Insider Entrenchment and Corporate Sustainability
Around the World

Alexander Dyck
University of Toronto

Karl V. Lins
University of Utah

Lukas Roth
University of Alberta

Mitch Towner
University of Arizona

Hannes F. Wagner
Bocconi University

April 10, 2019

Abstract
We break up aggregate corporate sustainability (ESG) and test the impact of firms’ corporate governance structures (G) on firms’ environmental performance (E). Using a global sample, we find that family-controlled firms, where outsiders have limited influence due to clear-cut insider entrenchment, have 6-13% lower environmental performance. Entrenchment-reducing governance structures positively impact environmental performance. In both widely-held and family-controlled firms, the introduction of majority voting requirements for corporate boards and female board representation are associated with environmental performance that is 6-10% and 12-16% higher, respectively. We conclude that corporate governance is fundamental for the environmental component of sustainability—that is, G drives E.

Keywords: Environmental performance, Ownership structure, Sustainability, Corporate social responsibility, ESG, Corporate governance

JEL Classification: G15, G23, G32

Author contacts: adyck@rotman.utoronto.ca; karl.lins@eccles.utah.edu; lukas.roth@ualberta.ca; mitchtowner@email.arizona.edu; and hannes.wagner@unibocconi.it. We thank Bo Becker, Shaun Davies, Dirk Jenter, Adair Morse, Laura Starks, seminar participants at the Hong Kong Baptist University, University of Alberta, University of Arizona, University of Illinois at Chicago, University of Neuchatel, and participants at the 2019 American Finance Association Meeting, the 2018 Swedish House of Finance Conference on Sustainable Finance, the 2018 UN PRI Academic Network Conference, and the 2018 University of Tennessee Smokey Mountain Finance Conference for helpful comments and suggestions. We are grateful to the Social Sciences and Humanities Research Council of Canada for financial support. Lukas Roth gratefully acknowledges financial support from the Winspear Endowed Roger S. Smith Senior Faculty Fellowship.