Determinants of Sustainability Management Practices in Family Firms: An Inconsistent Mediation Model

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Introduction

Sustainability management practices (SMPs) are important to family-owned enterprises in the tourism and hospitality sector because they can justify the owning family's status by leveraging social and economic benefits for the local community, reducing negative impacts on the environment, and eventually legitimating the family's governance and heritage. Drawing upon the extant family business literature, we explore an inconsistent mediation model where long-term orientation and proactiveness positively mediate the link between family ownership and SMPs, while the direct effect of family ownership on SMPs is expected to be negative.

This paper contributes to family business literature in three ways. First, this study is the first to explore the determinants of SMPs in family firms specifically in the tourism and hospitality sector. Given the importance of sustainability on family firm continuity, such a topic deserves more research attention. Second, this inquiry suggests that long-term orientation and proactiveness mediate the causal link between family ownership and SMPs. Such a mediation model directly answers calls concerning the mechanisms through which family governance may impact firm decision-making. Last, and probably the most important, this model tests an inconsistent mediation model, in which the direct effect of family ownership on SMPs is expected to be negative while the mediating effects are expected to be

positive. Such an inquiry contributes to the dialogue of family business heterogeneity, as it suggests that there are both positive and negative effects of family governance on SMPs.

Literature Review

Family ownership by itself may suppress the rise of SMPs for three reasons. First, family firm behavior is shaped by the family's desire to preserve socioemotional value (Berrone et al., 2012) and SMPs may not be important to family owners as they are more related to economic interests of the business than the non-economic interests of the family. Secondly, family business tends to be parsimonious in utilizing family-endowed resources, meaning family owners are more likely to favor maximizing rent appropriation of current strategy, which is cost-saving, rather than searching for new and probably better alternatives such as sustainability practices (Carney, 2005). Lastly, family owners often have emotional attachments to family-endowed resources even though the adoption of SMPs may require the re-structuring and re-leveraging of current resources.

Hypothesis 1: Family ownership is negatively related to sustainability management practices.

Since maintaining the business for future generations is often an important goal for family firms and family firm leaders often desire passing on a legacy to their posterity as well as a sustainable income stream for future generations, we expect that family ownership positively relates to the firm's long-term orientation.

Hypothesis 2: Family ownership is positively related to long-term orientation in family firms.

Long-term orientation may give rise to SMPs in family firms for a number of reasons. For family owners, the family firm is often seen as the vehicle to achieve *continuity* while SMPs are long-term oriented and designed to sustain long-term growth. In addition, long-term orientation often motivates the development of enduring relationships with the

stakeholder *community*, particularly customers, which may pose stress on the family firm's adoption of SMPs. Lastly, long-term orientation can foster desire to protect their family *reputation* in the public's eye, making SMPs more likely.

Hypothesis 3: Long term orientation is positively related to sustainability management practices.

Family ownership is expected to limit proactiveness for two reasons. First, one of the family's non-economic goals is to sustain the family's tradition and heritage through the business, and being overly proactive may be perceived as a potential violation of family tradition. In addition, as high proactiveness is partially dependent upon the diversity of mindsets in decision-making, the large exclusion of non-family managers would limit cognitive diversity in proactively framing strategies.

Hypothesis 4: Family ownership is negatively related to proactiveness in family firms.

Then, proactiveness is expected to limit SMPs because being overly proactive often suggests focusing on market dynamics rather than the sustainability of the business. Indeed, proactive firms often strive to shape and change their environments via industry leadership and first mover advantages even at the cost of damaging legitimate rules of market exchanges, while sustainability tends to depend upon a win-win competing relationship with rivals as well as enduring linkages with other external parties.

Hypothesis 5: Proactiveness is negatively related to sustainability management practices.

The combination of H1~H5 indicates an inconsistent mediation model. The effect captured by long-term orientation is positive as the rise of family ownership increases long-term orientation, which in turn increases sustainability. The effect captured by proactiveness is also positive, as family firms are likely to avoid being proactive, and being

proactive reduces sustainability. Nonetheless, the direct effect of family ownership is expected to be negative.

Methodology

To test the aforementioned hypotheses, we collected cross-sectional data in tourism and hospitality sectors in Turkey. Indeed, family business often represents a big portion of economic organizations in emerging and transitional economies such as that of Turkey. Also, the tourism and hospitality industry is appropriate for such an inquiry, particularly because reputation, image, and stakeholders (e.g., customers) are highly important and sustainability practices are likely to be more directly related to economic performance. We conducted 327 surveys in Turkey in 2014 among tourism and hospitality businesses. The questionnaires are completed by the principal managers of tourism and hospitality firms who in most cases were the primary owners. We excluded responses that are not provided by managers or shareholders. Eliminating other missing and invalid data in all variables leaves us 195 cross-sectional observations for regression analyses.

The **dependent variable** in this study is sustainability management practices (SMPs). Respondents are asked whether their companies followed ten sustainability management practices identified by the Global Sustainable Tourism Council (2007). The number of "yes" responses were added for each respondent to measure their SMPs. The **independent variable** is family ownership in family business, measured by the percentage of shares owned by the family(ies) if there are family managers in the top management team and if the family holds the intention for trans-generational succession. This reflects that family management and succession intentions are necessary conditions for defining and classifying a family business (Chua et al., 1999). Two **mediators** used in this study are long-term orientation and

proactiveness. Five items stemming from Zellweger, Kellermanns, Eddleston, and Memili's (2012) were used in a 5-point Likert scale (5=strongly agree, 1=strongly disagree). Long-term orientation was calculated by adding the values of all five items. Similarly, six items from Lumpkin and Dess (1996, 2001) were used to measure proactiveness in a 5-point Likert scale (5=strongly agree, 1=strongly disagree). Proactiveness was also calculated by adding the values of all six items. A number of **control variables** were used. We controlled for *organizational psychological capital* in a family business setting (Memili, Welsh, & Kaciak, 2014) as well as *firm age*, *sales growth*, *geographic market*, two industries (*tourism service industry*, e.g., travel agency, boat tours; *accommodation services industry*, e.g., hotel, pension), and respondents' *ownership status*.

Ordinary Least Square (OLS) regression was used in all models. White variance correction of the error terms was applied to control for potential heteroscadesticity. The results support our hypotheses:

	Model 1	Model 2a	Model 2b	Model 3
	Sustainability	Long-Term Orientation	Proactiveness	Sustainability
Constant	3528.50*	-0.83	1.04**	4116.25**
Family Ownership (%)	-0.68	0.02***	-0.003***	-3.75*
Long-Term Orientation				81.71†
Proactiveness				-501.10*
Psychological Capital	234.01	0.29†	0.41***	416.60*
Firm Age	-0.37	0.00***	0.0004**	-0.01
Sales Growth (%)	5.88	0.00	0.002	6.86†
Firm Size	-110.27	0.14	0.12*	-63.18
Geographic Market	126.75	-0.48†	-0.26†	34.83
Tourism Industry	5974.91***	-1.89***	0.73†	6494.26***
Accommodation Industry	-4122.71**	0.20	0.30	-3990.50**
Ownership Status	-337.47	1.15***	0.15	-357.69
Sample Size	195	195	195	195
R-squared	0.56	0.42	0.24	0.60
Adjusted R-squared	0.54	0.39	0.21	0.57
F-statistic	25.86***	14.66***	6.62***	24.61***