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ESG Essentials For Family Firms

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> '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.'

These are the words of a 2021 PwC report that puts into stark terms how important it is for family businesses to strategize about their environmental, social, and governance (ESG) activities.

While it might be tempting to think of ESG as just a buzzword or something for large businesses, this is absolutely not the case. The speed and volume with which ESG regulations have been introduced worldwide in the last two years are a testament to a growing acceptance that family businesses must look at ways to improve their governance and their social and environmental impact.

Reporting against ESG regulations and standards is only half the story. What also matters are the stories that family businesses can tell about their good work around ESG, for example:

- Environmental: reducing pollution and carbon emissions, enhancing energy efficiency, conserving resources, and protecting biodiversity.
- Social: promoting employee development through fair labor practices, responsibly managing sourcing and supply chains, and social development
- Governance: upholding shareholder rights, ensuring board diversity and aligning executive compensation with sustainable performance outcomes.

ESG in family firms is about a long-term strategic approach that integrates environmental sustainability, social responsibility, and ethical governance into business practices, reflecting the family's values and commitment to sustainable development and long-term success (Hughes et al., 2025).

To understand the scale and types of ESG activities among family firms and the standards that are expected of them, we reviewed the evidence base on ESG in family firms. We analyzed ESG policies, regulations, and frameworks relevant to family firms and sought to identify family firms with good ESG practices. While our main focus was on UK family firms, we also reviewed ESG regulations in Europe and the US, and the insights are far-reaching and applicable to family businesses around the world.

ESG's Benefits and Challenges

Family businesses consider ESG activities for several reasons:

- **Enhanced reputation:** Demonstrating ethical

leadership to improve public perception (Gjergji et al., 2021).
- **Stakeholder alignment:** Meeting growing demands from customers, regulators, and investors (Acree, 2023; PwC, 2021).
- **Legacy and values:** Reflecting family heritage and ethical commitments through sustainable practices (Kotlar et al., 2020).
- **Lower capital costs** due to reduced investor risk perception (Wang et al., 2024).
- **Improved employee retention** and enhanced customer loyalty (Ma et al., 2023; Gjergji et al., 2021).
- **Innovative ecological strategies** offer long-term financial and environmental benefits (Ma et al., 2023).

However, there are several challenges for family firms seeking to install ESG practices:

- **Transparency issues**: Concerns over governance and disclosure, especially in smaller firms (Wu et al., 2023), suggest that the family business must reveal more about its values and mindset regarding its business activities and role in society.
- **Generational dynamics**: Generations differ in their views about ESG, with Millennials and Generation Z more likely to prioritize sustainability and planetary well-being. Divergent views exist among family members on the importance of ESG (Huang & Chen, 2024). This can lead to conflicts and awkward conversations that may ultimately be constructive in the long term but challenging at first.
- **Cost and resource constraints**: Financial limitations and operational challenges can keep small family firms from funding an extensive range of ESG activities (Espinosa-Méndez et al., 2023). However, it is not the number of activities that matters, but the stories and narratives family businesses can tell about their ESG activities.
- **Greenwashing:** If your ESG activities are not sincere and authentic, they could be perceived as seeking to distract from deficits and deficiencies elsewhere (e.g., environmental pollution, poor labor practices).
- **Record-Keeping:** Lacking the skills, understanding, and data infrastructure needed to record ESG-related activities.

What We Found

Through the literature and practice reviews and empirical study we conducted, we saw that family firms, known for their long-term orientation and strong community ties, are uniquely placed to leverage ESG as a competitive advantage while meeting regulatory and stakeholder demands.

First, family firms must be aware of the rapidly developing regulatory landscape where family businesses endure growing pressures to align with stringent ESG regulations. These include:

- The UK's utilizing of International Sustainability Standards Board (ISSB) standards by 2026.
- The US's Securities and Exchange Commission rules(https://www.sec.gov/newsroom/press-releases/2024-31) standardizing climate-related disclosures, and provisions in the Inflation Reduction Act around clean energy, including renewable electricity, energy storage, carbon capture, clean hydrogen production, sustainable aviation, electric vehicles, domestic manufacturing, and greenhouse gas reductions. (Note that the US leadership has changed since January 2025 and its policies towards ESG may change.)
- Non-European Union family businesses that generate over EUR 150 million of revenue in EU markets must also report against the EU's Corporate Sustainability Reporting Directive (CSRD) and the interlinked European Sustainability Reporting Standards (ESRS), enforced since January 5, 2023.
- Signatory countries to the United Nations Framework Convention on Climate Change have additional commitments to do with sustainability and climate change that also inform the policy landscape around mandatory ESG disclosures.
- Most legal disclosure requirements are for large-sized firms at the moment, but the trajectory is toward greater reporting expectations regardless of firm size.

We also found that family businesses worldwide can and should go beyond the minimum legal compliance if they want to develop a competitive advantage grounded in their ESG commitments and activities. Voluntary

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certifications like B Corp (https://www.bcorporation.net/en-us/) and frameworks such as ISO 26000 (https://www.iso.org/iso-26000-social-responsibility.html) are helping family firms enhance credibility while fostering innovation and stakeholder trust.

Family businesses worldwide can also sign up for pledge schemes, including the joint Family Business Network (FBN) and United Nations Trade and Development (UNCTAD) "Family Business for Sustainable Development Pledge," (https://fbsd.unctad.org/pledge/) that include voluntary commitments around governance, supply chain, and community impact.

Finally, family businesses can consider following ESG standards and ESG certifications where expectations and activities provide opportunities for the next generation. Younger family members are emerging as champions of ESG practices, driving ecological and social initiatives aligned with family values.

Steps to Take Now

Here is what family business owners, managers, and advisers can do to be more successful at ESG and reap its benefits.

- Integrate ESG into strategy and align family values with corporate goals to build a coherent ESG narrative.
- Leverage Voluntary Standards; for example, consider using frameworks like ISO 26000 and pursuing certifications like B Corp status to demonstrate commitment (see ISO, 2024; and B Lab UK, 2024), which also provide ESG strategic frameworks.
- Focus on integrating sustainable practices that align with family values and regulatory expectations and seek to integrate ESG into long-term strategies to leverage competitive advantage.
- Foster and encourage the involvement of the next generation and seek to involve younger family members in sustainability initiatives to encourage fresh thinking and new perspectives. The Family Business Research Foundation offers practical guidance on engaging the next generation (Howarth et al., 2016) here. (https://www.fbrf.org.uk/s/engaging-the-next-generation-web.pdf) Some highlights:
  - Prepare for regulatory changes. Develop robust frameworks and systems for tracking, monitoring, and measuring ESG activities and outcomes.
  - Build robust data systems to help streamline ESG reporting.
  - Proactively address ESG issues to avoid reputational damage and regulatory penalties.

Build Your ESG Narrative

Your ESG stories build goodwill—a capital that pays dividends when errors or incidences happen that could otherwise harm the family or firm's reputation with its stakeholders. Practical steps can include (1) assessing risks through an integrated impact assessment, (2) developing an environmental management system to manage these risks and mitigate negative impacts, (3) developing an environment policy, and (4) ensuring ownership buy-in and task senior managers to deliver and manage the firms' ESG performance.

Explore ways of improving communication about your ESG commitments and activities; for example, create compelling ESG narratives or stories to involve stakeholders and differentiate the family business.

Family business advisers should equip family businesses with knowledge and tools for ESG integration by providing training and learning opportunities relating to ESG to members of business families and their employees.

Explore the Research

The full report, ESG in Family Firms: A Review of Research, Regulations, and Practice Guidance, can be downloadedhere(https://www.fbrf.org.uk/reports/esg-in-family-firms) for free.

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