The Link Between the Psychology of the Leader and ESG Influenced Business Models in Family Businesses

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Abstract. *Family-owned businesses play a crucial role in driving ESG (Environmental, Social, and Governance) transformation by prioritizing legacy continuity for future generations. Their adaptability, value-driven strategies, and long-term outlook allow them to integrate ESG principles into daily operations. Research suggests that successors in these businesses introduce innovation and responsible practices, build strategic partnerships with relevant stakeholders and academic/research institutions with more ease, which helps shape new strategies ensuring sustained success. Our study examines the existing insights on the integration of ESG in family-owned businesses. These acquired insights inspired us to structure a survey which will help us better understand how successors' leadership styles impact ESG-driven strategy adoption in family-owned firms and explore their attitudes towards sharing economy business models.*

Keywords. *Family business, ESG, Innovation, Leadership styles, Psychological ownership, Sharing economy*

1 Introduction

The concept of sustainability is hardly a new one. Ever since 2015, the UN has actively promoted global action to protect human rights and the environment by advancing their Sustainable Development Goals (SDGs) with future generations in mind (United Nations, 2015). The novelty is the growing urgency to address these issues, since the public pressure has elevated their importance by introducing a mandatory new perspective in business strategy planning. While many companies have already grasped the importance of sustainability, including the financial and non-financial benefits of the Environmental, Social, and Governance (ESG) Framework integration into their practices (Pinheiro et al., 2023), especially bearing in mind the tendency of the upcoming younger generations to incline towards ethical companies when it comes to the selection of services/products (Brand et al., 2022; Djafarova & Foots, 2022; Schönherr & Pikkemaat, 2023) as well as prospective careers (Deloitte, 2023; Heath & Yarick, 2021; Rzemieniak & Wawer, 2021; Scavarda et al., 2019), many are still reluctant to innovate in this direction, fearing a drop in profit and stakeholder support (Sheehan et al., 2023). Of particular interest is the case of family businesses (FBs), where one of the main objectives is to ensure the longevity of the business and its usefulness for the next generation. With greater decision-making freedom, they have an opportunity to pioneer sustainability efforts, retaining customers and quality workforce. This can be achieved by maintaining a sustainable reputation, implementing ESG practices internally, and supporting external causes through philanthropy (KPMG, 2023). As Serbia and other Western Balkan countries are faced with two important challenges — the transgenerational succession in the family-owned companies for the first time since 1945, and the demand for more responsible governance, the need for gaining deeper and more specific insights arises. We hope to provide policy-makers and other experts with a better understanding of the FBs' dynamics, through the psychology and business interplay, so they could provide FBs with structured support in their further growth and development. The survey which will follow up and support this study will identify which leadership styles

DOI: https://doi.org/10.62863/QDFK9279

and behaviours favour the adoption of ESG practices and explore the prevalent business models within the circular economy framework that stem from the ESG principles and are commonly embraced by the FBs. It will also point out the similarities and differences in transgenerational leadership among the Western Balkan countries, and its impact on the ESG-influenced business strategies.

2 Literature review

Numerous studies have delved into the ESG adoption in family firms, leadership styles of the next generation, and the psychological aspects of the individual succession process. However, few articles have explored which leadership styles typical for the successive generations are most likely connected to driving and executing ESG-influenced business models aligned with the principles of sharing economy. To gain a deeper insight into the inner workings of FBs, we conducted a thorough literature review focusing on the key factors necessary to ensure the sustained success and longevity of these enterprises.

Previous researches have shown that FBs have a superior ability to identify opportunities and acquire knowledge outside their boundaries because of their non-economic goals. However, they are risk-averse and it is usually challenging for their owners to share control with non-family members (Casprini et al., 2017). When it comes to default risk, FBs may be even more cautious than non-FBs (Gomez-Mejia et al., 2007), as the owners of family firms typically have a significant amount of their personal wealth in the business, making them less inclined to take risky ventures (Blanco et al., 2012), compared to the corporations which have a more varied investment portfolio. While risk aversion may help protect the business in the short term, it could also hinder its long-term growth potential. ESG, on the other hand, can stimulate innovation in FBs through its three main pillars. FBs could map a broader pool of their stakeholders, and consider the ecological and social issues, as well as the future trends. They can identify their "strategic intervention points" (SIP) (BCG, 2021), or opportunities for innovative solutions, and integrate them in their business models. For European FBs, innovation ranks high on the agenda. A KPMG analysis (2019) reveals that 72% of European FBs consider innovation as crucial in the next two years. Additionally, the study highlights that FBs acknowledge the significance of innovation and digitalization as key drivers of growth. A substantial majority (86.2%) of FBs intend to engage with the digital economy (KPMG, 2019). To address the innovation challenge in FBs and identify opportunities for enhancing their innovation performance, some authors emphasize the need to examine innovation from three perspectives: strategic, transactional, and relational (Feranita et al., 2017). It is further suggested that FBs should pursue both exploratory and exploitative innovation strategies to thrive in a rapidly evolving technological landscape and fierce competition (Mueller et al., 2013). However, the effectiveness of these strategies in different institutional contexts, impacting stakeholder support for innovation initiatives, still remains uncertain. Recent research, though, suggests that integrating sustainability into a family firm's strategy not only ensures longevity and smooth succession planning but also enhances its attractiveness and competitiveness. Demonstrating care for ESG aspects can attract new clients and partners, reduce operating costs, and promote sustainable resource management, leading to increased profits (PwC, 2023). A study by École Polytechnique and BCG (Kachaner et al., 2012) has shown that FBs can outperform their competitors, i.e. public companies, specifically in times of crisis, because they concentrate their resources on building resilience instead of on short-time goals. Identified critical factors specific to FBs include: economic resilience in stable and unstable conditions, high CAPEX with minimal debt, conservative acquisition strategies focusing on smaller companies, emphasis on diversification and talent retention, and interest in geographical expansion or internationalization (PwC, 2023).

All these factors indicate that FBs build their competitive advantage on the core aspects of ESG. Current research, however, shows that a great number of leaders in FBs still haven't sufficiently prioritized sustainability matters. According to more recent data, only 38% of FBs worldwide have shifted their focus and resources towards sustainability adaptations, and only around 10% regard ESG issues as the most pressing ones for tackling in the coming years (PwC, 2023). While some of the recent research in the field has been aimed at measuring the benefits of implementing an innovative business approach which is mindful of ESG (e.g. Zhou et al., 2023), and the potential barriers still present (Sheehan et al., 2023), there is a notable lack of evidence related to the factors leading up to (or hindering) the adoption of innovative ESG-friendly strategies in the family business environment. A study by Nikolakis, Olaru, and Kallmuenzer (2022) has revealed that favourable family dynamics can drive the adoption of environmental and social strategies (ESS) within family-owned businesses. The authors analysed the impact of family trust, conflict, and socio-emotional wealth (SEW) on ESS decision-making and their interplay with various trade-offs in diverse cultural landscapes, and their findings indicate that relationships among family members correlate with ESS selection.

Given the specificity of the core constituents used in the aforementioned study and the lack of other research further examining similar matters, it could be useful to test whether other concepts such as personal values of the people on the key positions, their leadership styles, and their identification with the company play a role in the strategy design when it comes to ESG integration, as factors of this kind have been shown to influence the managers' readiness to innovate and make other relevant decisions in some cases (e.g. Rau et al., 2019; Ruf et al., 2020). The existing lack of comprehensive understanding (at least on the theoretical level) of the relationship between leadership styles and leadership behaviors indicates the need for a unifying framework that can help identify similarities and differences between these two concepts. While leadership styles and behaviors (defined as the methods used by leaders to influence the actions of their employees, by motivating them and establishing guidelines) have been studied over the years within the general management and leadership literature (e.g. Fries et al., 2021), they were insufficiently connected to the context of family businesses, which has caused these two areas to research progress rather independently. In addition, there is a significant knowledge gap regarding the input-process-output models that could outline the connections between the factors influencing specific leadership styles and behaviors, and their resulting outcomes in family enterprises, even though it is crucial to a certain extent to understand the typical leadership approaches adopted by family business leaders (i.e. leadership propensity), their impact on success metrics (e.g. performance) within the family firm, and their broader implications on both the company and the family unit (including factors ranging from innovation to employee well-being). Last but not least, it is very important to also address the inter-generational differences in leadership and other relevant tendencies, as succession planning and innovation have been shown to be in correlation in family-owned businesses (Ballal & Bapat, 2019). Previous studies have shown that successive generations of leaders in FBs prioritize social responsibility and sustainability, driving transformative business models. With strategic succession planning, they become pivotal for value creation, revitalizing the FB through innovation in processes, products, digitalization, professionalization, and internationalization. Additionally, they are inclined to form strategic partnerships with stakeholders, academic institutions and scientific institutes, generating transgenerational value despite transforming their core business structure in a way (Lazzarotti & Sciascia, 2023).

The aim of this paper is to present the rationale and the research plan for the study of inter-generational differences and the underlying relationships between the participants' leadership styles, personal values related to sustainability, their identification with the firm and their willingness to include an ESG-innovative approach, mindful of the sharing economy practices, when creating a strategy in family firms in the Western Balkans, of varying previous success with the implementation of sustainability measures. Reflecting on the occasional tendency of the succeeding generation not to continue the family legacy for a variety of reasons (Zellweger et al., 2010), especially on the territory of Serbia, where most young people migrate to Western countries for education and/or work (Mašović et al., 2017), we will also evaluate the next generation's interest in working for the family company, taking into account the level of compliance of the company's ESG efforts with the potential successor's personal values. Our main hypotheses include the following:

H1: The personal sustainability values of family members, across generations, positively impact the development and implementation of ESG innovation strategies, including sharing economy practices, within the FB, particularly when there is a strong identification with the firm among family members.

H2: The alignment of the firm's ESG strategy with personal sustainability-related values will positively influence the readiness to commit to the firm in case of the next generation, but will have little to no impact on the members of the older generation.

H3: The leadership styles of the next generation will show a higher correlation with ESG-related strategies, including sharing economy practices.

We believe that the study will further enrich our understanding of at least some segments of the reasoning behind sustainable strategy creation in family companies, especially bearing in mind their distinctive ability to give momentum to the much-needed ESG revolution in the business world of today, which is closely tied to sharing economy towards which the consumers are rapidly shifting (Barbu et al., 2018).

3 Methodology

3.1 Participants

The first version of the survey will be administered to the owners of the FBs and their successors in Serbia, Montenegro and Bosnia and Herzegovina. As most of the sample is planned to consist of active members of their respective chambers of commerce and industry, the survey will be provided directly to the sections' directors who will promote it and share it with the relevant target groups.

3.2 Materials and Procedure

The participants will fill out an online survey consisting of several segments. After the demographic data, the participants will fill out the first part of the questionnaire aiming to identify their leadership styles. The classification in this study will be based on the previous taxonomy generated by Fries, Kammerlander & Leitterstorf (2021), adapted specifically to the case of FBs. The second part will be The Sustainability Questionnaire, created for the purpose of this study, inspired by the MSCI list of the ESG criteria (MSCI, 2024), evaluating their personal attitudes towards the common sustainability-related issues (e.g. the choice of greener means of transport), as well as their perception of the FB's status in the main ESG areas The third part of the questionnaire will be dedicated to addressing the sharing economy specificities (i.e. the application of the practice in their daily lives as well as their business decisions), which will help further evaluate their tendency to accept or reject sharing economy business models. The final, fourth part of the questionnaire will measure the psychological dimensions (i.e. one's identification with the firm and their commitment to it). The questionnaire measuring the employee's identification with the firm will be the 7-item Psychological Ownership Scale (Van Dyne & Pierce, 2004), and the questionnaire measuring their commitment to the firm the 15-item Organizational Commitment Questionnaire (OCQ; Mowday et al., 1979). The sample will be divided into groups based on the participants' generation, and correlation/regression analyses will be conducted on the collected data. Additional demographic differences in results will also be examined.

Discussion and conclusion

This study has been motivated by the authors' cooperation with several FBs around the world. We expect that the results of the survey could shed more light on the sustainable strategy creation practices in the family firms and help their consultants and other stakeholders understand what other strategies may be needed to help them seize the opportunity to make a difference by integrating ESG into their regular planning, in line with the recent sharing economy trends (Boar et al., 2020). Taking into consideration all previous research regarding the benefits of implementing ESG into a firm's practice, and the efforts that most family firms put into the protection of their business, legacy creation and continuation of the family's ownership (82%, 67% and 66% of firms globally, respectively; PwC, 2023), as well as the percentage of companies currently led by the members of the second or further generations (68%; PwC, 2023), it is in the firm's best interest to recognize the importance of ensuring sustainability in business, which is rather rapidly being taken over by the 'unapologetic' millennials. It is necessary for the decision-makers to realize that their current strategic top priorities have to include sustainability principles, and that in fact, these can help them achieve their goals in a more efficient way. While the results of the survey will certainly be limited due to small sample size, we hope they can inspire other authors to perform similar analyses in different regions, so a more culturally-sensitive approach can be established when working on the worldwide implementation of the ESG practices in family businesses, and businesses in general.

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