

Embracing Sustainability – From Challenge to Change

Study on sustainability
in family businesses 2021

Sustainability as a business factor

Sustainability is gaining importance in all areas of life. That is why today's companies are also increasingly recognizing the need for sustainable business practices. For a long time, large corporations in particular viewed themselves as being sustainable if they got involved in classic "CSR projects" alongside their own core businesses – whether through the construction of solar parks in developing countries or the reforestation of disappearing forests. There is no doubt that such projects themselves provide great added value for the (local) community. However, they can also indicate that the company has not yet developed a willingness to examine its own work in the context of sustainability.

In the meantime, in many companies and industries there has been a rethink, also as a result of public and political pressure. Today's consumers demand transparency – employees demand a clear stance. Greenwashing is being exposed as such. Doing business responsibly therefore means knowing exactly what the negative impacts of one's own entrepreneurial actions are, minimizing and compensating for them, taking responsibility for one's own supply chain and establishing fair operating and business practices, also with subcontractors. In short, sustainability has become a relevant business factor – and not just for large corporations.

Family businesses are a decisive fact in the overall economy. In the German-speaking world, people often like to talk about the formative power of small and medium-sized enterprises as providing the "backbone of the economy". Around 90 percent of all businesses are family-owned, and these businesses together account for around half of all jobs. Sustainable, entrepreneurial action by fam-

ily businesses thus has a certain formative character for entire industries. But how sustainable really are family businesses in Germany, Austria and Switzerland?

The study

In a study, Egon Zehnder investigated the issue of what role sustainability plays for family businesses. Sixty-four family businesses in Germany, Austria and Switzerland took part, which can be considered representative. Nine out of the ten companies surveyed employ at least 1,000 people. A good fifth each belong to the consumer goods industry and the mechanical and plant engineering sector. The IT sector and the automotive industry and related sectors are each represented by just under 11 percent. Companies from the chemical and process industries, as well as mining and metallurgy, also took part. The survey respondents were largely family shareholders, as well as occasional board members, managing directors and board members.

The results in brief

Sustainability has a high priority for all companies. More than 80 percent of respondents state that the topic is also very close to their hearts. Although the focus varies from company to company, more than 60 percent of family businesses have anchored sustainability in their own corporate values, and around 50 percent define an explicit sustainability strategy.

It's clear that family shareholders are increasingly personally involved in shaping sustainability strategies and, through dedicated budgets, create space for the economic consideration of their sustainability goals. Their approach to the topic is clearly value-driven. Sustainability is primarily understood in terms of one's own generational responsibility. Today, business should be conducted in such a way that existing scope for entrepreneurial action can be maintained for future generations. Accordingly, the motives for sustainable management revolve primarily around questions of social continuity and future competitiveness. Sustainability is seen as a chance to open new fields of business. It is perceived as an opportunity to further develop the company and individual products and to become more attractive to potential specialists and managers.

Many family businesses have therefore fundamentally recognized the need for sustainable management. However, very few measure themselves against this. Less than half of the family businesses surveyed anchor sustainability in their managers' agreed targets. Furthermore, according to the study, only 40 percent of family businesses link their strategy to concrete projects. Only one third have completed a sustainability certification. And four out of ten companies even refrain from reporting publicly about progress.

Where sustainability projects are defined, they usually move along three main fields of action. In the environmental field of action, the focus is on energy efficiency, careful use of water and preservation of biodiversity. In the social field of action, health in the workplace, fair working conditions and consumer rights are particular focal points. In the governance field of action, transparency in communication, sound finances and corporate governance are particularly important. Surprisingly, climate protection plays a minor role: zero emissions and CO₂ neutrality are seen as an extraordinary challenge to which very few have found an answer.

Hidden sustainability – an assessment of the results

The figures illustrate that most family businesses do not yet seem to be fully aware that sustainability is already an essential business factor. Yet many family businesses are already further ahead in their thinking than the figures show. They show a genuine interest in many aspects of sustainability, from energy efficiency and biodiversity to fair working conditions and transparency in communication. Quite a few of their sustainability activities already go beyond the regulatory requirements.

The reason behind the reluctance to use measurable values is the fear of public pressure to justify itself and the fear of turning non-governmental organizations against them. Public discourse on sustainability issues can sometimes be very aggressive and undifferentiated. In this environment, many family businesses, whose structure is designed for harmony and fairness, assume that they will not be able to find any productive opportunities for participation. Sustainability plays a role in all business processes, especially in research and development, in the supply chain and in public relations. The time for CSR projects that were only marginally related to company's own activities

is over. To a lesser extent, sustainability aspects have so far been incorporated into back-office processes, e.g., IT and financial planning.

However, there are also challenges outside of the company in this area. There are very different standards and certification procedures, and in the context of family businesses, no industry standards or certificate has yet been established.

Overall, family businesses are on the right track and have the right intentions, despite all the transformative challenges. If family businesses succeed in breaking free from their value-driven mindset, then sustainability can be an opportunity and drive future development.



Egon Zehnder's six recommendations

Against the background of discussions related to this study,
Egon Zehnder has drawn up six key recommendations for family businesses:

1. Precisely define what sustainability means for your company.
Link this definition to your business strategy and derive clear priorities from it.

2. Explicitly formulate sustainability goals for the company, especially
quantitative targets to monitor progress. Take your cue from best-in-class
companies, even outside of your sector.

3. Derive personal sustainability goals for top management as part of individual
goal setting and performance evaluation and evaluate these annually.

4.

Broadly anchor sustainability in the corporate values and culture, for example in the mission statement, and create a good understanding among all employees.

5.

Sharpen your sustainability reporting and document your progress.
Use relevant benchmarks and performance indicators related to your business.

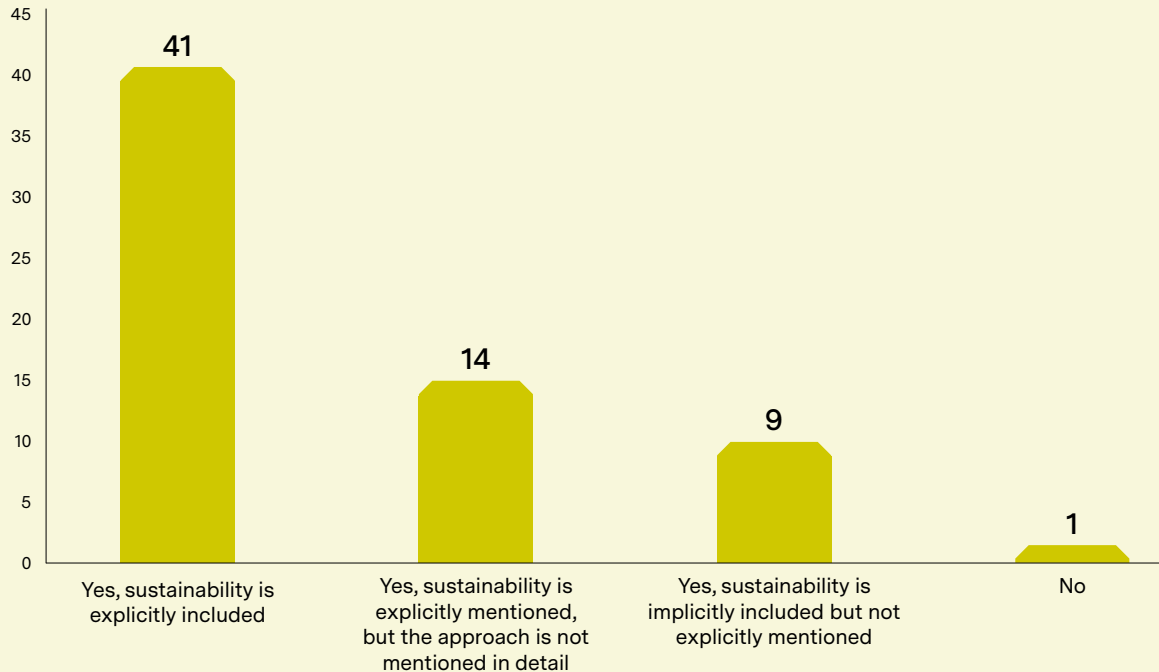
6.

Check the implementation of an external sustainability certification.
Orientate yourself towards your customers' industry standards and use the topic of sustainability to deepen your dialogue with customers and suppliers.

Egon Zehnder has been advising family businesses worldwide for many years. In our Family Business Advisory Group, we support families, owners and managers in addressing the challenges of leadership, succession and governance across generations.

Strong anchoring of sustainability in value system & culture

More than 60% of family businesses have explicitly anchored sustainability in their corporate values



However, anchoring takes place differently
and with different focuses

***“Centrally anchored
in the mission
statement, targets,
strategies, as well as
internal and external
reporting”***

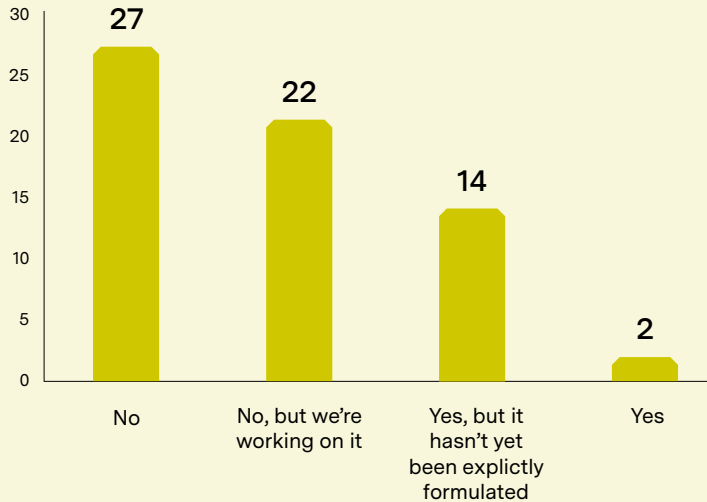
***“We take responsibility
for our environment
and employees through
commitment to training
and the promotion of
young talent”***

***“Minimizing the
ecological footprint
based on optimized
processes and
sustainable products”***

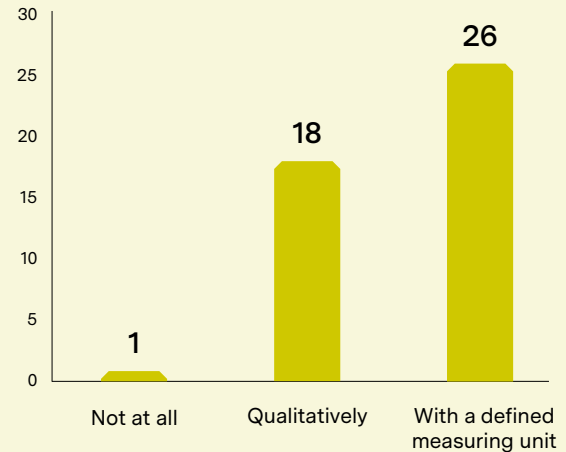
***“Ensuring the
Code of Conduct:
Requirements for
ethical and rule-
compliant action”***

A clearly defined sustainability goal is often missing

Existence of a sustainability target



Measurability/KPIs for sustainability



More than 75% of companies have a sustainability goal, but only about 40% have explicitly formulated it

Measurability/KPIs for sustainability

“CO2-neutral production by 2025”

“Occupational safety, diversity, CO2-emissions”

“Sickness rate, fluctuation, employee satisfaction, volunteer work, engagement”

“ROCE, dynamic level of indebtedness, equity ratio, accident rate”

“Climate-neutral company with climate-neutral products”

“Philanthropic commitment to educational opportunities”

“Measured by CO2-emissions”

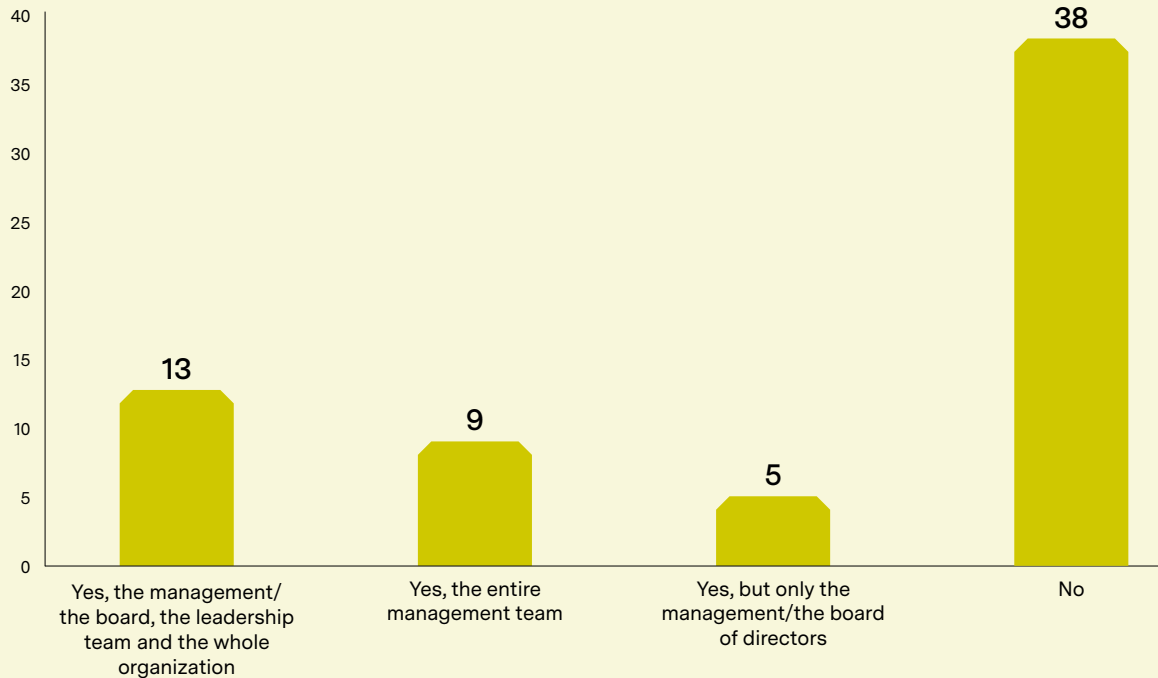
“Sustainability tested via customer surveys”



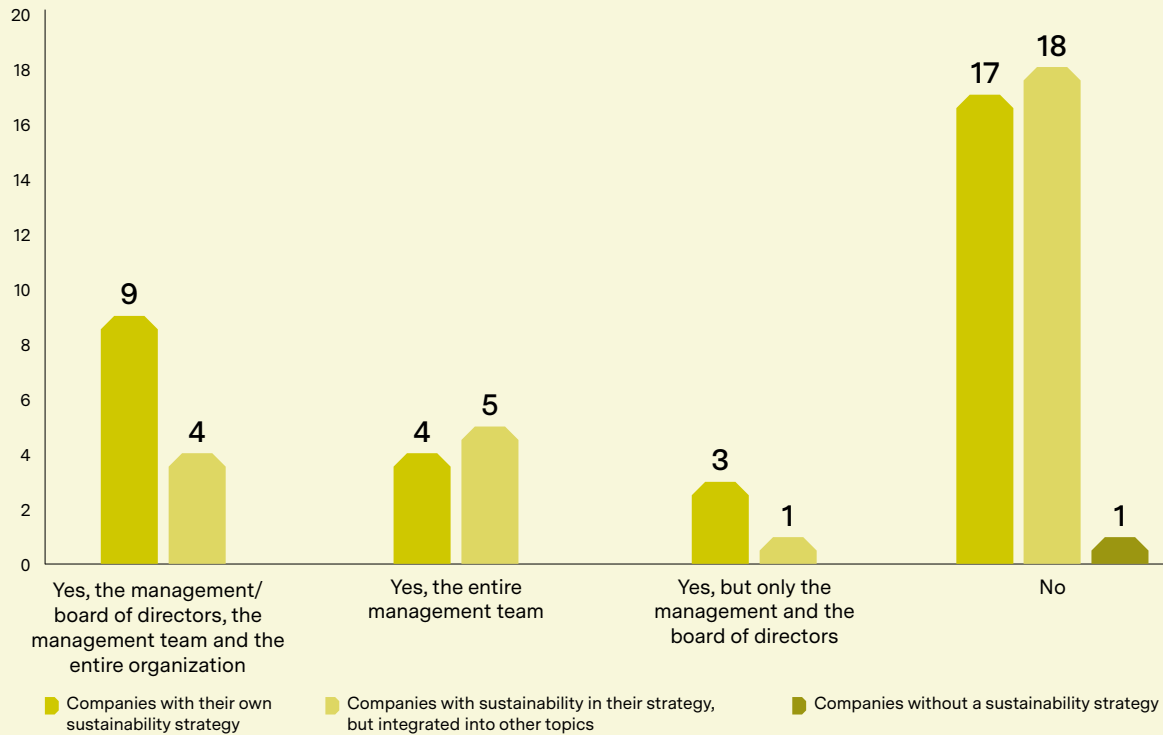


Target agreement systems so far hardly linked to sustainability

**Only about 40% of managers have anchored sustainability
in their personal goals ...**

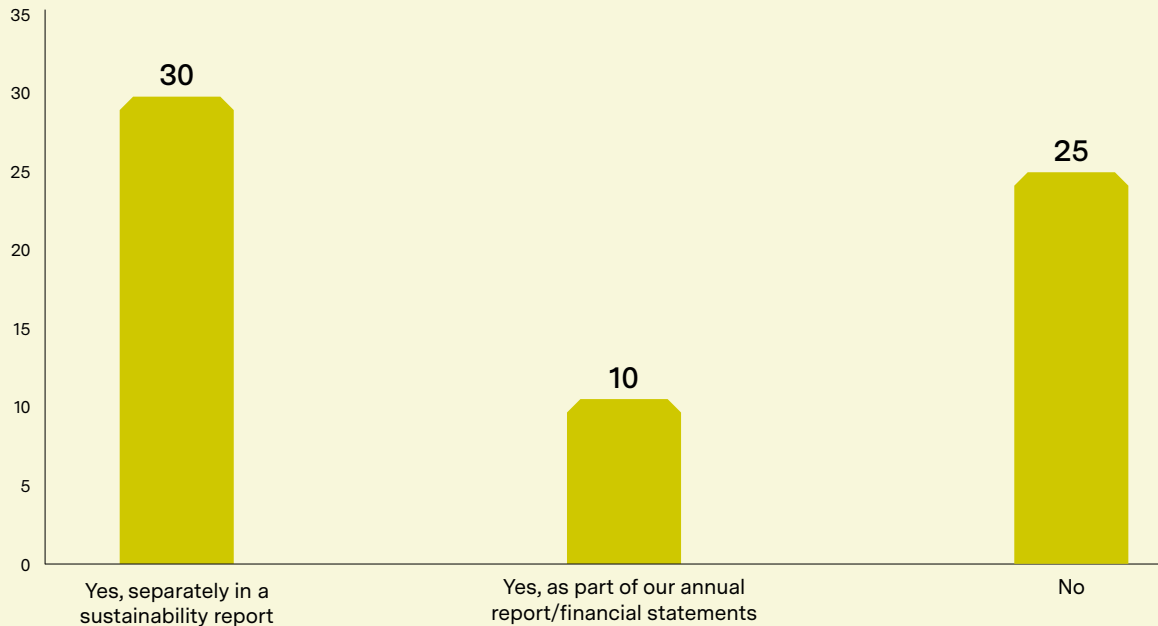


... this also applies to companies with
a defined sustainability target

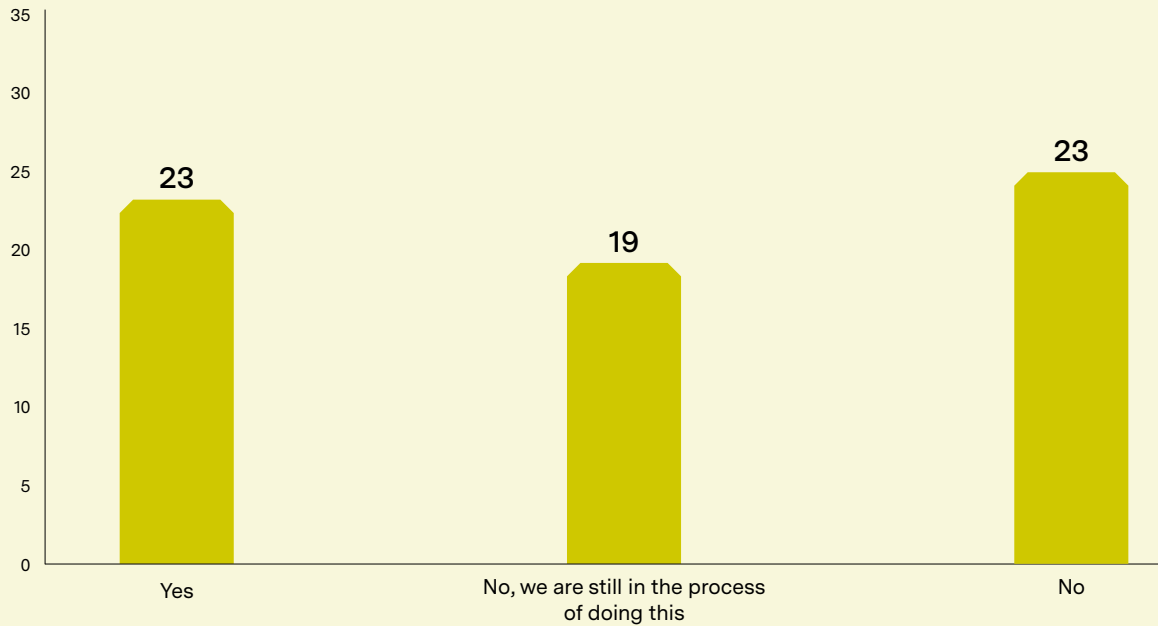


No uniform reporting or certification has yet been established

Around 45% of companies do not report externally on corporate sustainability



More than 65% have not yet completed sustainability certification



What are the main sustainability challenges for organizations?

Regulation & competition

Measurability

“Early detection of trends, opportunities and risks”

“Implementation of CO2 neutrality”

“Formulation of clear sustainability goals”

“Avoiding greenwashing!”

“Lack of solidarity among market participants”

“Measurability of sustainability: finding logical, comprehensive parameters”

& control

Change management

“Implementation of a management system for sustainability reporting”

“Transformation of the entire organization by integrating sustainability aspects into all processes”

“Change competence and adaptability and willingness”

“Consider sustainability as a cultural change and make decisions and take actions accordingly”

“Cost increase, financeability”





About Egon Zehnder

Egon Zehnder is the leading consultancy for executive search and leadership advisory in the German-speaking world. Filling CEO and executive positions for corporations and family-owned companies, start-ups and public institutions is just as much part of the service portfolio as is long-term succession planning and the development of leadership personalities, team, organizations and corporate cultures.

Further information under: www.egonzehnder.de

© Egon Zehnder 2021 – All rights reserved

No part of this publication may be reproduced in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of Egon Zehnder.