



Determinants of voluntary environmental management practices by MNE subsidiaries[☆]



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ABSTRACT

There have been few empirical studies of the determinants of voluntary environmental management practices (VEMPs) of MNE subsidiaries operating in emerging countries. To provide insight on this issue, this study explores the antecedent factors that drive MNE subsidiaries to adopt VEMPs, using data drawn from a key emerging country – Turkey. Based largely on the arguments of institutional theory and the resource based view of the firm, a number of hypotheses are formulated in order to investigate the effects of stakeholder pressures, perceived polluting potential, customer focus and competitive intensity. Each of these factors, with the exception of competitive intensity, is found to positively influence the adoption level of VEMPs by MNE subsidiaries. Some of the study's parent-level and subsidiary-level control variables are also found to have significant effects on the extent of VEMPs adoption by MNE subsidiaries.

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1. Introduction

With increasing globalization, multinational enterprises (MNEs) have been playing a significant role in the industrial development of emerging countries. However, as Meyer (2004: 259) notes, “their interaction with institutions, organizations and individuals is generating positive and negative spillovers for various groups of stakeholders in both home and host countries”. An important consequence of the activities of MNEs in emerging countries is related to their policy approaches toward preserving the natural environment of the host country. While MNEs are required to comply with mandatory environmental regulations applicable in the host country, the extent to which MNEs commit to voluntary environmental management practices (VEMPs) is the subject of growing research attention. This is primarily because of the relatively lax environmental standards and enforcement regimes typically observed in emerging countries (Blackman,

2008). Further, MNEs dominate pollution intensive industries such as chemicals, petroleum, mining and heavy manufacturing and increasingly relocate these activities to emerging countries (Gifford & Kestler, 2008; Gifford, Kestler, & Sharmila, 2010; Rugman & Verbeke, 1998a). Given the diversity of countries across the world in which MNEs operate, MNE headquarters are faced with challenges of balancing between more centrally driven environmental management (EM) policies and autonomy of their subsidiaries. While green environmental success scenarios are very important for sustainability and resource conservation, this does not take into account the challenges and complexities of international business (IB) activities in emerging countries (Rugman & Verbeke, 1998a, 1998b).

Despite the importance of this topic, to date it has attracted relatively limited research attention (Peng et al., 2009). Holtbrugge and Dogl (2012) specifically point to this gap in their bibliographic analysis of corporate environmental responsibility studies. Drawing on an extensive review of the literature, they note that despite its international ramifications, research on corporate environmental responsibility is still predominantly local rather than international.

Conversely, a large body of literature exists that attempts to explain the main factors that prompt domestic firms to adopt VEMPs. Prior studies have identified a variety of antecedents of the adoption level of VEMPs by domestic firms (see Walker, Di Sisto, &

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Mc Bain, 2008 for a detailed review). These studies have investigated the determinants of VEMPs by domestic firms operating in both developed (Céspedes-Lorente, de Burgos-Jimenez, & Alvarez-Gil, 2003; Delmas & Toffel, 2004; King & Lenox, 2000; Rueda-Manzanares, Aragon-Correa, & Sharma, 2007) and emerging countries (e.g. Sangle, 2010; Zhu & Sarkis, 2006). However, studies on the adoption of VEMPs by domestic firms rarely capture the impact of a large array of micro- and macro-economic forces that MNEs are subjected to in an emerging country (Pinske & Kolk, 2012; Yang & Rivers, 2009).

Given the paucity of EM research in IB field, this study provides an important contribution to the relevant literature. Some recent reviews on mapping the IB field (e.g. Pisani, 2009; Werner, 2002; Werner & Brouthers, 2002) posit that EM is likely to be acknowledged an important component of MNE policies and subsidiary strategies, which is identified as one of the distinct topics of IB. The extant MNE policy research generally tends to focus on investigating the relationship between environmental policies/practices and firm performance (Chan, 2010; Dowell, Hart, & Yeung, 2000; Eidat, Kelly, Roche, & Eyadat, 2008; Montabon, Sroufe, & Narasimhan, 2007). MNE subsidiary research, however, focuses on the strategic choices of subsidiaries that take into account host country regulations, socio-political conditions and stakeholder relationships (Buysse & Verbeke, 2003; Cho & Voss, 2011; Christmann, 2004). MNE subsidiaries are different from indigenous firms as they tend to face the pressure of multiple stakeholders located in two or more countries (Epstein & Roy, 1998; Rugman & Verbeke, 1998b). MNE subsidiaries are also subject to greater and more rigorous pressure from local stakeholders than are domestic firms (Child & Tsai, 2005). Rugman and Verbeke (1998a) argue that MNE subsidiary environmental strategies are shaped by national and international environmental pressures and MNEs often need to comply with environmental regulations at various institutional levels. Given the weaknesses of the institutional environment in emerging countries, MNEs in effect participate in institutional development (Child & Tsai, 2005). Given the scant attention in the extant literature, gaining deeper insights in this regard is vital to understand the contribution of MNEs to the wellbeing of emerging countries. Here we draw on the propositions from Oetzel and Doh (2009) and Shenkar (2004), who argue for a broadening of research into MNE activities in emerging countries to include social and political issues rather than focusing entirely on commercial aspects.

We rely on the arguments of institutional theory and the resource based view (RBV) of the firm, in order to develop and test a conceptual framework that explains heterogeneity in the adoption of VEMPs by the local subsidiaries of MNEs operating in a key emerging country, Turkey. The Turkish context represents an interesting research setting for a number of reasons. Turkey differs from advanced industrialized countries in terms of both cultural and management practices. It can be best described as a newly industrializing country with the society having simultaneously both traditional and modern values (Glaister, Dincer, Tatoglu, & Demirbag, 2009). Turkey is currently at the center of ongoing membership negotiations with the European Union (EU). The characteristics of the Turkish economy and its strategic location as a bridgehead between East and West make it an interesting case to explore the key antecedents of VEMP adoption by the local subsidiaries of MNEs.

Turkey is undoubtedly the leading economy in south-eastern Europe and the Middle East. Turkey's GDP level more than tripled to US\$ 794 billion in the ten years to 2012 (IMF, 2013). Turkey's economic growth rate has outstripped OECD averages, while trade volumes have grown robustly reaching US\$ 389 billion in 2012 (Republic of Turkey – Ministry of Economy, 2013a). Additionally, implementation of a sound macroeconomic strategy coupled with

prudent fiscal policies and major structural reforms since 2002 have transformed the country into one of the major recipients of foreign direct investment (FDI) in the region. The total FDI stock increased nearly eight times from US\$ 19.2 billion in 2000 to US\$ 152.4 billion as of 2012 (Republic of Turkey – Ministry of Economy, 2013b). In fact, Turkey has increasingly been seen as a 'regional-hub' by MNEs thanks to its strategic location, political and economic stability as well as the quality of the workforce (Today's Zaman, 2011). The surge in the volume of FDI and the increasing prospect of attracting greater levels of MNE activity in the near future makes Turkey an important research setting in which to better understand the key driving forces influencing the adoption level of VEMPs by MNE subsidiaries in emerging country markets.

The remainder of the study is organized as follows: Section 2 reviews the relevant literature and sets out the study's hypotheses. Research methods are provided in Section 3. The results are presented in Section 4. The discussion and implications are provided in Section 5.

2. Literature review and hypotheses

There is a common belief that MNEs relocate their polluting activities to emerging countries in order to take advantage of the lax environmental regulations prevalent in these countries (Clapp & Dauvergne, 2005; Gifford et al., 2010). While this view is an important starting point, prior studies have adopted multiple theoretical perspectives to explain the reasons why MNEs actually choose to adopt VEMPs in emerging countries. Indeed, the extant research on MNE subsidiaries' participation in VEMPs in emerging country contexts presents arguments as well as empirical evidence strongly refuting the common belief that MNEs relocate their polluting activities to emerging countries in order to exploit the soft environmental regulations prevalent in these countries. In the following subsections, we first provide a brief review of the extant literature on MNEs' adoption of VEMPs in emerging countries. Subsequently, we develop arguments to support our conceptual framework used in the study for selecting the independent variables and then finally provide discussion regarding the logic of each hypothesis developed.

2.1. MNEs' adoption of VEMPs in emerging countries

In this study, we examine MNEs' decisions to engage in VEMPs within an emerging country setting. It has been well acknowledged that emerging countries are growing at a much faster rate than developed countries and are also receiving an increasing share of global FDI inflows (UNCTAD, 2013). Despite their rising share of world output, most emerging countries tend to suffer from "institutional voids" in which the market ecosystem in these countries is underdeveloped or not fully functional (Khanna, 2001; Khanna, Koss, Jones, & Ervin, 2007). In such business environments, MNEs must explore filling these institutional voids through other means. Thus, adoption of VEMPs by MNE subsidiaries in emerging countries effectively substitutes for institutional deficiency and may prove to be an important contributor to reducing environmental degradation.

Despite the obvious importance of the phenomenon, research on MNEs' adoption of VEMPs has been scarce both in terms of the issues considered as well as its geographic scope (Holtbrugge & Dogl, 2012). Most of the research in the EM field has focused on MNEs operating in one particular country, notably China (Chan, 2010; Christmann & Taylor, 2001; Peng & Lin, 2008) with few studies involving MNE subsidiaries in other host countries (Aguilera-Caracuel, Aragón-Correa, Hurtado-Torres, & Rugman, 2012). Several of these studies are either conceptual (e.g. Aguilera-Caracuel, Aragón-Correa, & Hurtado-Torres, 2011; Sharfman, Shaft,

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