Board co-option and corporate environmental orientation: New insights from the waste management perspective

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Abstract

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Research Question/Issue: We investigate the impact of board co-option on corporate environmental orientation from the perspective of waste management. As waste presents damaging effects for the natural environment, climate change and human health, businesses assume an ethical responsibility to conduct their operations in a sustainable and responsible manner.

Research Findings/Insights: Employing firm-level waste production data, we document a significant negative relationship between board co-option and waste generation, suggesting that co-opted directors help firms reduce their waste – a finding that also carries economic significance. The cross-sectional analyses reveal that the relationship only holds when a CEO does not chair the board and has shorter tenure and when a firm’s governance quality is poor (substitution effect). Furthermore, we find that the board co-option–waste management relationship is stronger in environmentally sensitive industries and is mainly driven by manufacturing firms. We perform a battery of analyses to rule out endogeneity concerns and check for the robustness of our results. Finally, the channel test reveals that waste management initiatives increase following co-opted directors’ appointment, and such initiatives ultimately increase firms’ economic value.

Theoretical/Academic Implications: We make important contributions to the corporate governance and environmentalism strands of the literature by highlighting the bright side of board co-option for waste reduction initiatives.

Practitioner/Policy Implications: Our study provides vital policy implications for regulators and top management teams against the background of public outcry and social pressure to mitigate the damage to the environment and calls for ethical business practices.

Keywords: Board co-option; waste management; environment; ethical business practices