ESG IN FAMILY FIRMS

A review of Research, Regulations and Practice Guidance

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Family Business Research Foundation

ESG IN FAMILY FIRMS: A REVIEW OF RESEARCH, REGULATIONS AND PRACTICE GUIDANCE

A FAMILY BUSINESS RESEARCH FOUNDATION REPORT

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ABOUT THE FAMILY BUSINESS RESEARCH FOUNDATION

The Family Business Research Foundation was established as a registered charity (no. 1134085) in 2009 to foster greater knowledge and understanding of family firms, their contribution to the UK economy and society, and the key challenges and opportunities that they face.

The Foundation is an organisation uniquely focused on understanding the UK family business sector. The results of our research have become one of the primary sources of evidence on the impact of family companies in the UK and are relied upon by government, family businesses (as well as their advisers), organisations, academics and researchers to help underpin their decision-making and actions.

The Charity aims to help grow a strong and thriving UK family business sector by expanding the knowledge and understanding of the businesses and their needs through research, analysis and evidence-based guidance.

We aim to ensure that the best data possible is available on UK family businesses. We support and engage researchers and academics working in this field and carry out research focused on the areas of greatest impact on UK family businesses.

The Charity is not trying to replicate corporate research done elsewhere but focuses on the effect of family ownership on companies' operations and its impact on the economy and society. This is done for the public benefit and all our findings and publications are shared on an open-source basis, free of charge. The Family Business Research Foundation's publications are designed to create a better understanding of family business, for the benefit of all.

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FOREWORD

A message from the Chair of the Family Business Research Foundation

In recent years, a plethora of new regulations have been created on environmental, social, and governance (ESG) issues, often driven by government commitments under the UN COP regime. However, measurement and application have sometimes been ill defined, and, especially for smaller family businesses, it can seem irrelevant as the impact they can make on global problems looks miniscule. ESG has already emerged as more than just a set of regulatory requirements—it now represents a growing responsibility for businesses of all sizes to contribute meaningfully to sustainable development, social responsibility, and good governance, which directly affects their ability to sell, borrow, and attract good people. This report, ESG in Family Firms: A Review of Research, Regulations, and Practice Guidance, could not be more timely or relevant for family businesses across the UK.

For family firms, many already have an embedded focus on legacy, deep-rooted connections to local communities, and continuity across generations, which makes promoting ESG particularly relevant. This report shows how family businesses can leverage ESG not merely as a compliance exercise but as a competitive advantage that can foster trust, enhance reputation, and ensure longevity. I have always believed that if my family business can deliver world-leading zero-carbon assets in their field of operation, we will not only develop excellent growth opportunities and attract the best talent but will also engender real government and community support. All this should lead to a growing, reputable, and valuable business for future generations.

This ambition is easier said than done, and the report highlights a growing need for family firms to integrate ESG into their core strategies, ensuring that they remain resilient and relevant in an economy increasingly shaped by sustainability and ethical responsibility. It also points to a need for family firms to tell compelling ESG stories about the contribution family firms are making to their communities and the environment.

As more family firms adopt ESG principles, new research is needed to understand how these principles are being applied in practice, how family firms are navigating ESG, the challenges family businesses may face in balancing tradition with innovation, the financial impact of ESG, the role of generational shifts, and how governance structures can support ESG practices.

This report provides a valuable resource for family businesses, researchers, and policymakers working with an interest in ESG. It provides a roadmap for navigating ESG and shows how embracing it can help to safeguard legacy and ensure that family firms have a lasting, positive impact.

I hope you enjoy reading it.

Sir Michael Bibby
Chairman, Family Business Research Foundation

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EXECUTIVE SUMMARY

This report presents the findings from a review of the research, regulations, practices and existing guidance on environmental, social and governance (ESG) activity among family firms in the UK. Our study had three objectives:

1. To review the academic research evidence relating to ESG in family firms.
2. To identify and evaluate existing regulations, practice guidance and voluntary frameworks relating to ESG.
3. To conduct a small-scale inquiry into UK family businesses and advisers involved in ESG activity.

We provide lessons, insights and recommendations that will interest family business owners and managers, their advisers, policymakers and academic researchers.

Research aims and methodology

The study aimed to review existing ESG research within family firms, evaluate applicable ESG frameworks, and conduct inquiries with UK family businesses and their advisers. By employing a systematic review combined with targeted interviews, this study offers comprehensive insights into how ESG practices are implemented and perceived among UK family businesses.

ESG and its imperative in family businesses

In an era marked by escalating ESG expectations, businesses of all sizes must demonstrate their sustainable practices. This report assesses the ESG landscape, focusing particularly on family firms in the UK. It assesses their current practices, regulatory pressures, and the broader impact of ESG on their operational and strategic frameworks.

Recent developments, such as the UK's adoption of the Task Force on Climate-related Financial Disclosures and the introduction of the International Sustainability Standards Board standards (likely to come into force in 2026), underscore the urgency of ESG compliance. Presently, ESG regulations apply to large businesses. However, this regulation's inevitable trickling down to all businesses requires family firms, regardless of size or industry, to proactively commit to ESG and demonstrate their ESG credentials.

ESG and its implications for family businesses

Family businesses are uniquely positioned to benefit from adopting ESG practices because they focus on legacy and continuity. However, challenges may arise when aligning these practices in situations where families prioritise their fuller degrees of control over the business. The findings suggest that while family businesses increasingly align and comply with ESG standards, this alignment may vary depending on the prevailing views of the controlling generation, whether different perspectives exist within the family through the involvement of the next generation, or the number of generations within the family business. Choices about governing the family business may also help or hinder new perspectives such as ESG taking hold in that business.

Regulatory environment and its implications

With the UK taking large steps towards ESG regulation, family businesses in the UK face mandatory disclosures that are set to increase in stringency. The transition to the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards led by the International Sustainability Standards Board highlights the need for all businesses, regardless of size, to adapt to a rapidly evolving regulatory landscape.

Practices and frameworks: Why family businesses should develop their environmental, social and governance stories

The practical aspect of ESG in family firms involves a complex interplay of compliance, strategic alignment and stakeholder engagement. Successful firms integrate ESG into their core strategies, enhancing their market reputation and operational longevity. The study reviews various frameworks that support these efforts, providing a pathway for family businesses to develop their ESG stories and narratives, and to communicate that to their stakeholders as a basis for a new competitive advantage.

Conclusions and actions for family businesses and future directions for research

Family firms that effectively integrate ESG principles can enhance competitiveness and contribute to broader social goals. Those who can create economic and social value are best placed to succeed in the ESG landscape. To navigate the complex ESG landscape, family firms should focus on robust data collection, stakeholder engagement and strategic integration of ESG practices. Avoiding superficial ESG commitments is crucial, as these may risk perceptions of greenwashing. Instead, embedding genuinely sustainable practices into the fabric of operations will be important for regulatory compliance and long-term success.

This report underscores the necessity for ongoing research, particularly into how generational shifts and internal business cultures impact ESG adoption. Future research should also explore the real-world impacts of ESG practices beyond academic and regulatory spheres, focusing on creating meaningful change within local communities and industry.

“Successful firms integrate ESG into their core strategies, enhancing their market reputation and operational longevity.”

1. INTRODUCTION

Sustainability and climate change require all businesses to demonstrate their environmental, social and governance (ESG) credentials. Perhaps easy to dismiss as just another buzzword, ESG brings about profound changes in how stakeholders demand transparency in business practices and they want concrete plans that protect environmental, social and ethical standards by all businesses – leaders should care about ESG (Acree, 2023).

As a recent PwC report put it, "ESG is an existential issue. Businesses that don't demonstrate their commitment to sustainable practices could be punished by consumers, the media and even regulators" (PwC, 2021, p.13). It is a business imperative where:

> "[i]f family businesses fail to demonstrate their commitment to sustainability with concrete actions, they may risk losing the trust and goodwill that give them licence to operate… Today, it's not a question of whether it's a good idea to prioritise ESG practices, but only of how long it will take for consumers, investors, lenders and governments to punish those that don't." (PwC, 2021, p.3)

While it might be tempting to think of ESG as just something for large businesses, this is far from the truth. The speed and volume by which ESG regulations have been introduced worldwide since the start of 2024 and their wide-ranging scope and implications are a testament to this urgency. But reporting is only half the story. This report shows how essential it now is that all UK family businesses, regardless of size or sector, develop their ESG stories. While current and new ESG regulations apply mostly to large firms, the rising expectations among customers and consumers, Millennials and Gen-Z, media, politicians and regulators have created a market for certification and voluntary pledges.

This report shares lessons and insights from a study that sought to:

1. Identify and evaluate existing regulations, guidance and frameworks relating to ESG, and consider their relevance, applicability and usability for UK family firms of different sizes and sectors.
2. Identify and review the research evidence relating to ESG in family firms, drawing out implications for research and practice, identifying the main gaps in research in this area, and ascertaining some of the most promising areas for future research.
3. Support this effort, by conducting a small-scale inquiry into UK family businesses and advisers involved in ESG activity to provide examples of ESG activity among UK family businesses.
4. Identify promising areas for researchers to focus on.

Section 2 reports the methodology we used to address our objectives. Section 3 defines ESG and sets out what it means for family businesses. Section 4 provides an analysis of regulations and policies surrounding ESG, with a particular focus on the UK and EU. Section 5 reviews practices and practical frameworks that can support family businesses' ESG efforts and storytelling. Section 6 reports our review of the academic literature on ESG in family businesses. In doing so, the report draws on international studies because very few studies specifically examine ESG among UK family firms. Section 7 summarises the conclusions of our analyses and section 8 details implications and provides recommendations for family businesses – their owners, managers and advisers – policymakers, and suggestions for further research in the area.

2. METHODOLOGY

In this section, we briefly detail the methodology underpinning this study.

Our research had three components:

1. A literature review to identify and review the research evidence relating to ESG in family firms.
2. Policy analysis and practice guidance to identify and evaluate existing regulations, guidance and frameworks relating to ESG.
3. Qualitative interviews with family business owners and advisers involved in ESG activity.

A more detailed account of the methods used in the literature review can be found in Annex 2. In summary, we used a keyword search strategy to identify all peer-reviewed academic research articles specifically focused on ESG and the family firm. We drew on research articles from the Web of Science and Scopus and screened them against the Chartered Association of Business Schools' Academic Journal Guide (CABS AJG). We then reviewed the abstract and introduction of each article to ensure they focus on ESG and the family firm. Our initial search yielded 113 articles. Of these, 29 articles met our search criteria and focused on ESG in family firms. We then systematically reviewed these 29 articles.

The policy analysis and practice guidance study had two components.

First, we investigated the ESG landscape in the UK and EU to identify ESG-specific regulations. The regulatory landscape has changed rapidly since the beginning of 2024. We then evaluated some of the developments around the formulation and publishing of UK and EU regulations and presented the results of our policy analysis. In doing so, we also identified which firms UK and EU regulations affect – all current ESG regulations affect large firms for the most part. We include EU regulations because those businesses earning more than EUR 150 million in revenue on EU markets are subject to the EU's ESG regulations.

Second, beyond regulations, many practical frameworks and voluntary efforts, including certification and pledges, exist. We completed a further review of these frameworks and presented our findings in terms of how family firms can go beyond the legal minimum of ESG efforts and voluntary certifications and standards. These are important because regulations presently apply only to large-sized businesses – but small- and medium-sized family firms are also leading on ESG, and much of this is due to wanting to do good and to contribute to their communities.

In addition to reviewing existing evidence, ESG policy and practice guidance on ESG, we also conducted a small-scale qualitative inquiry to learn more about what UK family businesses are doing to improve their ESG credentials. We interviewed family businesses (their owners and managers) and family business advisers to learn more about how UK family businesses are meeting ESG expectations. We recruited interview participants through our networks, the Centre for Family Business at Lancaster University, and an open call made through the Family Business Research Foundation. Interviewees participated voluntarily. Their anonymity was assured, and we asked for permission to record each interview. We sought family businesses of different sizes and from different sectors to obtain a wide spectrum of insights and examples, which are captured in the vignettes presented throughout this report.

3. WHAT IS ESG?

In this section we define ESG, explain what it means to a family firm and examine its advantages for family businesses.

3.1. Understanding ESG

ESG criteria are pivotal for assessing a firm's commitment to ethical practices and sustainable development (Trahan and Jantz, 2023). ESG grew from the UN Global Compact (2004a, 2004b) report, "Who Cares Wins: Connecting Financial Markets to a Changing World". Its scope has since been expanded by the European Banking Authority (2021) and others.

Despite these developments, the definition of ESG remains inconsistent and varies across academic studies. Galbreath (2013) highlighted that ESG addresses environmental issues like climate change and carbon emissions, social concerns such as human rights and health, and governance aspects, including board independence and anti-corruption efforts. Similarly, Lee *et al.* (2023) describe ESG as balancing environmental, social and economic objectives, focusing on ethical business practices and equitable treatment of employees. Although there is a lack of consensus on a strict definition and elements covered within ESG, researchers like Arvidsson and Dumay (2022) and Trahan and Jantz (2023) explain how ESG factors are integrated into corporate governance strategies and frameworks, going beyond the basic components of ESG categories to explore their interconnections and impact on sustainability practices.

ESG has three main pillars:

(1) Environmental: This pillar includes activities that seek to reduce pollution and carbon emissions, enhance energy efficiency, conserve resources and protect biodiversity. Governance plays an important role here by ensuring compliance with environmental standards and integrating environmental objectives into the strategy of the family business. Governance mechanisms ensure that environmental goals are aligned with the firm's operations and are monitored for performance against set benchmarks.

(2) Social: This pillar involves promoting employee development through fair labour practices, responsibly managing sourcing and supply chains, and social development. Governance supports these efforts by developing codes of conduct for ethical practices, overseeing the implementation of labour standards, community engagement, and engaging stakeholders to ensure that the company's social initiatives reflect broader social values and expectations.

(3) Governance: Governance encompasses how decisions are made, upholding shareholder rights, ensuring board diversity and aligning executive compensation with sustainable performance outcomes. The governance framework facilitates the integration of environmental and social goals into the corporate agenda by providing clear leadership, accountability and transparency. This pillar supports the other two by enforcing policies, managing risks and providing a mechanism by which positive environmental and social impacts are achieved.

Figure 1 on the next page shows this schematically.

3.2. What is ESG in a Family Firm?

ESG practices are closely tied to a firm's operations and strategies. In a family firm, decisions around operations and strategies reflect the family's goals and values (Chrisman *et al.*, 2012; Kammerlander *et al.*, 2015). Unlike non-family firms, family firms are often driven by a commitment to pass the business to future generations (Chua *et al.*, 1999). Family businesses frequently prioritise ownership and control that drive strategies beyond mere financial success and focus on the perpetuation of family values and legacy (Berrone *et al.*, 2012; Clinton *et al.*, 2018). At the same time, many family firms foster a long-term mindset to create and sustain a legacy, as Kotlar *et al.* (2020) and Strike *et al.* (2015) have noted.

However, this orientation is not universal. The extent to which family firms embrace ESG practices can vary, often influenced by their specific long-term goals and legacy considerations. This difference might explain why some family firms are more proactive in integrating ESG

Figure 1: ESG pillars

principles than others. While some family firms prioritise control and continuity, this can sometimes introduce challenges such as nepotism and free-rider problems (König *et al.*, 2013; Hu and Hughes, 2020). Reduced transparency can compromise how stakeholders perceive the authenticity of the family business' ESG efforts. Transparency and accountability can mitigate the adverse effects of close family ties by aligning the firm's operations with broader stakeholder expectations (Wu *et al.*, 2023b).

Family firms may already be purpose driven and centre ESG principles in their values and practices. There is a spectrum of approaches then where ESG activities are already integrated to some degree if not fully. Our wider point in this report is that by incorporating ESG principles, family firms can elaborate on how they are purpose driven. Undertaking ESG activities can reflect a family's deep-rooted values while meeting the growing expectations of stakeholders such as customers, suppliers and employees, who are increasingly concerned with the sustainability and impact of organisational practices.

Accordingly, we define ESG in family firms as a long-term strategic approach that integrates environmental conservation, social responsibility and ethical governance into business practices, reflecting the family's values and commitment to sustainable development and long-term success.

"We define ESG in family firms as a long-term strategic approach that integrates environmental conservation, social responsibility and ethical governance into business practices, reflecting the family's values and commitment to sustainable development and long-term success."

3.3. The Advantages of ESG for Family Businesses

Existing studies about ESG practices within family firms reveal a multifaceted set of drivers shaping their adoption and effectiveness. Family firms that embrace a strong ESG approach can benefit in several ways, such as enhanced reputation (Ma *et al.*, 2023; Wang *et al.*, 2024), increased customer loyalty, potentially lower capital costs (Gjergji *et al.*, 2021; Kong, 2023) and lower risk perceptions among investors (Wu *et al.*, 2023a). Family governance is central to this discussion as it is through family governance that family are involved and mechanisms for ensuring non-financial priorities of the family can be exercised. Clear governance structures are important for ESG as they ensure that minority shareholders are protected irrespective of the interests of family shareholders (Ahmed *et al.*, 2024; Rees and Rodionova, 2015).

Further complicating the governance landscape is the influence of generational changes within family firms. For example, Huang and Chen (2024) find that new-generation family members often demonstrate a strong commitment to ESG principles, resulting in a greater emphasis on environmental responsibility, social contributions and transparent governance. This shift suggests that as family firms transition from one generation to the next, there may be a progressive alignment with ESG values in some cases. Still, the extent and nature of this alignment can vary depending on factors such as personal values and focus of the succeeding generation and the impact of the founders (Hu and Hughes, 2020).

Institutional investors are increasingly advocating for businesses to adopt strong ESG frameworks. Such adoption may help family firms navigate the complex risk landscape, including unprecedented challenges like those seen during the COVID-19 pandemic, while also bolstering the firm's reputation and fostering customer loyalty (Wu *et al.*, 2024).

Research on the social dimension of ESG has tended to focus on gender diversity and inclusive board representation. Research has highlighted that having women on boards and a diverse shareholder representation can influence ESG strategies, driving more inclusive and balanced governance within family firms (Nekhili *et al.*, 2021). These social factors, alongside a firm's reputation, trust and legitimacy within the community, shape its ESG decisions (e.g., Ma *et al.*, 2023; Choi *et al.*, 2024).

Financial constraints also play a role in determining the feasibility and scope of ESG initiatives for family firms. Effective ESG practices among family firms can lead to lower costs of capital due to reductions in risk perceptions among investors, aligning financial management with sustainable business practices (Espinosa-Méndez *et al.*, 2023; Wang *et al.*, 2024).

The commitment of family firms to ESG practices should be more than a matter of legal compliance or marketing. ESG should be at the heart of their operations, driven by family values, stakeholder expectations and financial pragmatism. As these practices become more standardised and expected across industries, family firms should continue to innovate and adapt their ESG strategies to maintain a competitive edge, ensuring that their legacy of environmental stewardship, social responsibility and ethical governance endures through generations.

4. REGULATIONS, POLICY FRAMEWORKS AND REPORTING

This section provides an overview of the UK and EU ESG regulations relevant to UK businesses. We include EU regulations because they apply to UK family firms if they make more than EUR 150 million in revenue on EU markets. We begin by examining the emergence of ESG in the UK. We then examine the debate about family firms as the ESG landscape in the UK developed and took form. This is followed by an explanation of the ESG regulations in the UK, which UK family firms need to be aware of.

4.1. The Emergence of ESG in the UK

The origin of the ESG debate can be traced back to the 1992 United Nations Framework Convention on Climate Change (UNFCCC) international treaty, which came into force in 1994. The well-known UN Conference of the Parties (COP), held since 1995, reviews progress made by members of the UNFCCC to limit climate change. The UNFCCC and COP inform the global pressure placed on governments and businesses to focus more on ESG matters.

COP communicates targets through national targets described as nationally determined contributions. COP assesses the results of measures taken against these targets. These targets represent expected efforts by each country to reduce national emissions and adapt to climate change. They are typically revised every five years. This ratcheting mechanism creates a cycle of increasing ambition. As a COP signatory, the UK Government is obliged to outline and communicate its actions against these nationally determined contributions. This ultimately transfers these targets onto businesses either through voluntary actions or legal frameworks and regulations.

ESG rose to prominence in the 2004 UN Global Compact report entitled "Who Cares Wins: Connecting Financial Markets to a Changing World" (United Nations Global Compact, 2004b). Managers and directors, consultants, financial investors, analysts and brokers, pension fund trustees (among the largest institutional investors), governments and regulators were all given a series of recommendations for better integrating ESG issues.

Laws followed, tending to target one or a combination of environment, social or governance categories. For example, in the two decades since 2004, the UK Government has passed legislation and introduced new regulations aimed at improving corporate governance, promoting social responsibility and protecting the environment:

- The Companies Act 2006 refines company law and sets standards around the governance category.
- The Climate Change Act 2008 legally binds the UK to reduce greenhouse gas emissions by at least 80 per cent by 2050, compared to 1990 levels. It also established the Committee on Climate Change to advise the government on emissions targets and report on progress.
- The Modern Slavery Act 2015 sets out measures requiring commercial organisations trading in the UK with a turnover over £36 million to produce annual statements on slavery and human trafficking, specifying what steps they have taken to eradicate forced labour from their organisations and their supply chains, wherever they may reside.
- The Companies (Miscellaneous Reporting) Regulations 2018 require large companies to disclose information on how directors have considered employee interests, how they foster business relationships, and the impact of the company's operations on the community and environment.
- The Environment Act 2021 sets measures and requirements around air quality, water, deforestation, biodiversity, chemicals, waste reduction and resources efficiency, and included the creation of the Office for Environmental Protection.

Human rights laws, anti-slavery and anti-exploitation laws, employment laws, and environmental protection and climate change laws are all further examples of regulations that speak to the E, S, or G of ESG individually. However, treating ESG requires treating all three dimensions together (United Nations Global Compact, 2004). UK and EU regulations specific to ESG came into force in 2024. These regulations are discussed in sections 4.3 and 4.5.

In some cases, this body of legislation created business opportunities in the UK and worldwide. For example, there are (regulated and unregulated) markets for carbon credits, carbon offsetting, carbon neutral certification and 'green' accreditation, and B Corp Certification for meeting social and environmental performance standards (see section 5.2.2 for a detailed explanation of B Corp certification).

From an ESG perspective, meeting legal and regulatory requirements represents the minimum a family firm can do. Meeting minimum legal requirements indicates no special commitment to excelling at ESG activities. Going beyond the legal minimum begins to set a family business apart from its peers, which might form the cornerstone of ESG-based competitive advantage. The difference does seem to matter, with a series of small boutique consultancies and traditional large advisory firms (e.g., KPMG, Deloitte, PwC, EY, McKinsey & Company, Bain & Company, and Grant Thornton) providing various forms of ESG services, reporting assistance, frameworks, and advice to public and private enterprises, including family businesses.

Going beyond minimum legal requirements and reporting standards relies on family businesses being able to tell a story about their ESG activities, principles and credentials. As yet, there are no UK or EU regulations to this effect. But in the UK, several practice guidelines, including those that incorporate additional voluntary standards and certifications, are available to support this storytelling (see section 5).

Family businesses are engaging in ESG activities, but some behavioural change among UK family businesses is necessary for them to become more widespread. An ESG Director at a large UK family business in the construction industry we interviewed explained this to us. As shown in Vignette 1, because there are many regulations individually relevant to the environment, most people tend to focus only on net zero or carbon reduction, missing how, under ESG regulation, environment, social and governance are entwined.

Vignette 1: ESG policies require behavioural change to be effective

An ESG Director at a large UK family business in the construction industry explained that "People are very much focused on net zero carbon... People complicate it and overcomplicate it... But what about all the things outside of that because net zero isn't all about carbon, it is also looking at alternatives, solar, technologies, etc.". The ESG Director further emphasised that "the behavioural change is what people struggle with". For instance, some engineers having worked in a particular way for a long time find it difficult to understand why changes are implemented. A further example came from bidding for work and tendering processes. Clients call on businesses to demonstrate their commitment to ESG because they too have ESG-related targets. Those businesses that cannot demonstrate their commitment to ESG activities are prevented from bidding or looked at unfavourably.

To help with the behavioural change, this particular organisation has an ESG Director, who has the opportunity to trial different ESG initiatives. The organisation also appointed an ESG external professional on the board to help with changing behaviour and communicating their ESG activities.

ESG Director (non-family)

4.2. ESG and Family Business

Sustainability is becoming more central to discussions concerned with organisations and their environmental and social responsibilities (Kemp, 2024; KPMG, 2024). Corporate social responsibility (CSR) put sustainability centre stage. But ESG has eclipsed CSR as a discourse for discussing sustainability issues in family firms. This shift is at least in part due to metrics and reporting requirements around ESG, regulatory compliance requirements, and how financial institutions increasingly make use of ESG data for investment purposes. The way of talking about sustainability has shifted accordingly. In this section, we explain why family businesses might be well suited to adopting an ESG approach to governing and managing their firms, and what might hinder its adoption.

4.2.1. Positioning of family firms and the ESG agenda

Family firms are in an interesting position when it comes to the ESG agenda (Kemp, 2024). They tend to have a well-developed identity (Zellweger, Eddleston and Kellermans, 2010), heritage (Spielmann *et al.*, 2022), and a strong sense

of commitment and purpose (Kachaner, Stalk and Bloch, 2012). Legacy matters to family business owners and gives rise to a long-term orientation (Lumpkin and Brigham, 2011; Nordqvist and Jack, 2020; Radu-Lefebvre *et al.*, 2020). For these reasons, family businesses tend to be particularly resilient to change (Kemp, 2024; Nordqvist and Jack, 2020).

The next generation is key to the legacy of family firms. However, engaging the next generation can be especially difficult for family firms (IFB Research Foundation, 2019). An ESG agenda can help support the process of involving future members of the family firm. For many family firms, the next generation will have grown up with messages about the climate, environment and social issues, and will have a desire for change. The findings from PwC's 10th Global Family Business Survey (2021) suggest that ESG may provide a way to engage the next generation for whom purpose and meaning are important. Indeed, PwC (2021, p.15) argues that "younger generations are the driving force behind sustainability, and in family businesses they are looking for greater responsibility". So, the ESG agenda can offer an opening for giving the next generation a voice and the opportunity to bring their ideas and new perspectives to the family business (Calabrò and McGinness, 2020) to support its ESG activities.

4.2.2. Family firms and social impact

Each new generation is an opportunity to bring a different outlook and business philosophy from predecessors to the family businesses – and the Millennial generation values making a social impact (Calabrò and McGinness, 2020). A focus on social impact reflects how family firms engage with society and local communities (Glover and Trehan, 2020b). They are well placed to support social investing and its reporting, and appreciate the social impact the family firm can have on its local community. Glover and Trehan (2020a, p.1) have identified the types of activities that family firms are likely to engage in and support within their community:

- fundraising and donations
- volunteering through project-specific work
- becoming charity members
- offering personal and skills development
- providing jobs and training
- matched-funding schemes
- organising community charity days
- establishing family foundations, and
- supporting business umbrella organisations/ partnerships for excluded groups.

The rise in prominence of ESG may encourage family businesses to reflect on or become more aware of their social value and social impact. We expect that many UK family businesses are already doing lots of good ESG-related things without necessarily realising it. Vignette 2 gives an example from our data collection about how ESG is often a family priority whether deliberate or not:

> **Vignette 2:** ESG is often also a family thing
>
> As a family who have been in the community for generations, one family business owner in the tourism industry explained that they simply want to take care of the town they serve. Many of their ESG initiatives, including solar panels, waste processing systems and the preservation of buildings' original features, come from their wish to make their business practices sustainable, for the community and for the family.

Nevertheless, a study by Englisch (2021) for PwC found that many of the family businesses they surveyed were some way off being concerned with integrating social needs with business operations. Rather than ESG being a top priority (39 per cent), family businesses were more likely to prioritise new markets (82 per cent) and enhancing digital capabilities (80 per cent).

4.2.3. Networks, family firms and ESG

Working out what others are doing around ESG can be difficult. However, family firms will likely be able to navigate this landscape more easily than other types of organisations because of their networks and the family firm-specific groups that they can join. Family firms tend to have well-developed personal and professional networks that have often been built up over time and generations (Zellweger *et al.*, 2019; Leppäaho *et al.*, 2022). These networks offer family firms the opportunity to draw on the expertise and knowledge from within their networks to build an understanding of what others are doing in this space. Building more collaborative networks and working together strategically to set ESG targets for delivering on the ESG agenda can make a difference (Englisch, 2021).

4.2.4. Trust in family firms and ESG

Englisch (2021) has reported that to build trust with their stakeholders, the business community should go further in building ESG into all aspects of their activities. According to Englisch, family businesses are in a unique position when it comes to the ESG agenda; they are an organisational form that tends to be trusted more than others because they often hold values and commitment to society at their core and tend to support their employees and communities. Building ESG activities into the business is an important factor in long-term success (Englisch, 2021).

For some time, it has been understood that trust and reciprocity existing in networks of suppliers, owners, employees, consumers and the community are beneficial for family businesses (Edelman Trust Institute, 2024). Trust from the community and employees means that family businesses could find it easier to recruit and retain employees, and harness local support. Internal and external stakeholders tend to have trust in family firms, believing that they will act responsibly and feel morally obliged to do the right thing for communities and the environment (Englisch, 2021). Trust is developed over time and relies on integrity, competence, consistency, loyalty and openness (Family Business Consulting Group, 2024).

Ensuring the community is engaged with building the firm's sustainability strategy as it moves forward while also building and extending trust helps family firms to understand the context in which they are operating and how they will meet their ESG goals.

4.3. ESG Regulation in the UK

The UK's first attempt at ESG regulation came into force in the financial year starting 6 April 2022 (Department for Business, Energy & Industrial Strategy, 2022), when the Task Force on Climate-related Financial Disclosures (TCFD) framework and accompanying standards became mandatory for UK-publicly quoted companies, large private companies and limited liability partnerships. The TCFD framework and standards became mandatory for large private UK companies from April 2022. The UK was the first country to make compliance with these standards mandatory.

The TCFD was disbanded in October 2023 with the International Financial Reporting Standards (IFRS) Foundation taking over the monitoring of climate-related disclosures (IFRS Foundation, 2024b). The IFRS Foundation created the International Sustainability Standards Board (ISSB) as its independent standard-setting body to develop the IFRS Sustainability Disclosure Standards.[1] The TCFD recommendations form the basis for the climate-related aspects of these standards.

On 26 June 2023, the ISSB announced the IFRS Sustainability Standards, intended to enhance globally comparable sustainability-related disclosures. The information provided as a part of these disclosures is intended to support decision-making, indicating that the level and nature of the disclosure will be substantial (IFRS Foundation, 2024b). The UK Government is committed to introducing mandatory reporting against the ISSB standards (Department for Business and Trade, 2024), with implementation expected for January 2026 (HM Government, 2023).

The ISSB issued two inaugural standards – IFRS S1 and S2.[2] These reporting standards are intended to help improve trust and confidence in company disclosures, in this case about sustainability. They are an attempt at creating a common language for disclosing the effects of climate-related risks and their opportunities on a company's prospects. IFRS S1 requires disclosures about the sustainability-related risks and opportunities a company faces over the short, medium and long term. The IFRS S1 disclosure requirements are structured around the four pillars of governance, strategy, risk management, and metrics and targets. IFRS S2 requires a firm to use scenario analysis to assess its climate resilience. IFRS S2 also results in the disclosure of climate-related risks and opportunities useful to users of general-purpose financial reports. Table 1 shows the content of the IFRS S1 and S2 standards.

The historical connection between the TCFD and the ISSB and IFRS can create confusion about whether to adhere to the TCFD standards or transition to IFRS S1 and S2. However, as noted by the IFRS Foundation (2024b):

"Companies applying IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures will meet the TCFD recommendations as the recommendations are fully incorporated into the ISSB's Standards. Companies can continue to use the TCFD recommendations should they choose to do so, and some companies may still be required to use the TCFD recommendations. Using the recommendations is a good entry point for companies as they move to use the ISSB's Standards."

On 31 May 2024, the UK's Financial Conduct Authority's (FCA) Sustainability Disclosure and Labelling Regime (formerly the Sustainability Disclosure Requirements) came into force for all FCA-authorised firms that make sustainability-related claims about their products and services (FCA, 2024). This Regime is an anti-greenwashing initiative that aims to ensure that financial products marketed as sustainable truly are sustainable (FCA, 2024).

The principles behind the regime may well extend to other types of businesses both informally and formally over time. For example, three key points from the Sustainability Disclosure and Labelling Regime are relevant to UK family firms.

Table 1: International Sustainability Standards Board inaugural standards for UK firms
Source: IFRS Foundation[5]

IFRS S1[3]	IFRS S2[4]
Applies to: (a) All sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. (b) Sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects.	Applies to: (a) Climate-related risks to which the entity is exposed, namely climate-related physical risks and climate-related transition risks. (b) Climate-related opportunities available to the entity.
Required disclosures: • the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities; • the entity's strategy for managing sustainability-related risks and opportunities; • the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and • the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.	Required disclosures: • the governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities; • the entity's strategy for managing climate-related risks and opportunities; • the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and • the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

1. While targeted at financial products and FCA-authorised firms, scrutiny of green and sustainable claims will continue to rise. Stakeholders and consumers will scrutinise family firms eager to make claims about their green credentials for their genuineness.

2. Firms must generate, possess and record broad, rich and granular data to verify their claims. Facts must follow claims, and family firms must be able to show that their claims about being green and sustainable are credible.

3. Looseness in marketing sustainability claims is unlikely to go unnoticed. Exaggerating green and sustainability credentials while evidencing other poor practices will lead to perceptions of greenwashing. A continued trend will likely result in more widespread legislation rather than voluntary policing.

Separately, from March to June 2023, the UK Government consulted on a future regulatory regime for ESG ratings providers (HM Treasury, 2023). Asset managers widely use ESG benchmarks to help select stocks or make investment decisions. It was announced in the 2024 Spring Budget that the UK Government will regulate the provision of ESG ratings where assessments of ESG factors are used for investment decisions or influence capital allocation (HM Treasury, 2023). The UK Government's objective in taking this action is to enhance "clarity and trust" in ESG ratings, which guide investment decisions (Reuters, 2024). This reflects broader concerns that ESG ratings may be susceptible to manipulation or greenwashing.

At present, the activities involved in compiling ESG ratings are unregulated. However, there is no clear timeframe for this legislation. Lorraine Johnston, head of ESG regulation at law firm Ashurst, has noted that

> "What industry is really looking for is the clarification around what will constitute an ESG rating and who will be in scope as an ESG rating provider for such ESG ratings" (Reuters, 2024).

Tax reporting requirements concerning ESG are so far unclear. The old TCFD framework, now incorporated under the ISSB's Standards and monitored by the IFRS reporting requirements, suggested some tax implications, including future environmental taxes and possibilities around asset impairment originating from climate change. While mandatory requirements are not yet established, tax transparency is a feature of some voluntary ESG frameworks. Given the direction of travel of ESG standards,

reporting and legislation, tax reporting cannot be ruled out in future iterations of existing ESG standards.

ESG regulations dictate the kind of data that family businesses will need to collect and report in the future. Being ready and able to provide accurate, reliable and timely data calls on UK family firms to invest in information technology and information systems, data management and archiving, and digitalising their business. A family business adviser we interviewed expressed concern about the state of information technology systems among UK family firms, as outlined in Vignette 3.

While many family firms are not yet subject to UK ESG regulations, it is important that they start acting now, especially with a view to the formal adoption and expansion of the ISSB standards in the UK. From our interviews, where to start is one of the main challenges facing UK family firms. Vignette 4 reports how a third-generation managing director of a large family business started small and coordinated to galvanise action.

Vignette 3: Data and cyber security in family businesses

"They [family businesses] have data, but it isn't all in the one place, it's not properly warehoused. It's not protected. So, the risk of family businesses to cyber-attacks, I think, is really high."

"Because they've under-invested, but if they start to think about data as an asset of the business as a way of predicting future strategy, then the best businesses are going through that process now and that will really change."

"So, what I see is a different approach to data as an asset, a different approach to investment in technology and systems, so that they can actually pull that data together because they see that as providing different advantages and outcomes."

Family Business Adviser

Vignette 4: How a large family business in the construction industry started small on the "E" in ESG

As a managing director explained, carbon reduction is difficult because the problem is vast and "there are a lot of people that are really good at talking about the problem" who constantly say what needs to change. However, "people don't know where to start". That's why the organisation focused on the small day-to-day things: installed solar panels, switching off the air conditioner and closing the windows when the air conditioner is working, and planning the routes of employees and engineers smarter to reduce travel.

Managing Director (third generation)

4.4. ESG and the Wates Corporate Governance Principles

Although designed for corporate governance reporting, the Wates Corporate Governance Principles overlap with some of the wider aspects of the ESG agenda. The intent behind the Wates Principles was that "good business, well done, is a force for good in society" (Financial Reporting Council, 2018, p.1). This is clear in their emphasis on purpose and leadership (Principle 1) and fostering effective stakeholder relationships inside and outside the organisation (Principle 6).

The Wates Principles provide a framework and reporting structure to help large private companies raise their corporate governance standards and fulfil their legal requirements (see Financial Reporting Council, 2018). Figure 2 shows these Principles schematically.

Figure 2: The Wates Corporate Governance principles

Under The Companies (Miscellaneous Reporting) Regulations 2018, private companies meeting either or both of two size criteria must disclose their corporate governance arrangements in their directors' reports and on their websites. The Wates Principles apply to private companies that (1) employ more than 2,000 people or (2) have a turnover of more than £200 million and a balance sheet of more than £2 billion, or both. Companies that are subject to an existing corporate governance reporting requirement are exempt from this legislation.

The Wates Principles can also be used voluntarily by those businesses seeking to give greater credibility to their corporate governance and demonstrate their professionalism. The Principles differ from other UK ESG legislation because they contain an accompanying narrative component. Reporting against the six Principles requires companies to explain in their own words how they implement them. A recent study by the Family Business Research Foundation found that while family firms are more likely to adopt the Wates Principles than their non-family counterparts, gaps remain in areas like board composition and director accountability (Kemp *et al.*, 2024).

4.5. ESG Regulation in the EU

The Corporate Sustainability Reporting Directive (CSRD) and the related European Sustainability Reporting Standards (ESRS) drive the EU's expectations and legal minimum requirements (European Union, 2022). The CSRD entered into force on 5 January 2023. The CSRD requires all large companies and listed small- to medium-sized enterprises (SMEs) to report on sustainability against the ESRS criteria (European Union, 2023). These standards comprehensively cover ESG issues, including climate change, biodiversity and human rights. Some non-EU companies will also have to report against these criteria if they generate over EUR 150 million of revenue in EU markets. These standards apply to those companies under the scope of the CSRD regardless of sector. The CSRD also requires assurance of the sustainability information that companies report, suggesting the need to audit sustainability reporting in the future and reaffirming the market opportunities for ESG Assurance and Reporting pursued by boutique and traditional consultancy and advisory services.

Beyond general requirements (ESRS 1) and general disclosures (ESRS 2), companies must report about climate change mitigation, pollution, use of water and marine resources, biodiversity and ecosystems, resource use and circular economy measures, their workforce, workers in their value chains, affected communities, consumers and end-users, and their business conduct. The full ESRS can be found in Annex 1.

On 8 February 2024, the European Parliament and the Council announced an agreement to postpone the deadlines for adopting sector-specific ESRS by two years. This does not eliminate reporting requirements.[6]

4.6. Key Messages about UK and EU ESG Regulations

The regulatory landscape is changing rapidly. One worrying feature of current ESG regulations is that they are designed with mainly large firms in mind, with little clarity on what regulations might come into force for SMEs in the future. The same problem exists for family firms. ESG regulations will require a large amount of disclosure, which goes against the more private nature of many family businesses. Disclosure about ESG and activities will also require a considerable annual data collection effort. Readiness for ESG disclosure will require several investments in data management and information technology infrastructure.

ESG regulations are complex, and they should not be confused with individual regulations about the environment or employment law, which are not in themselves ESG laws. The purpose of ESG as a concept and set of regulations is to tie environment, social and governance together. Integrating environmental, social and governance collectively in ESG regulations is necessary to assessing a firm's full commitment to sustainable development.

For UK family businesses that do not yet fall under existing ESG regulations, preparatory work to capture evidence of their ESG credentials should start now. While regulations often act as a carrot-and-stick to motivate action, responding to minimum legal requirements is unlikely to unlock ESG-based advantages for a family firm. Instead, the uncertainty around future ESG regulation combined with social and political pressure for all businesses to act in the interests of the environment, the planet and their stakeholders has led to many voluntary initiatives in recent years. These include practice guidance, practical frameworks, voluntary disclosures and certifications. These are reviewed and discussed in the next section.

5. PRACTICE GUIDANCE AND PRACTICAL FRAMEWORKS

This section reviews practical guidance and frameworks available to support family firms in developing a suite of activities or strategies around ESG. It begins by examining why practical guidance and frameworks are valuable to family firms beyond adhering to minimum legal requirements set out in UK regulation. The clamour for ESG among stakeholders and for firms to show their ESG credentials has already created a battery of voluntary certifications, standards, and pledges. This section reviews these and analyses their implications.

5.1. Going Beyond the Minimum of ESG Efforts: From Practice to Purpose?

Various reports and studies document that family firms socially support and invest (often financially) in their local communities (Glover and Trehan, 2020a, 2020b). Family firms' long-term orientation (Clinton *et al.*, 2018) and focus on future generations suggests that they may be more likely to have a greater disposition toward ESG than other firms. But this would require further validation and presents a promising avenue for future research in the field. Family values in connection with a desire for transgenerational succession, a sense of purpose and, where relevant, heritage and a sense of place can motivate efforts consistent with ESG credentials (e.g., Glover and Trehan, 2020a).

In Figure 3, we depict how these family business features join in ways that channel family businesses as a force for good. Of note, however, is the role of generations in the family business. For example, in the UK education system, today's next generations are taught about climate change, the environment and sociocultural concerns at primary and secondary schools, imprinting ESG into their values education, and worldview. Non-family firms experience that pressure mostly from the next generation of Millennial and Gen-Z consumers and customers (e.g., Acree, 2023). Family firms are much more likely feel that pressure more acutely due to how business and family systems unite inside a family business to determine its environmental sustainability strategy (e.g., Gerlitz *et al.*, 2023).

What form that action takes in terms of ethical and responsible behaviour among family businesses is less certain. For example, data from the UK's Longitudinal Small Business Survey, Oxford Economics and the IFB Research Foundation (2022) found that a similar proportion of family and non-family SMEs had installed energy-efficiency measures in 2020. However, when examining the reasons why energy-efficiency measures were implemented, 32.2 per cent of non-family SMEs reported climate change, environmental and reputational concerns as the reason for doing so versus 16.35 per cent of family SMEs, while family firms identified reducing energy costs as the main reason (49.9 per cent versus 45.2 per cent).

Our interview evidence further suggests that family firms value their social contributions, especially to their communities, reflecting an observation made in the SOTA review by Glover and Trehan (2020b), which presented evidence on the social-economic contributions that family businesses make to the UK. Vignette 5 summarises several examples of community engagement and social impact initiatives used by the UK family businesses we interviewed. See Glover and Trehan (2020a) for further examples.

Vignette 5: Examples of social value initiatives used by UK family businesses

- Helping employees on lower salaries with living costs.
- Supporting the learning and development of employees both inside and outside of work.
- Planting a tree for every employee.
- Family day out for tree-planting.
- Preserving local traditional buildings.
- Supporting local suppliers.
- Supporting local charities.
- Setting up a charitable foundation to support community projects.
- Organising free events for charity leaders.
- Reducing working hours for employees in the summer to enjoy the season.

These recurring themes place considerable emphasis on narratives and may be relatively informal in terms of approach. Some of the family businesses we interviewed

Figure 3: Family business as a force for good

explained that, while they have many social and community initiatives, these were typically not coordinated together in a coherent way or underpinned by a common strategy, and their impact could not be accurately measured or calculated. To that effect, a managing director in a large family business explained that they spoke to specialist companies to develop a strategy on how to measure social value.

The stories family businesses share about what they do, and the sources they draw upon for these accounts, can help shed light on the contribution they make to their communities and to society more generally. Vignette 6 provides an example of how one family business owner we interviewed hosts a family day for its staff and employees to care for the landscape in their local community.

Vignette 6: The family that changes the local landscape

A family business owner described planting trees as their way of protecting and preserving their local community, including the landscape and environment. They would often have a "family day" planting trees in the fields. When looking at the fields, they proudly pointed to some small forests that were linked with some other forests. They have been trying to "plant trees in certain areas so that they could join up the woodlands so that animals could move across the moorland safely".

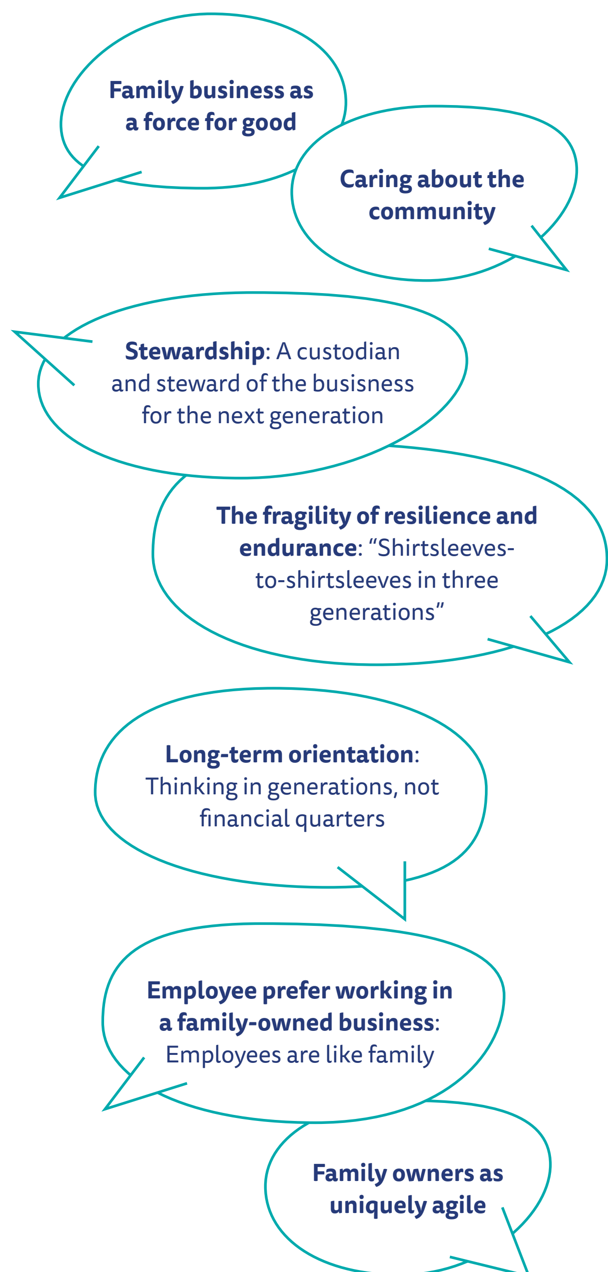
Family Business Owner

Kustin (2021) produced a toolkit for responsible ownership that highlights seven narratives business-owning families use to articulate and communicate how they understand their obligations, duties, responsibilities and accountability towards multiple stakeholders. Figure 4 summarises the seven narratives. They can serve as starting points for building ESG-related stories and accounts.

Family firms that can account for their ESG activities and credentials can potentially unlock a unique competitive advantage (e.g., Ge *et al.*, 2022). These stories can also serve an internal and external purpose, encouraging family members and employees to strive for the greater good while also helping to onboard, retain or draw favour (and resources) from relevant stakeholders.

Figure 4: ESG-relevant narratives family businesses tell themselves

Source: Our illustration of narratives identified by Kustin (2021).



5.2. Voluntary Certifications and Standards

Formal standards that businesses must report against are legal requirements and meeting minimum standards is unlikely to provide any competitive advantage or differentiation. However, voluntary certifications and standards allow family businesses to go beyond the legal minimum in a recognised way. For example, family businesses can apply for two main voluntary standards: (1) ISO26000 and (2) B Corp status. Family businesses must consider the implications of taking up any extra work to achieve a voluntary certification or a standard. For example, some small- to medium-sized family businesses may struggle with the effort, time and money needed for these endeavours (e.g., due to data capture and collection requirements, time or financial constraints, or needing to pull people away from other important projects or tasks).

5.2.1. ISO26000 social responsibility

Released in 2010, ISO26000 is an international standard that provides guidance to businesses and organisations on social responsibility (ISO, 2024). Applying ISO26000 can be used to assess the business's commitment to sustainability. ISO26000 provides guidance in seven areas: organisational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development. It contains two fundamental practices of social responsibility: (1) recognising social responsibility and (2) stakeholder identification and engagement (ISO, 2010). These practices direct activities within the seven core subjects (ISO, 2010).

To demonstrate its application of ISO26000, the business must show how it integrates social responsibility through the organisation against these seven core subjects and the two fundamental practices (ISO, 2010). Importantly, ISO26000 provides guidance rather than requirements, so it cannot be certified, unlike most other ISO standards. To be clear, the ISO26000 guidance standard is not intended for certification (ISO, 2024). For this reason, organisations that want to communicate how they use the ISO26000 standard should be careful not to make claims about certification. Figure 5 depicts the seven dimensions of ISO26000. The key advantage of ISO26000 is that it connects to wider debates about sustainability, sustainable development goals and social responsibility, and can benefit family firms that would like a comprehensive framework to inform their ESG activities (ISO, 2024).

5.2.2. B Corp certification

B Corp certification arose repeatedly in our interviews with family business owners and advisers. Vignette 7 illustrates how one UK family business took a long view on ESG by starting with B Corp Certification. Vignette 8 shares the views of a second-generation small family business in the consulting industry about the value of B Corp certification from a business practice perspective. B Corp Certification is an initiative owned and led by B Lab. UK applicants must complete a 'B Impact Assessment' of their environmental and social performance that, after review, must score 80 or above on to meet B Corp requirements (B Lab UK, 2024b). Those businesses achieving B Corp status must (currently) recertify every three years.

Figure 5: ISO26000 social responsibility

Vignette 7: A small family business aims to make a long-term difference

"As a family business, it's our mentality to take the long view. For us, that means doing our part to protect the environment today so that we can still be around for years to come."

Founded in 1837, this Lancashire-based small family business became a certified B Corp in 2024.

When asked about the B-Corp certification process, the family business owner-manager said that with a five-member family management team, the family had to pull resources from all directions to undergo the extensive journey to B Corp certification.

Vignette 8: B Corp as an ESG strategy for small family businesses

A second-generation small family business in the consulting industry sought B Corp status to help them create an ESG strategy. Their Managing Director explained that they had many ESG initiatives, but these were disparate and uncoordinated. Going for B Corp status allowed this small family business to develop a coherent ESG strategy. For example, the Managing Director commented that "you can't integrate ESG policies, practices, and processes until you have a more measurable way of working". One person worked for six months to obtain B Corp certification. Also, B Corp requires recertifying every three years. On certification, B Lab identified several areas for the business to improve including a greener website and reducing their digital footprint. A resulting initiative was to clean up their customer relationship management system to remove redundant data. These features of B Corp certification enable the business to continuously learn and improve their ESG activities.

Managing Director (second generation)

B Lab measures a business's complete social and environmental impact. To be B Corp certified, businesses must demonstrate:[7] (1) high social and environmental performance by achieving a B Impact Assessment score of 80 or above and passing their risk review; (2) amendments to the company's legal structure and Articles of Association to show its commitment to being a responsible business, and (3) achieve benefit corporation status if relevant and available in their legal jurisdiction. Also, (4) all certified B Corps in the UK must write an annual impact report. A submission and verification fee and an annual membership fee must be paid. While B Lab UK leads the evaluation, B Lab Global leads verification. See B Lab UK (2024b) for further information on certification requirements.

While the B Corp process is onerous, a family business adviser we interviewed was in no doubt of the real, practical, positive difference it can make to family businesses (see Vignette 9).

Vignette 9: A Family Business Adviser's view on B Corp

"And it's quite an onerous process to get B Corp status, but we are starting to hear real practical consequences in terms of the positive way that it can make a difference to how businesses operate going forward."

"A sustainability leader was saying how they're using it to then create a mindset shift in the organisation. They're using that to talk to their people coming through and saying this is what it means for the future. And this is, and this is what it means for you in terms of how you maybe need to think differently."

"They're using that as a catalyst for change going forward."

Family Business Adviser

In their UK guide to the B Corp Certification process, B Lab UK describes this legal change as

> "a commitment to consider the impact of decisions on your company's stakeholders now and in the future by building this consideration into your constitutional documents" (B Lab UK, 2024a).

Importantly for family businesses, companies seeking B Corp certification must amend their Articles of Association to include the B Corp legal requirement wording, which should be adopted verbatim (B Lab UK, 2024b).

The implications of these certification requirements for UK family businesses are stark. Making a legal commitment by changing their corporate governance structure and Articles of Association to be accountable to all stakeholders represents a fundamental ceding of control that can affect the family's ability to decide its actions and assets. This requirement might affect their accumulated socioemotional wealth and ability to practice personalised and parsimonious control over the business. This certification calls for much closer involvement of stakeholders in business activities and decisions, and public disclosure of business activities and impact. In many ways, this is a positive step towards writing the narratives needed to show how the family business achieves ESG excellence. Still, it is not without financial and non-financial costs.

The need to consider stakeholders' interests[8] and the impact of business activities on society and the environment when making decisions, implies considerable reach into family businesses. This might be welcome, and

several family firms we spoke to are B Corp signatories. But this requirement might not suit all family businesses, especially those that wish to shape their legacy and decisions independently.

5.2.3. Other voluntary frameworks relevant to UK family firms

Beyond legal requirements, certification, standards and principles lie voluntary commitments and pledges. Many voluntary disclosures are available to businesses, including CDP, formerly known as the Carbon Disclosure Project, a non-profit founded in 2000. The Climate Score produced by CDP informs sustainability rating providers (e.g., EcoVadis). It focuses largely on the environmental component of ESG and, therefore, is only partly an ESG tool. The CDP is not a form of certification or accreditation. Those making disclosures are eligible to receive and display a 'CDP discloser badge'. This further indicates the extent to which commercial opportunities for ESG assurance and ESG advice exist in the landscape of ESG reporting and amid the social, economic and political pressures for ESG action.

The joint Family Business Network (FBN) and United Nations Trade and Development (UNCTAD) "Family Business for Sustainable Development Pledge" builds on an initial FBN-developed pledge.[9] As a part of the pledge, "business-owning families, their firms, and the wider family business ecosystem adopt a more purpose-driven business model, therefore contributing to global sustainable development, inclusive growth, and prosperity for all" (Family Business for Sustainable Development, 2024a; FBN, 2023). The pledge does not specify how business-owning families or their firms can impact the wider family business system. It suggests that those signing up to this pledge are expected to advocate its adoption by other family businesses and business-owing families.

At the time of writing this report, there are over 450 signatories and 14 from the UK (Family Business for Sustainable Development, 2024a). Signatories pledge to promote sustainable growth, environmental stewardship, social inclusion and good governance – all commensurate with a wider ESG remit. Enrolling and committing to the pledge provides access to a framework to assess the family business's sustainability performance. The pledge includes a package of deliverables to make measurable contributions to the United Nations' 17 Sustainable Development Goals. Central to this are its "Sustainability Indicators for Family Business (SIFB)", consisting of generic economic, environmental, social and institutional areas and a dedicated family business area (Family Business for Sustainable Development, 2024b). The indicators are again extensive, further underlining how even voluntary disclosures and committing to pledges of this kind can involve detailed reporting requirements to evidence the family business's performance.[10] A variation of this pledge is the Polaris initiative by the FBN.[11]

Ultimately, the implications for those family businesses that do not live up to their pledge are unclear. Being voluntary, it is difficult to see how performance can be policed and whether commitments will stray when a family business is pressured or in crisis or turmoil. The relative benefits of signing up for pledges are also yet to be established and require research and evaluation. The larger and unanswered question is the extent to which these types of pledges may come to inform more formal disclosure requirements in the future – the competition and marketplace for standard setting are two overlooked features of the ESG agenda and debate.

Pledges are, ultimately, another way for a UK family business to signal its good intentions. Vignette 10 shares insight from a small UK family business that focused on acting proactively and taking positive action rather than relying on intentions and words alone.

Vignette 10: Actions are as important as intentions

Long before sustainable development goals cemented themselves in public consciousness, a small family business decided to invest in advanced zero-emission machinery simply because they felt it was the right thing to do. When prompted about other certifications, the owner explained that it is about doing the right things. The family business owner explained that they had to look into the different certificates, pledges and initiatives to find the right one (if any) for them.

5.3. Key Messages from the Practice Guidance and Practical Frameworks Review

Meeting minimum regulatory requirements is unlikely to yield any ESG-based advantage or reveal much about the family firm's underlying ESG credentials. Moreover, because existing ESG regulations apply mainly to large firms, there may be a risk of some of the family firms being unaffected by these regulations failing to consider the implications of ESG for their activities.

Our review of practice guidance and practical frameworks highlights the variety of toolkits, voluntary certifications, standards and pledges that family businesses can use or commit to in order to create confidence in their ESG credentials. They are also useful for benchmarking or developing a business-specific approach. The importance of family firms demonstrating these credentials is

increasingly apparent, with B Corp Certification being one of the most tangible methods by which family businesses evidence their credentials. However, the value of pledges over such approaches to certification or provision of evidence relating to ESG is unclear; pledges signal intent but there is no guarantee that such intentions will translate into positive ESG outcomes.

The recurring theme among all voluntary endeavours is that practice guidance, practical frameworks, certifications, pledges, or other voluntary initiatives or disclosures provide frameworks and guidance for family businesses on how to integrate ESG into their activities and communicate their ESG credentials to their stakeholders. ESG-related competitive advantages rely on these narratives and stories because they differentiate the efforts of one business from another.

The next section reports the results of our review of academic research into ESG and family firms. Combined with our reviews of UK and EU regulations, practice guidance and practical frameworks, the literature review allows us to identify the level of our understanding of ESG behaviour among family firms, its effects and where more research is needed.

6. REVIEW OF RESEARCH INTO ESG IN FAMILY FIRMS

This section reports the findings of our review of research into ESG in family firms. The methods used to carry out this literature review are set out in Annex 2. Reviewing academic research into ESG and the family firm identifies where existing research has concentrated its efforts. Along with our examination of UK and EU regulations, practice guidance and practical frameworks, the review of research into ESG in family firms allows us to identify where new research is urgently needed.

6.1. The Landscape of Family Firm ESG Research

Table 2 provides an overview of the distribution of the 29 research articles identified in our review. The data in Table 2 shows that most of the research on ESG and the family firm is published in journals focusing on finance and environmental issues. For instance, the *Journal of Cleaner Production and Finance Research Letters* both published four articles on the matter, underscoring a core scholarly interest in sustainability and the financial implications of ESG in family firms.

The analysis revealed an inclination towards quantitative approaches in examining ESG activities and performance, with 26 of the 29 studies employing a quantitative approach – for example, Ahmed *et al.* (2024), Arduino *et al.* (2024), and many others spanning several years up to 2024.[12] This highlights the dominance of quantitative approaches in studying family firm ESG behaviour.

Table 2: CABS AJG ratings of journals publishing articles on ESG in family businesses

Journal name	Number of articles
Research in International Business and Finance	1
The British Accounting Review	1
Technological Forecasting & Social Change	1
Family Business Review	1
Corporate Governance: An International Review	2
Business Strategy and the Environment	1
Journal of Corporate Finance	1
Journal of Cleaner Production	4
Journal of Environmental Management	1
Finance Research Letters	4
Sustainability	4
Applied Economics	1
Applied Economics Letters	1
Economies	1
Eurasian Business Review	1
Journal of International Financial Management & Accounting	1
Social Responsibility Journal	1
Corporate Social Responsibility and Environmental Management	1
Review of Managerial Science	1

By contrast, other research strategies, such as case studies, literature reviews and qualitative research methods, are underrepresented. Policy evaluation and analysis of the effects of legislation are also underrepresented. Each of these methods accounts for just one study, as demonstrated by Choi *et al.* (2024) with a case study, Gillan *et al.* (2021) with a literature review, and Gerlitz *et al.* (2023) using a qualitative approach. This underscores a strong preference for quantitative methods in research on ESG but also highlights a potential gap in the evidence on ESG in family firms.

The dominance of quantitative methods in ESG research on family firms shows that the research primarily focuses on measurable outcomes and statistical analysis to understand the impact and performance of ESG activities within organisations. However, this may overlook the contextual insights that qualitative studies can offer. Considering the research mainly focuses on ESG activities and performance, the overwhelming reliance on quantitative research raises concerns about the depth of understanding of how ESG practices are implemented and integrated into family-owned businesses.

There is a notable gap in exploring the more subjective aspects of ESG engagement, such as the motivations and intentions behind ESG initiatives – whether a genuine passion among family members drives these or they are more influenced by external stakeholders or non-family

members within the firm. Furthermore, qualitative inquiries could enrich the understanding of how ESG activities interact with generational transitions in family businesses, how family ownership and management influence ESG strategies, and the dynamics between family and non-family members regarding sustainability initiatives. Quantitative research strategies may not fully capture insights in these areas, as they often require learning from the experiences and perceptions of family businesses and those who work in them. In-depth case study methods could be used to unravel the complexities of interpersonal and intergenerational relationships within family businesses and where ESG might fit into this.

Table 3 reports the broad findings from the 29 studies in our review. Key findings include:

- ESG performance robustly enhances the value of family firms, as evidenced by seven investigations. This common finding demonstrates a strong correlation between diligent ESG practices and increased firm valuation, suggesting that such practices boost reputation and stakeholder trust in family-operated businesses.
- The impact of ESG practices on family firms varies, as demonstrated by the different outcomes linked to governance structures and leadership roles within these enterprises.
- Second-generation leadership often correlates with stronger ESG commitments, indicating a generational higher level of engagement with sustainability in family-run businesses. This shift underscores the importance of integrating modern governance practices with traditional family values, enhancing the overall strategic direction toward sustainability.
- The influence of ESG practices extends beyond mere operational adjustments and touches on financial structuring; for instance, two studies found that transparency in ESG disclosures has reduced capital costs for family firms, aligning ESG transparency with financial advantages.
- Challenges emerge when family ownership intersects with minority interests, occasionally leading to conflicts that diminish ESG performance.
- Exploring ESG dimensions, such as gender diversity on boards and the role of institutional investors in fostering ESG transparency, reveals the intricate interplay of internal and external factors shaping ESG outcomes.

These insights demonstrate the multifaceted nature of ESG implementation in family firms, where diverse governance inputs and stakeholder interests converge to influence ESG efficacy.

> “Considering the research mainly focuses on ESG activities and performance, the overwhelming reliance on quantitative research raises concerns about the depth of understanding of how ESG practices are implemented and integrated into family-owned businesses.”

Table 3: Key findings from literature review regarding family firm ESG

Summary of findings	Studies
ESG performance positively influences family firm values.	Espinosa-Méndez *et al.* (2023); Fuadah *et al.* (2022); Gillan *et al.* (2021); Maquieira *et al.* (2024a); Nam *et al.* (2024); Wu *et al.* (2023a); Yoon *et al.* (2018)
ESG disclosure can reduce the cost of capital for family firms.	Gjergji *et al.* (2021); Kong (2023)
Second-generation leadership in family firms enhances ESG practices.	Huang and Chen (2024); Wu *et al.* (2023b)
Family ownership negatively impacts ESG performance due to conflicting interests among family and minority shareholders.	Ahmed *et al.* (2024); Rees and Rodionova (2015)
Family involvement moderates the relationship between ESG activities and firm performance.	Wu *et al.* (2024)
Gender diversity on the board influences ESG performance, with female directors positively impacting ESG disclosures.	Abdelkader *et al.* (2024); Mohammad *et al.* (2023)
Institutional investors and external governance mechanisms can enhance ESG transparency and performance in family firms.	Arduino *et al.* (2024); Borralho *et al.* (2022); Choi *et al.* (2024); Luo and Xu (2024)
Financial constraints negatively moderate the relationship between ESG activities and firm value.	Espinosa-Méndez *et al.* (2023); Maquieira *et al.* (2024b)
ESG disclosure dimensions (environmental, social, governance) have varying impacts on earnings management and transparency in family firms.	Borralho *et al.* (2022); Nekhili *et al.* (2021)
Higher ESG performance improves the firm's reputation, which in turn can positively influence strategic business decisions such as mergers and acquisitions.	Ma *et al.* (2023); Wang *et al.* (2024)
Shared ESG preferences among institutional investors positively influence low-carbon innovation in family firms.	Wu *et al.* (2023a)
Family firms may underperform in diversity performance indicators but maintain robust financial performance.	Singal and Gerde (2015)
Family ownership has a negative association with ESG performance when governance is controlled.	Rees and Rodionova (2015); Wu *et al.* (2023b)
Labour board representatives focus on social performance, while employee shareholder board representatives enhance overall ESG performance.	Nekhili *et al.* (2021)
Conflicting evidence regarding the influence of family firms on ESG/CSR performance necessitates further investigation.	Gillan *et al.* (2021)
Governance through proxy voting maintains long-term value in family-run firms.	Kang *et al.* (2022); Luo and Xu (2024)
Environmental disclosure is positively related to earnings management, while social and governance disclosures are negatively related.	Borralho *et al.* (2022)
Family firms must address stakeholder demands with an authentic approach to maintain legitimacy and stakeholder trust.	Choi *et al.* (2024)
Outside directors' compensation and effective governance structures positively influence ESG performance.	Kang *et al.* (2022)
Family ownership did not impact ESG disclosure levels, contrasting with foreign and public ownership, which showed positive effects.	Fuadah *et al.* (2022)
Family representation on the board negatively impacts Z-score, while family ownership has a positive relationship with ESG (environmental and social ESG) and Z-scores.	Liu and Zhang (2024)
Both family ownership and control positively affect ESG scores, but their impact is negatively moderated by market competition and the institutional environment. Family control's influence on ESG criteria is less positive in more competitive or institutionalised environments.	Sun *et al.* (2023)
The business logic primarily drives the environmental sustainability strategy process, with the family logic enhancing this dominance by infusing socioemotional wealth throughout various stages, as illustrated in the empirical model.	Gerlitz *et al.* (2023)

These findings highlight two main themes: the integration of ESG practices within the operations and strategies of family firms and its impact on financial outcomes. This dual focus not only highlights the benefits of ESG adoption but also outlines a range of potential challenges and opportunities for family businesses striving to align with contemporary ESG standards and expectations.

Examining these key findings among the 29 articles reveals three underlying themes:

1. ESG practices, disclosures and ratings.
2. Performance effects of ESG practices.
3. Ecological innovation.

Figure 6 visually depicts these broad themes in family firm ESG research.

Figure 6: Thematic categories of ESG research

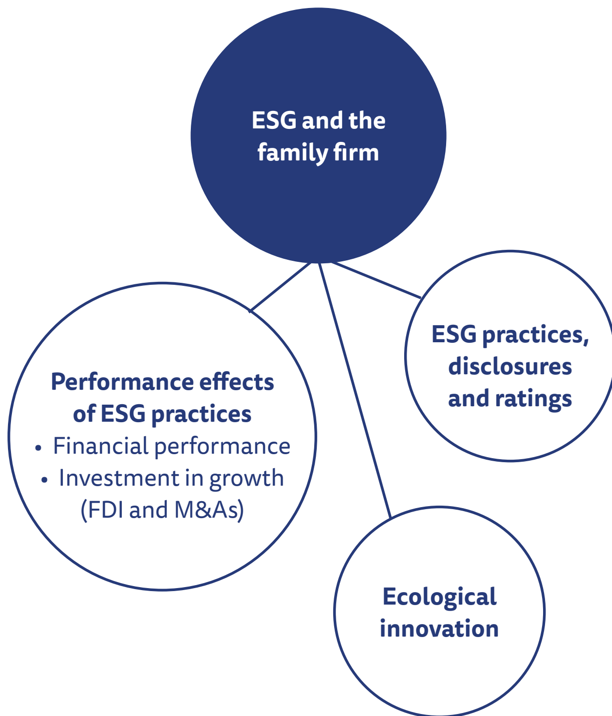


Table 4 identifies the thematic category and the number of studies belonging to each theme. We now proceed to discuss each theme. This allows us to engage closely with each category's main findings and highlight the most important opportunities for future research.

Table 4: Themes and representative studies

Thematic categories	Number of studies
ESG practices	9
Financial performance	15
Investment in growth	2
Ecological innovation	3

6.2. ESG Practices, Disclosures and Ratings

Many of the studies of ESG in family firms seek to ascertain whether family firms engage in ESG practices and how these practices manifest in ESG ratings and disclosures. It appears that family firms often shape ESG initiatives to preserve socioemotional wealth and meet family goals. This influence is typically seen in how family ownership or involvement is linked to the adoption of ESG practices (e.g., Arduino *et al.*, 2024; Gjergji *et al.*, 2021; Kong, 2023; Kang *et al.*, 2022; Liu and Zhang, 2024).

Contrary to this, other research shows that family ownership can be an impediment to the adoption of ESG practices (Ahmed *et al.*, 2024; Rees and Rodionova, 2015), especially in more competitive environments (Sun *et al.*, 2023). Furthermore, while diversity is an integral element of ESG, our review suggests that family firms underperform their non-family counterparts in diversity performance indicators (Singal and Gerde, 2015).

While there is a general agreement that family businesses are involved in ESG practices, we do not yet know whether there are differences between non-family businesses and family businesses in how and to what extent they engage with the different components of ESG. There is also little research on how ownership structure, industry, institutional environment and which generation is at the helm might further affect the extent to which family firms engage with the ESG agenda. A better understanding of the decision-making processes specific to ESG activities within family firms and the conditions influencing these decisions is needed.

6.3. Performance Effects of ESG

Studies on the performance effects of ESG can be divided into two groups: financial performance and investment in growth.

6.3.1. Financial performance

Most of the studies examined the financial performance effects of ESG (e.g., Borralho *et al.*, 2022; Luo and Xu, 2024; Singal and Gerde, 2015; Yoon *et al.*, 2018). These studies compare family firms to non-family firms and find that family firms' ESG scores and, for that matter, ESG activities

positively impact financial performance (Espinosa-Méndez *et al.*, 2023; Fuadah *et al.*, 2022; Gillan *et al.*, 2021; Maquieira *et al.*, 2024a; Nam *et al.*, 2024; Yoon *et al.*, 2018). This is especially the case where later generations are involved in the management of these family firms (Wu *et al.*, 2023b).

However, the evidence remains mixed. Some recent studies show that ESG in family-controlled firms is detrimental to financial performance (Choi *et al.*, 2024; Gillan *et al.*, 2021), even when family members are represented on the boards of firms (Liu and Zhang, 2024). Also, once any variation by industry is controlled for, ESG has been found to negatively impact the financial performance of family firms in environmentally sensitive industries (Yoon *et al.*, 2018).

Our literature review indicates that the different components of ESG affect financial performance differently. For instance, while positive performance in environmental and social areas is associated with improved financial performance, various forms of governance performance do not affect financial performance at all (Espinosa-Méndez *et al.*, 2023). Governance performance reflects a variety of measures, including governance scores accounting for the rights of shareholders, compensation policies, and the quality of the structure and functions of the board of directors. However, only a few studies have focused on different dimensions of firm performance. For instance, Maquieira *et al.* (2024a) found that ESG increases dividend payments, Kong (2023), in a study of Chinese family firms, found that ESG reduces the cost of debt financing, and Gjergji *et al.* (2021) linked ESG with a reduction in the cost of capital for Italian family-owned SMEs.

Furthermore, ESG has been reported to have varying effects on earnings management in family firms (Borralho *et al.*, 2022; Nekhili *et al.*, 2021). For example, while ESG increases earnings management, two components (i.e., social and governance disclosures) tend to negatively affect earnings management in family firms (Borralho *et al.*, 2022).

Family firms have demonstrated social responsibility by being responsible employers, especially during crises where they are less likely to terminate employee contracts (Cano-Rubio *et al.*, 2024). Family firms are also widely known to prioritise preserving the natural environment (Agostino and Ruberto, 2021; Berrone *et al.*, 2010; Doluca *et al.*, 2018; Saeed *et al.*, 2023). Family firms' social and environmental initiatives are often not driven by financial considerations. Instead, they are motivated by non-financial goals that align with the core objectives of ESG – encouraging firms to commit to socially responsible investments beyond mere profitability. This alignment raises questions about the effect of ESG on more than just the financial performance of family firms.

The literature review presented here reveals an over-emphasis on the financial performance of ESG policies of family firms, which isn't consistent with the spirit of ESG. This might arise from the need to justify green or ESG investments to shareholders, who may view these investments as economically inefficient in the short term due to their high upfront costs (Berrone *et al.*, 2013). Consequently, financial metrics are used to justify the adoption of ESG policies among organisations even if financial outcomes don't align with the intentions of ESG.

6.3.2. Investment in growth

Closely related to the impact of ESG on financial performance is the pursuit of growth facilitated by ESG preferences. ESG has been shown to improve family firms' reputations. This is then leveraged by family firms to pursue organic growth through foreign direct investments (Wang *et al.*, 2024) and inorganic growth through mergers and acquisitions (Ma *et al.*, 2023) for firm owners and shareholders.

This brings to the fore the impact of ESG on resource redeployment in family firms. It also raises questions about what researchers should seek to measure in an attempt to gauge the financial performance effects of ESG practices. Perhaps what is being measured is the impact of the subsequent growth-seeking activities, such as foreign direct investment and acquisitions, fostered by ESG activities. Given this, a strong focus in research on the financial metrics of ESG practices may be misleading.

6.4. Ecological innovation

Our review also reveals how non-financial considerations in and ESG preferences influence ecological innovation in family firms (e.g., Bammens and Hünermund, 2020). Recent studies show that ESG preferences foster green or low-carbon innovation in family firms (e.g., Wu *et al.*, 2023b; Wu *et al.*, 2024). This creates value in the form of eco-friendly products that serve the needs of environmentally conscious customers while benefitting the natural environment. This may improve family firms' reputation as the family brand is associated with responsible corporate behaviour (Bammens and Hünermund, 2020).

7. CONCLUSIONS

Our examination of ESG practices within family firms has highlighted the challenges and the benefits of integrating environmental, social and governance into strategies and operations. Family firms, characterised by their enduring desire to pass on a legacy, are uniquely positioned to align ESG principles with their long-term strategic goals, thus enhancing stakeholder trust. It is their unique blend of traditional values and a sense of legacy and purpose that sets a foundation for family firms to lead as exemplars of ESG.

ESG regulations are complex, and the regulatory landscape is fast-moving. A common mistake is concentrating on the dimensions of ESG individually. Many regulations pertain to the environment, for example. However, the purpose of ESG as a concept and set of regulations is to integrate environmental, social and governance goals and priorities. Therefore, while separate environmental laws might exist for pollution or tackling climate change and employment laws exist for the social element, these are not ESG laws. Instead, ESG regulations concurrently focus on the trinity of environment, social and governance.

A firm's commitment to ethical practices and sustainable development can be assessed in terms of how well it integrates the elements of ESG. Consequently, ESG regulations generally require family firms to integrate environmental conservation, social responsibility and ethical governance into business practices. Doing so should reflect the family's values and commitment to sustainable development and long-term success. Aligning with ESG policies and complying with ESG regulatory requirements may be a challenge for many UK family firms because of the resources required to collect, manage and report ESG data, potentially putting a burden on the resources of small- and medium-sized family firms.

The power and potential of investing in ESG activities and credentials lie in the stories and narratives family businesses can share with their stakeholders about their commitments to the environment, social good, social value and good governance. Various practice guidance, practical frameworks and voluntary certifications have emerged to provide the basis for generating these stories. Going beyond the legal minimum and conveying the family firm's social value and good credentials are keys to unlocking ESG-based advantages.

Our review underscores that strong ESG commitments and diligent ESG practices are increasingly important for family firms, and especially relevant for new generations. However, integrating ESG into the firm's activities is not without challenges. The internal dynamics of family control can sometimes hinder ESG performance, particularly when the interests of family members conflict with those of minority shareholders. Generational transition presents opportunities and challenges, as younger family members often bring new perspectives on sustainability and corporate responsibility.

Looking ahead, there is a rich terrain for future research to explore how generational shifts influence ESG practices, the role of non-family employees in shaping these initiatives, and the strategic decision-making processes behind ESG integration. Also, as family firms navigate the complexities of integrating ESG principles, they continue to advance sustainable practices in their broader communities.

8. IMPLICATIONS AND RECOMMENDATIONS

8.1. Implications for Family Businesses in the UK

Data is king, narrative is queen. Collecting a combination of episodic (event-based) and interactive (time-based) data is essential against the backdrop of UK regulatory requirements and the need to voluntarily demonstrate one's commitment to ESG principles. The pressure on UK family firms to demonstrate social value, make good on their ESG commitments, respond to growing social and political expectations around ESG, and remedy the environmental or social harm from conducting business requires an ability to construct compelling narratives that can only come from systematic and robust data collection.

You cannot effectively manage what you do not know, and data can help. Whether the family business makes legal disclosures, makes voluntary disclosures, pursues certification, or makes voluntary commitments or pledges, without measuring its ESG activities and performance, the family cannot then manage those activities in ways that craft compelling narratives and stories. Therefore, investing in appropriate information technology and information systems is vital.

Engage stakeholders and compromise. A family business cannot always attend to all its stakeholders' expectations. Therefore, what the family firm does from an ESG standpoint, both against regulation and against voluntary pledges or efforts, requires some trade-off. Engaging and liaising with external stakeholders while working to ensure internal stakeholders are all well-informed is necessary.

The next generation is already sensitive and sensitised to ESG principles. Family firms can reflect on what ESG can offer the next generation and seek to involve them as early as possible. The next generation can work towards helping the family firm set out best practices to become a recognised brand for ESG leadership.

Beware greenwashing and the risk of hypocrisy. Meeting regulatory responsibilities and combining them with voluntary activities, including pledges and certifications, creates an impression and story about a family firm's ESG activities and impact. However, ESG efforts must be authentic and consistent with other business practices. For example, claims around environmental sustainability might be perceived as tenuous if a firm relies on globally dispersed suppliers that care little for ESG matters. Also, family firms claiming net zero but buying carbon credits, relying on carbon offset markets or making little genuine efforts to change business practices are vulnerable to perceptions of greenwashing, hypocrisy or inauthentic ESG behaviour.

Consider ESG efforts versus ESG strategy. To make genuine strides on ESG and reduce the risk of being accused of greenwashing, this report recommends the integration of ESG reporting and disclosure requirements into the family firm's strategy and operations. While a separate ESG strategy might seem favourable, there is a risk it may become siloed, akin to the fate of many CSR initiatives that come to lie at the periphery of a firm's strategy and operations than a genuine component of it. Family firms can only expect to develop rich narratives that may bring ESG-based advantages when integrated strategically.

Understand context. It is important to understand the context in which the family firm is operating as soon as possible and set out a plan for how it will meet its ESG goals. At the same time, looking to peers to understand what other family firms are doing around ESG and thinking through what the firm needs to focus on that others are (or are not) doing will also help to build good perceptions about family firms while building the family brand and how it is perceived.

Develop a narrative around the family firm's ESG work and then communicate it to stakeholders. This narrative should also be mindful of the family firm's social impact and social value. Work to ensure that external and internal stakeholders know the organisation's social value and can align, engage, and communicate this message.

Inform and communicate internally. Keep all management, staff and other internal stakeholders informed and invite their feedback while pushing for them

to audit the supply, use and consumption of goods and services that might cause harm to the environment. Be prepared to have any conversations around ESG in an open and engaging way. Building an internal team to support ESG activity and the reporting work could also offer a way forward. If the family firm does have the internal know-how already, then identify someone who does and who can support the firm on its sustainability journey.

8.2. Policy Implications

SMEs are a silent majority. By design, implementation and enforcement, they are currently targeted at, and most suited to, large organisations. There is little clarity on what ESG standards are likely to be for UK SMEs, *let alone* UK family businesses specifically. Representing not just most family firms in the UK, this discrepancy between developing ESG regulations while overlooking SMEs, especially family SMEs, is concerning. A discussion on what future standards and reporting requirements should be for SMEs is needed to ensure this key part of the UK economy is not overlooked. Future UK (and EU) ESG standards and reporting requirements risk creating a heavy administrative burden that especially affects SMEs due to their limited resources, workforce and data management.

What you measure is what you get. A risk of introducing dense ESG reporting standards is that disclosure may mask other environmental challenges. Any set of standards, whether ESG-focused or not, can act as tick boxes that, once met, exonerate further responsibility. For climate change and sustainability, this heightens the importance of ESG frameworks where narrative accounts of ESG-related activities and outcomes matter as much as disclosure against a set of pre-determined standards. Policymakers should ensure that resources are being used responsibly and in a way that is mindful of the climate and the environment. Initiatives such as circular economy, investment in R&D, innovation, new processes, minimal waste, exploring renewables and new forms of alternative energy sources are ways in which policymakers can encourage and support UK family businesses to go beyond conforming to mandatory regulatory requirements only.

Question the market for ESG certification and carbon offsetting. UK regulators are rightly concerned with how financial markets attach ESG certification or labels to financial investments. However, while the growing market for ESG certification and voluntary pledges have a place alongside a formal ESG regulation regime, whether such certification and voluntary efforts are sufficient substitutes or compliments remains unanswered. For example, B Corp certification has quickly become a global private endeavour, but an unregulated one. Policymakers should carefully monitor this and other certification efforts to ensure they work as part of a coordinated UK Government response to sustainability and climate targets. Relatedly, while the market for carbon credits and carbon offsetting has its place, its continued viability as part of ESG's role in UK climate strategy should be revisited to ensure it still serves its intended purpose.

8.3. Future Research Directions

We identify three areas where future research is needed the most.

1. There is a growing need to explore how generational transitions within family firms affect ESG practices, especially as Generation Z and Millennial leaders take on more prominent roles. Although previous studies such as those by Chen *et al.* (2019) and Narayanan (2022) have highlighted these younger generations' preferences for socially responsible investments and brands, less is known about how these later-generation leaders integrate these preferences into business decisions while balancing traditional family values. This is particularly important as these younger leaders are prepared for succession, potentially marking a shift in how ESG factors are weighed against long-standing family business objectives. Relatedly, more research is needed to understand the impact on next-generation participation and the ability to recruit younger employees and professionals when engaging authentically and visibly with the ESG agenda.

2. The influence of Millennial and Generation Z employees on ESG practices within family firms presents a fertile area for exploration. These employees often rate organisational attractiveness highly based on responsible business practices, which could impact their satisfaction and, consequently, their retention and overall performance within the firm. Understanding the extent to which these younger employees can shape the ESG agenda and how this aligns or conflicts with organisational goals could help to inform employee management strategies and improve the sustainability of ESG initiatives within family firms.

3. While existing research has observed the antecedents and consequences of ESG practices in family firms, the decision-making processes involved in integrating ESG considerations remain unexplored. There is a need to better understand how and why ESG-related decisions are made, particularly the trade-offs that family firms face between preserving socioemotional wealth and pursuing economic benefits. An in-depth investigation into these decision processes could reveal the strategic

considerations guiding family firms in adopting and implementing ESG practices, offering valuable insights into balancing economic performance with ethical and social responsibilities.

By addressing these areas, future research can provide more nuanced insights into the dynamic interplay between generational shifts, employee influences and strategic decision-making in adopting and implementing ESG practices within family firms. This will not only fill existing gaps in the literature but also enhance our understanding of how family firms in the UK can effectively navigate the challenges and opportunities presented by ESG imperatives in an ever-evolving business landscape.

ANNEXES

Annex 1: European Sustainability Reporting Standards

Standard	Topic	Sub-topics
ESRS 1	General requirements	
ESRS 2	General disclosures	
ESRS E1	Climate change	Climate change adaptation Climate change mitigation Energy
ESRS E2	Pollution	Pollution of air Pollution of water Pollution of soil Pollution of living organisms and food resources Substances of concern Substances of very high concern Microplastics
ESRS E3	Water and marine resources	Water (including water consumption, withdrawals, and discharges) Marine resources (including extraction and use of marine resources)
ESRS E4	Biodiversity and ecosystems	Direct impact drivers of biodiversity loss (including climate change, land-use change, water-use change, sea-use change, direct exploitation, invasive alien species, and pollution) Impacts on the state of species Impacts on the extent and condition of ecosystems (including land degradation, desertification, and soil sealing) Impacts and dependencies on ecosystem services
ESRS E5	Resource use and circular economy	Resources inflows, including resource use Resource outflows related to products and services Waste
ESRS S1	Own workforce	Working conditions Equal treatment and opportunities for all Other work-related rights (including child labour, forced labour, adequate housing, and privacy)
ESRS S2	Workers in the value chain	Working conditions Equal treatment and opportunities for all Other work-related rights (including child labour, forced labour, adequate housing, and privacy)
ESRS S3	Affected communities	Communities' economic, social and cultural rights Communities' civil and political rights Rights of indigenous peoples
ESRS S4	Consumers and end-users	Information-related impacts for consumers and/or end-users Personal safety of consumers and/or end-users Social inclusion of consumers and/or end-users
ESRS G1	Business conduct	Corporate culture Protection of whistle-blowers Animal welfare Political engagement and lobbying activities Management of relationships with suppliers including payment practices Corruption and bribery

Source: European Union (2023)

Annex 2: Literature review methodology

We adopted the best practice methodology established by Debellis *et al.* (2021) for identifying key research on ESG practice relating to family firms. Our initial step involved searching the Web of Science (Social Sciences Citation Index) and Scopus databases for academic articles focused on ESG practices within family firms.

As shown in Annex Figure 1, we refined our search by using specific keywords such as "family business", "business family", "family owner", "family", "famil", or "fami" in combination with ESG-related terms like "ESG" or "environmental, social, governance" in the titles, abstracts, or keywords. This approach yielded 113 articles.

Given the scarcity of literature addressing family firm ESG practices, we expanded our inclusion criteria to cover journals ranked 1 through 4 by the Chartered Association of Business Schools' Academic Journal Guide (CABS AJG) (CABS, 2024). The CABS ranking is a respected quality metric within the academic community, distinguishing journals based on their scholarly impact and contribution to their field. This expansion was necessary to encompass a broader range of relevant studies, ensuring a comprehensive review. To broaden the scope and incorporate a wider array of insights, we extended our search to include finance-related studies, adopting an interdisciplinary approach. We further assessed the abstract and introduction of each article to ensure the articles are closely engaged with family firm ESG behaviour. Our filtering criteria ultimately resulted in 29 articles specifically focused on ESG in family firms, providing a robust foundation for analysing ESG practices in this context.

These 29 studies use different lenses to view the application of ESG in family firms. Agency theory is the most frequently applied, with 11 studies referring to its application to explore conflicts of interest between principles in family firms. Socioemotional theory, regarding family firms, prioritises family ownership and control, ties and maintaining the succession process, and is the next most cited and applied in seven studies. Stakeholder theory is employed in eight studies, institutional theory is used in four studies, and behavioural agency theory appears in two.

Annex figure 1: Articles searching strategies for the family firm ESG

NOTES

1. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/#sustainability-standards
2. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/#sustainability-standards
3. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/
4. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/
5. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/
6. https://ec.europa.eu/commission/presscorner/detail/en/mex_24_707
7. https://pardot.bcorporation.net/l/39792/2023-02-07/9rblgc/39792/1675785775pOkvYjFy/Guide_to_the_B_Corp_Certification_Process.pdf
8. Stakeholders refers to any party with a vested interest in a business and can include shareholders, investors, employees, customers, suppliers, community groups, and government
9. https://fbsd.unctad.org/pledge/
10. https://fbsd.unctad.org/wp-content/uploads/2023/01/FBSD-Indicators_2022_based-on-new-GCI.xlsx
11. Information about Polaris, its initiatives, its roadmap and the Polaris Impact Assessment are scarce at the time of writing this report.
12. These studies are: Abdelkader *et al.* (2024); Ahmed *et al.* (2024); Arduino *et al.* (2024); Borralho *et al.* (2022); Espinosa-Méndez *et al.* (2023); Fuadah *et al.* (2022); Gjergji *et al.* (2020); Huang and Chen (2024); Kang *et al.* (2022); Kong (2023); Liu and Zhang (2024); Luo and Xu (2024); Ma *et al.* (2023); Maquieira *et al.* (2024a); Maquieira *et al.* (2024b); Mohammad *et al.* (2023); Nam *et al.* (2024); Nekhili *et al.* (2020); Rees and Rodionova (2015); Singal and Gerde (2015); Sun *et al.* (2023); Wang *et al.* (2024); Wu *et al.* (2023a); Wu *et al.* (2023b); Wu *et al.* (2024); Yoon *et al.* (2018).

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