



# Family Business indicators

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# Family Business Indicators

## Module E

### Core SDG Indicators for Entity Reporting Training Manual

## About the Family Business Indicators

Family businesses have distinctive governance structures, ownership norms and family dynamics that have an impact on performance. As such it is critical that sustainability indicators for family businesses recognise the unique attributes of family business models and consider measurements that guide, further advance sustainability practices and facilitate contributions to the SDGs.

*The Family Business Indicators* examine a family business' performance on specific sustainability practices and are designed to complement the UNCTAD Core Indicators. They explore the company's culture, policies and practices on specific governance, supply chain, community and company practices, and aim to measure their impact on the wider ecosystem.

## Learning Objectives

By the end of the module, you will be able to:

**a) Understand and answer questions pertaining to the following Family Business indicators:**

- ✓ Advocacy for social and environment standards;
- ✓ Review of social/environmental performance;
- ✓ Transparency of sustainability performance;
- ✓ Independent directors;
- ✓ Family governance;
- ✓ Responsible ownership,
- ✓ Ethical supply chain policies and practices;
- ✓ Philanthropy; and
- ✓ Two optional questions on company impact.

**b) Assess the existing sources of information needed to answer the family business indicators**

**c) Know how to collect the information required to answer the family business indicators**

*Learning Objectives*



## Family Business Indicators: Overview

E.1 Governance Area

E.2 Supply Chain

E.3 Community Impact

E.4 Sustainable Products and Services (Optional)

# E.1 Governance Area

E.1.1 Advocacy for Social and Environment Standards

E.1.2 Review of Social / Environmental Performance

E.1.3 Transparency of Sustainability Performance

E.1.4 Independent Directors

E.1.5 Family Governance

E.1.6 Responsible Ownership



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## E.1.1 Advocacy for Social and Environment

### Standards: Definition

Does your company work with policy makers and/or stakeholders to develop or advocate for increased adoption of ESG standards? Yes/No

- This is a yes/no question that aims to examine how proactive your family business is in advocating for increased transparency at various levels, including international, national, local and industry.

## E.1.1 Advocacy for Social and Environment

### Standards: Methodology

In order to answer this indicator, family businesses need to identify and describe any role they play in advocating for increased ESG standards through platforms such as:

- Direct lobbying of governments or government representatives
- Open participation in International advocacy campaigns such as FBSD
- Active participation and vocal support of the benefits of transparent sustainability reporting using metrics from platforms including FBSD, CDC, WBA, BCorp, etc.
- Involvement in industry or trade groups that take proactive positions on these topics like WBCSD



## E.1.1 Advocacy for Social and Environment Standards: Potential Sources of Information

- ✓ Sustainability reports
- ✓ Public involvement in advocacy campaigns
- ✓ Public support of relevant lobbying organizations
- ✓ Public membership in relevant industry and trade groups

# E.1 Governance Area

E.1.1 Advocacy for Social and Environment Standards

E.1.2 Review of Social / Environmental Performance

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E.1.4 Independent Directors

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## E.1.2 Review of Social / Environmental Performance: Definition

Does the Board review the social and environmental performance of the company at least annually to determine if the company is meeting its social and environmental objectives? Yes/No

- This is a yes/no question that aims to examine how active and engaged your Board is in monitoring the sustainability performance of your family business.

## E.1.2 Review of Social / Environmental Performance: Methodology

In order to answer this indicator, family businesses need to review their board meeting agendas and identify if the Board has reviewed and assessed progress on the following topics:

- Have we clearly established and communicated our sustainability strategy throughout the family business?
- Have we established clear goals and objectives that align with the key pillars of our strategy?
- What progress are we making on achieving those goals and objectives?
- What are areas of potential concern that the Board may need to get actively involved in?
- What else should our family business be focusing on?

## E.1.2 Review of Social / Environmental Performance: Potential Sources of Information

- ✓ Board agendas
- ✓ Board meeting minutes

# E.1 Governance Area

E.1.1 Advocacy for Social and Environment Standards

E.1.2 Review of Social / Environmental Performance

E.1.3 Transparency of Sustainability Performance

E.1.4 Independent Directors

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## E.1.3 Transparency of Sustainability

### Performance: Definition

Is the review made available in a report to relevant stakeholders e.g., employees, suppliers, customers and owners? Yes/No

- This is a yes/no question that aims to examine how transparent your Board is in sharing the sustainability performance of your family business with relevant stakeholders.
- In order to answer yes to this question your family business must report to at least one key stakeholder group, although multiple stakeholder groups are preferred.



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## E.1.3 Transparency of Sustainability

### Performance: Methodology

In order to answer this indicator, the family business needs to identify any reporting that has been done to key stakeholders, either at the corporate or board level, on the progress the family business is making on its sustainability strategy. This can be done in a variety of ways including:

- Public facing sustainability reports
- Actively engaging employees around specific sustainability targets
- Directly engaging your suppliers in your sustainability targets
- Engaging all family shareholders in determining areas of opportunity for the business



## E.1.3 Transparency of Sustainability

### Performance: Potential Sources of Information

- ✓ Public facing sustainability reports
- ✓ Employee communications
- ✓ Shareholder communications
- ✓ Advertising campaigns
- ✓ Product labeling
- ✓ Supplier codes of conduct
- ✓ Public reporting through platforms like FBSD and BCorp

# E.1 Governance Area

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## E.1.4 Independent Directors: Definition

Does the Board include Independent Directors\*? Yes/No

- If Yes, please indicate the total number of Independent Directors and what percentage they are of the total seats.
- This indicator is related to the **number** (i.e., absolute amount) and **percentage of independent board members** (i.e., independent board members over total board members expressed as a %).
- \* Numerous studies have found that an effective family business board should include experienced independent members. They provide checks and balances on the sometimes biased or narrow viewpoints held by family owners and company executives and can help keep the business focused on its vision and accountability. A board with independent members is especially useful in times of generational transition and when considering major moves – e.g., investments, sales, innovations and strategic shifts.

## E.1.4 Independent Directors: Methodology

In order to calculate the % indicator, family businesses need to:

- Count the independent board members (number)
- Divide the number of independent board members by the total number of directors sitting on the Board

Number of independent board members

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Total number of board members

## **E.1.4 Independent Directors: Potential Sources of Information**

- ✓ As the number of Directors sitting on a Board is usually small, tracing these figures is unproblematic.
- ✓ The relevant information on this aspect is usually recorded by the Corporate Legal affairs, and/or by the assistant to the CEO, and/or by the HR function (Directors are paid by the entity and therefore their personal information is included in the employees' records).

# E.1 Governance Area

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E.1.6 Responsible Ownership



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## E.1.5 Family Governance : Definition

Is there a family constitution\* (rules of engagement) to ensure good governance of the business and family for the long term? Yes/No

This is a yes/no question that examines whether a family has established a clearly defined governance model.

\* A family constitution is a name for a master family agreement. They are designed to make everyone clear on the family's policies on the business, employment, money, decision-making, and ownership, as well as any other details that will guide the family's interaction with its various enterprises. It often begins with an overarching values and mission statement, followed by specific policies and practices. It may also define the nature and operation of a family council and the board of directors of the family business.



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## E.1.5 Family Governance: Methodology

In order to answer Yes to this indicator, the business family needs to have a written governance agreement in place that all family members and/or shareholders are both aware of and know where the current version is kept. Here are some examples of what this document may contain:

- Family values statement aligned with the company's mission/values statement
- Family employment policy (including opportunities for family members to learn about the family business)
- Succession policy (nominations, etc.)
- Policy governing the transfer of ownership (inheritance)
- Compensation guidelines
- Family conflict resolution procedures
- Process for board nominations and evaluations, including the rotation of board members
- Dividend policy
- Exit policy (opportunity for family members to sell shares)





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## E.1.5 Family Governance: Potential Sources of Information

- ✓ All leaders of the family should be informed of the location of the most up-to-date version of their Family Constitution.
- ✓ It should be noted that a Family Constitution is a living document. It is not created or drawn up by lawyers or outside advisors, although they may be consulted for input. It is designed by the leaders of the family and may also include input from a wide range of family members. It may contain elements derived from legal agreements, such as a shareholder agreements, but it is usually written in clear language that makes the policies clear and accessible to everyone. The presence of such a document is particularly important when a family prepares to transition across generations or when an older generation wants to share values and long-term aspirations with future generations. It should be reassessed and changed periodically to fit the ever-evolving realities of a family business.

# E.1 Governance Area

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## E.1.6 Responsible Ownership: Definition

As a family business, do you use resources and provide guidance to promote development-oriented policies and prepare the next generation to be responsible owners? Yes/No

- This is a yes/no question that examines whether a family is preparing and investing in its next generation of owners.
- The next generation is the resource responsible for the family's future and ensuring it continues to hold onto its values and goals. A sustainable family enterprise is one that takes time and energy to define the many activities that will educate and prepare the next generation for leadership. Beginning with sharing their values and gaining their commitment, the next generation must be educated and prepared not just for what the family does now, but how it will continue to renew, sustain and redefine its living values.



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## E.1.6 Responsible Ownership: Methodology

In order to answer Yes to this indicator, the business family must have a clear plan or set of activities that it leverages in order to prepare its next generation to become responsible owners. Some examples might be:

- The family supports and encourages next generation leadership.
- Next generation family members are encouraged to spend some of their time working in community service.
- The family empowers individuals to seek personal fulfillment and determine their own life purpose according to their personal values.
- The family has a clear understanding with the next generation on what they value and how the family should allocate their wealth.
- The next generation is held accountable for contributing to both the family and the community.

## **E.1.6 Responsible Ownership: Potential Sources of Information**

- ✓ Established formal plans for preparing the next generation
- ✓ Identifying investments in relevant education
- ✓ Memberships in organizations that allow for cross-generational and/or peer-to-peer learning
- ✓ Interviews with individual next generation members
- ✓ Participation of the next generation in governance bodies (e.g., dedicated board seats or membership on the Family Council)
- ✓ Established opportunities for the next generation to work in their or another family business

# E.2 Supply Chain

E.2.1 Ethical Supply Chain Policies

E.2.2 Ethical Supply Chain Practices

## E.2.1 Ethical Supply Chain Policies: Definition

Does your company have a formal written supplier code of conduct that encourages ethical sourcing or holds suppliers accountable for social and environmental performance? Yes/No

- This is a yes/no question that examines whether a family business is expanding its sphere of impact to include other businesses that it directly interacts with in its supply chain.

## E.2.1 Ethical Supply Chain Policies: Methodology

In order to answer Yes to this indicator, the business family must have a formal, written supplier code of conduct in place that is transparently shared with all its suppliers.

Some potential elements of the code of conduct are:

- Preferred sourcing guidelines for social enterprises, women or minority owned businesses
- Policies on Fairtrade, anti-slavery, forced labour, child labour, anti-corruption, etc.
- Non-discrimination clauses
- Environmental guidelines on emissions, water, waste, biodiversity, etc.
- Requests for public transparency and a commitment to ongoing improvements



## **E.2.1 Ethical Supply Chain Policies: Potential Sources of Information**

- ✓ The code of conduct are often kept and updated by the Finance and/or Procurement Departments.
- ✓ Many companies also make their code of conduct available on their corporate website.

## E.2 Supply Chain

E.2.1 Ethical Supply Chain Policies

E.2.2 Ethical Supply Chain Practices



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## E.2.2 Ethical Supply Chain Practices: Definition

What is the estimated percentage of materials or products purchased by your company are sourced sustainably as outlined in E.2.1?

- This indicator is related to the **percentage of materials purchased using ethical sourcing guidelines** (i.e., amount of sustainably sourced purchases over total purchases from all suppliers during a year).
- This indicator provides a quantitative measure of how successful an organization is in implementing its sourcing guidelines.

## E.2.2 Ethical Supply Chain Practices: Methodology

In order to calculate this indicator, the family business needs to track all purchases that adhere to the guidelines established in its supplier code of conduct.

- Calculate all purchases made using established sustainable sourcing guidelines
- Divide by total amount of supplier purchases in the year

Total of sustainably sourced purchases

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Total of all supplier purchases

## **E.2.2 Ethical Supply Chain Practices: Potential Sources of Information**

Total spending in these areas should be catalogued and tracked by the Finance and/or Procurement Departments.

# E.3 Community Impact

## E.3.1 Philanthropy

### E.3.1 Philanthropy: Definition

Do you use family business or family funds (e.g., through a family foundation) to support the local community or communities where you operate? Yes/No

- If Yes, please indicate in which area or areas you are supporting:
- ✓ Basic Needs – Food, water, energy, shelter, sanitation, communications, transport, credit and health for all
  - ✓ Well-Being – Enhanced health, education, justice and equality of opportunity for all
  - ✓ Decent Work – Secure, socially inclusive jobs and working conditions for all
  - ✓ Resource Security – Preserve stocks of natural resources through efficient and circular use
  - ✓ Healthy Ecosystems – Maintain ecologically sound landscapes and seas for nature and people.
  - ✓ Climate Stability – Limit GHG levels to stabilise global temperature rise under 2 °C
  - ✓ Other – Please detail your other activities here:
- This is a yes/no question that examines whether a family business is investing in its local community or the communities where they operate.

### E.3.1 Philanthropy : Methodology

In order to answer this indicator, the business family must be able to clearly identify what support they have given to the community through various philanthropic means.

Some ways that this support may distributed include:

- Family foundation
- Family business foundation
- CSR and sustainability investments
- Individual family donors



### **E.3.1 Philanthropy: Potential Sources of Information**

- ✓ Sustainability and/or CSR reports
- ✓ Foundation disclosures
- ✓ Public gifts
- ✓ Family conversations

# E.4 Sustainable Products and Services (Optional)

E.4.1 Creating Societal Benefits

E.4.2 Improving your Customers' Environmental Performance

## E.4.1 Creating Societal Benefits: Definition

In what way(s) does your **company's services or products** benefit society.

Please indicate Yes or No for each option:

- Provision of basic services, health care or health products to improve health & wellbeing in the community
  - Education (general, technical), support of knowledge, arts, cultural heritage
  - Improved economic opportunity or social economic empowerment
  - Market access through previously unavailable infrastructure
  - Capacity Building for non-profit, social enterprises
- These yes/no questions examine whether a family business is looking beyond its operations and investing in developing products or services to create broader benefits for the society at large.

## E.4.1 Creating Societal Benefits: Methodology

In order to answer this indicator, the family business should examine all its products and services to determine which ones are making positive contributions to society and accelerating progress towards achieving the Sustainable Development Goals.

If you are not familiar with the SDGs, please refer to this [website](#) for more information.

## **E.4.1 Creating Societal Benefits: Potential Sources of Information**

- ✓ Company websites
- ✓ R&D departments
- ✓ Executive Leadership team
- ✓ Sustainability department

# E.4 Sustainable Products and Services (Optional)

E.4.1 Creating Societal Benefits

E.4.2 Improving Your Customers' Environmental Performance



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## E.4.2 Improving Your Customers' Environmental

### Performance: Definition

In what way or ways do your **services or products** enable your **clients** and/or **customers** to protect the environment or improve their environmental performance.

Please indicate Yes or No for each option:

- Provides or is powered by renewable energy or cleaner-burning energy than market alternatives (e.g., solar panel manufacturers, hybrid vehicles)
  - Conserves resources (e.g., water recycling systems, energy efficient appliances)
  - Reduces waste (e.g., recycling technologies/services)
  - Conserves land, biodiversity, wildlife (e.g., sustainably harvested agricultural products)
  - Reduces or is made of less toxic/hazardous substances
  - Educates, measures, researches or provides information to solve environmental problems
- These yes/no questions examine whether a family business is looking beyond the immediate scope of its operations and developing products that create wider benefits.

## E.4.2 Improving Your Customers' Environmental Performance: Methodology

In order to answer this indicator, the family business should examine all its products and services to determine which ones are enable their suppliers and customers to accelerate progress towards achieving the Sustainable Development Goals.

If you are not familiar with the SDGs, please refer to this [website](#) for more information.



## E.4.2 Improving Your Customers' Environmental Performance: Potential Sources of Information

- ✓ Company websites
- ✓ R&D department
- ✓ Executive leadership team
- ✓ Sustainability department