Taking the Leap Across the Rationale Gap: The Role of Emotions in Making the Transition to More Sustainable Practices

Business managers have the opportunity and responsibility to make decisions that facilitate transitions to an environmentally sustainable future. However, committing to sustainability might appear troublesome in particular in situations when the costs of making sustainable choices are high, or environmental, human and economic considerations are at odds. This project investigates the challenges that firms, managers and investors face in adopting sustainable materials, technologies and processes, as well as how rational reasoning and emotional reactions influence strategic decision making.

Our results indicate that even if managers wanted to pursue sustainable business practices, the change process is often challenging. Transitioning to ecological business models can entail significant trade-offs between sustainability and profitability such that a strong sustainability orientation results in a negative impact on the firm's bottom line. The full extent of these trade-offs is difficult to estimate beforehand, which results in uncertainty surrounding the transition to sustainable practices. This in turn slows down the change process. Moreover, the demands and resources at the workplace can affect engagement and decision making.

On the other hand, our research suggests that manufacturing firms consider the adoption of ecological input materials as good for business. Consumers and other stakeholders place an increasingly high value on environmental friendliness, so by adopting ecological input materials manufacturing firms create value for their stakeholders, which reflects positively in their economic performance. However, the transition might not take place if the firm is highly dependent on its current materials and processes tied to those materials. The risks of, for instance, the new material not functioning as well as the old one or the supply of the new material not being as steady and predictable as that of the old one can be too high for making the switch to ecological inputs.

In addition to rational reasons such as those based on financial calculations, also emotions influence managerial decision making. Emotions can reflect not only the manager's personal priorities and work-related values, but also the firm's ethical objectives. Under significant uncertainty, or in situations when reason and emotions are at odds, the feeling of making the right choice can guide decision making. Furthermore, we find that the fear of missing out increases managers' willingness to adopt sustainable business practices. Therefore, managers need sufficient knowledge, long-term strategies, perseverance and sufficient resources in order to make successful transitions to conducting business sustainably.

However, even if reason and emotions in internal decision-making favoured transitioning to sustainable business practices, the final leap requires support from external stakeholders. Hence, we examined how investors – whose decisions affect businesses – make investment decisions. The results point to emotions playing a key role in developing the first impression of the potential investment object. Excitement and the fear of missing out influence how investors feel about risk and through that also the decision whether to proceed with the evaluation of the investment object or terminate the evaluation. Without the right emotions the investment process does not go forward. The fear of missing out and personality features such as gambling proclivity influence how signals are interpreted, and how the final investment decisions are made.

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