White Paper

Responsible Ownership
Reshaping Business as a Force for Good

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Foreword

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The World Economic Forum and IMD Global Family Business Center are pleased to present *Responsible Ownership: Reshaping Business as a Force for Good*.

Technology is disrupting economies, climate change is transforming the environment and public trust in political and business governance is declining at an alarming rate, while inequality is increasing in many countries. As a result, demand is rapidly growing for a new type of leadership capable of securing sustainable long-term value creation rather than short-term profit maximization.

This study is part of the World Economic Forum’s decade-long effort to illustrate how corporations and investors can, through responsible leadership and long-term thinking, improve the state of the world. Family businesses are an important stakeholder group in this space, as they are often driven by the values and outlook of their founding families. Thinking and acting in a sustainable and long-term manner is deeply rooted in their DNA, with different levers to address global challenges, including their operating business with concentrated ownership, their investment vehicles, their philanthropic platform.

Large companies are often controlled by a limited number of family shareholders: their owners’ power to promote or prevent sustainable and inclusive value creation is enormous. Despite this huge power, the profession of ownership is comparatively neglected; it is often assumed to be either a passive or a speculative activity, with shares and financial means regarded as a commodity. Family shareholders are also not very clear on their role, and the relationship they should have with the company’s leadership. Some of them are either ignorant of their potential power or willing to exert it in a more thoughtful and responsible way, but lack guidance on how to do so.

The purpose of this White Paper is to revisit the roles and responsibilities of family shareholders in today’s context and to propose a forward-looking way of exerting their role, as well as a governance framework for family shareholders, their boards and executives who support long-term value creation. It offers practical steps and concrete examples as to how business-owning families can become a phenomenal collective force to address the multiple crises they confront and drive change towards responsibility.

Executive summary

Without a doubt, the world is entering a phase of crises. This White Paper makes the case that businesses can, should – and are starting to – make a positive impact to address the challenges that need to be faced. Indeed, without a contribution from business, it is likely that other efforts will be doomed. This paper introduces the concept of *responsible ownership*, drawing upon exemplary case studies and a small but growing evidence base.

The notion of business as a force for good, to confront these ills, is counter-intuitive to most, and heretical to many. After all, isn't it the case that businesses cause income inequality and ecological degradation? This common attitude rests upon the hypothesis that profits can only be maximized through a process of extraction of value from the earth and from people. Yet this hypothesis was never tested when the dominant theories about economics and business were developed and popularized. Much evidence, including many examples, shows that high, and more sustainable, profits can be made; that motivated and well treated employees are more diligent; and that a responsible approach to the environment cuts waste and running costs, and prevents resource depletion, aiding business sustainability.

For decades, some owners have treated "responsibility" as the business model and have found that their returns are often superior to less principled approaches, especially when measured over the long term. Typically, they are business-owning families. With their business featuring concentrated ownership, the minority of families who exhibit responsible ownership control tens of billions of dollars' worth of assets. A relatively small set of further steps by them, together with their influence in encouraging others to join them, would make a momentous impact in terms of enhancing quality of life for people and protecting the environment for all.

Such enlightened business owners are charting a radically different approach from that of greed, exploitation, short-termism and ecological degradation, which goes far beyond the partial approach of corporate social responsibility or segregated philanthropic initiatives. These leaders are guided by strong values and principles and often by the UN Sustainable Development Goals.[1] This approach of responsible ownership does, however, require a radical shift in mindset on how business is done.

There is no doubt that such a major initiative is necessary. The scale of societal and environmental crises is immense, and the sense of urgency acute. Several years of corporate scandals have shaken faith in the dominant economic and business system, increased inequality and, together with conflicts and rising global migration, prompted populist political backlashes. Climate change now presents an existential threat to humankind.

> **You don't have to worry about burning bridges, if you're building one.**
>
> – adapted from **Kerry E. Wagner**

This White Paper asserts that:

- Environmental and social crises are serious and urgent, and must be confronted.
- Responsible business owners, many of them families, operate according to a radically different philosophy and are part of an enlightened response to these crises.
- Responsible ownership enabling business as a force for good is a concept strongly backed by research, yet still popularly rejected, owing to a management theory of "best practices" equating to exponential growth in a world of limited resources.

This White Paper therefore seeks to encourage wider dissemination of the evidence of how businesses run by responsible owners operate, including practical advice for all businesses, whether family-owned or not. Several case studies illustrate the practices discussed. None is perfect, but they demonstrate strong dedication to a switch in mindset. This paper also reports findings from a specially commissioned survey.[2]

1. Responsible ownership: The challenge

Tensions in reconciling profit, people and planet

A clash of ideas is at the heart of how businesses are perceived, invested in and managed, and how business schools teach management and leadership. This White Paper makes the case that, for the past few decades, the "business for business" side has won the argument, with the heavy consequences that societies and governments are now forced to confront. The emphasis has been on maximizing short-term profits, pushing costs onto the environment or society, or into the future. With this has come an assumption that the quest for an ethical and sustainable business model lies in inherent opposition to commercial interests. Recent research, however, reveals that some of the most sustainable and ethical approaches to business turn out to be successful in commercial terms. The most resilient companies, successful over the long term, consistently operate at a high level in at least 80% of 25 identifiable attributes, which include the concepts of responsible ownership, adaptability and values, as well as business skills and entrepreneurial drive.[3] Their integrity sustains a brand with high trust, yielding long-term financial returns in addition to the social and environmental benefits that accrue from an approach of responsible ownership.

> **Sustainable and ethical approaches to business turn out to be successful in commercial terms.**

A short-termist investment and business culture, guided predominantly by short-term financial indicators, is failing, not only causing social and environmental distress but systemic weaknesses in business terms. The World Economic Forum paper, *The New Paradigm*, cited evidence that a more enlightened approach to business is in the business as well as social and environmental interest.[4] A research project by MITSloan found that the biggest commercial returns came from the greatest commitment to sustainability; around 90% of survey respondents reported increased profits from combining several sustainability initiatives, including business model innovation, compared with 26% of those who improved in only one dimension.[5]

Businesses are social endeavours: they create employment and the wealth that society depends upon for welfare programmes. Many entrepreneurs are motivated by a desire to solve a human problem, enhancing quality of life. Many businesses thrive commercially both while and by being principled in their everyday business, though they may have to be patient as some of the returns can be long-term.

Context: What are the challenges?

Many of the commonly taught notions of economics and business theory were established in a very different context. Four challenges have become acute and unpredictable: 1. environmental; 2. political; 3. societal; and 4. technological.

1. Environmental challenge

In October 2018, the starkest warning yet on climate change came with the publication of a report by the UN Intergovernmental Panel on Climate Change (IPCC). It stated that, if the global temperature rise is not capped to 1.5°C by 2030, major disruption to life would occur. Parts of the world would become uninhabitable, aggravating existing issues around human migration.[6] Only 12 years to make decisive change remain. Strategy is sometimes defined as a "dream with a deadline". In this context, mankind has "fear with a deadline". The school strikes that are aimed at raising awareness, spreading to over 100 countries by March 2019, show a young generation that is intolerant of climate inaction. Its leader Greta Thunberg, a 16-year-old from Sweden, told the UN Climate Change conference in Katowice, Poland in December 2018: "You only talk about moving forward with the same bad ideas that got us into this mess."[7]

A rising human population and the development of emerging economies create environmental strain. As part of their risk assessment, businesses may have to evaluate such matters as access to arable land, fresh water, minerals, fisheries, raw materials, the impact of climate change, and so on. Sceptics of climate change science will always exist, but they can be challenged on two fundamental points. The first is that they tend to overlook the economic benefits from curbing CO_2 emissions as part of the circular economy. The second is one of framing: it is reasonable to challenge the onus, in which proof is demanded of harm by pollution, when it is more rational to assume that harm is inevitable and to curb the impact.

> **Beware. When a democracy is ill, fascism comes to her bedside, but it is not to enquire about her health.**

Albert Camus

2. Political challenge

The rise of protest-based political movements in Brazil, Italy, the United Kingdom, the United States and elsewhere, conflict in the Middle East and a resurgence of nationalism in eastern Europe have shaken the assumption that democracies would naturally converge towards support for global trade and the free movement of people. While levels of absolute poverty have fallen in recent decades, relative inequality has increased, especially following the banking crisis of 2008; the bailouts of failed institutions and austerity programmes resulted in civil society bearing the cost of increased tax, which weakened the credibility of governments.[8]

3. Societal challenge

Societal risk is closely linked to political risk. Inequality has affected large sections of the population in several regions. Ageing populations in mature economies are struggling. Even people who would regard themselves as middle class can struggle to afford property, or a comfortable retirement. Populist political movements are partly explained by a feeling among sections of the populations that they have been left behind by globalization, which increases migration and competition for jobs. Wages can be strikingly low in some examples. Protests took place against many companies in 2018, such as the Disney corporation over hourly rates of $11 for Disneyland employees in Florida.[9] History shows that extended periods of inequality in income and opportunity tend to be a precursor to political upheaval, including revolutions. Meanwhile, absolute poverty remains an acute problem, with modern-day slavery and people-trafficking a global phenomenon. A report in 2016 indicated that slavery could be affecting as many as 40 million people globally.[10]

4. Technological challenge

Political pressure and scandals have prompted a regulatory response, forcing firms to develop systems for compliance. Technological developments, meanwhile, are pushing businesses in the opposite direction, creating a competitive need to be lean and nimble. Disruptive business models, such as Airbnb, harness existing resources through digital connectivity, without the need for investment in large physical infrastructure. Artificial intelligence, 3D printing and the internet of things are radically reshaping traditional roles and business models. The half-life of a business model is getting shorter, so business strategists have to be alert and stay responsive.

As technology progresses, concern over the security of personal data held by social media giants increases. Fears abound over the loss of jobs to big data, robots and machines. In Switzerland, for instance, an estimated 1 million jobs will be lost over the next five years.[11] Other jobs will be created, but not necessarily for the people who have lost theirs. Few governments and businesses talk about measures put in place to help employees prepare for such a transition. Yet technology also presents tremendous opportunities for connecting people, education, business development and environmental protection.

These huge dimensions of change in the early 21st century – environmental, political, societal and technological – pose challenges, but also create opportunities. They demand urgent attention.

Why the corporate sector needs to take a lead

At the heart of the related crises addressed in this White Paper is a flawed economic and business model, and western democracies that have become seriously unbalanced. The leading thinker Henry Mintzberg in *Rebalancing Society* persuasively makes the case that relatively weak civil governments have struggled to regulate corporate behemoths,[12] which have become overly influential. He wrote, “Greed became a cult, property rights were allowed to run rampant and many markets went out of control.” He argues for a reinvigorated civil society, or the plural sector, comprising individuals and non-profit bodies, to hold corporations to account and move towards an economy that is fairer and more sustainable.

This White Paper both develops and critiques this argument: there is a pressing need for a positive response to counter greed, corruption, inequality and environmental damage, but civil society and humanitarian practices do not only exist in non-profit agencies. They can be observed within organizations, too. Business is a part of society, not a separate profit-making machine that sits outside it. An enlightened, alternative way of doing business is already active and possesses enormous potential to address the momentous challenges societies face.

Responsible owners may be a minority, but collectively they have significant influence; billions of dollars are now being mobilized in sustainable, life-enhancing initiatives in their businesses.

There may be some scepticism as to the extent to which businesses can become a force for good. Yet one can turn the question around: is it reasonable to place all of the responsibility for creating fairer societies and environmental protection on governments and the non-profit sector? The battle is not between different sectors, but between different values. The case for an approach based on partnership, on contributions from all parts of society, is strong. Why should policy be based exclusively on misbehaving companies and investors, ignoring the contribution of others?

2. What is the concept of responsible ownership?

"We are building a manufacturing plant in the village to help create jobs for the locals and help them stay living there all year round."

Survey respondent[13]

Responsible ownership: Why family businesses are well positioned to contribute

Family businesses are best positioned to respond to the challenges because they control the ownership, hence the strategic direction, of their businesses. When the owners have strong values and great vision, concentrated ownership is a tremendous opportunity. As owners, they can impose their values and empower a whole organization to make radical shifts towards social and environmental responsibility. To do so, they need to remain relentlessly curious about new and emerging technologies, readily adaptable and patient. When they seek to do the "right thing", they gear the whole organization in a direction that can best accomplish their vision.

Studies on the success factors of high-performing, long-lasting family-owned firms show that they invariably have responsible owners, who observe the following disciplines:[14]

Family values – Values, such as integrity, respect and fairness, are instilled from a young age; the same is true for a commitment always to honour such principles, irrespective of the pressures faced.

Stewardship – This involves a sense of duty, ensuring the long-term sustainability of the business. It is the inversion of the selfish or entitlement approach. To adapt John F. Kennedy's famous line, it is a case of seeing "not what the company can do for me, but what I can do for the company".

Emotional ownership – This intangible but powerful asset refers to the strong attachment to a business that results in high levels of commitment and passion. In practice, it has to be instilled and nurtured from a young age.

Patient capital – Successful owners often resist the urge to seek short-term gains and are prepared to invest in initiatives with a long period of return, as part of a long-term strategy that upholds the family heritage.[15]

No business, or set of owners, is perfect, but a significant number aim for this responsible approach. Other owners and leaders – whether in a family firm or not – can learn valuable lessons from them.

Such findings offer a hopeful picture, but it is also a challenging one, because achieving this apparent "best of both worlds" of sustainability and strong financial returns requires considerable discipline at all levels of the organization. It is a different philosophy and business model to the one that was predominant in the 20th century, requiring a clear lead from owners; it is not just a new set of tactics and competences.

Responsible ownership: How it differs from philanthropy and corporate social responsibility

Responsible ownership harnesses and enhances the good that business can do in society and for the environment. It is radically different from conventional corporate social responsibility (CSR) practices, and philanthropy. Owners consider themselves responsible for the impact and conduct of the enterprise in the round.

Corporate social responsibility programmes may include protecting the environment, securing the safety of employees and various other initiatives. Their positive impact is considerable, but typically CSR activities are confined to their own department. The difference with responsible ownership is that the latter is a holistic approach: the owners' influence covers all a company's departments, seeking to ensure that their impact is socially and environmentally positive and extends to the family office and the family giving.

"As owners, they can impose their values and empower a whole organization to make radical shifts towards social and environmental responsibility."

Philanthropic initiatives focus on driving social change by providing resources or financial contributions. The family or the parent organization participates in philanthropic activities through direct funding to different individuals or communities, or through separately registered foundations or non-profit charitable organizations that may include schools, orphanages or hospitals.

The limitations of both corporate social responsibility and philanthropy are obvious, because they represent a partial approach. It may be laudable for a company to pay for its employees to volunteer at an educational programme for youngsters in a deprived area. If, however, some of its supplier factories employ children for long hours on low wages, then the net social impact of all the company's activities may still be negative.

An illustration of the potential for tension between philanthropic intentions and the negative impact of business comes from the case of the Sackler family, who are well known for their charitable actions and are the owner of Purdue Pharma. In early 2019, the firm was reported to be exploring bankruptcy options over litigation and negative publicity relating to its opioid painkiller OxyContin. The drug has legitimate clinical use and was passed for approval, but the brand, fairly or unfairly, became associated with a crisis of opioid addiction in the USA.[16] The company paid $270 million in a legal settlement.

The elements of responsible businesses

Responsible owners are accountable for all of their companies' activities and have two dimensions of responsibility:

1. An **internal** dimension – responsibility towards the long-term sustainability of the business and its employees. The first and primary internal responsibility of owners is to choose directors who, through their vision and ethics, will be able to facilitate the alignment of all parts of the organization towards common sustainable goals.

2. An **external** dimension – responsibility towards communities and the environment. In some of the cases investigated for this White Paper, families sought out specialist advisers with whom to partner on aspects such as the responsible sourcing of raw materials and eliminating waste. One family organized a crowdsourcing initiative to generate the best ideas on implementing a major project with zero-carbon emissions.

> “Responsible owners insist on maintaining ethical standards.”

In a family business context, owners who work in the business have a direct means of action. Those who are not directly involved have a less visible role but one that is nonetheless crucial: that they are not involved in daily managerial decisions does not imply a passive or indifferent role. Responsible owners insist upon knowing about all key areas of business, protecting the long-term success of the business and its employees. They also take ultimate responsibility for the social and environmental impact of all the company's activities. They play an active role in articulating and conveying the company's values, stating what is and is not acceptable, and what the overall objectives are. Responsible owners insist on maintaining ethical standards. They insist on honest and fair dealings. They seek to maximize trust, which is the key to long-term success and sustainability.

One example is the German manufacturer Henkel, an established global manufacturer. Its products can be divided into three divisions – adhesives, beauty care, and laundry and home care – and include major brands such as Loctite, Schwarzkopf and Persil. It has been run by the same family for over 140 years. Kathrin Menges, Executive Vice-President, Human Resources, and Chair of the Sustainability Council at Henkel, affirmed: “Creating sustainable value – our purpose at Henkel – is both the essence of our heritage and the ambition that guides our actions.”

Henkel has committed itself to triple the value created for the footprint it makes through operations, products and services by 2030 – that is, become three times more efficient – a goal it refers to as “Factor 3”. This includes objectives such as a 30% reduction in energy and water use, zero landfill waste and 100% energy sourced from renewables. It supports more than 2,100 social projects. The company rolled out its sustainability strategy in 6,000 workshops internationally in 2011. In its annual sustainability reports, it has charted significant progress, with achievements that protect the environment and enhance company efficiency simultaneously (see text box).[17] The German-based company has a significant global presence, with 185 production sites in 57 countries. It has 53,000 employees and €20 billion in sales.

Henkel: Returns from a sustainable approach

Since the launch of its sustainability strategy, Henkel has met its goals:

- Efficiency improved by 43% between 2010 and 2018.
- CO_2 emissions per tonne of product were cut by 25%.
- The use of water had fallen by 24%.
- Waste per tonne was reduced by 29%.

Henkel also commits to social goals, with an emphasis on employee engagement, and zero accidents in its health and safety policy. In 2016, it launched the Schwarzkopf Million Chances initiative, committed to helping girls and women with career opportunities, in association with established charities. It helped 7,500 individuals in the first year. The manufacturer has committed itself to the UN Sustainable Development Goals. The four it has selected as particular priorities are: 4. quality education; 8. decent work and sustainable economic development; 12. responsible consumption and production; and 17. partnership for the Sustainable Development Goals.

The distinction between a conventional corporate social responsibility approach and responsible ownership is clear, but it is possible to use the first as a base from which to migrate to the latter. Edelman, a global communications agency, is undergoing such an evolution. Its CSR journey started in articulating principles of responsibility within the communities in which the company is rooted. Influenced by this experience, the company is matching internal policies and practices to ensure wider implementation and full alignment between internal and external impact. John Edelman, who oversees the agency's sustainability and social engagement efforts, remarked that the company has an established programme in which employees are given eight hours per year to do *pro bono* work for philanthropic organizations within the communities that the company serves (in total, per year they provide 20,000 hours of *pro bono* work and volunteerism). The agency decided to make a bigger impact anchored around the UN Sustainable Development Goals, and canvased opinions among its employees, then decided to prioritize zero hunger, gender equality and education. "In doing so we have a link to the larger world; we want people to use their communication skills to help organizations."

The benefits to the company are indirect. Edelman staff continue to develop communication skills on *pro bono* secondments, while the commitment to social goals helps make the agency an employer of choice. "Eight out of 10 employees feel that our citizenship programme was a key driver in their decision to join Edelman. For 15 years I was responsible for global HR; during that time people always wanted to know about training. When I talk to an HR recruiter today, the first or second question is: how does Edelman allow me to give back to the community?"

> "50% of managerial roles filled by women by 2020, from 41% in 2018."

Today, these practices are brought into the core of the business, and corporate and social strategy-planning are integrated. The agency has turned its focus internally as well. Senior management decided that employees' education, and gender equality, would prevail. They set an ambitious target, on gender equality, to have 50% of managerial roles filled by women by 2020, from 41% in 2018. Currently, women make up 47% of the agency's level 5+ employees and 47% of its global operating committee; women also run four of the firm's five hub offices and lead 21 offices across the network.

In a similar way, UK-based Pentland Group, which includes such sports and leisure brands as Berghaus and Speedo, has moved since 2014 to integrate business and corporate responsibility strategies, also using the UN Sustainable Development Goals. In its case, six were good health and well-being; clean water and sanitation; decent work and economic growth; industry, innovation and infrastructure; responsible consumption and production; and climate action. The strategy was devised by leaders in the Pentland Brands business, with enthusiastic support from the owning Rubin family. It is implemented by a dedicated team. According to chair Andy Rubin, since implementation some of the achievements have been: 40% of the Berghaus' range made from a material called Made Kind, which uses less water and chemicals; 70% of Speedo men's water shorts made from an eco-friendly method, and a 9% reduction in the group's CO_2 emissions in the United Kingdom.

On social goals, the company has lobbied governments where its factories are located to support the living wage. To ensure no modern slavery exists in the supply chain, Pentland has trained 90 staff in factory-facing roles, to identify risks and warning signs. It puts pressure on supplier factories to improve wages and conditions. The ultimate sanction is to lose the Pentlands contract, but obviously this is a last resort, as it could increase employment insecurity for the workers affected. In one case in China, an issue over employees' pay was resolved within two months as the factory managers agreed to improve wages. In 2017, Pentland was awarded the International Institute for Management Development Global Family Business International Award, for its work on sustainable development.

> "It's not how you spend the money, it's how you make it."

The principle of "do no harm" is not enough

When André Hoffmann, a keen nature protector and member of the Hoffmann family which controls the Hoffmann-La Roche pharmaceutical giant, joined the firm's board in the 1990s, he asked what the company was doing about nature. His question was quickly brushed aside by people who seemingly had far more important business matters to discuss.

Working patiently over the years with allies, he has encouraged a change of view. Others in business are catching up with his perspective, albeit slowly. "The time of 'do no harm' is over – we need to be net contributors, and corporations who want to be strong in the long term can no longer say, 'This is not my problem.' The oceans are dying. This is a problem for a pharmaceutical company based in Switzerland; it is a problem for everyone."

An integrated view of sustainability means going far beyond a mindset of compliance, towards one that enhances quality of life, for customers, employees, wider society and the environment. The biggest impact is the way to do business. "It's not how you spend the money, it's how you make it. It is much bigger to ensure we have a 'business for good' than what we can achieve through a philanthropic foundation." Central to sustainability is reducing waste. For pharmaceutical firms, one challenge is single-use plastic, as the products must be packaged safely.

Today, Roche has a Corporate Governance and Sustainability Committee at the board level, it reports on its contributions to sustainability in its annual report, and it publishes a separate report on reducing plastic waste, with progress closely monitored. As a result of employees' efforts, Roche has been recognized for its initiatives. For 10 consecutive years, it has ranked first in the healthcare sector in the Dow Jones Sustainability Index.[18]

The circular economy at the heart of strategy

The family-owned steel producer Celsa Group, based in Spain, has become the top recycler in the country and the second-best in Europe. It recycles 4 million tonnes of scrap metal per year in Spain, and 8 million tonnes globally, which significantly reduces the amount of waste sent to landfills. The firm processes metal from complex manufactured items that have reached the end of their working lives, such as washing machines and cars. Celsa is committed to the principles of the circular economy, which is based on the concept of zero waste. The concept has been described as moving from "take-make-waste" to "borrow-use-return". A European Environment Agency report on the circular economy states that resource efficiency improvements in value chains could reduce material inputs by the EU by 24% by 2030.[19]

Making steel from scrap reduces energy consumption by 75% and reduces the consumption of raw materials by 90%. These statistics clearly illustrate how business and environmental interests can coincide. Steel can be repeatedly recycled without losing its properties and, being ferrous, is easily recovered for recycling through its magnetic properties.

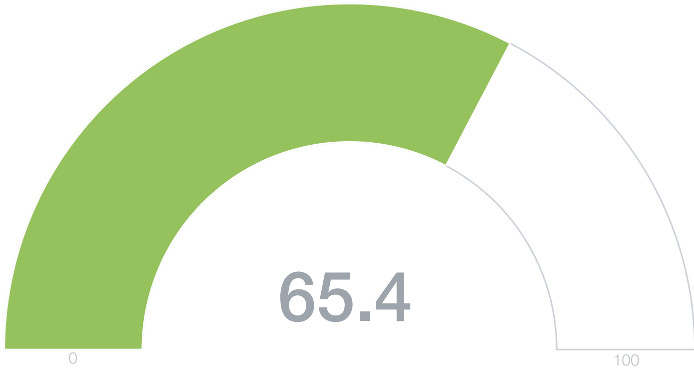
According to the company, "The Celsa Group takes the principles of the circular economy as a working philosophy. Currently, all the activities of the companies of the group are developed according to these principles. Returning products to their life cycle is our priority."[20]

Celsa's turnover is €4.4 billion The group employs 9,600 people. It began as a manufacturer of steel products for the construction industry, where it maintains a significant presence. It also manufactures other specialist metallic products, such as wires and fences.

A growing awareness of responsible ownership

In a survey of business leaders commissioned for this White Paper, it became apparent that the respondents, members of family businesses, take the responsible ownership of their business seriously. They dedicated 65.4% of their time and energy to it (Figure 1).

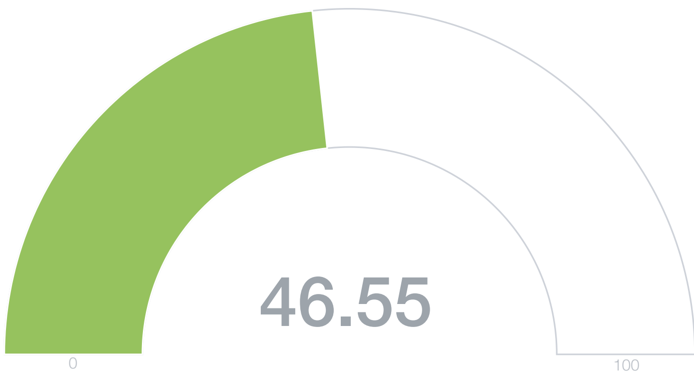
Figure 1: What percentage of your family time and energy is dedicated to responsible ownership as it pertains to long-term responsibility towards the business and its employees and ensuring the long-term success of the family business and/or of the family office?



Source: Kenyon-Rouvinez, IMD Family Business Center

The commitment to the second dimension of responsible ownership, the responsibility towards communities and the environment, however, averaged 46.55% (Figure 2). The result in itself is still relatively encouraging, although it is significantly lower than the commitment to the business and to employees. It appears that the information reported in the United Nations IPCC 2018 report,[21,22] for example, does not register, perhaps because it may appear contrary to business interests or because change seems far away, either geographically or in time. Nevertheless, the survey results indicate a perceived low sense of urgency in contrast to the scale of the issue.

Figure 2: What percentage of your family time and energy is dedicated to responsible ownership as it pertains to responsibility towards communities: social and environmental responsibilities?



Source: Kenyon-Rouvinez, IMD Family Business Center

3. How do business-owning families drive change towards responsibility?

Responsible ownership is a challenging discipline. The role of ownership as a profession in its own right is insufficiently acknowledged in business circles. Countless books and courses on leadership and management exist, while those on ownership and professional governance are relatively rare. This imbalance reflects the common view that business ownership is either a passive or speculative activity, which in the case of privately-owned and family firms is inherited, or in the case of listed companies is a means to maximize returns in the short term. Responsible owners, by contrast, view their stake as a means to create excellent companies and to positively impact the communities in which they operate and, in some cases, beyond.

> **The role of ownership as a profession in its own right is insufficiently acknowledged in business circles.**

Owners have specific rights and duties defined by law, including such narrow responsibilities as ensuring honest accounting. Indeed, the concept of responsible ownership involves honouring certain long-neglected principles enshrined in company law in most jurisdictions, and interpreting the duties in a holistic and socially responsible way.[23] It means proactively finding ways to reduce their carbon footprint in existing products and services and in their production, as well as shifting or creating new operations when required. At the strategic level, this means specifying not only *what* business to be in, but *how* to conduct business, with firms assuming expansive social and environmental responsibilities.

> **At the strategic level, this means specifying not only *what* business to be in, but *how* to conduct business.**

Beliefs and culture sustain the strategy and tactics

Business change programmes often recommend starting with a strategy, applying tactics and then focusing on beliefs, culture, relationships and team-building. The research conducted for this White Paper suggests inverting this approach by beginning with ethics, values and culture, at all levels of the organization. Such is the radical nature of the shift that is often required.

> **Responsibility for sustainability forms the basis of the business model … Owners, in particular family business/wealth owners, are best positioned to achieve this shift in mindset.**

This instils the understanding that responsibility for sustainability forms the basis of the business model and that it is not a separate activity from the core business disciplines. Thus owners, in particular family business/wealth owners, are best positioned to achieve this shift in mindset. They have the responsibility of purpose and the power of decision. They can impose their vision and empower the entire organization to work towards a common, responsible direction to achieve radical change.

Nonetheless, when designing a more sustainable business model, it is necessary to observe essential business disciplines, especially around cost control. While some changes incur heavy initial investment, it is important to monitor progress and ensure the initial costs are covered and profits return.

A first step is therefore to arrange in-depth discussions among business owners and leaders to develop a shared understanding of the principles that will guide them. Together they can agree on the priorities for the business and the unethical or questionable activities they must avoid irrespective of the apparent gains, and on the indicators of success they will establish. Such conversations help foster a sense of commitment and shared purpose, which in turn can encourage strong engagement on the part of the enterprise's employees.

The importance of purpose

Common among highly responsible family firms and owners is the concept of the collective or the greater good: the family's interest is bigger than the individual's, the business's interest is bigger than the family's and, to survive in the long term, the bigger purpose must be sustaining the community rather than simply sustaining the business. The view of responsible owners is that performance can only be measured by its impact on a whole ecosystem.

A holistic responsibility for wealth, giving and the business

Responsible owners seek to exercise a positive influence not only through their business, but also through their giving – whether directly or through a foundation – and their family office, i.e. the way in which they invest and manage their private wealth. The three examples of DOB, KIRKBI and Lego offer novel perspectives of this holistic responsible approach.

An aspect of responsible ownership seldom discussed is the investment strategy of family offices. Beyond responsible businesses, is there responsible wealth? Family offices, family holdings and other receivers of family or private wealth wield considerable financial resources, representing significant untapped potential. The family office of the Tobé family, former owner of Dutch retail group Kruidvat Holding, is dedicated to philanthropy. But it invests in sustainable businesses rather than engaging in the traditional notion of giving to non-governmental organizations or charitable institutions. The family sold Kruidvat to Hong Kong-based AS Watson for €1.3 billion in 2003 and established its family office at that time.

> “Performance can only be measured by its impact on a whole ecosystem.”

Frank Tobé has stated that his family intends to make a substantial difference through its three foundations, DOB Equity, DOB Ecology and DOB Emergency, which invest in sustainable agriculture businesses, for example in South America and Sub-Saharan Africa. He commented: “We believe there are business models that can help solve issues in a profitable way that were traditionally assigned to philanthropy. Take biodiversity, for example. The absence of bees caused such dire losses for the fruit and nut industries in the USA over past years that people started transporting bees around in trucks for pollenization. Having bees around, it turns out, is a money-making thing. There is biodiversity business opportunity here. In this trend, I expect a major economic transformation: that the future of growth might be to repair the damage done by economies of the past, that there is a way of doing business that is regenerative instead of destructive, based on quality not quantity, one that enriches many, not a few, and one that grows instead of extracts.”

Another example is KIRKBI, the holding and investment company of the Kirk Kristiansen family, owner of the toy giant Lego. A guide to all KIRKBI’s investments and activities can be found in *KIRKBI Fundamentals*, a document that defines the family’s values and aspirations. Corporate responsibility is enshrined in the document, anchored in the company’s commitments to people, partners and planet. It seeks to fulfil these commitments through responsible wealth and investments. “Active and engaged family ownership is crucial to the Kirk Kristiansen family,” KIRKBI states on its website. “Being an active and engaged owner is about having a deep interest and engagement in how the family enterprises develop, how the enterprises engage with children of all ages as well as stakeholders in general, what the culture is like and how the values are lived and not least - caring for employees.”[24]

Sustainability has also become central at the operational level. Lego is famous for its coloured plastic bricks but was prepared to think beyond using conventional plastic. It has developed products using plant-based plastics that are biodegradable, in contrast to traditional plastics sourced from refined oil that involve the use of a finite resource and create waste disposal problems as they are not biodegradable. In March 2018, Tim Brooks, Vice-President, Environmental Responsibility, Lego Group, said: “We are proud that the first Lego elements made from sustainably sourced plastic are in production and will be in Lego boxes this year. This is a great first step in our ambitious commitment of making all Lego bricks with sustainable materials.”[25] Lego’s target is that, by 2030, all its toy plastic bricks will be manufactured from plant-based or recycled materials. The company has also started to phase out the use of plastics in its packaging, a huge undertaking. The high-tech manufacturing facility in Billund, Denmark produces around 100 million pieces each day, and the investment in new materials is around 1 billion Danish krone (US$ 150 million). The aim is to change the raw materials without affecting product quality, including strength and tolerance to temperature changes. The new plant-based products are suitable for flexible toy items, like dragon wings, but too soft for the famous bricks.

> “Beyond responsible businesses, is there responsible wealth?”

Lego’s new plant-based products are made from polyethylene, using ethanol produced from sugar cane, which is sourced responsibly in accordance with guidance from the Bioplastic Feedstock Alliance and is certified following global standards for responsibly sourced sugar cane. The company’s policy is to ensure that its materials have “an ever lighter footprint” in key social and environmental dimensions than the materials they replace.

Lego: Business impacts from an engaged ownership group

- In 2017, Lego had balanced 100% of its energy use with generation from renewable energy sources, reaching its target three years ahead of schedule.
- It invested 6 billion Danish krone (US$ 910 million) in two offshore wind farms.
- By 2030, all its toy plastic bricks will be manufactured from plant-based or recycled materials, achieving zero waste in production.

> "What we have seen in recent years is that the more we can make employees feel ownership of what they're doing, the more engaged they are."

Who drives the change?

Change in the direction of responsible ownership often comes from the determined efforts of key individuals in the owning family. Examples exist of family firms in which members of the millennial generation, in some cases poised to take leading roles in the firm, are committed to environmental and social responsibility to a far greater extent than their parents. They are overseeing a radical transformation that places sustainability and the environment at the heart of strategy.

In other cases, responsibility has been at the heart of the family values for several generations and has been updated to take account of contemporary problems, such as acute environmental challenges. The most responsible business-owning families and families of wealth have always treated legacy as important. They continuously think long term, as a core objective is to pass on an enterprise, or an heirloom, to succeeding generations. Some of these families have maintained their businesses through revolutions and world wars. They tend to be conservative on debt and avoid speculation. They are accustomed to respecting and nurturing local communities and the environment, and thus naturally incorporate an understanding of climate change, resource scarcity, habitat protection and other concerns in their strategies.

The survey commissioned for this White Paper only partially supports the assumption that the next generation is pushing for a change in mindset in how businesses operate. Indeed, the next generation ranked third as a main driver in efforts to improve environmental responsibility. The result of the study is just one indicator, but it implies that a change in generation in itself will not produce a step change in environmental awareness and sustainability. It is the owners supported by both generations and the governance system that can make the difference.[26]

Aligning strategy, culture and practices

Adopting sustainability in a holistic way affects all of a firm's operations, so the entire culture must be aligned. As Andy Rubin, chair of Pentland Brands, has affirmed, "One of the things that is loud and clear throughout our company is that people know that the family members are passionate about doing business the right way, which includes all aspects of corporate responsibility." The company holds an induction day each quarter for new hires. Rubin gives a two-hour presentation, providing family and company background, and stressing the importance of responsibility to the family. The orientation also includes a presentation by the head of corporate responsibility.

The company measures employee engagement and encourages teamwork, including in socially responsible activities. "There's a balance between the family driving responsibility and the employees really owning it. What we have seen in recent years is that the more we can make employees feel ownership of what they're doing, the more engaged they are."

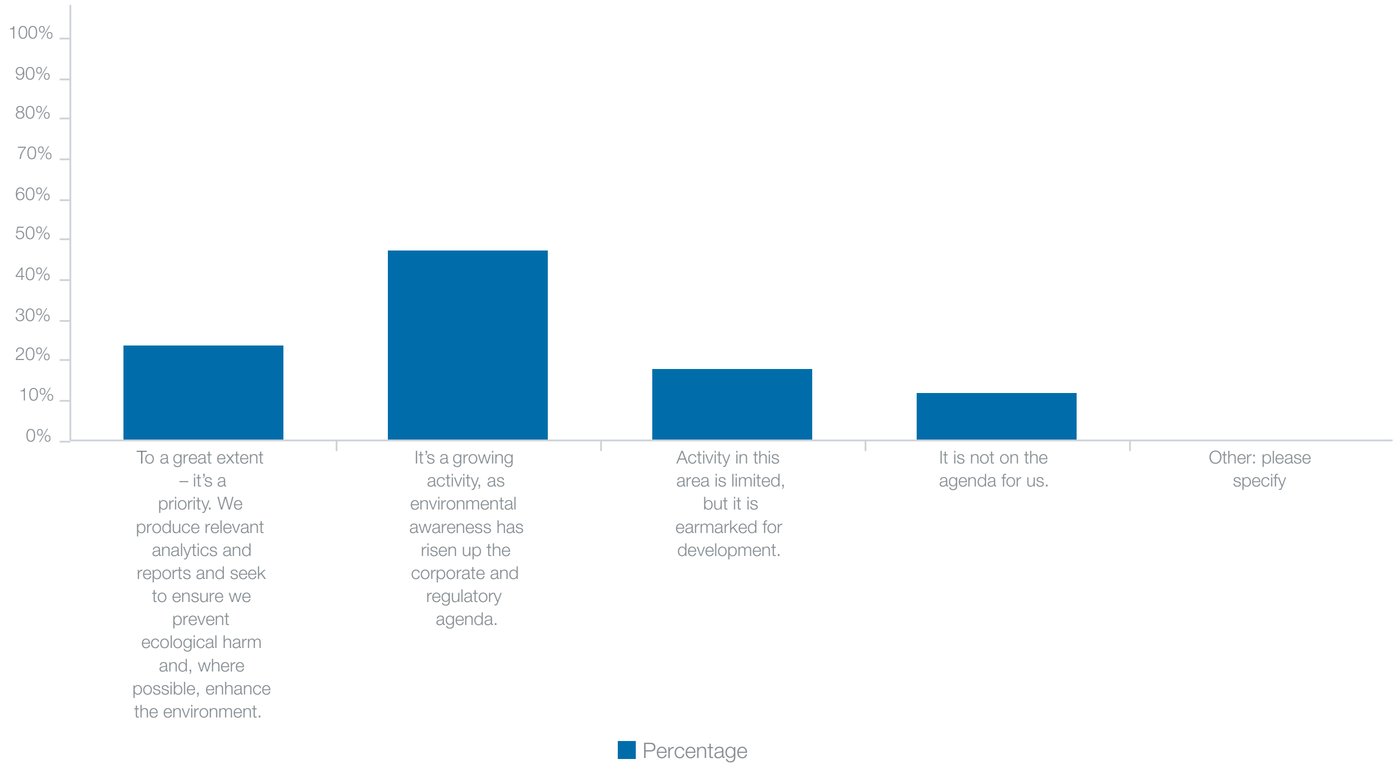
One of the survey's encouraging findings is that some 75% of respondents measure their environmental impact, while around 1 in 10 earmarked the issue as one for development (Figure 3).

Starting with a spin-off

When an established company is innovating a radically different product or service, it is normally better to create a spin-off, with different management, staffing, branding and logo. Some go on to replace the legacy firm, while in many cases the two co-exist; in either case the new enterprise has its own culture, identity and destiny. This helps prevent managers and employees in the older firm from feeling threatened or being overprotective of the current products to the detriment of the new ones. Moreover, the established business will often have customers who are loyal to the existing products, and it is important to maintain that positive relationship.

In the case of one family-owned business in the food sector, the established firm's branded goods contained a high proportion of refined products. A younger generation member of the owning family wanted to produce more

Figure 3: To what extent does your business monitor and seek to improve the environmental impact of all its activities? (Select one option only)



Source: Kenyon-Rouvinez, IMD Family Business Center

wholesome foods, produced more sustainably. The individual was given the opportunity through a start-up, with parental support. This new firm's products have proved popular, especially with younger educated customers aware of the issue of sustainability. This independence gave the spin-off a much-needed platform to start growing in its own new market niche. It is also notable that, while this firm's approach is principled, it thus allows for a younger and more entrepreneurial vision. The young founder of the business never wanted to address the sustainability issue through a philanthropic initiative, realizing that much wider and faster impact could be achieved through the business channel, and stating: "Why do we have a divide between philanthropy and business when our businesses can do good AND make profits?"

> **"Why do we have a divide between philanthropy and business when our businesses can do good AND make profits?"**

4. Governance at the heart of purpose: A holistic perspective

A complete family business governance system includes business governance, as is the norm for any business, as well as family governance and ownership governance through an owners' board or similar body of decision (Figure 4). The model presented here has the advantage of placing the owners at the helm, thus giving a visual representation of their paramount importance. No matter how much they delegate to the board of directors, they remain the ultimate decision-makers and cannot shy away from their responsibilities.

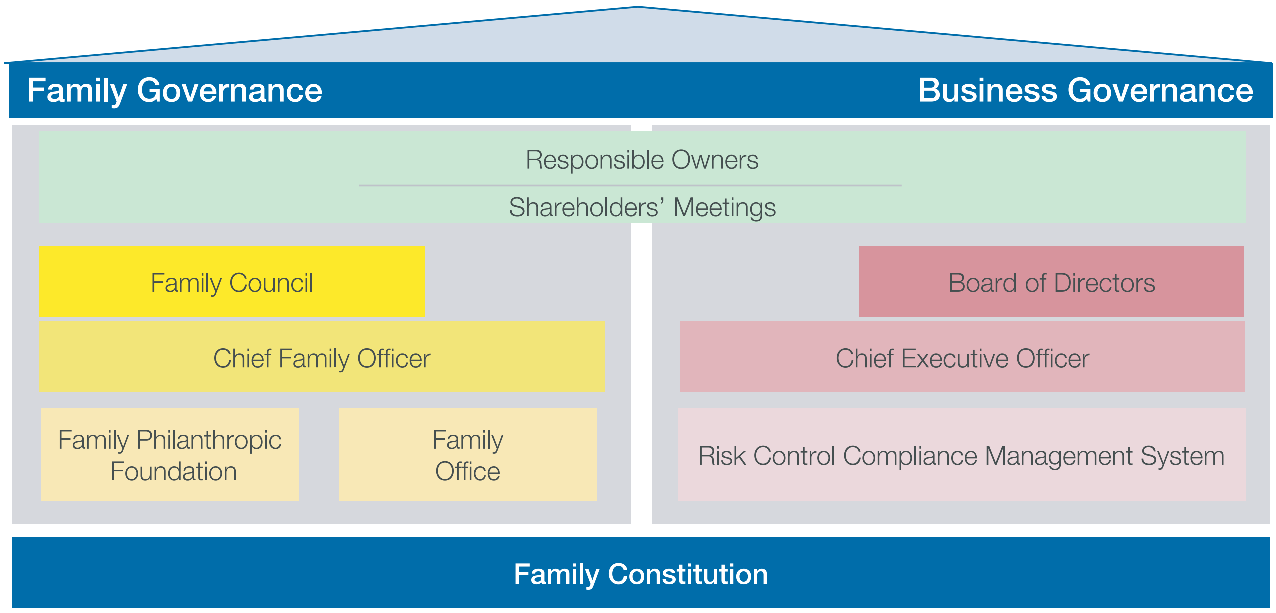
> **The 21st century has seen the importance of the owners' role in governance emerge.**

Interestingly, until the mid-80s to early 1990s, the focus of family business governance was on the business, its board and various committees, with the aim of strengthening the business and its financial health (point 1 in Figure 5). While great attention is still given to this dimension, it has increasingly been recognized that a strong business needs a strong family behind it. This realization has led to renewed attention to family matters: organizing the family, improving communication between family members, anticipating and dealing with conflicts, grooming the next generations, managing the interaction between the family and the business, as well as shaping and managing the family wealth (family office) and family philanthropic activities (point 2).

The 21st century has seen the importance of the owners' role in governance emerge (point 3). Whether they are active in the business or not, they are at the heart of creating the sense of purpose for the business. They are ultimately responsible for the well-being of the business and for its social and ecological footprints. They are also responsible for its long-term viability and for aligning the whole system to the values they want to see represented in the company's activities.

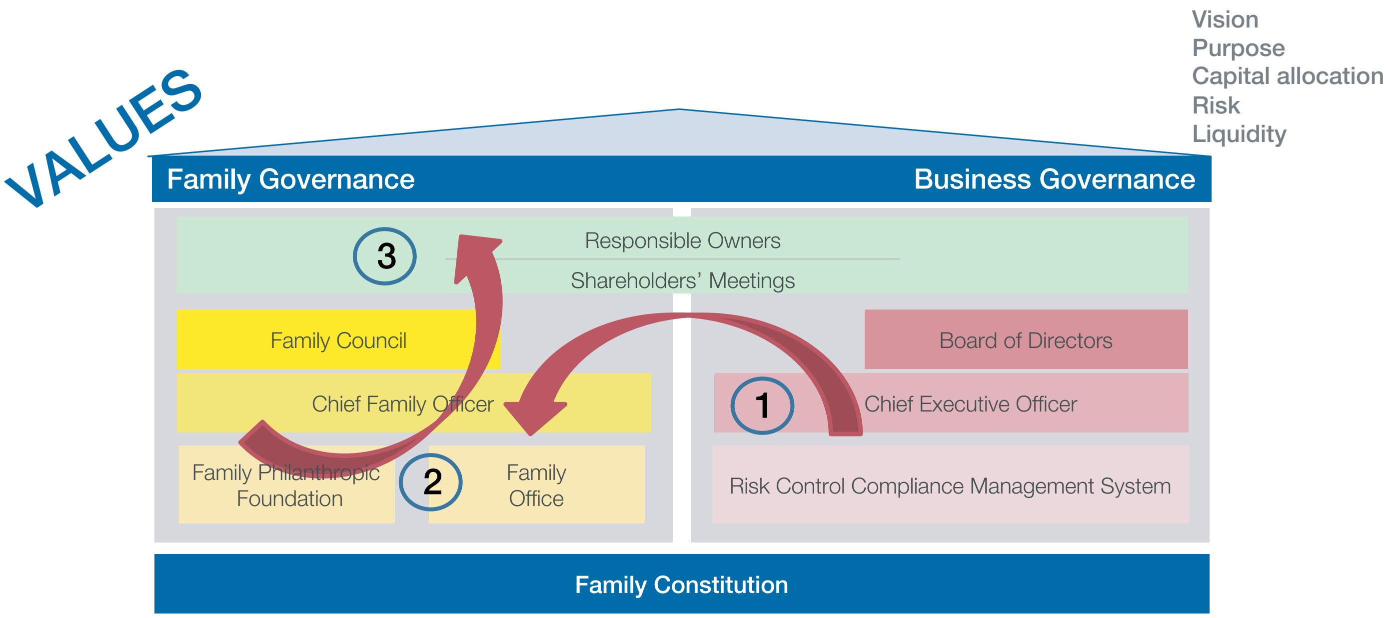
> **Active in the business or not, owners are at the heart of creating the sense of purpose for the business.**

Figure 4: Holistic Governance System (1)



Source: A. Koeberle-Schmid, D. Kenyon-Rouvinez, E. Poza, *Governance in Family Enterprises, Maximising Economic and Emotional Success*, Palgrave Macmillan UK, 2014.

Figure 5: Holistic Governance System (2)



Source: World Economic Forum, Family Business Retreat 2018, adapted from A. Koeberle-Schmid, D. Kenyon-Rouvinez, E. Poza, *Governance in Family Enterprises, Maximising Economic and Emotional Success*, Palgrave Macmillan UK, 2014.

Freeing the board for strategic and novel thinking

Technology, often seen as a disruptor, can assist senior leadership teams and board members. Regulation is increasing, especially in areas such as personal finance, data security, environmental standards and health and safety, but the smart use of technology can prevent it from resulting in too much bureaucracy. Much risk assessment, financial analysis and compliance monitoring can be automated, with headline indicators presented to executive teams and the board. Artificial intelligence is now approaching high levels of efficiency in such automation, such that it will be able to substantially reduce the amount of detailed data scrutiny that takes up a large part of many board meetings. This automation on the technical side will help free up time for directors to devote to matters for which human intelligence is best deployed: vision, strategic choice, entrepreneurial ideas and creative thinking.

Next generation and family education

People are not born responsible owners. In keeping with the principle of responsible ownership and understanding it as a profession, future owners must be prepared for the considerable responsibility they will assume and the disciplines required.

The Rubin family, owners of Pentland, prepares future owners through a programme known as Pentland 4.0, which is aimed at educating the younger generation in the principles and practice of responsible owners. According to Andy Rubin, “They will be even more passionate than previous generations.” This approach is consistent with viewing ownership as a profession rather than as a speculative or passive activity.

> **People are not born responsible owners ... Future owners must be prepared for the considerable responsibility they will assume.**

Elements of the education programmes may include such issues as understanding family values and guiding ethical principles, learning about the different businesses, taking measures to reduce environmental impact, promoting programmes related to health and safety, understanding the pivotal role of owners and learning good decision-making, to name a few. Such programmes may not be limited to the next generation as most family members could benefit from them.

5. The various levels of responsible leadership

Leadership is both a visionary and a practical task. Responsible leadership can be exercised at various levels: by the ownership, the corporate board and of course management. No matter where it is primarily exercised, or whose impulse drives it, it is important to maintain close coordination between the three levels.

Responsible ownership involves a commitment to sustainability and long-term returns, but also to managing the business in the short term. The full-time executives are responsible for combining long- and short-term management, for honouring the principles and wider objectives, and for ensuring customer service, sound financial management and other provisions on a daily basis.

Indeed, in 21st-century markets, businesses have to be particularly adept at managing the short term, remaining agile and responsive to rapidly changing technologies and business models. The long-term perspective in this case rests with the owners. The paradoxical findings from experience and research show that responsible ownership, with a view to long-term sustainability, can actually help short-term adaptability. In the best-run firms, where they are fully briefed by owners on the strategic direction, ethical principles, risk appetite and so on, the senior executives are clear about the values and principles on which to operate. From this solid foundation, they can convert the principles into tactics and practical policies, and ensure they are honoured. When the values and principles are clear, decision-making tends to be quicker and better. In a well governed and managed business, the principles of responsibility trickle down from the owners to the board, all the way down to the whole organization. The most long-lasting, successful firms commit to continual innovation, viewing entrepreneurship as a part of the culture, aiding business resilience. Karl-Erivan W. Haub, CEO of the 150-year-old German retail company Tengelmann Group, described the challenge: "As a family enterprise, what is needed not to fail, because of the life-cycle risk, is continuous innovation … Each generation must strike gold once or twice, for no business model can be perpetuated endlessly."[27]

> "It is certainly possible to be a responsible leader without being an owner – it is what managers of corporations and non-family CEOs often are."

It is certainly possible to be a responsible leader without being an owner – it is what managers of corporations and non-family CEOs often are – although it helps if a clear direction and example are set by the owners. Being responsible tends to help the business over the longer term, but short-term sacrifices are sometimes necessary. It is in making these choices that responsible ownership and leadership need to support each other. For example, an executive team may be faced with the option of winning new business at all costs or reducing the expense of waste disposal through polluting practices. It helps enormously if executives can defend the extra cost or perceived missed opportunity by referring to principles articulated by owners. They can feel confident that they will be supported in their decisions. Targets and key performance indicators can be set and publicized, and social and environmental objectives made explicit. Everyone throughout the business knows that, if they do the "right thing", they will be supported, even if it adds to short-term costs.

Two examples illustrate in a remarkable way how responsible leadership can be exercised: the Edelman Trust Barometer addresses the external dimension of responsibility (how a business can help understand or alleviate some of the world's challenges), while the Lee Kum Kee Happiness Index focuses more on the internal dimension of responsibility (how a leader can ensure the best functioning of the business itself).

A common perception in recent corporate scandals has been of a culture in which cheating and lying are acceptable to reach higher profits. The reverse is, however, also true: social and environmental responsibility reflect the principles of honest and fair dealings.

The reward for consistently maintaining honest and principled managerial practices is the gradual gain in trust of different stakeholders, including customers, employees, regulators, journalists and the general public. The Edelman Trust Barometer annually checks the level of trust in major businesses and institutions. It reveals the influence of controversies has an important effect on the level of trust, and shows that some sectors are well regarded while others need to rebuild trust and respect. In a world of emerging trust polarity, the need for trust has arguably never been greater.

The China-based food and health products company Lee Kum Kee (LKK) has pioneered an indicator that monitors internal well-being and integrity. Its Happiness Index[28] is based on maintaining a sound balance between five elements of human contentment: health, work, family, friends and leisure. Happiness is measured yearly and discussions take place with employees to see how they can improve their results. An employee working long hours might be encouraged to spend more time with family and friends, and another might be given support for health and fitness. The happiness and well-being of its employees is paramount for the Lee family. In 2016, it announced a $21 million investment with Harvard Business School to establish a Happiness Center. In addition, the LKK Group has long been committed to principled ownership and leadership, emphasizing environmental responsibility, community support and a positive working experience, sustained by enlightened leadership practices.

6. Practical steps

Consistent features of good practice have emerged from family owners working towards a more sustainable business model. Some owners begin with bold initiatives, others with small steps, but the disciplines and practices summarized below are often common to effective family businesses.

– Dispensing with a “profit for profit” and “growth at all cost” mindset – The question of mindset/culture must be addressed explicitly and at the most senior level, based on evidence that placing social and ethical responsibility at the heart of a business strategy builds trust and can strengthen the business.

– Curbing the mindset of “the business’s aim is to do business, other issues can be addressed through philanthropy” – Only a very small amount of wealth goes to support philanthropic causes with this limited approach. The magnitude of the challenges ahead can only be solved through a massive injection of new ideas, services and products. Businesses are thus our best – possibly our only – hope for radical change.

– Establishing guidelines for conduct – Everyone throughout the organization should know which principles to uphold and which practices are unacceptable. It is, however, unwieldy for the guidance process to be excessively detailed and prescriptive.

– Selecting, hiring and listening to board members – Whether it includes family members or not, a responsible board must be comprised of people with the ethos and courage to imprint a sustainable thought-process, who can encourage actions towards internal and external responsibility.

– Empowering the whole organization – Galvanize staff by linking, for instance, bonuses to work in a way that is aligned with the mission and guidelines.

“Keep fighting.”

– Setting key performance indicators, measuring improvement, monitoring results – This will help individuals understand if a new measure is needed. It will also encourage taking responsibility seriously. Monitoring will help people who are against change see that a business can be both responsible and profitable.

– Making difficult decisions – Guidelines for responsible conduct are necessary, but they are unlikely to foresee every circumstance, and attempts to do so would take too long. Forums for managing difficult decisions are needed.

– Balancing short- and long-term considerations – In a fast-changing environment, companies need to manage for today as much as for the long term. They need to seek a balance between survival – focusing on today – while keeping true to their long-term principles of sustainability. It is a delicate balance that requires extreme vigilance.

– Ensuring the adequate involvement of owners – Too often, owners who are not active in the business or at the board level are ignored, or they do not take on responsibility. Quite to the contrary, their influence and involvement in supporting sustainability are key to the long-term well-being of the business. Education programmes designed for them can help them feel included and knowledgeable.

– Addressing discouragement and disbelief – Often families that initiate actions towards sustainability discontinue them. A first, a second or even a third attempt might fail. That should be accepted. As long as the purpose and the vision are right, keep fighting.

– Accepting small steps – It takes time to radically transform businesses and mindsets. It sometimes works wonders to start with a relatively small project that can be an easy win. Rapid positive results can turn sceptics into enthusiasts. Both owners and the organization need reassurance that change is positive.

Conclusion: Why it matters today

The prevailing management notion of the 20th century was, “what is good for the business is great”. In the 21st century, this approach is visibly and rapidly changing to “businesses must be a force for good”. They have the possibility and responsibility to do so.

As greed, short-termist business models and inequalities in the global economy put strain on societies and the environment, businesses require profound, urgent and radical change in different dimensions and levels: in priorities, ethics, strategies, values and culture. Philanthropy and corporate social responsibility projects are important tools but are not enough on their own to make the decisive shift. Considerable evidence demonstrates that businesses can maintain or even enhance their commercial performance both while and by becoming more sustainable and responsible. A significant cadre of enlightened business owners are taking the lead, as the case studies in this White Paper show. Some, though by no means all, are owners of family businesses in which, given the concentrated ownership, a relatively small number of influential individuals make a decisive impact. Some who have attempted a shift towards greater sustainability have stumbled, some have failed, some are just beginning; others have succeeded, creating transformational positive change. Through their resilience and ingenuity, they demonstrate a way forward towards a radical business transformation. May their example serve as both a practical guide and inspiration.

> “You cannot escape the responsibility of tomorrow by evading it today.”
>
> Abraham Lincoln

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Endnotes

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