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A Family's Non-Financial Values Shape Its Sustainability Strategy

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Family businesses often have not only financial wealth but also nonfinancial values that make them different from nonfamily companies. For instance, the family's significant control over ownership, management, and the board accelerates decision-making processes; the family reputation built over generations gives them favorable evaluations on the market; and long-term relationships with stakeholders, such as employees, customers, and suppliers, give them strong footholds in the community.

These nonfinancial values tend to influence how the controlling family makes strategic decisions. One big decision is whether to have a formal sustainability strategy, which entails protecting the environment, promoting labor rights, improving diversity in corporate governance, etc. Such strategies can help family businesses develop better relationships with key stakeholders, such as customers, suppliers, communities, and government, whose support is essential to business operations.

For instance, the founder of SC Johnson, Samuel Curtis Johnson, gave away 10% of his income every year to support the community, and this nonfinancial commitment continues to drive the family firm's sustainability strategies today, such as developing social communities and protecting the environment.

However, a family's nonfinancial values may lead to opposite sustainability strategies. For instance, Koch Industries was founded by the Koch family in 1940 and had a revenue of more than $125 billion in 2023. Over the years, the family has developed and utilized its political ties to undermine climate-related legislation.

Which Non-Financial Values Matter Most?

A family business's nonfinancial values can be summarized by what we call *socioemotional wealth*. It includes these five dimensions, and family attitudes towards sustainability are shaped by which of these dimensions they value the most:

- Having a strong family presence in the firm structure
- Caring about the family firm reputation
- Sharing long-term relationships with key stakeholders
- Feeling deeply bonded with the business
- Transferring the business to the next generation.

Based on a survey of 186 Italian family firms, a review of their company archives, and secondary research, we saw two ways through which family businesses envision their socioemotional wealth and determine their strategic approach to sustainability.

Forward-Looking Approaches

When the entrepreneurial family focuses on the last two dimensions – continuing its family business dynasty and reinforcing the family's deep bond with the business -- the family is more willing to make long-term investments in a formal sustainability strategy. This might include building an internal system to monitor the firm's sustainability activities and periodically communicating the performance to stakeholders. To help build this formal sustainability system, forward-looking families typically are willing to commit time and money, bring in nonfamily managers who can provide different perspectives, and rely on strong family bonds to get everyone committed to the goal.

Backward-Looking Approaches

In contrast, entrepreneurial families focusing on preserving what they have (i.e., most socioemotional wealth dimensions but lacking the goal to transfer the business to the next generation) are not motivated to formalize their firm's sustainability strategy. Instead, they might organize private activities for stakeholders whom they deem important rather than openly communicating their sustainability activities to every stakeholder. Families adopting such backward-looking approaches may prefer to focus their attention on protecting the family's financial wealth and their legal rights as owners and managers, preserving existing bonds with important stakeholders, or prioritizing relatives rather than spending money and time on programs that benefit nonfamily stakeholders.

Most of the firms in our study adopted backward-looking approaches when making decisions about their sustainability strategies. Interestingly, the cost of investing in sustainability wasn't an issue at our surveyed firms. Instead, their strategic decisions were influenced by whether they focused on *renewing their dynasties* or *preserving their past and current legacies*.

Takeaways

How family businesses envision nonfinancial values, i.e., their socioemotional wealth, strongly influences their strategic decisions. Families that focus on *renewing* their nonfinancial values are likely to develop a formal system to implement their corporate sustainability strategies through either the firm's professionalized resources or the family's private resources. Alternatively, families focused on preserving their past and present legacies are likely to pay attention to utilizing their current nonfinancial assets, including their legal rights in ownership and management, shared belief, and close ties with valued stakeholders, rather than making new strategic investments that may drastically change the existing legacy.

Importantly, when families look for the best strategic practices from other families, they may need to understand not only what nonfinancial values those families have but also how those families may envision those values in the future.

Explore the Research

Hsueh, J. W. J., De Massis, A., & Gomez-Mejia, L. (2023). Examining heterogeneous configurations of socioemotional wealth in family firms through the formalization of corporate social responsibility strategy. *Family Business Review*, *36*(2), 172–198. https://doi.org/10.1177/08944865221146350

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