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Conflict of Interest: The Influence of
Ownership Structure on Organizational Response to
Institutional Pressures

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Conflict of Interest: The Influence of Ownership
Structure on Organizational Response to
Institutional Pressures

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ABSTRACT

Conflict of Interest: The Influence of Ownership Structure on Organizational Response to Institutional Pressures

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This paper investigates the influence of ownership structure and heterogeneous interests among institutional investors on various organizational responses to institutional pressure. According to Greenhouse Gases Reporting Program dataset for S&P 1500 firms from 2011 to 2017 and classification data of institutional investors, ownership of a firm by dedicated institutional investors who look for long-term returns is positively associated with environmental performance. In contrast, ownership by transient institutional investors, who make frequent trade for quick financial earnings, is negatively related to environmental performance of firms. Finally, this study confirms firm age and CEO discretion are also positively related to environmental performance of firms. These findings indicate that governance structure and different forms of ownership may affect firms to engage in non-financial investment such as environmental performance.

Keyword: corporate governance, ownership structure, carbon dioxide emission, institutional pressure, environmental CSR

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INTRODUCTION

One of the most significant contributions of institutional theory is that it lays the conceptual foundation for a systematic approach to understanding how various firms respond to institutional pressures. This stream of research focuses on analyzing organization level milieus that influence such diverse responses rather than heterogeneous interests and motivations of each constituent of organizations. Oliver (1991), for example, notes that organizations do not equally respond to institutional pressures. Rather, normatization (normative values being absorbed by firms) and mimetism (tendency to follow the best practice), argues Oliver, can be motivators underlying a response. More recently, Westphal and Zajac (1998) propounds that self-interest of chief executive officers and board members may also induce organizational acquiescence to institution pressures. These key players, in pursuit of their own interests, tend to adopt ceremonial mechanisms such as symbolism and impression management in the process of influencing other stake holders such as institutional investors. Still, it is not clear why some firms comply to institutional pressures while others tend to resist or circumvent them.

The major challenge of environmental study in the management field has been justification of investment in pollution prevention. DiMaggio (1988) argues that pollution prevention of organizations may not necessarily be triggered by spontaneous altruism, but rather simply the acceptance of institutionalized values. For instance, firms reduce chemical waste in fear of sanctions from authorities and to comply with normative perception of appropriate actions. As such, most research on environmental performance of firm have been conducted based on institution theory because it explicates implementation of non-economic practices (Berrone et al., 2010). Little attention, however, has been given to internal constituents of organization and its influence on organizational responses to institutional pressures. This raises the question of how firms will respond to institutional pressure if different constituents

and their heterogeneous interests were taken into account. Borrowing from agency theory and corporate governance perspective, this study attempts to fill this gap by focusing on CEOs and institutional investors ownership position.

This study addresses this question in the context of carbon dioxide (CO₂) emission of U.S. firms. U.S. firms increasingly face institutional pressure to cut CO₂ emission since 2009 when pro-environmental administration came into play. Government authorities strengthened the level of scrutiny on the sources of pollution, and public attention for the issue was also elevated. Such engendered institutional pressure, which is perceived to be homogeneous on all institutional field, is not common. This study thus focuses on different firm responses to the institutional pressure to reduce CO₂ emission.

This study explores how ownership position of agents and principals influence the extent to which organizations comply to institutional pressures. As a result, this study argues that heterogeneous investment preference among institutional investors, level of CEO discretion, and firm age specifically influence the degree to which organizations comply to such institutional pressures as follows:

1. This study examines the effect of firm age on compliance to institutional pressure. Traditionally, institutional theory argued that the stronger the legitimacy of operation with a firm's relatively long history, the more prolonged the survival of the firm, and that such prolonged survival is possible through compliance to institutional pressures. This study also asserts that path dependence and routinized operation can hinder a firm—especially a firm that has been operating for a long period of time—from quickly responding to institutional pressure.

2. Since investment in greenhouse gas emission requires a long-term commitment without significant financial return, this study also expects that CEOs with greater discretion, by accordingly complying to institutional pressure, are more motivated to exercise it.

3. Based on institutional investors' preferences, Porter's (1992) classifies them into

three categories: “dedicated”, “transient”, “quasi-indexer.” Dedicated and quasi-indexers tend to have long-term investment horizon, while transient investors have the opposite. Therefore, this study expects that the level of ownership by dedicated institutional investors, who value long-term incentives, influences greater compliance to institutional pressure that is consistent with their interest.

To empirically test these arguments, this study utilizes CO₂ emission dataset from Environmental Protection Agency (EPA) on their Greenhouse Gases Reporting Program (GHGRP). This study then combines the dataset with Thomson Reuters 13F database that compiles information on institutional investor holdings. Lastly, this study merges the dataset with Bushee’s (2001) classification of institutional investors, which categorize each institutional investor based on their past investment patterns. The final sample consist of 761 U.S. public companies from 2011 to 2017.

THEORY AND HYPOTHESES

Institutional Theory Perspective on Heterogeneous Interests of Principals

Early institutional theory literatures (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2005) focus on how organizations become homogenous in response to formal and informal pressure exerted by other organizations upon which they are dependent. They assume that organizations, instead of making strategic decisions for employing their technological capabilities and level of efficiency, tend to conform to institutional pressures in their efforts to protect their legitimacy (DiMaggio & Powell, 1983; Berrone et al., 2013). Institutional logics function as a tool for organizations to incorporate, and gain resources, stability, and legitimacy (Meyer and Rowan, 1977). They are the resources that motivates firms to conform to the institutional pressure so that they can acquire a higher degree of legitimacy. Suchman (1995) argues that organizations acquire legitimacy by conforming to external expectations from either government regulations or normative demand from the society. In addition, Bansal and Clelland

(2004) claim that firms often adopt ‘the best practices’ within the industry to protect their legitimacy. Given that it insulates firms from strong scrutiny from external stakeholders, legitimacy bears great importance. By conforming to the regulative or normative expectations, for example, firms can reduce the risk of being sanctioned in both formal and informal ways (Meyer and Rowan, 1977). But the question still remains: how can we explain diverse responses by firms to the same institutional pressure?

One criticism on institutional theory has pointed out its inadequate address of heterogeneous resources and operating environment of firms. More recently, scholars have begun to delve into a variety of strategic responses of the firms to institutional pressures. Oliver (1991) notes that the role of self-interest and the active responses of organizations have often been overlooked in institutional studies. He further identifies five types of responses (i.e. acquiescence, compromise, avoidance, defiance, manipulation) to institutional pressures. Later, Berrone & Gomez-Mejia (2009) introduce an integrated perspective of agency and institutional theory and propound how CEO compensation structures may affect the degree to which a firm conforms to institutional pressure.

Agency Theory and Corporate Responses to the Institutional Pressure

Unlike institutional theory, agency theory assumes that, with bounded rationality, individuals are self-interested and have different levels of risk tolerance. According to agency theory, the dis-alignment of desires or goals of principals and agents lead to one of the so-called ‘agency problems’ in that agents often display opportunism for the sake of themselves at the expense of the principals’ interests. Eisenhardt (1989) proposes that such behaviors of an agent, on one hand, contribute to maximization of profit in the short-term. On the other hand, principals are likely to take further risks to seek interests that require long-term commitment.

Agency and corporate governance literatures view ownership structure to be one of the

most significant factors that affects organizational decisions. While making the strategic decisions, the ownership dynamics within the firm, in response to the coercive institutional pressure, tend to produce non-conforming outcomes (Lee, 1999). Greenwood and Suddaby (2006) maintain that agents, based on their self-interest, often become motivated to respond to given institutional structures. Other scholars have examined how agents, in the pursuit of their private interests, affect organizational decisions by using ceremonial approaches. For example, Westphal and Zajac (1994), and Zajac and Westphal (1996) suggest that top managers can satisfy external demands of stockholders, while seeking personal interest at the same time by adopting but not implementing governance structures. Hence, organizational responses on external institutional pressure are often affected by heterogeneous preference towards risk, value, and power of decision makers in the management (Berrone & Gomez-Mejia, 2009; Peng, 2004).

Discretion in organizational decision-making process is quite important and pertinent, for each of stakeholders (i.e. shareholders, customers, environment) may display heterogeneous demands in the organizational actions, and discretion allows agents to choose one over another. In this respect, whenever they possess enough discretion to exercise what they are inclined to prefer, a risk averse agent is more likely to prefer investing in projects that may elicit short-term financial outcomes. Yet, if such an interest of an agent collides with that of principals, it manifests the agency problem. Stakeholder theory expands this idea, and identifies groups of stakeholders, who, with a variety of interests, compete one another over benefits (Donaldson and Preston, 1995). The distribution of equity between stakeholders is one of the prime factors that affects the organizational decision makings. It is thus often assumed that the discretion is derived from the distribution of equity holdings in the corporate governance literatures (Berrone et al., 2010). In other words, the decisions that benefit the most powerful group (i.e. due to greater equity) may not equally benefit the other stakeholders with weaker ownership. Such an

argument raises the following question: will heterogeneous interests and/or discretion of agents and principals influence the organizational actions?

Institutional theory only pays a modest amount of attention on efficiency, capacity, and interest of individual firms—superior financial performance is not the focal point for the study. Since short-term financial performance is seldom able to acquire justification in the environmental management context, environmental management researchers tend to appreciate this feature (Berrone et al., 2013). Hoffman (1999), for instance, investigates how the environmental performance of the U.S. chemical industry had changed its response to institutional pressure. In the same vein, Lee and Lounsbury (2015) contend that community level institutional logics can affect firm response to the environmental regulative pressure. Berrone et al. (2010), too, report that family-controlled firms, due to their attitude of more highly valuing their social legitimacy and reputation, are disposed to malleably respond to environmental institutional pressure, and more willingly reduce toxic chemical emission.

Firm Age and Responses to Institutional Pressures

One of the most important premises of institutional theory dictates that organizations tend to mimic other organizations as a means of attaining legitimacy. Institutional economics and organizational inertia literatures, however, add that internal mimicry of historical norms also come into play when firms adopt new structures and practices. North (1990) states that decision makers hold only a handful of options that historical precedents have demonstrated. Romnelli and Tushman (1986) also note that high performing firms institutionalize behavioral patterns in such a way that the alternation becomes scarce. Consequently, inertial momentum of the firm's historical precedents oftentimes adversely affects organizational decisions to adopt new practices and structures that may increase operational risks and uncertainty. Furthermore, institutional theory posits that conformance to external institutional pressures increases a substantial chance of firms' survival, and that such a conforming action are expected to help

attain a higher degree of legitimacy and gain various types of rewards as a result (i.e. favorable treatment from the authorities such as tax exemptions). In other word, organizations that have survived a longer period of time are the ones that are more likely to conform to external institutional pressures (Jeon and Lee, 2017).

There is compelling evidence on which to estimate a firm's history and its responses to various institutional pressures. A firm's historical precedents may further showcase that the structural routines and know-hows are deeply embedded in its practices. Yet, organizational inertia and path dependency may hinder the firm from producing an elastic response to an external demand for change. This subsequently leads to the following hypothesis:

Hypothesis 1 (H1):

The older a firm is, the greater its likelihood of complying to external institutional pressure.

CEO Discretion and Responses to Institutional Pressures

While majority of shareholders usually have indirect control over a firm's decision-making process, its managers are more likely to wield direct control regardless of their degree of ownership. In agency theory, agents represent the will of principals, and are supposed to make the decision that best serves stakeholders' collective interests. When the agent's decision is not aligned to stakeholders' expectations, however, agency problem occurs. Previous studies suggest several approaches to reducing agency problems. Eisenhardt (1989) expounds that outcome-based compensation plans for agents can influence them to behave in favors of principals. Stock option grants on CEOs and re-balancing information asymmetry through board of directors are reported to be substantially effective as well (Sanders, 2001; Fama and Jensen, 1983).

These studies imply that there is a meaningful correlation between ownership structures

and organizational decision-making process. High equity holdings of agents can also alleviate agency problem. In this case, agents possibly tend to increase the firm's long-term value and growth rather than seek short-term financial benefits. In other words, if agents own larger ownership stake, it is more likely that they will share similar interests with principals and bear the cost of adopting non-value maximizing activities (Barnea and Rubin, 2010). Yet, it is still unclear how firms will react under institutional pressure for greater legitimacy. Sanders (2001) reports that executive stock ownership increases the probability of making conservative decisions—a medium for protecting their assets from financial risks. In the same vein, Westphal and Zajac (2001) argue that powerful CEOs are more likely to decouple from institutional pressure while using socially legitimate corporate language. On the other hand, Berrone et al., (2010) report conflicting findings: given that spontaneous conformance to new institutions may not be compensated in the short-term and rather require long-term arduous commitment, powerful CEOs are the ones who can bear such risks.

For agents, complying with the environment-related institutional pressure can be a risky decision for several reasons. First, financial returns from such a risky investment is not guaranteed. The managers' financial performance is often inseparably interwoven with their reputation, and thus their bad short-term outcome can lead to immediate termination of the contract with the firm. Capital investment in environmentally friendly facilities, for example, can be quite expensive, but whether it renders palpable financial returns in a foreseeable future is unproven and controversial. For this reason, such investment may serve the core interest of non-owner agents.

Second, non-conformance to environment-friendly institutional pressure exposes firms directly to the threat of sanction from both regulative authorities such as Environmental protection Agency and local communities where they are embedded (Lee and Lounsbury, 2015). Violation of regulations can be sanctioned through fines or a temporary suspension of

operations; the local communities that closely monitor the firm's environmental performance may pursue lawsuits, protests, and boycotts against the firm. While regulatory or normative sanctions can harm a firm's financial performance, its agents, if the investment cost is greater than expected expenditures brought out by sanctions, will less likely to improve the firm's environmental performance. In contrast, investment made to improve environmental performance can become a long-term resource for the firm. Reduced legitimacy caused by non-conformance can also be detrimental to the survival of the firm.

Hence, the more ownership CEOs have, the more inclined they will be to make long-term investment decisions that possibly legitimize their business entity. Then comes another hypothesis.

***Hypothesis 2 (H2):** A higher degree of CEO ownership increases the probability of compliance to external institutional pressure.*

Institutional Investor Ownership and Responses to Institutional Pressures

Dalton et al., (2007) suggest that agency cost increases as the interest of principals and agents diverge from one another. In response, many scholars shed light on mechanisms that may help to align such diverging interests back together (Rajagopalan, 1997; Daily et al., 2003; Fama and Jensen, 1983). Yet, more recent studies criticize that the interests of principals are not necessarily homogeneous. Moreover, the discretion of principals on organizational decision-making process may show discrepancy according to their ownership position. For example, Villalonga and Amit (2006) postulate that principals with larger shareholding positions can sway the firm's decision in their favor at the expense of those with smaller ones.

Institutional investors are organizations that make investments in securities on behalf of their members in order to maximize the profit and reduce the transaction costs. These

investors include endowment funds, commercial banks, hedge funds, pension funds, foundations and insurance companies. They control securities that are large enough to influence stock price of the firm depending on their demands. Over the past decades, the economic power of institutional investors has risen steadily, so much so that 70 percent of total U.S. equities ended up being held by institutional investors (Gillan and Starks, 2007). Similar to internal stakeholders (i.e. Family owners, board of directors), institutional investors also actively engage in organizational decision-making process through multiple mechanisms (Connelly et al., 2010).

The most fundamental engagement mechanism is the threat of exit. Since each exit of institutional investors are capable of reducing the value of the firms (Parrino et al., 2003), management pays a great deal of attention to institutional investors' interests. Moreover, institutional investors actively participate in votes as shareholders, influencing the strategies that firms undertake. Agency theory consequently argues that institutional investors counterbalance myopic perspective of agents' (Connelly et al., 2010). Thus, it is necessary to examine how institutional investor ownership in its entirety is associated with organization's response to institutional pressures. This analysis renders the following hypothesis:

***Hypothesis 3 (H3):** The ownership of institutional investors increases the likelihood of compliance to external institutional pressure.*

Heterogeneous Interests Among Institutional Investors

Although agency theory takes heterogeneous interests among the constituents of a corporation into consideration, it does not necessarily disregard institutional investors. Institutional investors are often perceived to have a homogeneous perspective, maintaining a long-term interest in firm value while counterbalancing myopic preferences of agents. Yet, institutional investors, according to Porter (1992), encompass many different approaches toward risks and investment styles. This study argues that such differences among institutional

investors can influence accordingly varying forms and degrees of organizational responses to institutional pressures. In an effort to examine organizational actions resulting from the different conjunctions or combinations of institutional investors, this study adopts Porter's (1992) classification of institutional investors.

"Transient" institutional investors tend to frequently trade equities according to changes in financial value. Such short-term equity holdings of transient investors create pressure on management to adopt a more myopic strategy for improving short-term financial outcomes. In the same vein, Bushee (2000) suggests that transient institutional investors care less about the future benefits possibly derived from a long-term project, thus making themselves reluctant to pressure agents to restrain from making foresighted decisions. On the other hand, "Dedicated" institutional investors tend to hold their equities in the long-run, and prefer a more concentrated portfolio. Koh (2007), for example, contends that dedicated institutional investors are geared toward holding more tolerant views on short-term failures, for they have a proclivity toward long-term values. Finally, "Quasi-indexers" also hold equities with futuristic prospect in mind, but among the three groups of institutional investors, dedicated and quasi-indexers are more prone to appreciating long-term values and gradual but concrete growth of the firm rather than quick tangible returns. This type of patient ownership directs agents to invest with a long-term vision.

For several reasons this study argues that the extent to which each dedicated, quasi-indexer, and transient institutional ownership composites will influence the degree to which respective firms conform to institutional pressure that dictates them to improve their environmental performance. Dedicated and quasi-indexer institutional investors are more attuned to long-term incentives and the ultimate growth of the firm. For instance, reducing carbon dioxide emission can be costly at the initial stages, and it is not certain when and how much its efficiency will generate the expected financial return.

From the executives' perspective, such investment seems to be a risk, given that short term financial return is not guaranteed. In the long run, however, it may help firms gain legitimacy and get it approved from both authorities and civic communities to which it belongs. Since dedicated and quasi indexer institutional investors are well aware of the value of long-term strategic actions taken by the firm, it is more likely that they will monitor agents and urge them to have long-term provisions (Koh, 2007). A long period of time during which dedicated and quasi-indexer hold equity facilitate the building up of trust between agents and institutional investors. Even for the family owners who are known to keep their philosophy of long-term planning, the presence of dedicated and quasi-indexer institutional investor bolstering subsequent long-term investments can help them make the decision with less pressure. Therefore, this study hypothesizes as follows:

Hypothesis 4 (H4): *The ownership of long-term institutional investors increases the likelihood of the firm's compliance to external institutional pressure.*

Unlike dedicated and quasi-indexer institutional owners, transient owners prefer financial gains from frequent stock trades over the value increase through firm growth (Bushee and Raedy, 2003). Such short-term trade strategy hinders transient owners from waiting long enough to realize the gains from the long-term strategic actions (Bushee 2001). Moreover, transient owners lack motivation to thoroughly monitor the executives, and willingly support the long-term strategic actions because they are unlikely to hold the ownership for a long period of time (Koh, 2007). Conforming to external institutional pressure that requires firms to reduce carbon dioxide emission, for example, needs a long-term commitment. It also requires a significant amount of initial investment, while not guaranteeing short-term gains at the same time. Transient owners tend to reduce the opportunity cost and less hesitant in changing

ownership position when obstructed by an organizational decision that is against their interests. From the agents' perspective that is mostly concerned with realization of quicker returns, the exit of transient owners is not an ideal situation. Hence, this study expects that a firm will less likely to comply with institutional pressure when its transient investors hold a significant ownership position. This study accordingly hypothesizes as follows:

Hypothesis 5a (H5a): *The ownership of transient institutional investors decreases the likelihood of the firm's compliance to external institutional pressure.*

Once transient institutional investors take significant ownership, it is also possible that they exercise votes or give sufficient pressure to executives to take short-term strategies to maximize short-term value (Grinstein and Michaely, 2005). If executives do not comply with transient owners, they are more likely to exit the holding position (Bushee, 2001). The exit of institutional investors subsequently decreases the value of the firm. Yet, executives rationally expect transient owners to exit within a short period of time. Thus, executives would be less interested in what transient owners suggested. This study expects that the greater discretion executives possess in a decision-making process, the more indifferent they will become concerned with supports from transient owners. This study assumes that executive discretion positively moderates the relationship between the transient ownership and the likelihood of firm's compliance to institutional pressure. Consequently, this study hypothesizes:

Hypothesis 5b (H5b): *The CEO's discretion will positively moderate the relationship between the level of transient institutional ownership and the likelihood of firms' compliance to external institutional pressure.*

METHODS

Samples

To test the hypotheses, this study focuses on firms that are required to report the amount of their greenhouse gases (GHG) emissions to the Greenhouse Gas Reporting Program (GHGRP) of the Environmental Protection Agency (EPA). Except for the smaller sectors such as agricultural and land use change industries, any firms that emit 25,000 metric tons or more of carbon dioxide per year in the United States must report their emission to the GHGRP program (see www.epa.gov/sites/production/files/2014-09/documents/ghgfactsheet.pdf).

The total sample that this study deals with consists of 761 firms. This study has collected archival data from three different sources that cover an eight-year window from 2011 to 2017. COMPUSTAT provides financial measures including executive stock ownership from Execucomp, 13F filings (Thomson Reuters Ownership Data), and offers institutional investors ownership to each of 397 sample firms. To estimate institutional investors' tendency, this study relies on data from Bushee (1998) that categorize institutional investors into three distinct classes according to their previous investment behaviors.

MEASURES

Dependent Variables

Carbon dioxide emission. The explanatory variable for this analysis comes from the GHGRP for the period between 2010 and 2017. In response to the Consolidated Appropriation Act, EPA launched the Greenhouse Gas Reporting Program (GHGRP) in 2010. The GHGRP provides archival emission data on six the most powerful greenhouse gases covering large sources of emission. To test the hypotheses, this study concentrates on one of the highly controversial gases: carbon dioxide (CO₂). Due to its large contribution to greenhouse effect and global warming, CO₂ has become the primary target of reduction throughout the global

society. Previous studies that have shed light on environmental performance of firms rely on emission data of chemical substances (Lee and Lounsbury, 2015; Hart and Ahuja, 1996; Berrone et al., 2010) from TRI dataset. However, little research has been done with CO₂ emission. The GHGRP includes an average of 7,855 facilities throughout nine industries for 8-year period, and offers discrete information on its parent firms. This study matches each facility with its parent firm ID, and aggregates all emission of each fiscal year. If the emission had decreased over the years, this study measures it as compliance to institutional pressure to improve environmental performance.

Independent Variables

Classification of institutional investors. This study relies on Bushee's (1998) classification of institutional investors dataset. Bushee (1998) constructed nine variables that describe the past investment behavior of institutional investors. Four of the variables capture the level of portfolio diversification of each institution. *The level of portfolio concentration* is the average percentage of an institution's total equity holdings in each portfolio firm. *The average percent holding* is the average size of the ownership position in each portfolio firms of institution. *Large block percentage holding* is the ownership position that exceeds 5 percent level. *Herfindahl* is a measure of concentration calculated by square of ownership of each portfolio firm.

To measure the degree of portfolio turnover, the average absolute change in the institution's ownership in each quarter divided by the total equity of each portfolio firm was calculated. *Relative stability of institutional holding* is the percentage of the institutional investor's total ownership that lasted two prior years. The final three variables measure the institutional investor's trading sensitivity to current earnings. The first variable (CET1) is a

ratio of change in institution's holdings in each quarter divided by the change of earnings in each portfolio firm in the given quarter. It represents how sensitively institutional investors react to earning changes of portfolio firms. The second variable (CET2) represents the difference between the average earnings change of firms where the institutional investors increased or decreased the ownership. Final variable (CET3) is the difference between the institution holding in firms with positive and negative earning changes. Then a *k-means* cluster analysis was applied to classify institutional investors into three groups (i.e. transient, dedicated, and quasi-indexer) consistent with Porter's (1992) descriptions.

To test hypotheses regarding the influence of institutional investors, this study categorizes each institution as a dedicated, transient and quasi-indexer using Bushee's (1998) classification. Then this study eliminates those with marginal ownership (less than 1 percent) and keeps only those with sufficient ownership to promote their interest. Such cutoff was consistent with the previous research on the influence of institutional investors (Tihanyi et al., 2003). *Dedicated ownership* is percentage yielded from dividing the number of shares that dedicated institutional investors own, by the total number of shares outstanding. *Transient and quasi-indexer ownership* were calculated in the same way. As explained above, both dedicated and quasi-indexer have tendency to hold ownership positions for a long period of time. Hence, this study merges ownership ratio of the two categories and labels dedicated ownership to distinguish the effects between long-term and short-term owners more clearly.

Executive discretion was calculated as percentage of total equity holdings of chief executive officers at the end of given fiscal year. CEOs who hold significant amount of equity probably more likely to be interested in long-term growth of the firm because it increases the value of their personal assets. The more attention executives pay to long-term value, the stronger they may feel a need to conform to external pressure to reduce carbon dioxide emission. Moreover, significant ownership also represents power to be less affected by other shareholders

such as transient institutional investors.

Institutional investor ownership was measured as the total number of shares held by institutional investors divided by total shares outstanding. The data on institutional investor ownership are obtained from Thomson Reuters 13F institution holding dataset.

Firm age captures the calendar time between firm foundation and the fiscal year of carbon dioxide emission report. Since S&P COMPUSTAT does not provide information on the firm age, 10-K reports from EDGAR Database of the Securities and Exchange Commission (SEC), and Center for Research in Security Prices (CRPS) dataset were employed to identify the founding year of the firms.

Control Variables

Control variables in this research are consistent with previous literatures focusing on environmental performance of the firm, and CSR activities (Berrone et al., 2010; Westphal and Zajac, 2001; Flammer, 2015). Variables mainly control for firm size and financial performance that have been shown to influence the environmental performance of firms. For example, the CO₂ emission of larger company may be greater due to the larger scale of operations. The firms' financials are from Standard & Poor's COMPUSTAT dataset. *Logged market value* is calculated as the stock price multiplied by the number of shares outstanding at the end of the fiscal year. *Logged total assets* gauges the book value of assets. *Capital expenditure* is capital expenditure divided by total assets. *Cash* is the ratio of cash and short-term investments to total assets. *Tobin's Q* is the ratio of the market value of total assets to the book value of total assets. *ROE* is the ratio of operating income before depreciation to the book value of equity plus deferred taxes and investment tax credit.

Analysis

To estimate the emission tendency of firms, this study applies pooled cross-sectional time series regression that indicate the average effect of the independent variables over the full period (Greene, 1993). This study estimates the following regression:

$$CO2\ emission_i = \beta_1 + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \beta_6 X_{6i} + \gamma' X_{7i} + \varepsilon_i, \quad (1)$$

Where X_{7i} is vector of control variables. To estimate interaction effect between CEO discretion and transient ownership on environmental performance of firms, this study estimates the following regression:

$$CO2\ emission_i = \beta_1 + \beta_3 X_{3i} + \beta_5 X_{5i} + \beta_7 (X_{3i} X_{5i}) + \gamma' X_{7i} + \varepsilon_i, \quad (2)$$

Control variables fathom organizational size in an attempt to reduce possible confounds driven by omitted variables. This study also includes year dummy variables to control for time effect of the panel data. This study employs Hausman test which compares fitness of fixed and random effect model, and the null hypothesis was rejected ($p < 0.001$). Further, since the dataset includes identical information on institutional investor ownership, autocorrelation in variables is suspected. However, Wooldridge test does not reject the null hypothesis meaning there is no serial autocorrelation in variables. Table 1 reports the descriptive statistics and correlations for all variables in this study. Correlation levels suggests no significance of multicollinearity.

Insert Table 1 about here

RESULTS

Table 2 presents the result of pooled OLS regressions, and all Models include year fixed effects. The effect of control variables is tested in Model 1. Interestingly, market value and cash are negatively associated with CO₂ emission trend, while total assets and capital expenditure show positive association. Tobin's Q and return on equity are not statistically significant. Model 2 to Model 6 represent individual effect of independent variables on environmental performance. Model 8 to Model 12 represent the stepwise effect. Model 7 represents interaction effect between transient ownership and CEO discretion.

Hypothesis 1 states that a firm age is positively related to responses complying to institutional pressure. Model 2 in Table 2 reports the regression results that test this relationship. Consistent with prior studies, the coefficient for firm age is negative and statistically significant ($p < 0.1$) rejecting hypothesis 1. Hypothesis 2 postulates a positive relationship between CEO discretion and environmental performance. Model 3 and Model 8 bolster statistically significant ($p < 0.1$) negative relationship meaning that CEO discretion is positively associated with organizational compliance to institutional pressure. Thus, hypothesis 2 is supported. Hypothesis 3 examines the ownership effect of overall institutional investors on organizational response to institutional pressure. Model 4 and Model 9 show consistency in result that institutional investors influence long-term organizational decision of firms. Yet, it does not show any significance, rejecting hypothesis 3. Hypothesis 4 and 5a examine how different investment style of institutional investors influence organizational response to institutional pressure. Model 5 demonstrates individual effect of transient ownership on CO₂ emission of firms, and the relationship, as expected, is positive. Model 6 reveals the negative relationship between dedicated institutional investors ownership and CO₂ emission of firms. Model 5 and 6 are marginally insignificant (p -value = 0.107, 0.109 respectively) but Model 10 and Model 11 are statistically significant thereby generally supporting hypothesis 4 and 5a. Finally, hypothesis 5b

focuses on interactive effects of transient ownership and CEO discretion on environmental performance of firms. Model 7 shows that the relationship is not significant, lending no support to hypothesis 5b.

Insert Table 2 about here

DISCUSSION AND CONCLUSION

This study aimed to answer the primary research question of whether the ownership structure significantly influences a firm’s response to institutional pressure. This study examined the effect of firm age and executive discretion, finding that the older the firm, the more tendency it has towards improving its environmental performance in response to external institutional pressure. Despite path dependence and embedded routines in their operation practice, older firms are more capable of quick response to external institutional pressure, perhaps not to damage their legitimacy and to increase chances of survival. Executive discretion is positively related to environmental performance: the more powerful executives are, the more tendency they have toward reducing carbon dioxide emission, complying better with institutional pressure. This study investigated how institutional ownership and different interests among firms influence organizational response to institutional pressure. The results demonstrate various responses contingent on the preferences of institutional investors and their ownership position. This study concludes that dedicated institutional ownership was positively related compliance, and transient ownership showed the opposite tendencies.

This study contributes to several research streams. First, this study attempts to add on to the strategic management research. While most former studies tend to view institutional

investors as one cohesive entity, some studies have viewed them as a collection of short-term investors looking for quick returns on their investment. In contrast, other studies have defined them as a group of long-term investors who tend to monitor and counterbalance myopic decisions of management. Yet, this study argues that different preference in risk, value, and growth exist between disparate institutional investors, and that their influences on environmental performance also vary by the discrepancy. These findings highlight the diverse motivations of institutional investors and their impact on firm performance in management research.

Second, this study adds on to the previous literature on agency theory as well. The results of this study suggest that the extent to which institutional investors possess different goals in their investment significantly influences the organizational decisions. Some investors are more interested in long-term growth and returns, while others keenly look for short-term returns and avoid risks for holding ownership for longer periods. In addition, the broader contribution that this study may impose on agency theory may be that it attempts to explicate organizational decision-making process with the level of executive discretion while taking heterogeneous ownership structure and their different preferences into account. Agency theory typically argues that incentivizing agents reduce dis-alignment between agent and principals (Dalton et al., 2007). The results of this study prove that the different interest between principals and the distribution of power among them can also influence the executive actions.

Third, more broadly, this study also adds to the literature on institutional theory and environmental performance studies. The GHGRP dataset this study reconstructs here aligns with elevated interest of U.S. administration and authorities between 2009 to 2011 that aimed to reduce carbon dioxide emission. By aggregating all facility level CO₂ emission into firm level, the dataset allows this project to explore not only the types of firms that collectively conform to the institutional pressure but also the extent to which they conform.

This study is not free of limitations. Due to data limitation from EPA, the short time frame considered in the analysis (2011-2017) requires the use of average values to reduce confounding effect of fluctuation in the observed variables. Moreover, the environmental performance may not change as quickly as it is expected to in a year or two. Thus, it is important to identify which firms improve their performance and how long it takes to recognize palpable changes. Future researches will be more meaningful, if they attempt to increase the number of firms included and extend time frames. Another limitation is that this study only examines the class2 of Bushee's dataset, which classifies institutional investors based on the duration of holdings and their tendency of constructing portfolio. Future research could be better conducted on examining other classifications such as value driven versus growth driven owners.

In addition, according to survey conducted by Kreuger et al. (2018), the majority portion of institutional investors responded that environmental reporting was as important as financial reporting (Flammer et al., 2019). Furthermore, firms may not choose to comply to institutional pressure simply because the cost of non-compliance (i.e. fine, law suit expenses) is cheaper than making commitment to the pressure. Lee and Lounsbury (2015) argues that communities with a dominant politically conservative logic are skeptical about environmental performance. Facilities in those communities tend to show non-compliance to institutional pressure to improve environmental performance. However, the unit of analysis in this study is on firm level, and the performance measure aggregates all emission from multiple facilities located in multiple communities. Future research could look into political logic of CEOs of each firm, and control the effect for finer-grained analysis.

In sum, this study contributes to the management literature by analyzing the relationship between different institutional ownership and the firm response to institutional pressures. This study expands the scope of former agency and corporate governance literatures, and delineates how ownership structure influences organizational decision in a unique empirical

setting. These findings uncover a mechanism that previous studies have not paid enough attention to. Future research could delve deeper into the question of how different characteristics existing between owners and executives interact in influencing organizational decision-making process of various spheres such as innovation, competition, and M&A decisions.

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Table 1. Descriptive statistics and correlation matrix

	N	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12
1.CO2 Emission (log)	796	11.573	1.914	2.851	17.007	1											
2.Firm age	796	14.480	15.131	0.000	64.000	-0.0929*	1										
3.Executive discretion	796	0.177	0.186	0.002	0.994	-0.054	-0.0173	1									
4.Institution ownership	794	0.040	0.032	0.010	0.276	-0.014	-0.1025*	-0.0672	1								
5.Transient ownership	796	0.120	0.071	0.000	0.363	0.033	0.3009*	0.0275	0.0834*	1							
6.Dedicated ownership	796	0.688	0.270	0.000	1.000	-0.052	0.1471*	-0.065	-0.0792*	0.2601*	1						
7.Market value(log)	793	8.731	1.489	3.576	12.833	-0.041	0.0833*	-0.5173*	-0.0177	-0.0837*	0.1135*	1					
8.Total assets(log)	796	9.024	1.361	5.617	13.108	0.030	0.0428	-0.5058*	-0.034	-0.1488*	0.0903*	0.8728*	1				
9.Capital expenditure	794	0.066	0.070	0.000	0.606	0.1127*	-0.0254	-0.0115	-0.0474	-0.0148	0.0401	-0.1183*	-0.0929*	1			
10.Cash	794	0.095	0.115	0.000	0.734	-0.1740*	0.1419*	0.0234	-0.0286	0.0849*	0.0663	0.1196*	-0.0705*	-0.2413*	1		
11.Tobin's Q	763	1.638	0.727	0.538	7.035	-0.1014*	0.0980*	-0.1313*	-0.0046	0.0696	0.0287	0.3995*	0.0134	-0.0961*	0.4227*	1	
12.ROE	763	0.287	1.195	-14.169	17.427	-0.002	0.0071	-0.0156	-0.0091	-0.0005	-0.0369	0.0689	0.0658	-0.1102*	0.041	0.0790*	1

Table 2. Pooled-OLS regression analysis

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Market value(log)	-0.282*	-0.285*	-0.312*	-0.283*	-0.301*	-0.262	-0.309*	-0.315**	-0.315**	-0.334**	-0.314*	-0.293*
	(0.160)	(0.160)	(0.160)	(0.160)	(0.160)	(0.160)	(0.162)	(0.160)	(0.160)	(0.160)	(0.161)	(0.162)
Total assets(log)	0.317*	0.330**	0.290*	0.317*	0.341**	0.311*	0.301*	0.303*	0.302*	0.331**	0.328**	0.312*
	(0.162)	(0.162)	(0.162)	(0.162)	(0.162)	(0.162)	(0.164)	(0.162)	(0.163)	(0.163)	(0.163)	(0.163)
Capital expenditure	2.051**	2.082**	1.906*	2.063**	2.076**	2.161**	1.998**	1.937*	1.943*	1.951*	2.078**	2.144**
	(1.012)	(1.010)	(1.013)	(1.015)	(1.011)	(1.013)	(1.014)	(1.011)	(1.015)	(1.013)	(1.014)	(1.016)
Cash	-2.217***	-2.084***	-2.165***	-2.216***	-2.240***	-2.159***	-2.195***	-2.032***	-2.028***	-2.048***	-1.984***	-1.986***
	(0.692)	(0.694)	(0.691)	(0.693)	(0.691)	(0.692)	(0.691)	(0.694)	(0.695)	(0.693)	(0.693)	(0.693)
Tobin's Q	0.120	0.132	0.113	0.119	0.123	0.107	0.106	0.126	0.124	0.128	0.113	0.102
	(0.163)	(0.163)	(0.162)	(0.163)	(0.163)	(0.163)	(0.163)	(0.162)	(0.163)	(0.162)	(0.162)	(0.163)
ROE	0.0128	0.0113	0.0146	0.0127	0.0139	0.00810	0.0168	0.0131	0.0131	0.0141	0.00890	0.0105
	(0.0584)	(0.0583)	(0.0583)	(0.0585)	(0.0584)	(0.0584)	(0.0583)	(0.0582)	(0.0583)	(0.0582)	(0.0582)	(0.0582)
Firm age		-0.00926*						-0.00925*	-0.00941*	-0.0108**	-0.0107**	-0.0113**
		(0.00491)						(0.00490)	(0.00491)	(0.00496)	(0.00496)	(0.00498)
Executive discretion			-0.806*				-0.111	-0.805*	-0.818*	-0.753*	-0.769*	0.00493
			(0.433)				(0.795)	(0.432)	(0.434)	(0.435)	(0.434)	(0.797)
Institution ownership				-0.376					-0.718	-2.039	-2.028	-2.168
				(2.279)					(2.279)	(2.382)	(2.379)	(2.381)
Transient ownership					1.883		2.630*			2.331*	2.563**	3.753**

					(1.168)		(1.536)			(1.245)	(1.250)	(1.618)
Dedicated ownership						-0.441					-0.502*	-0.490*
						(0.275)					(0.276)	(0.276)
Transient ownership#							-5.320					-6.497
Executive discretion							(5.590)					(5.611)
Constant	63.05	104.2	71.99	61.32	-4.142	103.3	8.132	113.1	109.3	18.32	55.90	51.09
	(67.17)	(70.52)	(67.24)	(70.81)	(78.98)	(71.66)	(79.46)	(70.56)	(74.01)	(88.42)	(90.67)	(90.75)
Year fixed effect	Yes											
Observations	762	762	762	761	762	762	762	762	761	761	761	761
R-squared	0.041	0.046	0.045	0.041	0.044	0.044	0.049	0.050	0.050	0.055	0.059	0.061

Notes. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.

국문 초록

Conflict of Interest: The Influence of Ownership Structure on Organizational Response to Institutional Pressures

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본 연구는 기관투자자들의 상이한 관심사가 외부의 제도적 압력에 대한 조직의 반응에 어떠한 영향을 미치는지 그 관계에 대해 탐구한다. 미국 S&P 1500기업의 온실가스 배출 데이터와 기관투자자를 성향에 따라 분류한 데이터를 분석한 결과에 따르면, 장기적인 투자성향을 갖고 있는 기관투자자의 주식 소유 집중도가 높을수록 기업의 이산화탄소 배출량이 감소하는 것으로 나타났다. 또한, 단기적 투자성향을 지닌 기관투자자의 주식 소유 집중도는 기업의 이산화탄소 배출량과 정의 관계에 있는 것으로 나타났다. 기업 연령(Firm age)과 CEO의 재량(Discretion)은 이산화탄소 배출량과 음의 관계가 있는 것으로 나타났다. 이러한 결과는 조직의 지배 구조가 기업의 비재정적(non-financial) 활동인 온실가스 감축활동에 영향을 미칠 수 있음을 나타낸다.

주요어 : 지배구조, 이산화탄소 배출량, 제도주의, 제도압력, 기업의 사회적 책임, 환경

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