

# **THE IMPACT OF CORPORATE GOVERNANCE ON ENVIRONMENTAL STRATEGY**

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Firms are increasingly under pressure to “green” their activities and extend their view beyond traditional corporate boundaries, either to ensure legitimacy of their operations, or as an opportunity to create a competitive advantage. As the center of corporate control and an interorganizational network mechanism, corporate governance plays a critical role in corporate greening. This work proposes a corporate governance framework to understanding environmental strategy. The purpose of this dissertation is to investigate how corporate governance structures impact a firm’s development of environmental capabilities. At the same time, I identify what firm-specific skills are needed to develop environmental capabilities and their association with firm performance.

The contributions of this thesis are as follows. First, I extend the theory of the firm to encompass environmental factors by broadening the concept of the production function to transcend traditional firm boundaries. Second, I refine the natural-resource-based view by identifying specific skills organizations need to develop environmental capabilities. Third, I establish theoretical and empirical links between corporate governance and environmental strategy and show that this relationship differs from the one between governance and firm performance, challenging assumptions of agency theory. Finally, I add a dynamic perspective to the environmental strategy literature by analyzing longitudinal data which also allows for some generalization of results.

The research analyzes primary and manufacturing industries in the S&P500, over a five-year period. The results showcase the importance of corporate governance (agency and resource dependence theory) as companies develop environmental capabilities. I find evidence of positive associations between environmental committee, environmental pay

policy, a resource-rich board and a negative association of insider ownership with the development of an environmental strategy. Against expectations, I find negative associations with active investors and a concentrated investor base with environmental strategy. This work establishes empirical validity and reliability of an environmental strategy measure anchored in the resource-based view. Finally, tenuous support is found that firms with environmental capabilities have higher value, as measured by Tobin's Q, while firms that fail to develop environmental capabilities reduce firm value. Limitations of the work and implications of the findings on theory, practice and future research are discussed.