



Research article

Stakeholder demands and corporate environmental coping strategies in China

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ABSTRACT

This paper examines how stakeholder demand and compliance capacity jointly shape corporate environmental coping strategies and subsequently environmental protection practices. A four-dimensional classification of coping strategies—formalism, accommodation, referencing, and self-determination—is conceptualized. Drawing on survey and interview data collected from manufacturing enterprises in China between 2010 and 2012, the paper shows that compared with formalism and accommodation, coping strategies of referencing and self-determination are associated with stronger environmental protection practices. Enterprises adjust their coping strategies by taking into account the constraints defined by both their internal and external environments. The results also demonstrate the potential synergetic effects of state and non-state stakeholders working together in promoting better corporate environmental coping strategies and environmental practices in China.

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Regulators may choose from a variety of enforcement strategies to achieve policy targets (Bardach and Kagan, 1982; Tang et al., 2003). Regulated entities, on the other hand, may choose different strategies to cope with varying demands from different stakeholders (Darnall et al., 2010; Rugman and Verbeke, 1998). The specific coping strategy adopted by a regulated firm not only shapes its environmental protection practices but also communicates to stakeholders its commitment to upholding corporate environmental responsibility (Lo et al., 2010; Yee et al., 2013). Researchers of both business strategy and environmental policy, however, usually focus on the dichotomy of “responsive versus proactive” strategies, while paying less attention to strategic responses to different types of stakeholder demands. In this study, we seek to build a conceptual framework of corporate environmental coping strategies, and examine how coping strategies are affected by compliance capacity and stakeholder demands, and how they subsequently influence environmental protection practices among enterprises.

As widely acknowledged in both the environmental regulation

and corporate environmental management literature, heavy-handed state enforcement is insufficient to ensure efficient and effective corporate environmental practices (Bardach and Kagan, 1982; Fiorino, 2001). Although both state and non-state demands jointly affect corporate environmental strategies and practices, effective environmental protection cannot be achieved by relying solely on external forces (Weidner and Jänacke, 2002). Instead, organizational factors such as firm capacity and awareness must also be considered (Kock et al., 2012). Nevertheless, there have been few efforts to systematically examine how various external and internal factors interact with each other to shape corporate coping strategies and subsequent environmental practices. This is especially the case for research in developing countries, in which internal capacity of enterprises is often limited, and demands from state and non-state stakeholders differ in form and intensity from those in Western countries (Fikru, 2014).

In this paper, we seek to fill this research gap by combining two different but closely related streams of research—one focusing on stakeholder demands and the other on internal compliance capacity—to examine the drivers of corporate environmental coping strategies. Drawing on survey and interview data collected from manufacturing enterprises in China between 2010 and 2012, we show that corporate environmental coping strategies can be characterized along four dimensions—formalism, accommodation,

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referencing, and self-determination. While internal compliance capacity is needed to pursue each dimension, different alignments of internal capacity and external demands affect a firm's coping strategies. State and non-state demands also interact in complex ways to influence the adoption of varying dimensions. Particularly, an enterprise tends to score higher on the accommodation, referencing, and self-determination dimensions when it faces stronger demands from *both* state and non-state stakeholders. Yet only two of the four dimensions—referencing and self-determination—are associated with stronger environmental protection practices.

In the rest of the paper, we start with an overview of the current literature, and then propose a four-dimensional conceptual framework of corporate environmental coping strategies and develop four hypotheses. After introducing the research methods and empirical results, the paper concludes with a discussion on the theoretical contributions of our research and its managerial and policy implications.

1. Research context and theoretical framework

With growing threats of environmental degradation, controlling industrial pollution has been an urgent regulatory task in China (Liu et al., 2015; Tang et al., 2010; Zhong and Mol, 2008). Yet many polluting enterprises are still at the threshold of minimum compliance or even non-compliance (Van Rooij, 2006). Given the increasing attention from both political leaders and the public to China's rapid environmental deterioration, industrial enterprises in China have been faced with mounting demands from various stakeholders—governments, the media, citizens, NGOs, industrial associations, and international buyers—to improve their environmental management practices (Francesch–Huidobro et al., 2012; Lo and Tang, 2006). Demands from different stakeholders come in different forms and intensities, and these demands can change rapidly and are often inconsistent with one another. To deal with the stress associated with these fluid and complex regulatory environments, enterprise executives must develop appropriate coping strategies based on their assessment of their internal capacity as well as a wide array of stakeholder demands (Child and Tsai, 2005).

1.1. Conceptualizing corporate environmental coping strategies

Coping has been extensively studied in the psychology and management literature (Carver et al., 1989; Holahan and Moos, 1987). In general, coping strategies refer to the adaptive or constructive mechanisms that are used by individuals to reduce psychological stress. Some of these mechanisms focus on managing emotion, while others aim at problem solving (Holahan and Moos, 1987). In studying public service delivery, for instance, Tummers et al. (2015) identified three “families” of coping by frontline workers—moving towards, away, or against clients—to deal with pressure. Coping strategies have also been studied at the organizational level. For instance, van Huijstee et al. (2011) systematically assessed four key elements of NGO coping strategies towards companies, namely action strategy, primary stakeholders, funding bases, and organizational capacity. The concept of “coping strategies” can be fruitfully used to examine how enterprises address environmental issues in fluid and complex regulatory environments. The concept is especially relevant to China because many studies have shown that regulatory compliance in this context is especially stressful for corporate executives because of the relative underdevelopment of the rule of law in China. As regulatory enforcement in China is often arbitrary (Yee et al., forthcoming), it is difficult for corporate executives to know ahead of time what course of action can help them avoid trouble. The concept of

“coping” helps analyze this type of situation.

In the environmental management literature, there are two major research foci on firm environmental behaviors and strategies. One examines corporate environmental behaviors on a continuum from “conformance to regulation” to “voluntary actions going beyond mandatory requirements” (Henriques and Sadorsky, 1999). Another research focus is on firms' responses to specific environmental issues, e.g. the ISO 14001 Environmental Management System (EMS) certification (Boiral, 2007), or new regulations (Levy and Egan, 2003). Notably lacking from the literature, nevertheless, is an explicit focus on corporate environmental coping strategies.

Corporate environmental coping strategies can be defined as the strategic-level approaches adopted by regulated enterprises to prioritize environmental management tactics and to set up compliance benchmarks in fluid and complex regulatory settings. Based on an overview of the regulation and corporate environmental management literature, four coping strategy dimensions can be distinguished—formalism, accommodation, referencing, and self-determination (Aragón-Correa and Sharma, 2003; Christmann, 2004; Henriques and Sadorsky, 1999; Ma and Ortolano, 2000). This multi-dimensional characterization captures the fact that firms have to face competing demands from different types of regulations and stakeholders, and to develop complex arrays of coping strategies in order to meet their business needs and avoid prosecution (Schuler et al., 2002). Therefore, each firm may adopt, to varying degrees, each of the four dimensions. These four dimensions of coping strategy do not exhaust all possibilities. For example, the psychology literature suggests avoidance as a possible coping strategy for stress. In our conceptualization, we do not include avoidance strategy because we mainly look at how active and constructive approaches are adopted by regulated entities to meet environmental demands. Table 1 provides a summary of the main characteristics of these four dimensions.

Formalism refers to a traditional “go-by-the-book” coping strategy that strictly follows formal rules within a command-and-control regulatory context (Winter and May, 2001). Dictated by a legal orientation, enterprises comply with regulations by setting up internal procedures that adhere strictly to the letter of the law. Given widespread corruption, lax enforcement, and poor compliance in China's environmental regulatory regime, one may suspect that formalism is yet to be a basic strategy adopted by most firms in China. That being said, formalism may become increasingly important for some enterprises that are taking up more efforts to adhere to all relevant regulations so that they can avoid political and legal trouble when the Chinese government is moving towards a more heavy-handed approach to regulatory enforcement (Yee et al., forthcoming).

Accommodation refers to a coping strategy that gives priority to meeting political or bureaucratic demands (Cho et al., 2006; Levy and Egan, 2003). Firms may consider regulatory agencies, rather than legislators, as the central point of contact for regulatory compliance (Wang et al., 2003). Different from formalism, accommodation emphasizes reconciliation and adaptation to informal rules and demands. Handling political demands may distract firms from achieving cost-effective compliance since many political demands are temporary instead of long-term. In the Chinese regulatory context, however, satisfying political demands is almost as important as, if not more important than, being legally in compliance.

Referencing refers to a coping strategy that imitates peers' compliance practices or follows guidelines recommended by professional associations (Greenwood et al., 2002). Such behaviors may be a result of calculated judgment on who and when to follow (King and Lenox, 2000), or simply a lack of experience. Regarding

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