Corporate social responsibility, family firms and financial market quality

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Chapter 5. Conclusion

Corporate social responsibility (CSR) refers to the fact that firms may need to maximize stakeholder wealth, along with shareholder wealth, in order to gain a competitive advantage. CSR has become one of the foremost business challenges and has received much more importance in businesses and academia in the twenty-first century. Researchers have investigated what drives firms' CSR and how it influences their financial performance. The three empirical chapters in this dissertation contribute to this line of research, focusing on investigating the determinants and outcomes of CSR.

In the following sections, I, discuss the contributions of our research, and suggest future research directions.

5.1 Theoretical Implications

Each chapter offers a stand-alone contribution to the body of literature by responding to its particular set of research questions; however, all chapters share the theme of corporate social responsibility. Overall, the three empirical studies presented in this thesis have two theoretical implications for studying CSR determinants and outcomes. The first theoretical implication concerns the connection between ownership structure and CSP. Previous studies (Aksoy et al., 2020; El Ghoul et al., 2016; Jo & Harjoto, 2011; Labelle et al., 2018) have emphasized agency and stakeholder theory to explain the relationship between different types of ownership structure and CSP. We extend previous research on the relationship between corporate social performance (CSP) and ownership by employing behavioural agency theory to explain the CSP of family firms versus non-family firms (Cruz et al., 2014; Dick et al., 2021). Our study contributes to discussions on how family owners' socioemotional wealth (SEW) incentives lead to differences in strategic behaviour (De Massis et al., 2021; Jiang et al., 2018; Yu et al., 2020) and other decisions (Cennamo et al., 2012), including those pertaining to the social (Cruz et al., 2014; Dick et al., 2021; Kellermans et al., 2012; Naldi et al., 2013) and environmental goals of the firm (Doluca et al., 2018; Li et al., 2023), relative to non-family firms. Chapter 2 extends this line of research by focusing on how the negative consequences of SEW exacerbate or constrain firms' CSP, depending on the type of shareholder protection in different countries. By showing how differences in shareholder protection across countries explain the extent to which family owners can focus on their own interests in preserving SEW, Chapter 2 suggests that country-level differences in shareholder protection are important in explaining the extent to which family owners can focus on their own interests in preserving SEW. Furthermore, in Chapter 4, our study adds to the body of knowledge on SEW as a multidimensional construct (Davila et al., 2022; Gu et al., 2019; Swab et al., 2020). Chapter 4 specifically adds to the existing literature on short- and long-term views associated with family owners' SEW needs by investigating the moderating role of family ownership for the link between environmental sustainability and financial performance across different levels of family ownership. By demonstrating how family owners' short- and long-term views are associated with their SEW needs cause significant differences in carbon emission reduction efforts and the link with financial performance, Chapter 4 suggests that family ownership SEW preferences have a curvilinear effect on the relationship between carbon emission levels and financial performance.

The second theoretical contribution addresses the importance of country-level factors. El Ghoul et al. (2016) contend that the institutional environment is important in explaining the differences in CSP between family and non-family firms. In Chapter 2, we extend this line of research by examining which institutional characteristics are important when comparing the CSP of family and non-family firms. In particular, in this chapter we examine the role of different types of shareholder protection in explaining the difference in CSP between family and non-family firms to provide insights into how differences in country-level investor protection matter. In comparison to previous research that looked at firm- and country-level characteristics separately and/or the interaction of the two (Labelle et al., 2018; Rees & Rodionova, 2015), Chapter 2 suggests that minority shareholder protection and shareholder rights in governance are important when comparing the CSP of family and non-family firms. The legal context and its interaction with family firms' focus on their own interest in preserving SEW can explain the differences between family and non-family firm CSP.

In Chapter 3, we show how cross-country differences in financial market quality affect net external financing needs, carbon disclosure, and the cost of capital relationships. According to Khanna and Palepu (2010), firms face several institutional voids in countries with low quality financial market. We contend that when the system has institutional voids, information asymmetry and transaction costs for firms increase, making it difficult for firms to access funds at lower cost. Consequently, firms in these countries devise non-market strategies to fill these voids (Khanna & Palepu, 2010). The findings in Chapter 3 indicate that in countries with low financial market quality, carbon disclosure acts as a non-market mechanism to provide additional information to stakeholders (creditors and shareholders), reducing information asymmetry and increasing firm access to finance at a lower cost. Our findings suggest that differences in financial market quality are important for determining the role of carbon disclosure in obtaining lower-cost financing for firms with higher external financing needs.

In Chapter 4, we demonstrate how the behaviour of family and non-family firms changes in response to the Paris Agreement and how this influences their financial performance. Our findings indicate that the Paris Agreement has significant implications for both family and non-family firms' efforts to reduce carbon emissions, which have a positive impact on financial performance.

5.2 Practical Implications

This thesis offers several practical implications. First, the findings in Chapter 2 indicate that country-level governance is important in explaining the differences in CSP between family and non-family firms. By understanding the significance of different shareholder protection mechanisms, governments and regulatory bodies can improve the quality of governance in their country by developing policies that strengthen minority shareholders' rights to decrease principal-principal problems in family firms and increase their CSP.

Chapter 3 demonstrates how firms can inform capital providers about the efforts they make in limiting carbon emissions to slow global warming by disclosing those emissions. Given the significance of carbon disclosure in informing capital providers about a company's involvement and efforts in environment-related activities, managers can use voluntary carbon disclosure as an important corporate strategy to increase access to low-cost external financing. Such non-market strategies are especially crucial in countries where financial market quality is low (Khanna & Palepu, 2010) because in such market conditions, external financing is usually more difficult to obtain due to larger information asymmetries between firms and capital providers. In these markets, managers can use carbon disclosure as a strategy to fill the institutional voids that increase information asymmetries. In this way, managers of firms with more external financing needs and residing in countries with low financial market quality can access external finance at a lower cost.

Third, carbon emissions, a major contributor to climate change, have a significant negative impact on corporate financial performance. Yet, this impact differs between family and non-family firms. Chapter 4 shows that if family firms with a high level of ownership concentration do not increase their carbon performance, this leads to lower financial performance for family firms than for non-family firms. The Paris Agreement places strong emphasis on the need for an action plan to reduce carbon emissions to combat climate change.

Our research suggests that to comply with the Paris Agreement, managers of businesses, for example those in family firms where controlling families have very high level of ownership, should have long-term visions in developing corporate carbon strategies that include green investments in low-carbon technologies. This will improve the carbon performance of their businesses and, consequently, their financial performance. Based on our findings, policymakers can devise strategies that provide long-term incentives encouraging businesses to increase their investments in adopting environmentally friendly practices, such as green technology innovation, green product innovation and green process innovation, to mitigate the effects of climate change and improve their long-term financial performance.

5.3 Limitations and Future Research Directions

5.3.1. Look Beyond Family Ownership

We focused on family ownership in chapters 2 and 4, but we did not provide too much information about family characteristics, such as the CEO being the founder or a family member, family board presence, and the impact of generations of family members, in order to capture as many observations as possible, allowing us to create a large international dataset. It would be ideal to investigate how these relationships differ across firms with different family characteristics. This represents an interesting avenue for future research. Emphasis on preserving SEW may be more pronounced when the family is directly involved in the business. Family firm characteristics such as family involvement in management and boards of directors, as well as the presence of different generations of a family, may influence the family's SEW perspective, which may be reflected in decisions and outcomes (Berrone et al., 2012; Nason et al., 2019). According to previous studies, family firms with stronger family involvement are also more likely to participate in CSR (Block & Wagner, 2014; Cui et al., 2018; López-González et al., 2019; Meier & Schier, 2021; Shi et al., 2021), and have less carbon emissions

(Borsuk et al., 2023) than family firms with weak or no family involvement. In the presence of different family governance structures and board characteristics (i.e., boards tenure, family CEO, family representation on board and board gender diversity), family firms show more reduction in carbon emissions (Borsuk et al., 2023; Haque, 2017) than non-family firms. Additionally, as generations pass, the significance of SEW for family governance changes. Because managers from later generations may view CSR as less important or even unnecessary and wasteful, family businesses where members of later generations are involved in management may exhibit lower levels of CSP (Le Breton Miller & Miller, 2013). Future research could further clarify the relationship between family involvement and CSP in an international context with different types of shareholders by focusing on the role played by the CEO and boards (Aoi et al., 2015; Cui et al., 2018; Lamb & Butler, 2018; López-González et al., 2019; Meier & Schier, 2021; Zeng, 2020) in different generational stages separately. Moreover, future research could also examine how different family firm characteristics (governance structures, board characteristics and family values) (Borsuk et al., 2023) may shape the relationship between carbon emissions and financial performance.

5.3.2. SEW, a Multidimensional Construct

In Chapter 2, we use a broad definition of what constitutes SEW. However, SEW is a multidimensional construct (Berrone et al. 2012). Swab et al. (2020, p.436) contend that "the multidimensionality of SEW is rather complex, and it requires additional empirical examination to fully surmise the interrelatedness of each dimension." Davila et al. (2022) argue that "SEW dimensions do not always work in concert and may have to be examined individually regarding their relation to financial results". This necessitates additional empirical research based on the different dimensions of SEW (as proposed by Berrone et al. (2012) in relation to the financial performance. In Chapter 4, we examine the multidimensionality of

SEW in terms of short-and long-term views. Future research could examine the relationship between the different dimensions of the SEW construct and their individual and collective impacts on family firms' CSR decisions and their financial performance taking into account different institutional settings.

5.3.3 Country-level Factors

In Chapter 2, we examine the role of various types of shareholder protections as governance mechanisms in determining the CSP of family and non-family firms. Previous research indicates that family firms' self-interest in preserving SEW asymmetrically affects family and non-family internal stakeholders, such as family and non-family employees (Jaskiewicz et al. 2013). Future research could expand our findings by examining the role of country stakeholder protection, such as employee protection, in mitigating the negative impact of family firms' emphasis on preserving SEW on their CSP. Furthermore, research shows that family businesses discriminate against internal and external stakeholders when it comes to CSP (Cruz et al., 2014; Lopez-González et al., 2019). Future research could expand our findings by investigating the role of differences in internal and external country-level stakeholder governance mechanisms, such as employee protection, creditor protection, and environmental stringency, in explaining CSP differences between family and non-family firms. As a result, another potentially interesting avenue for future research is to examine other country-level governance mechanisms with a focus on stakeholder protection.

Chapter 4 investigates the link between carbon emissions and financial performance in family and non-family businesses. According to Galama and Scholten (2021), strict carbon policies are important for the relationship between carbon emissions and financial performance. Future research could expand on this line of inquiry by investigating the impact of stringent carbon policies, such as carbon emissions trading schemes and carbon taxation, on the relationship between greenhouse gas emissions and corporate financial performance in family and non-family businesses.

5.3.4 Sector and Regional Analysis

Chapters 2-4 examine how country-level institutions influence the relationship between family businesses and CSP, net external financing needs and carbon disclosure, carbon emissions and financial performance. However, the context in which a firm is embedded, such as industries and countries, may also moderate the effect of family ownership on CSP, net external financing needs and carbon disclosure, and carbon emissions and financial performance. In more polluting industries, emissions reduction is a more important issue to address; thus, carbon reduction in these industries has a much greater influence on competitive advantage (Gonenc & Scholtens, 2017; Trinks et al., 2020, 2018). Institutional investors are demanding compensation for investments that result in higher total CO2 emissions. Thus, polluting companies are paying higher financing costs, which may rise further in the future (Bolton & Kacperczyk, 2021). Similarly, Lu et al. (2021) argue that the importance of carbon disclosure in improving financial performance is lower in carbon-intensive industries than in non-carbon-intensive industries. Future research should focus on specific sectors (high-emitting sectors, sectors with higher abatement costs, environmentally sensitive industries, carbon-intensive industries, and industries with strict carbon regulations) and regions, and/or may study these relationships in large countries such as the United States, Canada, and China, and look at differences between states or regions within these large countries. Different states may vary in environmental regulations and investor awareness (Ferrat, 2021), stakeholder and shareholder orientation (Labella at al., 2018), family firms associations (Canavati, 2018), family ownership (Aminadav & Papaioannou, 2020), and emission intensities (Raupach et al., 2007). Future research could investigate how these regional differences affect carbon disclosures, emissions and their relation to cost of capital and financial performance.

5.3.5 Paris Agreement

The Paris Agreement was signed in 2015 by 192 countries with the aim of limiting global warming to below 1.5°C. Our research in Chapter 4 focuses only on European companies. We encourage future researchers to emphasis on Paris-agreement in-depth analysis with longer and different sample periods to observe the extent to which family and non-family firms' behaviour changes after the Paris Agreement to cut emissions to 50% in 2030 and net-zero in 2050 on a larger international scale.

The Paris Agreement emphasizes the need to address the finance, technology, and capacity-building gaps of developing countries to enable them to achieve its goals. Foreign direct investment (FDI) serves as an important route to transferring green technology from developed to developing countries, which contributes to achieving low-carbon development and climate change mitigation in developing countries (Abdouli et al., 2018; Al-Mulali & Tang, 2013). In Chapter 3, NEF variable is not able to appreciate the different types of financing flows into and out of the firm. We appreciate future studies to examine the role of FDI in climate change mitigation in developing countries during the post-Paris Agreement period and how it affects the relationships between the net extent of financing needs, carbon disclosure, and cost of capital.

Literature suggests that the Paris Agreement may have uneven effects around the world (Mani et al., 2018). Family-owned and non-family-owned businesses may have different responses to the Paris Agreement depending on the sector they belong and/or the region in which they are located (Borsuk et al., 2023). Future research could expand our knowledge by examining the differences in carbon emission levels and financial performance between family and non-family firms in the post-Paris Agreement period across different regions and industries.