

When do family firms with stronger family control actually invest in green innovation?

Local government priorities and proximity decide whether controlling families steward the environment or hold back

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Family firms like to see themselves as long-term stewards. Reputation, legacy and the next generation all seem to point towards caring for the land and the communities a business depends on. The evidence has never quite cooperated. Some studies find family firms greener than their peers. Others find them slower to adopt environmental technologies, because such projects are costly, uncertain and often need outside money and expertise that controlling families prefer to avoid.

A new study offers a way out of the stalemate. It argues that the same family priorities can push in both directions, and that which one wins depends heavily on something outside the firm: how much the local government cares about the environment, and how close the firm sits to it.

WHAT WE STUDIED

The researchers built a panel of 938 family firms listed on the Shanghai and Shenzhen stock exchanges between 2007 and 2017, giving 3,734 firm-year observations. A firm counted as a family firm when the family held at least 5% of the shares and had at least one member in top management. Family control was then measured as the controlling family's ownership stake, which averaged 41%.

Green innovation was the number of green patent applications a firm filed each year, identified through the international Green Inventory of environmentally sound technologies. To capture local priorities, the team hand-collected 780 annual work reports from 161 city governments and measured how much of each report's text dealt with pollution, energy and environmental penalties. A third variable recorded the

distance in kilometres between each firm's headquarters and its city hall.

The theoretical starting point is socioemotional wealth: the non-financial value families draw from their firms, such as image, influence and dynastic continuity. The authors propose that protecting this wealth can produce two competing logics. A stewardship logic favours green investment to safeguard reputation. A conservatism logic avoids it to limit risk.

The models controlled for R&D intensity, government grants, political connections, state ownership, firm size and regional institutional development. Propensity score matching, an instrumental-variable approach, stricter ownership cut-offs of 10% and 25%, and alternative estimators all returned the same picture.

KEY INSIGHTS

Family control on its own predicts nothing

Across the whole sample, the level of family control had no measurable effect on green patenting. The coefficient was close to zero ($p = .89$). The authors read this as the two logics cancelling each other out. Stewardship pulls controlling families towards green innovation; conservatism pulls them away, partly because the innovator carries the full cost of a green technology while competitors and society share the benefit. For anyone who has followed the long debate over whether family firms are greener, this is a useful corrective. Averages hide the mechanism.

The local government tips the balance

Where city governments paid strong attention to the environment, more family control went with more

green innovation. Where attention was weak, more family control went with less.

Environmentally attentive governments enforce rules more strictly, levy higher penalties, fund monitoring and grant legitimacy to firms that comply. In that setting, green innovation becomes a way for a controlling family to protect its standing, and stewardship prevails. An indifferent government removes the pressure. Costs and uncertainty then dominate, and the family defaults to caution.

The authors draw a pointed conclusion: conservatism is the natural position of highly controlled family firms unless strong formal pressure pushes the other way. That portrait is less flattering than the stewardship story many business families tell about themselves. It is probably more accurate.

Proximity amplifies everything

The effect was sharpest for firms located close to city hall. Nearness brings face-to-face contact, clearer policy signals and closer monitoring. The highest green patenting came from highly controlled firms near an environmentally attentive government. The lowest came from highly controlled firms near a government that did not care. Distance blunted both.

In the authors' words, controlling families behave like political followers.

Who leads matters

Further analyses add texture. Firms with a family CEO responded more strongly to local environmental signals. Firms with a large family presence in the top team responded whatever their distance from city hall, while those with thinner family representation reacted only when close by. Later-generation firms engaged more consistently than first-generation ones, which moved mainly when pressure was immediate and visible. A newly appointed mayor or party secretary, and officials nearing retirement, both strengthened the effect.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

Test whether your environmental commitment is really yours

If green investment rises and falls with the mood at city hall, it is compliance wearing the clothes of values. Owners should ask how much of their sustainability agenda would survive a change of local leadership, or a move to a region where nobody is watching.

Formalise the agenda

The study's own recommendation is to write environmental priorities into strategy so they hold regardless of external pressure. In practice that means:

- setting environmental targets at board or family council level, not only in operations
- ring-fencing part of the R&D budget for environmentally sound technologies
- reporting progress internally even where no regulator asks for it

Bring in the next generation

Later-generation firms showed steadier engagement. Giving successors real responsibility for the environmental agenda may anchor it beyond one leader's tenure.

A note for policymakers

Local, visible and nearby pressure works best. Firms far from administrative centres need deliberate outreach, digital reporting tools and regular contact to receive the same signals.

IMPACT

The study moves the conversation in two directions at once. It shifts attention from family versus non-family comparisons to the differences among family firms, and from national regulation to the local formal institutions that firms actually face.

China is a particular setting. Decades of decentralisation have given city governments wide discretion, and political legitimacy matters for survival. Whether controlling families in Europe or North America show the same political followership remains open. Green patents also measure technological effort, not emissions. The authors point to the ILVA steelworks in Taranto, once controlled by the Riva family and later at the centre of criminal pollution cases, as a reminder that family ownership guarantees nothing on its own.

For advisors, the most useful lesson may be the null result. Asking whether a client is "a family firm" tells you little about its environmental behaviour. Asking how concentrated control is, who leads, and what the local authorities expect tells you a great deal.

RECOMMENDATIONS

1. Review your firm's environmental investments over the past decade against shifts in local government priorities, and be honest about how closely they track.
2. Write measurable environmental goals into the family charter or strategic plan, with board-level accountability.
3. Build in-house green innovation capability so that progress does not depend on external cues.

4. Give a family CEO or next-generation members explicit ownership of the environmental agenda.
5. If you advise family firms, assess their location and local policy context alongside their stated values.
6. If you shape policy, make environmental priorities local, visible and reachable for firms far from administrative centres.

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