GOVERNANCE AND ENVIRONMENTAL PERFORMANCE IN FAMILY-CONTROLLED PUBLIC CORPORATIONS (SUMMARY)

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Recommended Citation  
Berrone, Pascual; Cruz, Cristina; Gomez-Mejia, Luis; and Kintana, Martin Larraza (2009) "GOVERNANCE AND ENVIRONMENTAL PERFORMANCE IN FAMILY-CONTROLLED PUBLIC CORPORATIONS (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 29: Iss. 14, Article 2.  
Available at: http://digitalknowledge.babson.edu/fer/vol29/iss14/2

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SUMMARY

GOVERNANCE AND ENVIRONMENTAL PERFORMANCE IN FAMILY-CONTROLLED PUBLIC CORPORATIONS

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Principal Topic
This paper compares the environmental performance of family-controlled public corporations with that of nonfamily controlled companies. Using institutional theory and insights drawn from organizational identity, corporate governance, environmental management, and family business literature, we formulate the following arguments.

First, family owners share certain features such as a strong personal attachment to the firm and desire to portray a good corporate image and reputation. Moreover for family owners, personal and organizational identity tend to be isomorphic, providing a distinctive organizational identity. Given these common features family firms are more likely to pursue environmental strategies to avoid being stigmatized as an irresponsible corporate citizen.

Second, the family firm is more sensitive to the needs and pressures of the surrounding community, the degree of “local roots” augments the family firm’s motivation to project a desirable community image and thus reduce its environmental footprint.

Third, because of greater monitoring capacity and unique social dynamics, family firms tend to rely less on long term financial incentives as a mechanism to promote responsible environmental behaviors among top executives. Lastly, because they are at the core of what a family firm’s identity represents, greater presence of family members in the firm’s governance structure and higher family stock ownership result in a concomitant improvement in observed environmental performance.

Methods
The study is based on a sample of U.S. companies required to report their emissions in the “Toxic Release Inventory” program of the Environmental Protection Agency. The total sample comprised 194 firms, out of which 101 were identified as family firms and 93 as nonfamily firms.

Results and Implications
Our results show that family firms pursue conscious strategies to improve their environmental performance, and that this relative sensitivity towards the environment increases with the degree of local roots and family ownership. In doing so, the family firm may gain efficiency and overcome the size and growth constraints that may put its survival at risk in a highly competitive market. However, we also find that the advantage a family firm has in environmental performance is not increased either by long-term CEO pay incentives or by having a family member as the CEO.

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