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FAMILY SUSTAINABILITY

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Family Sustainability

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The Circular Economy concept is of vital importance to sustainability and tackling climate change. Family businesses can play a key role in advancing the key Circular Economy goals of recovery, recycling and reuse.

The common factor that links a Circular Economy model and a family business is the desire to preserve wealth, assets and resources in a way that contributes to the business, community and society at large. Family firms in particular need to incorporate the Circular Economy's focus on optimisation and longevity in resource utilisation, to create intergenerational sustainability; to enable a family firm to grow and continue to create wealth for future generations.

The long-term thinking of family firms makes the Circular Economy a good match. Many family firms possess an essential willingness to take business risks, and they provide growth opportunities at times when larger companies may restructure, outsource, and downsize to meet short-term investor expectations. Long-term sustainability objectives are central to family business success, and such sustainability is enhanced through a multi-generational approach.

The Circular Economy concept is gaining increasing attention in academia, industry, finance and policymaking as the realities of environmental change become apparent. Traditional "linear" growth models tend to exploit resources without constraint to meet market demand, so redesigning this economic model is imperative if we are to meet meaningful sustainability targets.

The Circular Economy is a disruptive economic model that relates to government policy, businesses operations and strategies, while taking into account consumer tastes and preferences. It is restorative and regenerative by design, structure, and objective. Products, components and materials should continuously add, recreate and preserve value.

One approach is to "servitise" aspects of production and consumption across the value chain in order to use as few resources as possible for as long as possible. One vivid example of this is how Netflix and Spotify are replacing the physical production of DVDs and CDs through streaming services.

The Circular Economy is not only about corporate social responsibility or green strategies. The Circular model requires firms to come up with disruptive technologies and business models based on longevity, renewability, reuse, repair, upgrade and servitisation – and these fit in well with the goals of family firms.

It can be argued that traditional corporate finance literature often ignores long-term business survivability, focusing on measures of performance and profitability linked to the return on capital. These factors are less prominent in family businesses, which focus instead on other factors pivotal to their survival and growth such as effective succession planning and engagement to ensure continuation for future generations.

Designing firms with sustainable objectives through a Circular Economy model increases the benefits to stakeholders and hence the aggregate benefit to the family firm. This orientation toward sustainability can also increase the productivity of the firm given the involvement of future generations in decision-making – as creating a more seamless relationship between the founder and future generations increases the probability of long-term success and sustainable wealth.

In summary: The Circular Economy model and family businesses both emphasise the extension of an asset's life and the optimisation of resource use. They both embrace a multigenerational approach, be it in wealth management or the rejuvenation of factors of production. There is therefore big potential for family businesses to utilise the Circular Economy model to achieve profitability, wealth creation and sustainability to successfully pass the baton to future generations.

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Upcoming Programmes

The Cambridge Family Office 2-3 April 2020

For more information got to: www.jbs.cam.ac.uk/cfo
The programme fee is £2,500 (exclusive of VAT).

The 21st Century Family Business 1-5 June 2020

For more information got to: www.jbs.cam.ac.uk/21cjb
The programme fee is £7,695 (exclusive of VAT).

Fee includes instruction, materials, lunches and refreshments.

Written by: Iraj Ispahani and Philip Marcovici

As Founding Advisors of the family business programmes at CJBS Executive Education, we are fortunate to have the opportunity to work with Dr Khaled Soufani, Director of the School's Circular Economy Centre. His research allows us to consider how family businesses can adapt to a changing world – not only in the short-term, but in both the long term maintenance of family harmony, and ongoing health of the family business and its ability to contribute to society.

At the end of the first fifth of the 21st century it is clear that business and wealth owning families face increasing uncertainties and challenges. Navigating the changing political and regulatory landscape is becoming difficult. For those leading family businesses or family offices, even identifying the right questions to ask can be a problem. Much traditional thinking about family offices, family wealth and family businesses needs to be revisited if they are to survive and thrive in this century.

Income and wealth inequality is driving change on the political and tax landscape globally. Brexit uncertainty, Hong Kong protests, political divisions in the U.S and many other developments are worrying families who think in generations rather than in years or decades. We now have the knowledge and tools to build an economy that is fit for the 21st Century but our thinking and behaviours need to adapt to this changing operating environment.

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The linkage between business and society needs to be reinvigorated. Profit maximisation needs to be balanced with a corporate purpose; with businesses actively considering the needs of their wider stakeholders and not just their shareholders. Trust needs to be restored. With significant ownership of many listed entities now held through funds and passive vehicles, the ability of shareholders to influence corporate agenda change will be an important feature of this evolving landscape.

While a heightened focus on sustainability by businesses is necessary, it raises many questions. Some of the changes that have taken place early in this century are positive and essential to our societies. Some of the changes are, and will be, destructive of family businesses and wealth. Disruption is likely to increase, partly driven by technological advances. Positive reputations for families and their businesses in this fast-evolving environment will likely be more difficult to maintain.

Family businesses and sustainability: applying Circular Economy thinking to family business and wealth

A Circular Economy model is based on the principles of

designing out waste and pollution, keeping products and materials in use, and regenerating natural systems. In the context of family businesses and wealth, the purpose of keeping the family together is also of increasing importance. Without Circular model approaches, whatever resources are used in the production process are eventually exhausted. Impact investing and an ESG (environmental, social and governance) focus are only part of what makes up a Circular Economy approach to planning. Circularity involves retaining value in the lifecycle of materials, resources and products. Waste is transformed into something useful.

Key benefits of a Circular Economy model rather than a linear approach

There are many ways in which a family business or other family enterprise can benefit from a Circular perspective. Adding value and jobs, developing a sustainable purpose and extending the lifecycle of resources are only part of the picture. In many family businesses, value is destroyed rather than created when succession takes place – a focus on a Circular model can manage this and ensure that a growing family translates into a growing business. Avoiding waste is a critical component, as is using capital sparingly, a key issue for families and family businesses.

Can the ideas of the Circular Economy extend from the business to family wealth, governance and how families engage?

The concept of minimising waste and ensuring that production is organised in cycles rather than on a linear basis can be extended to family governance and how families deal with issues including succession, the ageing process, and interaction with governments.

Capital that needs purpose and sparing use includes natural, financial and cultural capital, and not just resources used in the production of goods. Minimising waste also means minimising the waste of useful resources within a family, such as the inadequate use and motivation of family members who may not be involved directly in the family business, but who have a direct or indirect stake in that business. Families that are wealth- rather than business-owners may waste human resources within their family through an over-reliance on external asset managers and under-preparation of family members as wealth owners. Also, what of the older generation, and the need to ensure that the valuable resource of their experience is not wasted? Reducing the “use” of materials and resources, in the family context, may mean ensuring that there is more focus on appropriate life-work balances; creating a more effective, cohesive and sustainable family construct.

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