

Patient Capital

The Role of Family Firms in Sustainable Business

Sustainable businesses create economic and social value while simultaneously protecting the natural environment for future generations. This examination of environmental sustainability through the lens of the family business identifies factors that help family and non-family organizations address the dilemma of balancing short-term productivity, efficiency, and profitability objectives, with innovating for long-term sustainable value creation. Exploring the case of the wine industry – an industry characterized by a variety of governance systems – Sanjay and Pramodita Sharma develop fresh insights into influences and drivers for proactive environmental strategies to address major global sustainability challenges. By doing so, the authors are able to demonstrate that family firms with a focus on transgenerational continuity of business, long temporal orientation, shared vision, faster decision-making processes, and the goal of preserving socioemotional wealth are more likely to make patient long-term investments for innovations in products, services, processes, and business models to address environmental sustainability challenges.

DR. SANJAY SHARMA is Dean of the Grossman School of Business, University of Vermont. His previous published books include *Competing for a Sustainable World: Building Capacity for Sustainable Innovation* (2014), *Sustainability, Innovation and Entrepreneurship* (2008), *Environmental Strategy and Competitive Advantage* (2005), and *Research in Corporate Sustainability: The Evolving Theory and Practice of Organizations in the Natural Environment* (2004), as well as numerous articles and book chapters.

DR. PRAMODITA SHARMA is Professor and Daniel Clark Sanders Chair in Entrepreneurship & Family Business at the Grossman School of Business, University of Vermont. Her previously published work includes *Entrepreneurs in Every Generation: How Successful Family Businesses Develop Their Next Leaders* (2016), *SAGE Handbook of Family Business* (2014), *Family Business Studies: Review and Annotated Bibliography* (1996, 2012), as well as numerous articles and book chapters.

Organizations and the Natural Environment

Series editors

Jorge Rivera, *George Washington University*
J. Alberto Aragon-Correa, *University of Surrey*

Editorial board

Nicole Darnall, *Arizona State University*
Magali Delmas, *University of California, Los Angeles*
Ans Kolk, *University of Amsterdam*
Thomas P. Lyon, *University of Michigan*
Alfred Marcus, *University of Minnesota*
Michael Toffel, *Harvard Business School*
Christopher Weible, *University of Colorado*

The increasing attention given to environmental protection issues has resulted in a growing demand for high-quality, actionable research on sustainability and business environmental management. This new series, published in conjunction with the Group for Research on Organizations and the Natural Environment (GRONEN), presents students, academics, managers, and policy makers with the latest thinking on key topics influencing business practice today.

Published titles

Sharma and Sharma, *Patient Capital*
Marcus, *Innovations in Sustainability*
Bowen, *After Greenwashing*

Forthcoming titles

Gouldson and Sullivan, *Governance and the Changing Climate for Business*

Cambridge University Press
978-1-107-55922-6 — Patient Capital
Sanjay Sharma, Pramodita Sharma
Frontmatter
[More Information](#)

Patient Capital

The Role of Family Firms in Sustainable
Business

SANJAY SHARMA

Grossman School of Business, University of Vermont

PRAMODITA SHARMA

Grossman School of Business, University of Vermont



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press
978-1-107-55922-6 — Patient Capital
Sanjay Sharma, Pramodita Sharma
Frontmatter
[More Information](#)

CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
314-321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre, New Delhi - 110025, India
103 Penang Road, #05-06/07, Visioncrest Commercial, Singapore 238467

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781107559226

DOI: 10.1017/9781316402528

© Sanjay Sharma and Pramodita Sharma 2019

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2019

First paperback edition 2022

A catalogue record for this publication is available from the British Library

ISBN 978-1-107-12366-3 Hardback

ISBN 978-1-107-55922-6 Paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication, and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Contents

<i>List of Figures</i>	<i>page</i> ix
<i>List of Tables</i>	x
<i>Preface</i>	xi
1 Definitions	1
Introduction	1
Key Terms in the Sustainability Literature	4
Corporate Philanthropy	4
Impact Investing	4
Corporate Social Responsibility (CSR)	6
Corporate Citizenship	7
Corporate Greening	7
Corporate Environmental Strategy	8
Sustainable Business	9
Sustainability Strategy	9
Patient Capital	11
Corporate Governance	13
Ownership vs. Management Control	14
Family vs. Non-Family Control	16
Layout of the Monograph	18
2 Primary Data: Cases from the Winery Industry in Canada, France, and Chile	25
The Winery Industry	25
Reactive vs. Proactive Environmental Strategy in the Winery Industry	27
Research Design and Case Selection	29
Canadian Wineries	31
Reactive Environmental Strategies	35
First-Generation Family Firms	36
Multi- or Later-Generation Family Firms	37
Non-Family or Corporate Wineries	38
	v

Proactive Environmental Strategies	39
First-Generation Family Firms	40
Multi- or Later-Generation Family Firms	43
Chilean Wineries	44
Proactive Environmental Strategies	45
Multi- or Later-Generation Family Firms	45
Non-Family or Corporate Wineries	46
French Wineries	47
Reactive Environmental Strategies	48
Non-Family or Corporate Wineries	48
Proactive Environmental Strategies	49
Multi- or Later-Generation Family Firms	49
Non-Family or Corporate Wineries	51
Data Collection	52
Data Analysis	53
Appendix A: Interview Guide	54
3 Exogenous Drivers of Corporate Environmental Sustainability Strategy	57
Institutional Influences on a Firm's Strategy	58
Institutional Influences on a Firm's Environmental Sustainability Strategy	60
Impact of Different Regulatory Approaches on a Firm's Environmental Sustainability Strategy	62
Family Firms' Response to Institutional Forces	67
The Role of Institutional Entrepreneurs	72
Stakeholder Influences on a Firm's Environmental Strategy	75
Stakeholder Classification, Salience, and Influence	76
Individual Stakeholder Influences on a Firm's Environmental Sustainability Strategy	81
Institutional Investors	81
Media	82
Regulators	82
Boards	83
Local Community	84
NGOs	85
Family Firms' Influence on and Response to Stakeholders	86
Stakeholder Engagement in the Winery Industry	88
Summary	90

<i>Contents</i>	vii
4 Organizational Drivers of Corporate Environmental Sustainability Strategy	98
Corporate Governance Influences on Firms' Environmental Strategies	101
Ownership Influences on Firms' Environmental Strategies	101
Institutional Ownership	101
Shareholder Activists	103
Board of Directors	104
Top Management influences on Firms' Environmental Strategies	106
Top Management Team in Non-Family Firms	106
Dominant Coalition in Family Firms	107
Temporal Orientation	109
Family Identification with the Firm	112
Firm Level Market and Competitive Strategies	115
Strategies Undertaken as Regulatory Responses	117
The Link between Sustainability Strategy and Generic Business Strategy	119
Sustainability Strategy and Financial Performance	120
The Natural-Resource-Based View	121
The Development and Deployment of Capabilities for PES in Family Firms	126
Shared Family Sustainability Vision	128
Familianness	130
Stewardship Orientation	132
Long-Term Temporal Orientation	134
Family Identity	135
The Contingent Natural-Resource-Based View	138
Summary	139
5 Managerial Drivers of Environmental Sustainability Strategy	150
The Influence of Managerial Values, Attitudes, and Interpretations	153
Cognitive Frames and Biases	156
Halo Effects	159
Anchoring Effects	160
Loss Bias	161
Opportunity Framing of Environmental Issues	167
Leadership	167
Supervisory Influences	169

viii	<i>Contents</i>
	Organizational Context and Design 171
	Legitimization of Environmental Sustainability in the Firm's Identity 172
	Integration of Environmental Metrics into Performance Evaluation 175
	Discretionary Slack 179
	Information Flow 181
	Championing and Selling Sustainable Ideas and Innovations 183
	The Family Business Advantage 185
6	Bringing the Family into the Corporate Environmental Sustainability Strategy: Implications for Research, Education, and Policy 195
	How Are Family Firms Different from Non-Family Firms? 201
	Characteristics Unique to Family Firms 201
	Characteristics More Likely in Family Firms 202
	Summary of Propositions 208
	Institutional Influences 209
	Stakeholder Influences 209
	Organizational Influences 210
	Market / Competitive Strategy 211
	Development and Deployment of Organizational Capabilities 211
	Individual / Managerial Influences 212
	Implications for Research 214
	PES in Different Industry Contexts 215
	Measure Development 217
	Proactive Environmental Strategy 218
	Generalizability 219
	Temporal Perspective 220
	Agents of Institutional Change 220
	Bringing the Family inside Non-Family Firms 222
	Implications for Business Education 224
	Implications for Policy 225
	Conclusion 225
	<i>Index</i> 233

Figures

1.1 An Overview of Time Orientation, Concentration of Ownership, and Patient Capital	<i>page</i> 18
6.1 Drivers of a PES in Non-Family and Family Firms	214

Tables

1.1 Key Terms in the Sustainability Literature	<i>page 5</i>
2.1 Cases Selected	32
5.1 Interpretation of Environmental Issues as Threats vs. Opportunities	164
6.1 Differences in Drivers for PES between Family Firms and Non-Family Firms	205

Preface

Sustainable business is about the creation of economic and social value while simultaneously protecting the natural environment for future generations. Therefore, sustainable businesses not only generate economic, social and environmental value, but they also seek to be long-lived and resilient. Such enterprises face the challenge of balancing their short-term performance objectives while simultaneously making long-term patient investments in the future. A major challenge for the achievement of such a balance is a focus of publicly listed companies on short-term financial performance and quarterly reporting and financial analyst scrutiny in response to the expectations of capital markets. These short-term financial results impact the performance of the firm's share value and executive compensation for the top management team of the firm. While the short-term focus certainly has positive impacts on efficiency and productivity improvement, it is often attributed as a reason for the discouragement of investments in radical innovations in clean technologies and business models. This is because such sustainable investments more often than not require patience and a long-term pay back and competitive advantage in the unknown future while having the potential to affect short-term financial results or cash flows negatively.

An important question that researchers in corporate sustainability and organizations and the natural environment seek to address is *how can organizations address the dilemma of balancing short-term productivity, efficiency, and profitability objectives, with innovating for long-term sustainable value creation?* We address this research question by comparing and contrasting organizations with two different governance systems:

- 1) Firms with dispersed ownership, public listing in capital markets, and in which the relationship between the top management and the firms' owners is guided by an employment contract and agency; and

2) Family firms with an overlap of ownership and management and closely held control by a group of individuals with kinship ties.

In both types of firms, the controlling shareholders' and investors' goals and preferences guide the strategic orientation and resource allocation decisions of the managers. While institutionalized control dominates the mind-set of contractual managers, personalized control guides family firms (e.g., Carney, 2005). In contractually driven firms, delivering on short-term financial performance objectives is not only critical for an organization's relationship with its shareholders, but is also important for the career progression of its top managers since their quarterly and annual performance evaluation is tied to stock prices and a major portion of their compensation includes stock options. The short-term orientation aligns the preferences of the controlling shareholders and firms' top managers.

In sharp contrast, in family firms guided by a relational contract based on an overlap of ownership and management, the primary organizational goal is often the survival and sustainability of the enterprise *to create value for the future generations of the controlling family*. Although such firms certainly cannot afford to ignore the achievement of short and medium-term economic objectives, investment of resources to build valuable capabilities for future business, entrepreneurship, and long-term value creation by succeeding generations is equally, if not more, important.

These insights are not entirely new. Behavioral researchers have differentiated between contractual and relational contracts (Clark and Mills, 1979; Gagné, Sharma and de Massis, 2014), while strategy scholars have made inroads to understanding the agentic vs. stewardship mind-sets (Schulze et al., 2001). Nevertheless, with some notable exceptions (e.g., Berrone et al., 2010; Gómez-Mejía et al., 2011), most of the research in both literatures is focused on contractual and agentic issues. We argue that this inherent bias in the literature is divorced from the realities of a large majority of enterprises (family owned and controlled firms) that dominate between 70 percent and 90 percent of most global economies in number and also in terms of the share of the GDP. Hence, the literature is incomplete in its usable knowledge to help resolve the dilemma of balancing short-term and long-term performance and investments for business organizations and achieving societal goals of meeting global sustainability challenges such as clean air, clean water, preservation of diversity of life and species, and protecting natural habitats on which

mankind relies. Without understanding decision-making processes in a major sector of the world's most developed as well as developing economies, namely, family firms guided by relational and stewardship mind-sets, it is difficult to generate comprehensive knowledge of the factors that enhance or inhibit the development of sustainable businesses that simultaneously create economic, social, and environmental value in the short- and long-term.

In this monograph, we address this gap by comparing and contrasting strategic decision-making for sustainable innovation in family and non-family firms. Family enterprises create the bulk of economic and societal value in most economies and contribute to maintaining sustainable environment and communities (Astrachan and Shanker, 2003; La Porta, Lopez-de-Silanes and Shleifer, 1999). Firms in this major sector of the economy are more often, albeit not always, guided by the relational contracts and stewardship mind-set (Miller and Le Breton-Miller, 2005). Yet, in spite of their ubiquity, depth of impact on the economy or society, and a greater likelihood of community and environmental rootedness, these enterprises are an under-researched context in the sustainability literature (Dyer Jr. and Whetten, 2006; Sharma and Sharma, 2011; 2018).

Just as there are major differences between non-family corporations in their sustainability strategies (Àragon-Correa, 1998; Russo and Fouts, 1997; Sharma and Vredenburg, 1998), not all family firms are equally motivated to build capacity for creating sustainable value by preserving natural capital and contributing to social welfare and their communities (Delmas and Gergaud, 2014; Marques, Preses and Simon, 2014). Family firms are also heterogeneous in their strategies and missions (Ward, 1987; Westhead and Cowling, 1998). In this monograph, we also seek to understand the factors that lead to such differences not only among publicly held corporations with diffused ownership but also among family firms where ownership is concentrated with a kinship group. That is, we identify drivers of patient long-term investments in a proactive environmental sustainability strategy in family firms.

To limit the literature and scope of the phenomenon to be studied, *we focus only on environmental sustainability* since the social sustainability and corporate social responsibility literature is substantial and merits another monograph by itself. We identify factors that help and hinder investments of resources by family and non-family firms to build their

capacities for long-term sustainable value creation. For such comparisons, it is important to control for external variation in the industry and the institutional environment. Thus, we supplement our theoretical analysis with data from one setting – the winery industry in three countries. This industry is characterized by a variety of governance systems: multi-generational family firms, first-generation family firms, corporate-owned wineries, and lifestyle wineries. Hence, it allows comparison of sustainability drivers and practices across different governance systems. The theoretical arguments presented are illustrated by multiple research interviews and archival data from over twenty-one wineries in Canada, the United States, France, and Chile, supplemented by secondary data from archival material from eleven other wineries. The data are woven into our review of extant literature and theory development to offer our framework, propositions, and recommendations for the unique characteristics of family firms that can be useful guides for organization design and change for non-family firms seeking to develop an effective proactive environmental strategy via innovations, technologies, and business models based on patient long-term investments.

This monograph fills a gap in the sustainability literature by presenting fresh insights for sustainability scholars, family business scholars, practitioners, and policy makers to better understand drivers that help firms balance their short-term goals with long-term sustainable investments. Simultaneously, it casts new light on why some family firms do better than others in building capacity to pursue long-term orientation and trans-generational sustainable value creation. We have enjoyed the process of researching and writing this monograph and hope that the readers will find ideas that stimulate empirical research projects, organizational and strategic change, and policy changes for unleashing the power of business for a sustainable planet.

August 2018

References

- Aragon-Correa, J. A. 1998. Strategic proactivity and firm approach to the natural environment. *Academy of Management Journal*, 41(5): 556–567.
- Astrachan, J. H. and Shanker, M. C. 2003. Family businesses' contribution to the US economy: A closer look. *Family Business Review*, 16: 211–219.

- Berrone, P., Cruz, C., Gomez-Mejia, L. and Larraza-Kintana, M. 2010. Ownership structure and corporate response to institutional pressures: Do family-controlled firms pollute less? *Administrative Science Quarterly*, 55: 82–113.
- Carney, M. 2005. Corporate governance and competitive advantage in family controlled firms. *Entrepreneurship: Theory & Practice*, 29: 249–265.
- Clark, M. S. and Mills, J. R. 1979. Interpersonal attraction in exchange and communal relationships. *Journal of Personality and Social Psychology*, 37: 12–24.
- Delmas, M. and Gergaud, O. 2014. Sustainable certification for future generations: The case of family business. *Family Business Review*, 27(3): 228–243.
- Dyer Jr., G. W. and Whetten D. A. 2006. Family firms and social responsibility. Preliminary evidence from the S&P 500. *Entrepreneurship Theory and Practice*, 30(4): 785–802.
- Gagné, M., Sharma, P. and De Massis, A. 2014. The study of organizational behavior in family business. *European Journal of Work and Organizational Psychology*. Advance online publication.
- Gómez-Mejía, L. R., Cruz, C., Berrone, P. and De Castro, J. 2011. The bind that ties: Socioemotional wealth preservation in family firms. *The Academy of Management Annals*, 5: 653–707.
- LaPorta, R., Lopez-de-Silanes, F. and Shleifer, A. 1999. Corporate ownership around the world. *Journal of Finance*, 54: 471–517.
- Marques, P., Preses, P. and Simon, A. 2014. The heterogeneity of family firms in CSR engagement: The role of values. *Family Business Review*, 27 (3): 206–227.
- Miller, D. and Le Breton-Miller, I. 2005. *Managing for the Long Run*. Boston, MA: Harvard Business School Press.
- Russo, M. V. and Fouts, P. A. 1997. A resource-based perspective on corporate environmental performance and profitability. *Academy of Management Journal*, 40: 534–559.
- Schulze, W. S., Lubatkin, M. H., Dino, R. N. and Buchholz, R. A. 2001. Agency relationships in family firms: Theory and evidence. *Organization Science*, 12(2): 99–116.
- Sharma, P. and Sharma, S. 2011. Drivers of proactive environmental strategy in family firms. *Business Ethics Quarterly*, 21(2): 309–334.
- Sharma, P. and Sharma, S. 2018 (forthcoming). The role of family firms in corporate sustainability. In A. Sturdy, S. Huesinkveld, T. Reay and D. Strang (eds.), *The Oxford Handbook of Management Ideas*. Oxford, UK: Oxford University Press.

- Sharma, S. and Vredenburg, H. 1998. Proactive corporate environmental strategy and the development of competitively valuable organizational capabilities. *Strategic Management Journal*, 19: 729–753.
- Ward, J. 1987. *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership*. San Francisco, CA: Jossey-Bass.
- Westhead, P. and Cowling, M. 1998. Family firm research: The need for a methodological rethink. *Entrepreneurship Theory & Practice*, 23(1): 31–56.