on sustainability leadership took on a collaborative tone with a World Café – a format that facilitated quick rounds of conversations in small groups. After each round of discussions, participants shared their insights with the large group and then switched tables to explore another question with a fresh group of collocutors and potential supporters.

The first round explored definitions and the level of individual or company ambition around sustainability. The second round focused on the most powerful drivers motivating individuals and/or companies to place sustainability at the core of their business models. The third question – requiring more personal reflection – asked participants to gauge where their firms were in the journey of positioning
sustainability at the core of their business model, share key learnings and identify where the greatest support is required.

What quickly became clear was that family businesses have a broad range of approaches to, and definitions of, sustainability. Some are advanced in embedding sustainability in their operations to mitigate risk and drive innovation, while others are at the beginning of their journey, starting to align family expectations with corporate strategy.

In particular, many owners noted the arrival of the next generation of millennials in management and board positions as a strong driver to a more systematic approach to integrating sustainability at the core of the business. A strong feeling was that everybody in the ecosystem has a role to play, however, not everyone knows what those roles look like, entail or where to start.

They also pointed out that external expectations are increasing, putting pressure on owners for greater transparency and communication about key performance indicators. Sustainability can act as a powerful link between several generations of owners and employees as they work to build a long-term future with societal impact.

Still, participants agreed that sharing best practice with other family businesses and external partners is needed to support the transition to sustainable business. Family businesses are seeking support in building an ecosystem and a common vision for sustainability. Many pointed to the United Nations Sustainable Development Goals (SDGs) as a common framework for progress that everyone can refer to when working towards social, environmental, and economic prosperity.

Irrespective of differences in approach, all agreed that they shared a deep belief in stewardship for future generations and a strong sense of responsibility to all stakeholders. Another feeling paramount in the room was the overriding sense that progress in sustainability is something family businesses can drive – uniting ‘science and heart with a sense of hope’.
Family Business: A Voice for Change in Sustainability

Family businesses represent an untapped source of insight and responsiveness to sustainability. Their valuable collective acumen and experience has the potential to offer the world a unique dynamism and innovation in the era of resource scarcity and climate disruption. By focusing their considerable resources on the pressing issues facing the world, family businesses can successfully create new markets, engage the younger generation in purposeful growth and secure their future legacies.

Every business faces the threat and inevitability of disruption in their industries. Where they succeed lies in their ability to reinvent themselves to face the changing demands of the marketplace. Resource scarcity often drives innovation and, along with it, disruption.

Transformation is, therefore, the key to relevance and longevity. Today, pressing global challenges offer opportunities for innovation and creativity. Social justice issues, such as malnutrition, income inequity, as well as environmental concerns over wastage, deforestation and carbon consumption offer compelling and potentially profitable reasons to engage in transformation.

Family businesses understand the importance of securing longevity. Passing on a resilient business to the next generation is a key feature of their success. However, they are also familiar with the sensitivities that exist around succession. While the older generation is keen to pass the baton of an established organization to the next, the younger generation – especially in today’s world – needs purpose to underpin its endeavors.

“Continuity is the issue for both generations. If we want the next generation to devote themselves fully – hearts and minds – we must encourage them to do something that interests them,” said Professor Pramodita Sharma, Daniel Clark Sanders Chair in Family Business at University of Vermont.

This tension provides a key intersection in which family businesses could turn their innovation skills and long-term vision to resource scarcity, social justice and environmental issues; placing purpose at

Family Business Leadership in Sustainability

Professor Pramodita Sharma, Daniel Clark Sanders Chair in Family Business at University of Vermont, USA and Professor Sanjay Sharma, Dean at University of Vermont
the heart of transformation to invigorate engagement from the next generation of owners.

“We flipped this idea of the perpetuation of ‘the family business’ to one of [fostering] ‘the business family’ instead – perpetuating entrepreneurial DNA,” said Professor Sanjay Sharma, Dean at University of Vermont.

Such a readjustment of the approach towards succession could promote the impetus for “engaged capitalism”. This approach is one that could see the 76 percent of successful small, medium enterprises (SMEs) that comprises the wealthiest one percent of the world turn its attention to addressing the ‘big picture’ issues of today.

In Professor Sharma’s view engaged capitalism offers a path to reinvigorating family firms. “Family businesses are good at this type of reinvention. Of taking the long view in terms of their strategic streams of activity,” he said.

Shareholder value and sustainability can be yoked both in the short and long term. Identifying strategies and practices that positively impact cost and risk reduction can have a beneficial impact. Tackling efficiencies around waste or energy consumption, for example, can be viewed as low-hanging fruit for a business wishing to engage in sustainability and save costs in the short term.

Another approach in the short term is to address transparency and accountability. Companies that build closed-loop frameworks, for example, taking back a used product and recycling it or engaging in a broader stakeholder understanding of their business can increase their legitimacy within the market.

Meanwhile simultaneously repositioning the business, new competencies and radical innovation can create profitable, innovative growth opportunities and secure shareholder value in the future.

The 284-year-old Château Pontet-Canet vineyards in Bordeaux, France exemplify a traditional family business that repurposed itself. Bought by the Tesseron family in 1975 and now in its second generation, the family switched to biodynamic agriculture in 2004. Their overarching philosophy was to protect the soil rather than overwork it. As a result they produce less wine overall, however, its quality now commands a premium price. Furthermore they have created a role for themselves as institutional change agents, helping local and US vineyard owners to make the switch to biodynamic production.

The unique strengths of family businesses lie in their ability to make patient investments in innovation, emerging markets and new business models. They create strong stakeholder relationships, and can navigate the current economic realities with an eye firmly fixed on the future. Today’s world is one that needs those strengths to ensure future generations can succeed in it.
Rethinking Sustainability – Where to Focus?

Professor Vanina Farber, elea Chair for Social Innovation, Director of the elea Center for Social Innovation, IMD

A fundamental cultural shift is driving the need to rethink our assumptions about success, leadership, investment and the role of business in a resource and climate-challenged world.

Ask a 50-something what their idea of success was when growing up, and they will likely list an enviable list of luxuries. Among them, big houses, expensive cars, boutique holidays will probably be named. However, if their young-adult child were asked the same question, we would get a very different answer. Having enough money to live on, work success, good health, strong relationships, intellectual stimulation, community and moral values are the qualitative priorities on millennial wish lists.

How can businesses respond to such a profound shift away from asset-driven aspirations towards more experiential and impact-driven goals? The key is to focus on areas of impact that are core to the business and can drive innovation. Whether in terms of product design, business model, or new markets, the query can lead to innovative market solutions to societal problems and new consumer preferences.

Questions of impact are being brought inside the market space. Whether it is accountability or transparency, businesses are being asked to engage with questions they are often unused to and this requires attention.
“We are redefining the way companies create value. From the value proposition, the life of the product, the production process to the business model – all business issues are now seen under a new lens. This is especially relevant for family businesses because they rely on long-term to preserve their legacy,” said Professor Vanina Farber, elea Foundation Chair of Social Innovation and Director of the elea Center for Social Innovation, at IMD.

The only workable response is to commit to sustainability. Resource scarcity and consumer trends demand this response and family businesses are well placed to be ahead of the curve. They can concentrate efforts by building on pre-existing values of shared focus and legacy and, while naturally conservative, they are agile and entrepreneurial when re-focusing strategy.

“Visionary companies anticipate the trends of tomorrow, transform and disrupt themselves around sustainability. They prototype and scale new, sustainable ways of doing business. In doing so they ensure their legacy,” said Professor Farber.

These companies define their sustainability focus around who they are and what issues are material to them. This immediately infuses their endeavors with purpose. Purpose is why a company exists and what impact it wants to have in the world. Family businesses are at an advantage here, because they have a historic imprint they can utilize, re-defining legacy around entrepreneurial sustainability.

Specific, transparent and measurable impact gives us clear targets and these challenges can help inspire and unlock innovation. A defined impact needs to be supported with proof points and gaps identification to avoid greenwashing. Transparency and digital activism are not kind to brands that do not offer measurable impact.

Transforming business around purpose is a long-term investment. While this can be viewed as a disincentive to commit, published research shows that managing for the long term pays off. Superior results have been recorded when executives are able to set their efforts towards managing long-term value creation rather than reacting to the pressure to perform to quarterly expectations.

Tellingly, many businesses changed tack to more long-term strategies in response to the 2008 financial crisis. It is notable that during that time, family firms fared much better compared to other businesses because of their pre-existing and embedded long-term focus. Research has also shown that companies that focus on material environmental, social, governance (ESG) factors, stock market returns outperform those who do not.

The UN Sustainable Development Goals (SDGs) offer key anchor points that can provide inspiration and targets for purpose-led businesses. They also provide a bridge to a much larger ecosystem to build partnerships and collaborations.

To kick start sustainable transformation, engage successive generations and ensure the continuation of legacy, family businesses can repurpose themselves around material sustainability. Focusing innovation around novel market solutions in response to global social and environmental challenges can revitalize the business proposition for the future.

For family businesses this is not a novel way to think. It is the air they breathe. As a fifth-generation member of the Hermes family once commented, “A family business is not a business you inherit from your parents, it is a business you borrow from your children.”
Business Panel: Advancing the Sustainability Agenda, Business views from Family Business Journeys
Panel showcasing the work of family businesses in sustainability

Speakers:
Don A. Young, Executive Vice-President Environment, Health and Safety at J.M. Huber Corporation;
Anthony Sabga, Director at ANSA McAL/Carib Brewery;
Lars Svensson, Sustainability and Communication Director, IKEA SEA and Sustainability Head Ikano Group
Panel moderated by Victoria Kemanian, Director Business Transformation Initiative at IMD
The IMD-Pictet Sustainability in Family Business Award attracted submissions from 60 companies that were distilled to 15 for final consideration. These family businesses were at least in their second generation of management and had a focus beyond their home country.

There is much work being done by family businesses on sustainability. The Business Panel showcased the work of three companies to share the experience and the insights drawn from their own sustainability journeys.

Don A. Young  
Executive Vice-President Environment, Health and Safety at J.M. Huber Corporation

“We don’t have a sustainability strategy. We have a business strategy,” said Don A. Young, Executive Vice-President Environment, Health and Safety at JM Huber Corporation.

JM Huber Corporation is now in its sixth generation. Over its 135-year history, the company has created a portfolio around food and beverages, personal care, fire retardants, house building products, agricultural nutrients and sustainable forestry services.

By integrating the sustainability strategy into its core decision-making, through governance and capital deployment, Huber has ensured that sustainability is embedded in every business decision that is made.

As well as metrics to ensure accountability around sustainability capabilities, the organization is held to account by its engaged family shareholders. Shareholder meetings positively challenge the organization to move to the next level in its sustainability agenda, creating what Young describes as a “philosophical” context for its operational ethos.

Applying that philosophical ethos has lead to the creation of the Sustainability Committee, headed by fifth-generation family member Molly Heaney. The Sustainability Committee exists at board level and it is a driver of the way Huber regards the fiduciary dimension of the business. In his role as VP Environment, Health and Safety, Young sits both on the Sustainability Committee and reports to the CEO and board of directors. This creates a key link between philosophy and practice.

“At a structural level I have the opportunity to have an influential role. A voice at the table of a specific committee of the board and then a C-suite role helps to activate day-to-day decision making and is a key differentiator,” he said.

At Huber, capital deployments are assessed in terms of both their return on investment in monetary, environmental and safety and exposure to risks factors. This Triple Bottom Line approach ascertains where a capital project might hit the sweet spot between those factors and offer around a 10 percent return on each. This ensures that sustainability is part and parcel of every capital deployment. It also prevents investments that would not serve the sustainability agenda and highlights promising lines of enquiry for the future.

“Last year we institutionalized this thinking so when projects are evaluated, unless they have these multi-dimensional characteristics to them, they get rejected. We are very serious that when we deploy capital; it has to resonate in those 3P [people, planet, profit] spectrums otherwise it doesn’t meet the criteria,” said Young.

In action Huber’s intentional capital deployment shows strong results. From 2016-2019, a full 76 percent of its CapEx projects met the Triple Bottom Line criteria compared to just 16 percent in 2008. The company intends to drive it to 100 percent.
One example of how integral the company’s commitment is to the holistic deployment of capital is its plant in Denmark. Here, cooling towers were creating a noise issue that exceeded regulatory requirements for neighborhood communities. Faced with the prospect of investing $1 million in a non-value concrete wall to buffer the noise, Huber instead challenged its Denmark team to find a more sustainable solution. The team installed heat exchangers and removed the cooling tower. This not only re-purposed surplus energy to heat 2,200 homes, it reduced the operating expense of the cooling tower and reduced its water footprint by 4 percent. In addition, the energy sold back to the grid generated revenue for the plant. And a costly non-value CapEx was not required.

“Sustainability is pre-eminent among Huber’s values. I would offer that it is also a good way to keep family engaged. Even though they may not be deeply involved at an executive level, their board presence is critical. Sustainability is a great unifier for the family as well as the business,” said Young.

Q: How does using the Triple Bottom Line to lever radical transformation influence the culture of company?

A: As a family business we are fortunate to be able to apply the notion of patient capital. So we have a culture driven by Huber principles, layered on top of celebrating fantastic examples of sustainability in action, such as the Denmark cooling towers solution. We have guidelines for desired behaviors and then we just get out of the way. Our people know what the purpose is, what the goal is and now it has a life of its own.

Q: Huber had intense merger and acquisition activity what role does sustainability have in your business development activity?

A: We are active in the M&A marketplace. What’s encouraging is the Board of Directors has seen how sustainability works as a competitive differentiator and have used sustainability to help differentiate in an acquisition environment. We get to the table early, especially where we are working with other values-driven companies. I am at the table from the point where we are looking at target opportunities all the way to the veto option. And we have done that – the economics were fantastic but values were not Huber compatible.

Anthony Sabga
Director at ANSA McAL/Carib Brewery

“Sustainability for us is not as formalized as I’m hearing from some other firms here. In fact I would say it is almost opportunistic, happens almost by accident but also as a result of certain needs,” said Anthony Sabga, Director at ANSA McAL /Carib Brewery

ANSA McAL /Carib Brewery is in its third generation. The Trinidad-based family business has a portfolio that comprises, non-alcoholic and alcohol beverages, media, finance, paint, automotive and construction interests in the Caribbean and the US.

The organization is a champion of recycling and environmental pollution. The largest bottle recycler in the Caribbean, it operates a bottle recycling facility at its largest brewery in Trinidad. Here, bottles from its brewery network in St Kitts, Granada and Florida, are sorted, washed and re-used.

As part of its commitment to environmental pollution, it is heavily involved in a local lobby to forward a Beverage Container Bill that would assist the environment by regulating plastic use. “Although we face huge opposition, it is major initiative for us,” said Sabga.

Other local initiatives have included regular
clean-ups, partnering with local schools to remove discarded plastics and other rubbish from local beaches and donating spent grain from the brewing process to farmers to use as a feed adjunct and to environmental organizations to revitalize spent mines.

“We are working with an NGO that is working to bring biodiversity. They have layered the land with the spent grain and created a vetiver plantation on it. We are very proud of that. Trinidad is an island of just 1.5 million people. When you’re not doing the right thing, it shows up very quickly because it is a small society,” said Sagba.

Q: In 2018 you implemented carbon dioxide recovery and re-use in one of your plants. Can you tell us about that?

A: Well, there was no altruism there; just plain economics. In our St Kitts brewery we used to have a carbon dioxide generating machine that assists production. But the brewing process also produces carbon dioxide. So we realized we could capture this, it would secure our supply and save on costs. It is a simple process and we are looking at carbon dioxide capture for our other breweries.

Q: You were in alcoholic beverages, a sector that faces the scrutiny of stakeholders – what made you decide to move into more healthier product range?

A: In line with best practice CSR, we are pioneers of the regional beverage alcohol association that promotes responsible use. We are not solely in alcohol production and are also enquiring into producing non-alcoholic beer. Sugar reduction in our beverages is another major initiative of ours.

Lars Svensson
Sustainability and Communication Director, IKEA SEA and Sustainability Head, Ikano Group

“Our business idea is to provide affordable furniture for people but it also includes efforts on environment, the work place and as a sourcer of services. We want to have a positive impact on people who cannot benefit from our furniture but can benefit from how we source,” said Lars Svensson, Sustainability and Communication Director, IKEA SEA and Sustainability Head, Ikano Group.

The Ikea Group comprises a number of companies engaged in retail banking, insurance, real estate and development. These companies are independent of one another, able to pursue business opportunities outside of the furniture company, while also remaining an adjunct partner to it.

In his joint roles as Sustainability and Communication Director at Ikea and Sustainability Head at Ikano Group, which acts as an intermediary between furniture producers and Ikea, Svensson has taken a five-year role at Ikea and Ikano to align its business model with its sustainability principles. These principles, he said, have been inherent to the business from its inception.

“The founding principles were created around our customer needs. The company first sold to Swedish farmers who used heirloom furniture and wanted to spend as little money as possible if they purchased it. This is where our principles around resource efficiency originated,” he said.

However, its resource efficiency is by no means a ‘by any means necessary’ approach. Rather,
by balancing resource efficiency alongside brand risk and the broader ecosystem of supply chain, people and environment, the company aims to take a responsible role in creating sustainability.

“We are not a charity but we want to do business on fair terms. We also said it should not be at any cost, whether that is the environment or of people’s working or consumer experience,” said Svensson.

In 1992, investigative media reports in Germany found that certain Ikea products emitted more formaldehyde than the country’s regulation allowed. In response, Ikea shut down its 60 German stores and investigated the issue to ensure it retained consumer trust.

“Germany is our biggest market. Shutting down there had the potential to sink the whole company and we realized that although we were the purchaser – we were not the supplier [of the specific products] – we had to take responsibility,” said Svensson.

In 1994, Swedish documentary makers found captured child laborers – child slaves – working at looms in Pakistan. The report caused a significant negative response from consumers. Again, the issue was a supply chain issue.

“We were doing the sourcing, driving down the prices and that had consequences for others. So we started working long and hard on securing a way of sourcing around the world,” said Svensson.

The approach to sourcing is based on ensuring human rights are upheld in the supply chain but also looks at the environmental impact of suppliers. Svensson’s role is to position functional sustainability throughout Ikea’s operation so that it interlocks with the business model. Now in the fourth year of his five-year tenure, Svensson is certain that progress has been made.

“Sustainability is not a function at Ikea, it is an enabler for business and business development. It is how we do business,” he said.

Q: How important have family values been in integrating sustainability into the business?

A: It has always been in the values, so family and owner board gave permission for this direction and because it has always followed this path, it was understood as a way to build trust for the brand and also save money along the way.

Q: What are the generational differences in the family today and in what way is that seen as an opportunity or threat?

A: Our chairman is second generation and listens a lot to the third generation. He has an interest in securing legacy for the family and the business. And we see them coming into the business and promoting it and when they convey the message in the organization, they do it with credibility and integrity.

Plenary

Q: We have talked of sustainability not being a strategy but being integrated into the corporation strategy. For some it has been a lever for transformation and value creation. In your companies how has sustainability influenced business vision and overall strategy?

DY: I will approach this question from perspective of how we have engaged employees in this. We do bi-annual employee engagement surveys and are excited by our 92 percent response rates. We pose 100 questions around respect for people, leadership qualities and sustainability and the highest ranking among them was sustainability. It ranked 93 percent favorability among employees. It is fundamental to how they operate and expect company to operate. Sustainability is also a lever to attract and retain the brightest and the best. They look for purpose.
AS: A couple of years ago we completed investment in a windfarm in Costa Rica. We saw it as a way to learn and an entry point to renewables. We also have a program interviewing and recruiting the best minds coming out of top schools. I sat in interviews, and every one of the candidates spoke about that investment and were excited by it – wanted to be part of it. So sustainability does attract talent and that is a benefit.

LS: When it comes to finding organizational purpose, we can find areas in business where decision makers have direct impact on certain areas and they take huge pride in that purpose. It promotes engagement.

Q: In which areas will next generation family owners shape efforts in the area of sustainability?

LS: It is a kind of discourse they have with friends, we see it in newspapers – climate, plastics, social engagement. They understand that we are part of a system and we need to partner with government and other stakeholders to benefit the whole.

AS: Our next gen would be third – that’s me. We operate in a unique region, and have benefitted substantially, so for us the question is how can we give back and really alter the social fabric of the country and surrounding countries. Hurricanes are increasingly threatening the region and the impact is serious for residents. We don’t have resources to weather this. How do we catalyze that change and become that systemic voice that emanates from the region is a key question.

DY: Difficult to predict. Current experience is that shareholder meetings are very well attended. The fifth-generation family perpetually challenges us to raise the bar. They have inspired a respect for people, diversity and inclusion program. A family member pushed that and now we have focused training on D&I for all employees.
Putting Purpose at the Core of Strategy: The Power of Impact

Thomas Malnight, Professor of Strategy and Faculty Director, Business Transformation Initiative at IMD

The inherent contradiction that comes to light when any company attempts to put purpose at the core of strategy is that its daily business behaviors remain backward looking while locating and embedding purpose into strategy needs to occur with an eye on the future.

“The way we think and work holds us to the past and makes us incremental and short-term oriented. Purpose is what makes a company look forward and shape the future in both its decisions and actions,” said Professor Thomas Malnight, Director Strategy and Faculty, Business Transformation Initiative at IMD.

When companies spend their efforts fighting for market share in their traditional marketplace, using last year’s figures to set next year’s goals, they anchor themselves in the past and cease to create purposeful opportunities for future growth. But what is purpose and what can it bring to an organization?

Although much cynicism exists around the terminology, purpose matters. Purpose enables a business to redefine the markets it plays in; it helps to shape value propositions. It aligns and motivates stakeholders internally and externally and it creates different relationships with broader stakeholders, a factor that is increasingly key to business success.

“Purpose makes us ask different questions as leaders. Questions like: ‘what problems are we addressing as a business?’ and ‘why would anyone do business with us?’ Only here do we
start creating value and driving growth,” said Professor Malnight.

This is where we can use sustainability to guide us towards purpose. By asking why anyone would work with us or trust us, we begin to reveal our core purpose. That core is never given up but it is transformed to be relevant to the market of the future. Without it, strategy is doomed to remain locked to the past and reactive.

“But if you don’t know where you want to go, any road will take you there. We launch one initiative after another and our organizations are exhausted and our people are looking for some idea of ‘where are we going?’ and ‘why are we going there?’ Just because you’re busy doesn’t mean you know where you are going,” said Professor Malnight.

Strategy is made up of the choices and decisions we make on a daily basis and purpose provides the compass point that locates our forward direction in that decision-making. However, we cannot claim to be engaged in purpose, unless it drives decision-making.

“It’s all words on the wall unless it is built into what we do. Strategy is action,” said Professor Malnight.

Mars Petcare provides the perfect example of the way in which a family business can transform and disrupt itself continually in order to drive its relevance and future growth. By clarifying its purpose, the organization has changed the way it thinks and makes business decisions about its pet care business.

Mars Petcare used to be a leader in pet food. The fifth-generation family firm moved into specialty food and individualized pet nutrition and continually innovated, expanding into pet health and opening veterinary clinics. It went further and invested in pet tech and canine DNA testing and actively encouraged industry disruption by setting up a venture fund and an accelerator fund. These were launched to foster innovation and future growth, placing itself in the partner role.

Effectively, the organization expanded its playing field by holding true to it core purpose of pet care and then zooming out to create an eco-system around that purpose.

“Mars focused on multipliers – the relationships between the businesses rather than the performance of each one. They continually looked at how to transfer formulas from specialty products to retail; how to use diagnostics to change what food is; how to build a pet health model; how to use data from connective solutions to support the business in terms of developing this health model,” said Professor Malnight.

Its leadership team defines its role as ‘courageous architects of the future’. Its new agenda was to bring the purpose to life, to discuss how to become advocates for pet owners or the mental health benefits of pet ownership. And they have been successful. The company’s profits are $20 billion with growth at 6 percent.

For family businesses thinking about sustainability, place it alongside purpose with impact at the center, said Professor Malnight. Ask yourself three key questions. First, how are you redefining your value proposition to make it relevant to the future? Second, what would it mean for you to be courageous architects of the future? Finally, how do you think about sustainability at the core of your strategy? How would it make you compete? How would it make you work? How would it change what you do?

“The essence of strategy is not about protecting the past, it is about re-shaping your future around your purpose. You underrate the power of what you have. Engaging people and shaping the future will give you possibilities. It enthuses people,” said Professor Malnight.
Fireside Chat on Purposeful Ownership

Speakers:
Honora Ducatillon, Head of PWM Family Office Services at Pictet Group;
Alexis du Roy de Blicquy, CEO of the Family Business Network;
Mary Johnstone-Louis, The Ownership Project at Oxford Saïd Business School
Panel moderated by Marie-Laure Schaufelberger, Group Stewardship Officer at Pictet Group

Mary Johnstone-Louis
The Ownership Project at Oxford Saïd Business School

Mary Johnstone-Louis is currently working with the Dean and the former Dean of the Oxford Said Business School on a project about business ownership in society. The project conducts research into the role of business in answering the world’s challenges, how leadership teams could respond and what constitutes a good owner.

The research is based on a multi-method approach comprising large data sets, over a 15-year span and including 3,000 companies. Interviews with principal of business families are conducted over 90 minutes. The floor would be an annual turnover of $1bn, with the average revenue being $9 billion. The
The majority of families in the research are fourth generation, followed by third and second.

**Questions posed include:**

How do you think about what your purpose is? How do you implement that from family to operations?

“What we’re finding is that as time goes on and as the businesses become more geographically complex and more difficult to manage, purpose is the glue that stops the complexity from knotting,” said Johnstone-Louis.

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**Honora Ducatillon**

Head of PWM Family Office Services at Pictet Group

Pictet’s guiding principles are its independence, long-term thinking, partnership, responsibility and entrepreneurial spirit.

With no external shareholders, Pictet’s current partners are responsible for appointing new ones. This model of ownership means that at any point, three generations of Pictet family members are working together within the partnership and every 5-10 years, a new partner is appointed to ensure a smooth transition.

Seven partners own and manage Pictet’s operations. With an equal stake and an equal vote, consensus is key to success. Pictet’s partners view themselves as custodians for the next generation and the group has to reinvent to survive. Based on its considerable experience, its mission is to help manage family wealth across generations. Its experience is that over time families transform and decision making becomes more complex. In parallel to this, family wealth transforms from the entrepreneurial to the financial.

Pictet’s three-pillar approach is focused around governance. Family governance protects the family and its assets, operational governance controls assets via the reporting platform and finally investment governance enables families to grow assets via a clear framework and organization of family investment.

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**Alexis du Roy de Blicquy**

CEO of the Family Business Network

The Family Business Network (FBN) was created at IMD 30 years ago. A global community of business families around the world, it comprises 17,000 members of which 40 percent are next-generation. The FBN aims to facilitate relationships with the family, guide family involvement in the business and raise awareness of family business models in society.

Made up of several communities within the network, one was formed after the financial crisis of 2008. Polaris focuses on maximizing economic and social impact, while safeguarding the environment.

In 2011, FBN distanced itself from free-market economics as espoused by Milton Friedman in favor of systems that focus on society, community and environment. Working with B Corp to create tools and metrics around sustainability, FBN also partnered with Oxford and others to start building an ecosystem.

In response to current trends, FBN took the decision to become the voice of family businesses. “Because we think today the risk of being private is higher than the risk of being transparent,” said du Roy.

Working to fulfill needs of family businesses keen to align their business endeavors with their philanthropic work, FBN works to create positive impact, resilience across generations.
Discussion

MLS: I would like to start with one question. What do you think is the single most powerful thing that families can do to advance the sustainability agenda today and why?

MJL: I would say my first point would mirror what Thomas was saying: reframe sustainability as a tool to unite family and guide your business. Beyond sustainability can we think about the purpose of the business? Start with your operational boards. What do boards and family owners have in common – for me they are two of the only actors in current economic system that have truly intergenerational responsibility. The board is the steward for the intergenerational responsibility of companies and family owners are similar. Bring them together around purpose and it can be powerful.

HD: I will offer a different perspective. Families we work with are at different stages of their lifecycles. It is difficult to define purpose in actionable terms. It is then difficult to align due to different viewpoints in family and then it takes high-level commitment to arbitrate trade-offs that will inevitably arise because of the purpose.

AdR: Transparency is hard for families – being private has enabled them to survive over generations. If we agree that privacy has ended – Facebook now tells everyone everything – how do we see it as an opportunity to tell our stories and try to bring a form of business that is better understood by society at large?

MLS: Family firms do not tend to report as much as public companies. You have to show something that is very material. But we are seeing a disconnect between what companies are saying and what the board knows. And while we look at whether a board is good at digital, how often do we ask how climate ready a board is? We have to come back to governance and board competence in these new challenges.

AdR: If you want that competence on the board, just bring in the next generation, because they know about digitalization, they know about climate change. Don’t wait until they have five MBAs and 15 years at McKinsey. They will not want to join when they are 45. Families have those talents in the family. Put them at board level so they can learn and be exposed to the arena.

MLS: That’s a good point – bring them in early, maybe on a specific area that they’re keen on. And Huber’s diversity and inclusion program sparked by the next generation was a great example of this.

MJL: I think it is fantastic what was shared about Huber. The way the purpose of the company and commitment to sustainability is reflected in the governance – because the role of governance is to uphold and advance the purpose of the company. So it is about bringing those individuals in, maybe at a less senior level but if the remit of the board is recast, it will bring much more longevity to the process.

AdR: When you look at boards over the past 50 years, they have not changed much. There is much more compliance and many more fiduciary responsibilities. However, boards meet six or 10 times a year. But family board members are ambassadors of purpose. It would help.

HD: What is interesting about the Huber case is not just the board engagement but the broader family assembly. They are united and they challenge the board and I think this type of engaged active ownership is what we should see more of in the future.

MJL: Yes and it involves a mindset shift for families and business boards and for those who educate business leaders.

MLS: Often there is a box-ticking approach and this creates a gap between what you say and what you do. You mentioned a tension between privacy and transparency. Is there anything you want to add on that?
**HD:** I can totally understand both ends of the spectrum. On one hand, families need to protect themselves and at the other end people think family business is accountable to the whole community. I can understand both.

**AdR:** There used to be a lot of training for next-generation members on how to not use social media and now the training is shifting to helping the older generation to be more open in their narrative about the family business. And it is uncomfortable for them. It helps to do it together. Just look at the streets. If we don’t do it, it might get worse. So the risk of being private is higher than being transparent.

**MLS:** I am hearing lots about breaking silos. In finance we have seen the shift around sustainable investment, which used to be exclusionist, so ‘let’s not associate with the bad stuff’. Then there was a risk view, sustainability is about risk management and now it has to be about more than risk avoidance, it has to be about positive impact. So are families taking a more holistic view in investments, business? Are you seeing that happening?

**HD:** Yes definitely, we see a change. In both their businesses and investments they want to have a positive impact.

**AdR:** It is more holistic and more consistent. We are partnering with IMD on a study on philanthropy. And we see families merging philanthropy foundations, businesses, and family to ensure alignment. And more families are creating a family office to align across the portfolio.

**MJL:** Responsible ownership really is the glue that keeps things aligned as things get more complex. Our interviews find that there is a big effort around creating vision and values in the family, but I think there is scope to extend that vision across the business.