

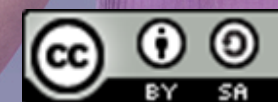


Green Transition Training Modules

MODULE 4:

Balancing economic and social sustainability

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Content of this module

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Takeaways

- Differentiate between economic and social sustainability goals
- Analyze the trade-offs between goals and their influence on family firm decision-making
- Apply structured frameworks to evaluate the family's own diverse goals and determine green practices in line with those goals

Aim of this module

This learning module aims to help family business owners and next-generation members understand how economic and social sustainability goals jointly shape their decision-making. By distinguishing between financial and nonfinancial goals, such as family control, identity, ties, and intergenerational continuity, the module highlights why family businesses may approach sustainability issues differently from nonfamily firms do.

The module further aims to provide you and your family a structured framework to reflect on your priorities, recognize possible tensions among your goals, and evaluate your sustainability investments accordingly. Through guided reflection and practical tips, you will learn how to engage in dialogue with your family regarding your shared and diverging goals so that you can make more informed and balanced sustainability strategies in line with your long-term goals.

Introduction

Family businesses tend to differ from nonfamily businesses in making their business decisions. Nonfamily businesses tend to focus on realizing their economic sustainability in terms of profit maximization.

Although economic sustainability is also important for family businesses, they emphasize the controlling family's nonfinancial goals, such as control over the firm asset, positive family identity and reputation, and intergenerational continuity of the family business (Berrone et al., 2012).

As such, the controlling family tends to engage in social sustainability to build positive relationships with stakeholders, who will in turn help them attain those nonfinancial goals.



However, these goals may share tensions and lead the controlling family to engage in different extents of economic vs. social sustainability.



Your family may choose not to engage in strategies, such as innovation and entrepreneurship, that may improve the firm's financial performance but run the risk of undermining the owners' wealth.



Yet, you may also avoid strategies, such as transparent disclosure and diversity in governance, that advance the firm's social sustainability but undermine the family's control and power (Vazquez, 2018).

Therefore, it is important that your family evaluates how you weigh your financial and nonfinancial goals when deciding on investing in a sustainability practice.

In this module, you will learn what are the common family goals, how these goals may share tensions, and how your family's evaluation of these goals determines the firm's sustainability practice.

Economic and social responsibility



Financial goals for economic sustainability. As business owners, a controlling family has the financial goal for the business to ensure that the business not only survives but also grows the value of the family and business wealth.

Although this financial goal is similar to owners of nonfamily businesses, your family's financial goals are not limited to growing wealth for a short period of time.

Instead, your goals may be *long termed* by aiming for economic sustainability, i.e., family wealth growing and accumulating over generations.

Nonfinancial goals and social sustainability. The unique nature of family businesses lies in the controlling family's emphasis on their nonfinancial goals.

The concept, *socioemotional wealth* (SEW), captures such nonfinancial goals that satisfy the family's affective needs (Gomez-Mejia et al., 2007).

Socioemotional Wealth

Preserve Family Control

Maintain ownership and management influence.

Renew Family Bonds

Strengthen family connections through succession.

Maintain Positive Emotions

Foster happiness in family and business relations.

Build Positive Identity

Enhance reputation among stakeholders.

Keep Social Ties

Nurture trust with stakeholders.

Socioemotional wealth (SEW)

The most common SEW goals (Berrone et al., 2012) include the family's attention to

1. preserve the family control and influence in the firm, such as ownership and management
2. build positive identity and name perceived by both family and nonfamily stakeholders
3. keep the social ties with stakeholders who trust the family,
4. maintain positive emotions for being in relation to the family and the business, and
5. renew the family bonds in the business via intrafamily succession

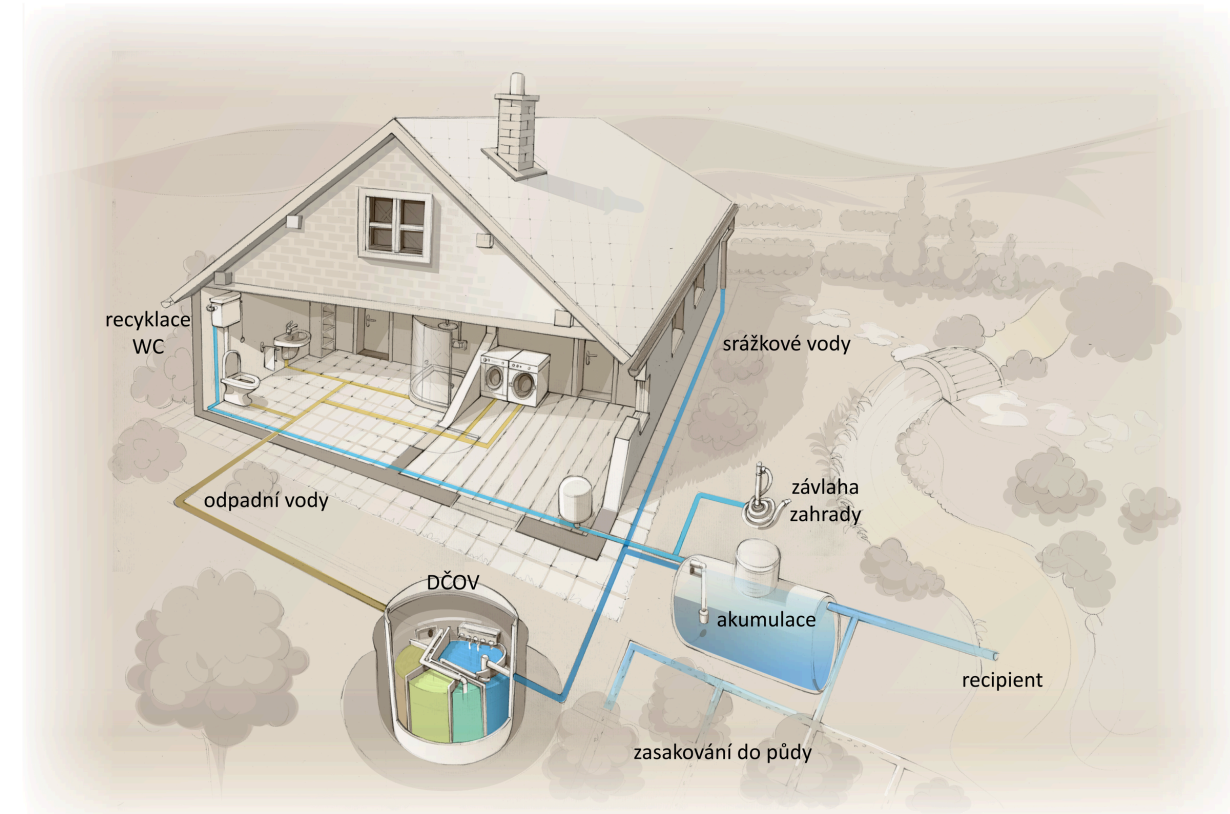
These nonfinancial goals center the controlling family on creating social values that they can keep and transfer over generations (Vazquez, 2018).

Trade-off between economic and social sustainability

When family firms consider financial and nonfinancial goals in making sustainability decisions, you may sometimes experience a **trade-off** among these goals and how you should approach economic vs. social sustainability.

Specifically, if your family is mainly concerned about the **economic sustainability** in terms of maximizing the growth of the family wealth and assets, you may potentially regard social sustainability as *costly investments* that do not necessarily pay off in the long run (Miller & Le Breton-Miller, 2021).

For instance, our cases of S & A Sofokleous Bakery (Cyprus), Oditura Paola di Grazzini Fausto (Italy), and Satturn Holešov (Czech Republic) have all expressed concerns of high initial investment costs in sustainable infrastructure, such as switching to electrical delivery vehicles and building a photovoltaic plant, and the high annual fees in maintaining environmental certifications, especially when they are not certain whether these practices will achieve the long-term impacts they expect, such as better energy efficiency and improved customer relationships.



How to evaluate your goals effectively to make sustainability decisions?

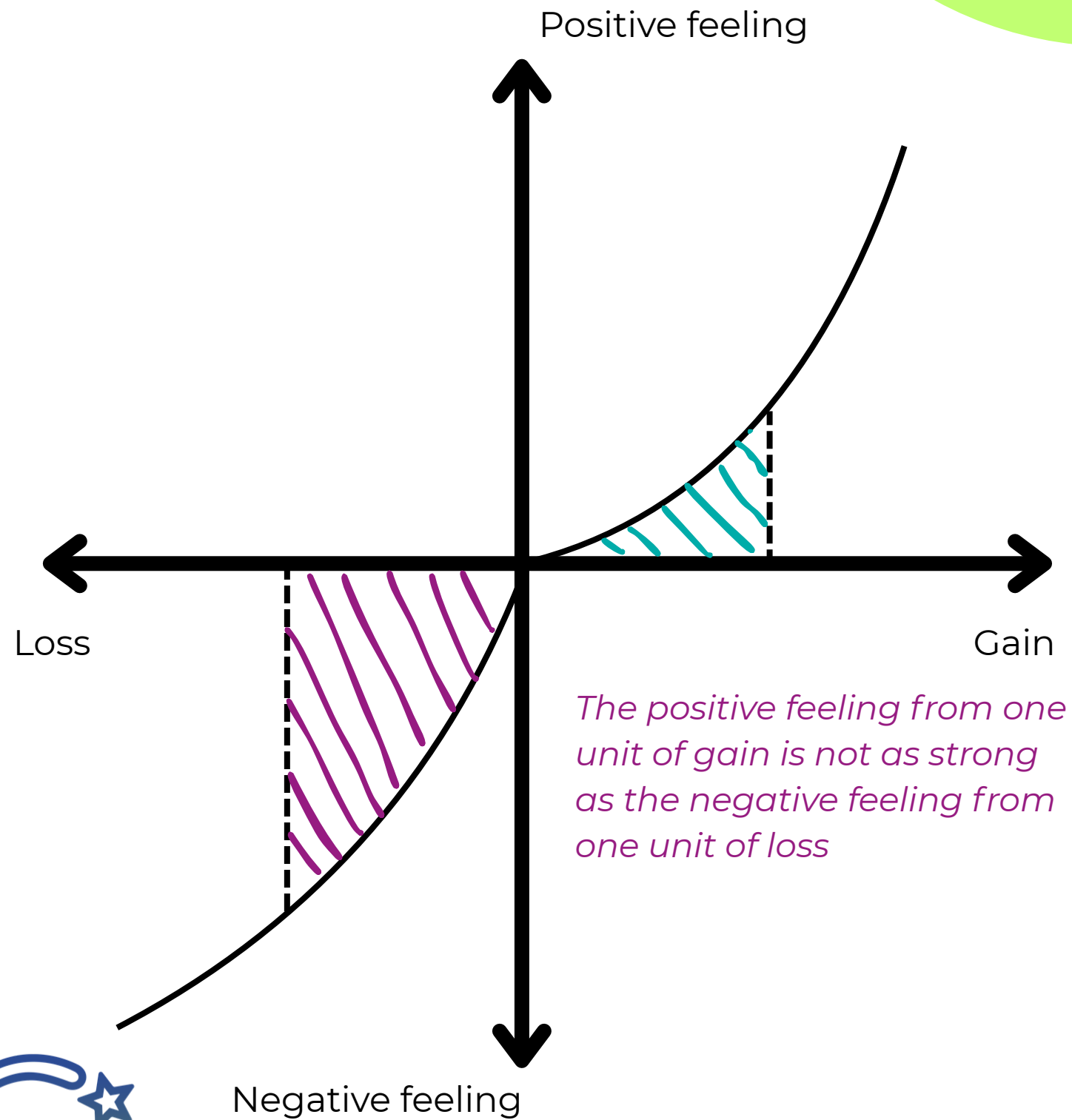
When your family struggles between goals in determining which sustainability to prioritize, it is important to first have an **open communication** about each member's goal.

This is particularly important because different members may put different weights on the financial and nonfinancial goals and you may want to find what these members **share in common** to better utilize the family resources to achieve its sustainable impacts.

For example, several of our cases have highlighted *individual members, particular next-generation members*, and their goals and passion for environmental stewardship as the main drivers for their families to start considering investing in sustainable practices, such as the push of S & A Sofokleous Bakery (Cyprus) for more ecofriendly packaging for the products and the adoption of Grupo El Castillo (Spain) for better recycling programs to reduce office wastes by employees and product wastes by customers.

Similarly, in Mårdskog & Lindkvist (Sweden) , the next-generation member has strong awareness for environmental sustainability and negotiates with the current-generation leader to consider taking sustainable initiatives, such as switching from fossil fuels to biogas.





When exploring the common goals among your family members, you may want to see how your family members evaluate financial and nonfinancial losses differently.

In particular, human beings tend to **consider loss more serious**, such as one dollar of financial loss may bring stronger feelings than one dollar of financial gain does, even if the amount of gain and loss is the same (Wiseman & Gomez-Mejia, 1998).

In family businesses, the evaluation will further need to consider the *gain and loss of socioemotional wealth*, such as control, emotional feeling, and family reputation.

Particularly, some of your family members may think the loss of such socioemotional wealth has a more serious implication than the financial loss (Gomez-Mejia et al., 2007), especially the short-term financial loss.

In this case, your family members may be willing to invest initial costs or the annual fees to avoid the long-term loss of social values.



For instance, Orditura Paola di Grazzini Fausto (Italy) justifies its annual fees for the environmental certification to avoid losing customers and supply chain partners who require such a certification.

The other cases choose to make the initial investment in sustainable practices, such as

Plojhar (Czech Republic) replacing fossil fuels with compressed natural gas for its transportation vehicles

Konstanta MF (Ukraine) and Saturn Holešov (Czech Republic) installing solar panels on their sites, to avoid the future uncertainty, such as the volatile prices and supply of fossil fuels and electricity from the existing national infrastructure.

Here are some questions to help your family understand each other's goals (from 1 = not very important to 7 = vary important), particularly nonfinancial goals (Berrone et al., 2012).

Control and influence

The majority of shares are owned by family members

Family members exert control over the firm's strategic decisions

Most executive positions are occupied by family members

Nonfamily managers and directors are named by family members

Board of directors is mainly composed of family members

Preservation of family control and independence are important goals



How would you evaluate the following goals?
(1 = not very important and 7 = vary important)

Family members have a strong sense of belong to the family business

Family members feel that the family business' success is their own success

The family business has a great deal of personal meaning for family members

Being a member of the family business helps define who we are

Family members are proud to tell others that we are part of the family business

Customers often associate the family name with the family business' products/services



Identity



How would you evaluate the following goals?
(1 = not very important and 7 = vary important)

My family business is very active in promoting community activities

Nonfamily employees are treated as part of the family

Contractual relationships are mainly based on trust and norms of reciprocity

Building strong relationships with others, e.g., firms, associations, and government, is important

Contract with suppliers are based on enduring long-term relationships

Social ties



Emotions



How would you evaluate the following goals?
(1 = not very important and 7 = vary important)

Emotions often affect decision-making process in the family business

Protecting family members' welfare is critical, apart from their personal contributions to the business

Emotional bonds between family members are very strong

Affective considerations are often as important as economic considerations

Strong emotional ties among family members help us maintain a positive self-concept

Family members feel warmth for each other

How would you evaluate the following goals?
(1 = not very important and 7 = vary important)

Continuing the family legacy and tradition
is an important goal

Family owners are less likly to evaluate their
investment on a short-term basis

Family members would be unlikely to
considering selling the family business

Successful business transfer to the next
generation is an important goal



Intrafamily succession

In conclusion

These discussions are important to determine how your family will allocate resources to approach sustainability strategies.

As each family has different priorities on these goals, there is **no universal approach** shared by all families. Some may choose to use relation-based approaches by focusing on close stakeholders in the local communities, while some may scale up their sustainability practices targeting all stakeholders affected by their operations in different countries (Hsueh et al., 2023).

Resources

- **Visualization** of your goals via the Family Business Investigator provided by the University of St. Gallen: [Family Business Navigator](#)
- The **questionnaire** to evaluate your **nonfinancial goals**: Berrone, P., Cruz, C., & Gomez-Mejia, L. R. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, 25(3), 258–279. <https://doi.org/10.1177/0894486511435355>



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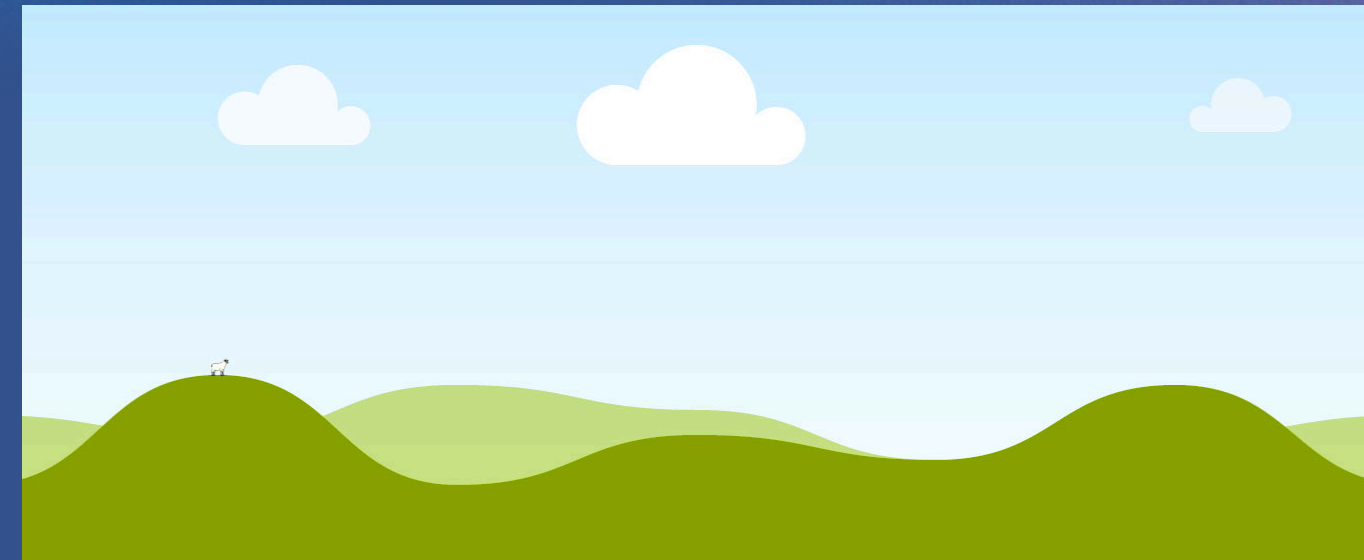
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In combination with the business situation, you can also draw a **compass** to visualize the importance of these goals and see how they are connected to your current business situation, such as the number of firms and the product portfolio.



Your paragraph textPlaceholder text, affectionately known as "Lorem Ipsum," is like the ultimate underappreciated actor in the design and typesetting world. This gibberish superstar steps in as a temporary stand-in for actual content, allowing designers and developers to concentrate on visual elements like layout and typography without getting sidetracked by what the content actually says. The reigning champion of placeholder text, "Lorem Ipsum," is actually a scrambled passage from "De finibus bonorum et malorum," a literary masterpiece by Roman philosopher Cicero.