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The Institutional Peculiarities of Emerging Economies: When Will Family Firms Pollute More?

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- St. Ambrose[1], (387 A.D.)

Abstract:

Recently scholars have demonstrated that family firms are endowed with many unique resources, one of which is socioemotional wealth. They argue that the presence of socioemotional wealth in family firms has several implications which are reflected through their distinctive behaviors and one of such behaviors is the preservation/protection of local environment. Instead, we suggest that the presence of heterogeneous level of institutional development in which family firms are operating can explain why some family firms are more positive to the preservation of local environment and vice versa. We argue that the tripartite relationship between institutions, economic progress and, social values will determine which set of behaviors firms will demonstrate. By using case approach and applying secondary data from two emerging countries- Bangladesh and India, we found strong support to our hypotheses.

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Key Words: Socioemotional wealth, family firms, environment, institutions,

Recently, scholars have demonstrated that the presence of socioemotional wealth in family firms has several implications which are reflected through their distinctive behaviors (Gomez-Mejia, Larranza-Kintana, and Makri, 2003; Lubatkin, Schulze, and Ling, 2005; Miller, La Breton-Miller, and Lester, 2010; Schulze, Lubatkin, and Dino, 2003a; Barrone, Cruz, Gomez-Mejia, Larranza-Kintana, 2010; Crisman, Sharma and Taggar, 2007; Crisman, Steier and Chua, 2008; Heck and Mishra, 2008). According to them, since the prime objective of family firms is the preservation of socioemotional wealth, family firms will adopt any decisions, either economic or

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non-economic, with the aim of preserving and reinforcing it. More elaborately, socioemotional wealth ([SEW]) preservation perspective suggests that family firms have multiple objectives (Kepner, 1983; Westhead, Cowling, &Howorth, 2001; Sharma and Manikiuti, 2005) beyond economic bottom lines including the preservation of stock of SEW and this is the most critical point of reference that guides their decision-making (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011).

In this paper, we are interested to understand more about one particular behavior of family firms- preservation of local environment. Specifically, we will try to understand whether family firms take more care to protect local environment and under what conditions they do so. Existing literatures and popular media reports in this issue are mixed. In one side, scholars suggest that when ownership or domination in management of a firm is concentrated to a single family, the firm demonstrates positive behavior to the preservation of local environment. For example, it is said that family firms compare to non-family counterparts will be more socially responsible since this will provide them social legitimacy which will enhance their socioemotional wealth (Mork and Yeung, 2004; Barrone et al., 2010). Moreover, in an extension, Barrone et al. (2011) suggested that when ownership of a firm is dominated by a family that firm is more likely to be active to the preservation of local environment. In line with same thought, Cennamo et al. (2012) argues that family firms are more prone to adopt proactive stakeholder engagement (PSE) - one of such stakeholders is local environment- activities with the aim of preserving socioemotional wealth.

On the other hand, anecdotal evidence, case studies and popular media reports regarding preservation of local environment by firms in developing and emerging economics where

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ownerships of firms are primarily concentrated to single families are not supporting the said positive relationship between family firms and preservation of local environment. For example, according to one study jointly conducted by United Nations Environment Program (UNEP) and Asian Institute of Technology (AIT), most of south Asian Small and Medium Enterprises (SMEs) do not follow local environmental regulation. A survey on 500 publicly traded companies conducted by Crisil Research in India found that "only 30 percent of companies reported that they have company level water policy for prudent management of water usage''. A study by World Bank researchers Patrick Low and Alexander Yeats found that Pollution intensive industries- those industries that incurred the highest level of pollution-abatement control such as iron and steel, non-ferrous metals, refined petroleum, metal manufacturers, and pulp and paper- are increasing in Eastern Europe, Latin America, and Asia (Gallagher, 1999). As mentioned, since most of the firms in emerging and developing countries are family firms, we observe contradictory behaviors of family firms in respect to the preservation of local environment.

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Our paper aims to shed some light to these contrasting behaviors of family firms by contextualizing socioemotional wealth preservation perspective (Berrone, Cruz, & Gomez-Mejia, in press; Berrone, Cruz, Gomez-Mejia, &Larraza-Kintana, 2010; Zellweger, Kellermanns, Chrisman, & Chua, in press; Gomez-Mejia, Cruz, Berrone, &DeCastro, 2011; Gomez-Mejia, Makri&Larraza-Kintana, 2010; Gomez- Mejia, Haynes, Núñez-Nickel, Jacobson, &Moyano-Fuentes, 2007; Miller, Le Breton–Miller, & Lester, in press). We suggest that the presence of heterogeneous level of institutional development in which family firms are operating can explain why some family firms are more positive to the preservation of local environment and vice versa.

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More elaborately, we assume that the fundamental objective of family firms which is the preserving socioemotional wealth (Gomez-Mejia, 2011) is invariant to institutional context but its effect through distinctive firm behavior does not. To better understand the distinctive behaviors of family firms, our theory explains the tripartite relationship between institutions, economic progress and, social values. As suggested by existing literatures, social values partly depend on economic progress (Maslow, 1970; Alderfer, C. 1972; Hechter, Nader, and Michod, 1993) which is correlated with institutional development (North 1987, 1990). In line with institutionalists (Notrh, 1990; Powel and Di Maggio, 1983) we suggest that the level of institutional development can serve as a proxy indicator through which one can measure which behaviors of firms society will value more. Put differently, our theory explains that how the level of institutional development can be a predictor of accepting or rejecting certain strategic initiatives- in our case, initiatives to preserve local environment- by family firms. As socioemotional wealth preservation perspective suggest, fulfilling social values is an instrument to protect and enhance socioemotional wealth (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011), and based on this, we suggest that for family firms, motivation to preserve local environment will be dependent upon whether society in which family firms are operating, value to do so. If it is required by the society to preserve local environment, family firms will be seen protecting it even if substantial financial commitment is associated with it; if not, they will simply ignore it or even damage it. To conclude, since protecting family values and complying with social norms, expectation is an instrument to protect or enhance socioemotional wealth by family firms, our assumption is that the behavior of family firms toward preservation of local environment will be subjected to priorities of social values.

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Second, apart from fulfilling societal values by family firms, we suggest that peculiarities of institutional contexts in which family firms are operating will also force adopting contrasting initiatives and strategic decisions. For example, institutionalists (North, 1990), argue that low level of formal and informal institutional development poses a constant threat to survival of firms. Because of the presence of socioemotional wealth, we argue that this threat is more pronounced to family firms and they may be willing to incur high-risk decisions that include corruption, business bullism, collusion, and harming local environment since, by doing so, owner managers will try to make every possible attempt to ensure survival of their firms, thus, protect their socioemotional wealth. In other words, if engaging in these illegal actions allows managers to have higher chances to protect family ownership and business continuity, then taking risk by acting illegally is "rational" in that it is a way to preserve socioemotional wealth. For example, a recent survey conducted by Ernst & Young concluded that a significant minority in management in emerging economics are still prepared to do whatever it takes to help their business to survive and grow. Moreover, their survey also suggests that 81 percent of executive-respondents from emerging economics agree that 'Bribery/Corrupt practices happen widely in businesses in this country' and around forty percent agrees that 'it is common practice to use bribery to win contracts'. In same line of thought, Luo and Han (2009), based on a study of 1782 firms in China, Brazil, Russia, Poland and South Africa, attribute firm level corruption to institutional weakness. Moreover, Ackerman (1999) and Mauro (1995) state that a shortage of independent, well-functioning market mechanisms and institutions, as well as inadequate openness in trade and market access provoke corruption in most developing countries. Since most of the firms in those institutional regimes are family firms, these examples corroborate to our primary suggestion of varying behaviors of family firms in different institutional regimes.

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This paper makes several important contributions to institutional theory and family business. First and the foremost contribution that we made in this paper is the fact that we raise a question to existing theory of secioemotional wealth preservation perspective of family firms which states that the behavior of family firms towards preservation of local environment is positive; instead, we suggest that it is contingent upon the priority of existing social values because the underlining motivation of such behavior of family firms is coming from fulfillment of social expectation, need and priorities. While doing so, our theory does not take into account why non family firms are immune from fulfilling social expectations. This is because we aim to provide theory and empirical support to the role of social values and how it affects the behavior of family firms, particularly towards preservation of local environment. Second, by linking institutional context to behaviors of family firms, this paper explains why some family firms take more care to the preservation of local environment and some are not. More importantly, by contextualizing socioemotional preservation perspective to one distinctive family firm behavior-preservation of local environment, this paper brings dynamics to the traditional static, universalistic and unidirectional way of explaining it and in so doing we extend scoioemotional wealth preservation perspective theory by bringing more granularity as to one mechanism (objectives/behavior) to protect SEW the family firm assume as reference which, according to our theory, is influenced by institutional development, hence what society values. Third, we made an important link between institutional development, economic progress and social value. We suggest that level of institutional development can be seen as proxies to which set of activities conducted by family firm a society will value more. Existing researches have separately explained the relationship between institutions and economic progress, and economic progress and change of social values (North, 1990; Maslow, 1970; Alderfer, C. 1972; Thomas

Malthus, 1978). Understanding this triangular relationship is important because this will provide predictive power of behaviors of family firms in different contexts. Forth, we contribute family firm literatures by providing clues which, in our case is the level of institutional development, to when family firms use either normative or instrumental approach to preserve local environment. If institutional imperatives are posing threat to firm survival, the reference point for family firms to protect socioemotional wealth will be normative, i.e., they will take ANY actions legal or illegal to protect the firms. Moreover, by distinguishing institutional pressure from two different angles- dynamics of social values, and threat of firms' survival, we contribute to the mechanics of how priority of family firms changes along with changes in institutions and how family firms adapt with this change.

We attempted to find support of our hypotheses in two emerging economics- Bangladesh and India. We applied case approach to understand the phenomenon. The rest of the article is as follows: first we build hypotheses and then we describe methods of data collection, which are followed by our findings and finally in discussion section, we show shortcomings, and future directions.

Theoretical framework:

In this section, we aim to demonstrate the peculiarities in emerging economies and then we show how behaviors of firms operating in those regimes are influenced by them. We primarily focus on one particular particularity named institutional voids (Khanna and Pelepu, 1997) and its effects in family firms. To do so, we demonstrate the mechanics of social value formation since, based on existing literature, we assume that institutional peculiarities affect the overall economic progress which in turn influences individual and social values which then shape the behavior of

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family firms. Besides, based on resources based view (Berney, 1991) we also highlighted the peculiar resources and capabilities used by family firms to prevent the negative consequences of institutional peculiarities. Finally, by relying on theories of institutions and psychology and supported by theory of learning, we hypothesize that strategic behaviors of firms such as preserving/not preserving local environment are specific to level of institutional development, other things being equal.

The following discussion is divided into two parts. First, we demonstrate the triangular relationship between institutions (institutional peculiarities), economic progress, and formation of social values and how behaviors of firms including family firms are shaped by aforementioned relationship. Second, we show why it is rational for family firms to neglect preservation of local environment in emerging economies.

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Institutions, institutional peculiarities and economic progress, social value formation:

I. Institutions and Economic Progress:

Existing research has demonstrated a monotonous relationship between institutional development and economic prosperity. Regarding institutions, North (1990:3) defined institutions as "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. As North argued, Institutions either reduce or increase cost of economic engagement (North 1987). The set of political, social and legal rules along with level of technological development defines the transaction and transformation cost of production and profitability (Khanna and Rivkin, 2001; North, 1990) and consequently contributes economic development of a society. With similar line of thought, Davis and North (1971:6) argue that "institutional framework" as defined, "the set of fundamental political, social, and

legal formal and informal rules establishes the basis for production, exchange, distribution'' and contribute overall economic wellbeing of a society.

Much of empirical evidence also suggests that institutional differences are a major source of the differences in economic performance across countries. For example, cross-country work by a number of economists and political scientists found a direct effect of institutions and their level of development on growth or the level of income (Knack and Keefer, 1995; Hall and Jones, 1999). More recently, Acemoglu, Johnson and Robinson (2000) found that as much as seventy five percent of the income gap between the top and bottom of the world income distribution may be due to differences in their institutions and their level of development.

How exactly the level of institutional development plays key role of economic development? North (1990, p. 54) asserts, for example, that "the inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the 'Third World' . . .". This is because the absence of secure property and contractual rights discourages investment and specialization (Olson 1982, Weingast 1993). A lack of reliable market information, efficient intermediary institutions, predictable government actions, strong social norms and an efficient bureaucracy create is what known as 'institutional voids (Khanna and Palepu, 1997, 2000a) which can substantially increase the cost of business engagement, can reduce performance of firms, and their survival (Henisz and Zelner, 2005) and consequently increase the vulnerability of economy as a whole. The peculiarities of institutions in emerging economies is that the market ecosystem that companies are dependent on, and the fact that the institutions that make up this market ecosystem are either missing or not functioning. Almost all institutional indices corroborate the relationship between institutional inefficiencies and low level of economic development (see appendix-1).

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For example, if secured property rights are absent, this will negatively affect innovation, technology transfer, scientific collaboration, and capital accumulation which are necessary for economic development (Acemoglu et al., 2001). Recently, United Nations includes economic vulnerability coming from economic structural weaknesses as one of main criteria for granting one country as 'Least Developed Country (LDC)'.

More elaborately, the problem of having institutional peculiarities on firms is that they reduce firm efficiency and thereby efficiency of whole economy. For example, 'institutional voids' increases transaction costs for firms operating that location because firms need to bear extra cost to protect their assets from expropriation, usually through the use of mobile assets and political risk loans (Bergara et al., 1998; Henisz, 2000b), need to pay more to protect their proprietary assets from dissemination (Delios and Beamish, 1999; Meyer, 2001) are forced to engage in local corrupt transactions (Rodriguez et al., 2005; Tanzi, 1998) and required to pay extra attention to their very existence or survival. It can also increases transformation costs because it poses a greater risk of unenforceable contracts and insecure property rights, which lead firms adopt inferior technology and thus operate less efficiently and competitively (North, 1990). Overall, weak institutions reduce the rate of firm survival and (we assume firms are the main engine of economic growth) over all hamper economic development which is then trickled down to the reduction of individual private income.

II. Economic Progress and Value Formation:

Now we turn our attention to how the level of economic prosperity affects individual and/or social value formation. To answer this, we first attempt to understand what drives values and how values have been evolved. Existing literatures in psychology suggest that individual and/or social values originate from fulfillment of human needs. For example, the theory of need

reduction (Hull (1943) advocates that anything that reduce basic human needs will act as a reinforcer; on the other hand, anything that does the opposite will serve as punisher. For example, for animal, search for food will become a driver of values since this will reduce chances of their extinction.

Regarding the role of personal wealth as a source of individual differences in basic values, Schwartz (2006) suggest that this provides opportunities to pursue or express some values more easily than others. For example, wealthy persons can pursue power values more easily, and people who work in the free professions can express self-direction values more easily. Based on neo classical economic perspective that suggests that individuals want to maximize their utilities, we conclude that level of personal wealth is one predictor of utility maximization. Put differently, level of personal wealth will determine which activities individuals will value more.

III. Economic Progress and Value Order:

Moreover, social values are ordered by importance relative to one another. Since people want to maximize their utilities, their values are constructed into an ordered system of value priorities and this is very much related with level of private wealth. Do they attribute more importance to achievement or justice, to novelty or tradition, to environment or employment? As (Schwartz, 1992, 2005a) suggests, a particular value may be very important to one society but unimportant to another. He also suggests that, individuals and groups differ substantially in the relative importance they attribute to their values. That is, individuals and groups have different value "priorities" or "hierarchies."

In psychology, motivational theory such as Abraham Maslow's (1970) hierarchy of need suggests that people in a society will first value to satisfy their basic need which he named physiological need. Once those needs are satisfied, they move to fulfill higher order needs

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(Maslow, 1970) since marginal utility coming from fulfilling lower order need reduces. He also hypothesized that unsatisfied needs dominate individual thinking and are reflected through his behaviors. Moreover, more important is that the higher order needs (belonging, and self-actualization) are not important until the primary or basic needs (Physiological and Safety) are fulfilled. Maslow's need hierarchy is also supported by Alderfer, C. (1972) and Herzberg, F.A, B. Mausner, and B. Synderman (1959) that states that people in general will tend to value those initiatives that fulfill basic needs before fulfilling others. In line with same thought, Ronald Ingleharta (2000) suggested that along with economic development, social values of modern societies have been replaced by more value on environmental protection and cultural identity. Lee Lu (2005) found the Chinese social value systems are changing almost as rapidly as its economy. In one study conducted by Ramirez, Ranis, and Stewart (1998) throughout Bolivia, Brazil, Chile, Côte d'Ivoire, Ghana, India, Indonesia, Pakistan, Philippines, Malaysia, Nicaragua and Peru indicates that importance of child schooling is highly dependant on level of family income. Besides, it has been suggested that there will be a shift of social value from maximizing private utility to public welfare once the wealth of a society is increased since marginal utility coming from fulfilling individual basic needs is reduced compare to that from fulfilling higher order needs such as preservation of local environment.

To conclude, we suggest that for societies, differences in economic development correlate with differences in social values. People living in countries with higher level of economic development will give more priority to higher level of need such as democracy, human rights, women empowerment and preserving environments than those living in under developed countries.

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IV. Social value order and preservation of local environment:

Now questions to be answered are whether preservation of local environment falls within the basket of higher order human need? Where is the place for environmental preservation in the priority list of social values?

Regarding preservation of local environment, first of all, at the very macro level, existing literatures suggest that the priority of basic economic development to fulfill physiological human need is the 'First' in order. For example, the environmental Kuznets (1965, 1966) curve hypothesis proposes that there is an inverted U-shape relation between environmental degradation and per-capita income. Environmental damage seems to be lower in the most developed countries where institutions are also developed compared to less developed countries where institutions are weak or absent. It has also suggested that the environmental degradation is a function of level of income; poor countries compare to wealth richer countries will be less careful to preservation of environment. The idea of Kuznets curve is also supported by the concept of pollution heaven hypotheses (Walter, 1982) which states that cost to maintaining environmental regulations may prompt firms in developed countries to shift some of their hazardous plants to those countries where regulations are low in order to main current growth. This suggests that institutional imperatives developing countries maintain economic development in their first order priority list.

At micro level, early economists such as Malthus and others did not include preserving local environment into their model as a part of basic human need. According to Thomas Malthus (1798), 'The laboring poor, to use a vulgar expression, seem always to live from hand to mouth. Their present wants employ their whole attention, and they seldom think of the future.' He indirectly suggested that that the poor are more likely to engage in environmentally deleterious

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behavior because they are incapable of thinking beyond the next meal. Their physiological need will require themselves behave in such a way that may seem unfriendly to local environment. Moreover, most of the poor people living institutionally under developed countries have no physical assets; their only hope for survival is to be employed by firms. For them, the rational behaviors are originated from their physiological needs, they will value more to those initiatives of local firms through which jobs are created, more and more poor job seekers are employed.

V. Response of Firms to Social Values:

In response to social need, since social values partly provide meaning of behavior to all agents of a society, our suggestion is that firms will comply with existing social values which can be captured through their distinctive behaviors, such as behaviors of risk-taking, embracing new technologies and openness towards new ideas, as well as preservation of local environment (). As Dowling and Pfeffer (1975) suggest, organization want to observe congruence between social values of their activities and norms of acceptable behavior in the larger societies in which they are in part. Besides, social psychology and cognitive schools of institutional theory scholars suggest that (Berger &Luckman, 1967; Meyer & Rowan, 1977; Zucker, 1983) 'organizations have to conform to or be consistent with established cognitive structures in society to be legitimate. In other words, what is legitimate is what has a "taken for granted" status (Aldrich &Fiol, 1994; Suchman, 1995} in society'. Moreover, organizations seek social legitimacy my reducing the value gap between them and societies (Parsons, 1960; Selznick, 1957).

Existing literatures have also documented large amount of evidences of how shift in priorities of social values brought significant changes in objectives, functions and cultures of organizations. For example, Schneiberg (2002) linked social movement activities to the formation of new forms of insurance companies; Haveman, Rao, and Paruchuri (2007) demonstrated the effects of

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Progressive-era change of social values on the emergence of new types of thrift organizations. Lee (2009) examined how change of social value priorities affects the conventional food production and emergence of alternative forms of food production. Literatures in international business are full of evidence relating to firms' initiatives in terms of products offers to meet social norms, rules believes, customs, etc. of in which they are conducting their operations.

VI. Response of family firms to social values:

As a social agent, firms in general and family firms in particular will be aware of popular social values and will be motivated to take initiatives to fulfill accordingly since it is a way to garner their social legitimacy and thereby, for family firms, enhance socioemotional wealth (). Regarding the role of socioemotional wealth to family firms, it is argued that family firms might have multiple objectives beyond economic utility maximization, including preservation and enhance of the stock of their socioemotional investment in the firm, which could be the most critical point of reference that guides decision-making (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011). More elaborately, socioemotional wealth preservation perspective requires family firms to take those strategic actions that will maximize values achieving social worthiness apart from only accumulating economic gains (Berrone et al., 2010). In other way, family firms are more likely to align their interest with that of societies because there is a socioemotional reward for the family, even when no clear evidence exists that this alignment serves its economic interests. Specifically as Gomez- Mejia et al. (2010) pointed out, because of the presence of socioemotional wealth, owner managers of family firms will feel the importance of delivering positive response to social values since it is an instrument (Instrumental perspective of socioemotional wealth,) to preserve their socioemotional wealth.

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Besides, if family firms failed to deliver added contribution to societies, it is highly likely that they be stigmatized as irresponsible corporate citizens by their local societies and experienced a reduction of their prestige, power and etc. –their socioemotional wealth.

Put differently, family firms, through their behaviors, are motivated to reduce the difference between their value driven actions and those of societies else they be experience pain coming from societies in the name of social sanctions or deprived of enjoying pleasure through fulfilling social commitment which will eventually reduce their most important wealth-socioemotional wealth. As regulatory focus theory of psychology (Higgins 1997, 1998) suggests, people are motivated to approach pleasure and avoid pain, we suggest that powerful actors of firms such as owners constrained the behaviors of firms in order to avoid pain because of reduction of socioemotional wealth and approach pleasure because of enhancement of it.

Response of family firms towards preservation of local environment:

Now our suggestion regarding preserving local environment by a rational family firm circulates whether doing so falls under any categories of activities that enhance socioemotional wealth. In previous paragraph, we suggest that there is a difference on social attitude towards preservation of local environment that can be traced through level of institutional development meaning societies with higher economic development demonstrate higher concern for preserving local environment and vice versa. Based on this argument, we suggest that family firms while operating in a under developed institutional regimes will be less interested to take care of local environment because doing so is not in the top of their social values list.

In an extended explanation, we propose that this lack of interest towards protecting local environment by family firms is coming from two sources. One is endogenous to family a firm that is the fulfillment of social expectations, which is used as an instrument to enhance

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socioemotinal wealth. The other one is exogenous coming from consequences of peculiarities of emerging economies, in our case it is the institutional weakness or 'voids' which reduce the rate of firm survival and family firms are *forced to* accept some initiatives, some of them might be in question, in order to protect socioemotional wealth. Once again, the former one is proactive that describes how calculative the family is in order to protect and enhance socioemotional wealth and the later one is reactive which explains the unintentional adoption of some strategic initiatives in a response to the effects of specific level of institutional peculiarities in an attempt to preserve socioemotional wealth.

I. Proactive response to social values:

In the first case, echoing with instrumental views () of SEW preservation perspectives, family firms will try to meet social expectations proactively through which they will accumulate socioemotional wealth. Base on our through discussion of social value formation and their order of priorities, we suggest that when national level institutions are under developed or low, family firms as being 'rational economic agents' will be reluctant taking initiatives to preserve local environment since doing opposite lacks alignment of social expectation and values fulfillment, thereby no change in current SEW balance sheet. This lack of interest to comply local environmental regulations by family firms is also reinforced by the overwhelming cost associated with it which may eventually reduce their capability of expansion and growth thereby lessen contribution to local economy which will reduce their prestige, power and so on –their socioemotional wealth (Gomez- Mejia et al.2010). Put differently, since people living in weak institutional regions are unemployed and live in extreme poverty, and tend to value the strategic initiatives of firms which contribute employment generation, and overall economic development,

it is naturally expected that family firms in general will also value meeting popular expectations as sources of socioemotional wealth.

Moreover, in line with previous argument, we also assume that, in a society where institutions are peculiar, that is, institutions are either absent or poorly implemented, taking care of local environment may be interpreted as 'invisible' or 'abstract' contributions to societies compare to other contributions by philanthropic activities, charity donation and employment generation by family firms. Put differently, we assume that the subjective utility for family firms in the form of prestige, power, social legitimacy, or reputation coming from taking care of local environment may be low compare to utilities coming form other objective initiatives such as employment generation, charity donation to societies etc in emerging economies. In this case, as rational agent, family firms may prioritize those strategic initiatives which enhance socioemotional wealth. For example, it is suggested that family controlled firms have been shown to have a strong commitment to community philanthropic activities (we expect that philanthropy is conducted mainly with people living in that community) (Deniz& Suarez, 2005), to the quality of life of their employees (Stavrou and Swiercz, 1998), including a more stable employment (Block 2011; Stavrou, Kassinis and Filotheou, 2007), or implementation of more care oriented contracts for external recruits (Cruz et al., 2010). As suggest, these are direct people oriented initiatives that produce socioemotional wealth through prestige, power, identity, social recognition and image for family firms. On the other hand, we believe that in a weak institutional region, initiatives taken by firms to take care of local environment remotely create positive image of firms to the mind of local people or at least the amount of positive image, produced from employment generation and contributions to the local economy by family firms will supersede the negative image produced from non compliance of local environmental regulation.

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II Reactive response to institutional peculiarities:

In second case, previously, we discussed that the negative impact of one peculiarity of emerging economies, namely weak institutions, poses constant threat to the survival of firms. This threat is more pronounced to family firms because of the presence of emotional attachment between family and firms or in other words, socioemotional wealth. In reaction to this threat, adoption of some strategic issues and initiatives may seem 'appropriate' for them in a sense that these will save firms and thereby socioemotional wealth.

For example, Gomez-Mejia et al. (2007) found that family firms actually take riskier strategic decisions than non family firms *If the survival of firms is in question.* According to Gomez-Mejia et al. (2007), 'family firms may be willing to incur higher level of performance hazards' since, by doing so, owner managers will try make every possible attempt to ensure survival of their firms, thus, protect their socioemotional wealth. More precisely, according to them, 'family firms are loss averse when it comes to their survival or a threat to their socioemotional wealth'. This risk attitude what we believe is true for family firms operating in under developed institutional regimes and can be observed through their distinct behaviors such as practicing corruption, business bullism, collusion and overall non compliance of rules which include local environmental regulations. As (North, 1990) pointed out, low level of formal and informal institutional development poses a constant threat to survival of firms. By an extension of his point, we suggest that family firms will be more prone to accept those risky behaviors in an attempt to safeguard their firms thereby socioemotional wealth. As discussed, weakness in institutions siphoned vital substantial amount of profit in the name of transaction costs, firms in general and family firms in particular will be looking for other means to substitutes this loss.

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This may lead firms to become parsimonious and to expurgate all expenditures deemed 'unnecessary' which do not objectively contribute to financial statements hence survival of firms.

In line with same thought, we assume that if firms are motivated to practice corruptions because of their reaction to survival need, then we cannot expect that these family firms will comply with higher order ethical business practice- the compliance of local environmental regulation. Instead, they will be motivated to preserve the interest of firms at the expense of local environment with the need of preservation of firms and in other word, preservation of socioemotional wealth. Oliver (1991) also suggested in the same way that 'deviance of institutional pressure increases as economic gain from conformity decreases'.

Unique resources and capabilities to address institutional peculiarities:

An appraisal of organizational competencies and resources (Andrews, 1971) of family firms suggest that many of them are superior and unique and they are matched to exploit opportunities and thwart threat of institutional environment. The presence of them also helps family firms in deciding whether to comply formal and informal regulations or ignore them.

Over time, family firms acquire unique resources, i.e. tacit knowledge, superior relational capital, which can be used to address institutional peculiarities. Regarding tacit knowledge, most of the family firms are closed to community they operate. They are embedded in their societies. In most cases, owner manager in a family firm associates with his/her business closely and for long time. Often it is found that owner managers are founders or later generation executives who have spent most of their career life in his firm/s. they enjoyed a kind of guaranteed employment contract. These provide them useful tacit knowledge about the entirety of business- which strategy to pursue, who to address in crisis hour, which area to invest, where to go, which other stakeholders

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are vital for business growth, how to manage other remote stakeholders, who may pose threat to business, which governmental dept is critical for business growth etc. (Miller et al., 2009; Cruz, Gomez-Mejia and Beccera, 2010; Gomez-Mejia et al., 2001; Hall and Nordqvist, 2008; James, 1999; Miller et al., 2009).

The absence of strong institutional arrangement may prompt them using this tacit knowledge to maximize their own benefit by circumventing institution that require preservation of local environment Also, because of having superior form of tacit knowledge, we assume that the perceived risk coming from other stakeholders to family firms is less considered because they know how to neutralize it. Considering the long term relationship built over time with other stake holders in local community, especially with law and enforcement agencies, regulatory bodies, and other pressure groups, family firms might believe that the risk coming from them because of non compliance of rules and regulations can be managed. This is also consistent with the finding of March and Shapira's (1992) arguments that the executives often rationalize their risky behavior by the belief that the effect of risk is manageable.

Besides, higher level of relational capital is of use in case of third party rating that might negatively affect the reputation of family firms. Considering the economic role played by family firms in their communities which creates economic dependency of other stakeholders on them, social sanctions in case of environmental degradation imposed by gate keepers such as media will be less effective or family firms, by use of their relational capital and tacit knowledge, might simply ignore it.

Our conclusion is that the presence of superior relational capital, tacit knowledge along with low probability of removal from executive positions will encourage owner managers of family firms

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to ignore, or pay less attention to the preservation of local environment in a weak institutional regime.

Based on our analysis of construction and prioritization social values, result of institutional peculiarities to survival of firms, and the presence of unique resources, we hypothesize that

H1: In the presence of institutional peculiarities, family firms will be seen taking less care to the preservation of local environment.

We also assume that the behavior towards preservation of local environment will be subjected to some other factors such as size, stock market enlistment and age.

Regarding size, we believe that the larger a firm is, the higher its probability to incorporate various stakeholders into its business model and eventually, as consequence of this inclusion, this firm will feel the pressure from them to meet their expectations. It is also true that the visibility of firms and their activities depend on size as well. As the firms are becoming larger, their contributions to economy are getting importance and thereby extensively covered by social gate keeper such as media. If the size is insignificant and infinitesimal, they barely get noticed for their environmental noncompliance.

Also, the enlistment family firms in local stoke exchange will moderate the above motioned relationship. We assume that family firms, if enlisted, will pollute less than those not listed in stock exchange. Our assumption is in line with the institutional theory which suggests that (DiMaggio, 1988:17; Meyer and Rowan, 1977; DiMaggio and Powell, 1983Jennings and Zandbergen, 1995; Hoffman, 1997, 1999, 2000; Delmas, 2002; Bansla and Clellan, 2004; Bansal, 2005), in general, stock market is an institution and listing in it will force family firms to comply (For example, one of such environmental regulation required by security and exchange commission of Bangladeshfor listing companies to stock market is the‘mandatory environmental

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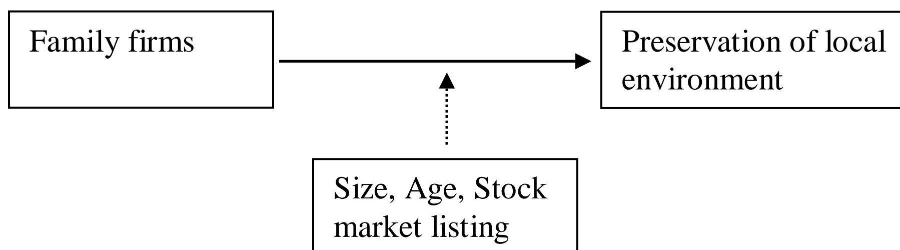
disclosures' one of which is the disclosure of expenditures on energy use. Under Schedule-XI, Part-II of the Companies Act 1994 and under Schedule, Part-II of the Securities and Exchange Rules, 1987 of Bangladesh, the total amount spent on the use of energy is to be shown in notes to the financial statements under a separate head of expenditure), at least to some extent, various set of regulations of stoke market, one of which may be the protection of local environment and they will also be subjected to rigorous monitoring by local, national and international level environmental agencies.

With age, in one side, we expect that firms (family and non-family) will grow and this growth will moderate the relationship, as mentioned. Moreover, with age, the owner managers of family firms will accumulate enough tacit knowledge of business and societies which will be extremely helpful to not only survive but use it as a source of competitive advantage. Then the idea of survival for family firms may be replaced by the vision of expansion. With age, because of absence of psychological pressure coming from constant fear of 'loosing business', they will be risk averse (Miller et al., 2007) and avoid most of the unethical business practices which may include harming local environment and will concentrate more on development of 'Good' corporate citizenship.

Model:



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Method:

A case study research design will be practical option for conducting this study (see Eisenheadt 1989, Yin 1994). We employ secondary data sources to understand the phenomenon under study since, according to many scholars, it is a preferred method when objective of study is to understand or explain the phenomenon and when there is a big challenge to find meaningful data (Wimmer and Dominick 1994, Barley and Kunda 2001).

In this research, we aim to demonstrate the effect of peculiarities of emerging economies, of which one is institutional voids, to one behavior of family firms- preservation of local environment. We choose Bangladesh and India as the testing ground of our hypothesis since Goldman Sachs Group Inc. included these countries in their list of 11 emerging countries that, according to its analysts, have the greatest potential to emulate the long-term economic success expected from China, India, Brazil and Russia. We primarily search for examples of firms which ignore the responsibility of protecting local natural environment. In Bangladesh, we focus on the impact of local environment done by tannery industries. On the other hand, in the case of India, we look into the water policy of five hundred firms. In both cases, we primarily rely on secondary data.

Two macro level examples in support of our hypotheses:

Water policy of five hundred firms in India:

Lately, CRISIL Research published a report on sustainable water uses by Indian Corporations. In the report titled "Bracing for a Crisis- Sustainable Water Management and Corporate India", it was revealed that only few companies are aware of water pollution. Mr. MukeshAgarwal, senior

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director at CRISIL Research said, "Most companies continue to have a cavalier approach towards use of water /waste water discharge and consequently, have been forced to face physical, regulatory and reputational damages. This has often led to significant impact on the financial performance, and in select cases, companies have even had to shift or shut down their business operations. Indian companies must therefore manage their water usage/discharge in a responsible and sustainable manner." Regarding policies to address water crisis, in a survey of 500 publicly traded companies, CRICIL research found that "only 30 percent of companies reported that they have company level water policy for prudent management of water usage. Similarly, 22 percent of companies reported that they have policies to manage waste water discharge." Not only that, all the dyeing units of the town in the knitwear hub of Tirupur, Tamil Nadu, which accounts for nearly 80 per cent of the country's knitwear production also exported knitwear worth Rs 12,500 crores in 2010-11, have been closed down due to a high court order in January 2011 as they were polluting water sources. As a result, the Tirupur's knitwear industry is facing an uncertain future and is expected to incur a loss of Rs 3,500 crores in 2011-12. The dyeing units employ about 50,000-60,000 people directly and around 600,000 people indirectly. Moreover, this common phenomenon of low concerned for protection of local natural environment firms, particularly small scale, family owned corporations in India is also evident from a number of scholarly articles. For example, the study by Misra (1998) provides empirical evidence on economies of scale in water pollution abatement activity at Nandesari Industrial Estate comprising 250 small-scale factories. The 10 study shows that the cost burden of water pollution abatement is much higher for small family owned factories providing greater cost advantage to treat effluents jointly in a Common Effluent Treatment Plant (CETP). In an article, Dasgupta and Murty (1985) explore some problems related to the control of external diseconomies (damages) inflicted on

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water resources by various developmental activities in India. Their study has shown that paper and pulp industry in India contributes significant environmental pollution which requires additional resources to abate it. Estimates of costs of water pollution abatement for big and small paper mills show that the comparative capital and operation costs per ton of paper for the small, family owned paper mill is more than double that for the big mill.

Tannery industries in Bangladesh

Bangladesh is one of the leading emerging economies in the world. Massive industrialization in many sectors particularly in leather, pharmaceuticals, industrial chemicals, ceramics, light engineering, and ready-made garments contributes steady GDP growth rate of more than 5% during this time. We primarily focus on one particular industry- Tannery- to show how almost all small and large, of whom mostly are family owned or controlled, firms contribute degradation of local environment. Located in the capital city of Bangladesh, Dhaka, the densely populated Hazaribagh tanning industrial zone constitutes 90% of the total 270 tanneries in the country. The Hazaribagh area in Dhaka was selected because of its long history of widely known untreated discharge of chromium based tanning effluents (Gain, 2002). Hundreds and thousands of reports and scholarly articles have been published to effectively show how these tanneries are directly contributing the destruction of low lying water bodies around Hazirabagh. For example, the study of Arias-Barreiro et al (2010) found that approximately 15000 m3 of untreated chemical wastes are discharged at Hazirabagh to the low-lying areas, natural canals and other water bodies such as the Buriganga and Turag rivers, which are major sources of water supply for agricultural, livestock and fishing activities (UNIDO, 2000), which in turn destroy the ecosystem. Based on their results, they conclude that the degree of environmental hazard is running very high in this

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particular area of. It was also suggested that high concentrations of heavy metals is posing a considerable risk to the ecosystem surrounding the tanneries. Previously, other scholars have already been suggested that the presence of chromium in the environment can cause detrimental human and environmental effects (Pellerin and Booker, 2000; Shanker et al., 2005; Kuykendall et al., 2006). This study provides biological evidence that the tannery wastewater of the area of Hazaribagh exhibits detrimental impacts on broad aquatic and land organisms. A report of WHO (2001) revealed that about half a million residents of Hazaribagh, Bangladesh, are at risk of serious illness due to chemical pollution from tanneries near their homes. The report says large numbers of the 8000-12,000 tannery workers aged 30-35 years suffer from gastrointestinal disease (58%), dermatological disease (31%), hypertension (12%), and jaundice (19%). Moreover, the gaseous emissions from the tanneries contain sulfur dioxide, which is converted into sulfuric acid on contact with moisture and can damage the lungs. In view of this, a local environmentalist group urged the government to move the tanneries to another site. Furthermore, Richard Pearshouse, author of the Human Rights Watch report said that "Hazaribagh's tanneries flood the environment with harmful chemicals. While the government takes a hands-off approach, local residents fall sick and workers suffer daily from their exposure to harmful tannery chemicals". Pearshouse (2012), who conducted 134 interviews during five months of research in Dhaka, said the air and soil were "incredibly contaminated" in Hazaribagh. He saw residents of the slum bathing in ponds that were black with tannery pollution.

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Discussion:

First of all, in this paper, we try to understand more about one particular behavior of family firms- preservation of local environment. More elaborately, we put our effort to understand

whether family firms take more care to protect local environment and under what conditions they do so. While doing so, we shed light on the triangular relationship between institutions, economic progress and social value formation. Our analysis of this relationship found that these three elements are highly interlinked meaning economic progress is affected by institutional development. At the same time, social values changes along with the change of economic development. As many scholars suggested, the set of political, social and legal rules along with level of technological development defines the transaction and transformation cost of production and profitability (Khanna and Rivkin, 2001; North, 1990) and consequently contributes economic development of a society.The level of institutional development substantially defines how much transaction and transformation of cost firms will have to bear. On the other hand, one of many factors that severely affect the formation of social value is the level of economic development. As Maslow's (1954) hierarchy of need theory suggested, individual personal income determines social value order. **Second,** we contribute to the theory of socioemotional wealth (Berrone, Cruz, & Gomez-Mejia, in press; Berrone, Cruz, Gomez-Mejia, &Larraza-Kintana, 2010) of family firms by introducing the role of institutions to the formation of social values which in turn affect the unique behaviors of family firms. More elaborately, we propose that the effects of socioemotional wealth to the behaviors of family firms are contingent to the level of institutional development of that geography where they are operating. For example, the preservation motif of socioemotional wealth necessitates that family firms will take more care to the protection of local environment, as current theory suggest, but our suggestion is that family firms might be less interested to preserve local environment but with the same motif of preserving and enhancing socioemotional wealth particularly when they are operated in emerging economies. This is because, as we assume, the amount of socioemotional wealth

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channeling from preservation of local environment is less than that of coming from other unique behaviors such as expansion of firms, benevolent activities in communities etc. **Third,** we contribute family firm literatures by providing clues which, in our case is the level of institutional development, to when family firms use either normative or instrumental approach to preserve local environment. If institutional imperatives are posing threat to firm survival, the reference point for family firms to protect socioemotional wealth will be normative, i.e., they will take any actions legal or illegal to protect the firms. Moreover, by distinguishing institutional pressure from two different angles- dynamics of social values, and threat of firms' survival, we contribute to the mechanics of how priority of family firms changes along with changes in institutions and how family firms adapt with this change. **O**ur paper is not immune from shortcomings. Empirical support to our theory is very weak. Secondary data that have been used as proxy indicator for aforementioned relationship are loosely connected since we could not show that family firms are directly responsible for water pollution in India and Bangladesh. But since it is widely recognized that family firms represent the majority of businesses worldwide (Astrachan & Shanker, 2003); in most countries, over 60% of firms are believed to be family firms (Howorth, Rose, & Hamilton, 2006), and in some countries specially in emerging economies, it could be 95% (IFERA, 2003), our conclusion that ownership of most of the tannery firms in Bangladesh and a good number of firms in CRISIL research in India are family owned firms. By this assumption, we conclude that family firms might be responsible for neglecting the protection of local environment. Saying so, we acknowledge our shortcomings regarding providing strong empirical evidences to support our hypotheses. We hope to address this issue in future**. Second,** another major shortcoming of our paper is that we did not compare the behaviors of family and non family firms. One might argue that showing why family firms

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compare to non family firms in emerging economics will take less care to protect local environment is more convincing than describing only the behaviors of family firms. We argue that by showing story of family firms from emerging economies, we just want to prove a point that the said relationship between family firms and protecting local environment by scholars (Barrone, Cruz, Gomez-Mejia, Larranza-Kintana, 2010) is contingent upon the level of institutional development. We expect that future research will address this problem as well.

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