



Local Environmental Non-Profit Organizations and the Green Investment Strategies of Family Firms



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ABSTRACT

We add to the debate on the determinants of firms' green investment strategies (GIS) by looking at societal stakeholders and explicitly testing the role of local environmental non-profit organizations (ENPOs) in GIS engagement by family and non-family firms. We argue that ENPOs favor GIS engagement only by family firms, which, due to their resource constraints, risk aversion and local embeddedness, are more sensitive to ENPOs normative pressure. We also suggest that the role of ENPOs is especially important for family firms' GIS in those sectors with less stringent regulations, where ENPOs may act as a substitute for the coercive pressure of regulation, and promote firms' self-regulatory behaviors. We test and find support for our arguments on a sample of about 2000 Italian manufacturing firms over the period 2001–2003. Our results are robust to the control of observable omitted variables, reverse causality and to alternative model specifications.

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1. Introduction

European Union (EU) members are increasingly under scrutiny to achieve a sustainable growth path. The raising of environmental concerns at the EU level is reflected in the proliferation of regulations and actions by the Union over the last decade. The launch of the EU Resource Efficiency Roadmap in 2001, the creation of the Emissions Trading System to monitor CO₂ emissions in 2005, and the emphasis on the achievement of a sustainable pattern of economic growth in the Horizon 2020 program are some of the initiatives documenting the EU pressure on member states to promote a green-friendly growth.

In addition to the coercive pressure of the EU and national environmental regulators, private firms are also exposed to the normative pressure of other secondary stakeholders, which increasingly

call for an environmental sustainable behavior of economic agents. These stakeholders are societal stakeholders, and mobilize public opinion in favor or in opposition to firm's decisions and operations that may have an environmental impact (Clarkson, 1995; Etzion, 2007).

The emergence of societal stakeholders is a relatively recent phenomenon and a source of diverse external pressures to the firm (Doh and Guay, 2004; Etzion, 2007; Mitchell et al., 1997) because these stakeholders, unlike primary stakeholders (i.e. management and non-management employees, consumers and suppliers), do not have a formal contractual bond with the firm (Freeman, 2004; Henriques and Sadorsky, 1996; Mitchell et al., 1997).

Among societal stakeholders, the emergence of environmental non-profit organizations (ENPOs) dates back to a couple of decades and strictly connects to the growing awareness of environmental issues in civil society (Doh and Guay, 2004). Because firms are not contractually or legally obliged to ENPOs, these societal stakeholders generally utilize indirect approaches (e.g. public protests, civil suits and letter writing campaigns) to influence firms environmental strategy (Eesley and Lenox, 2006; Sharma and Henriques, 2005).

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Still, the action of ENPOs may substantially harm firms' reputation and competitiveness (Eesley and Lenox, 2006), and ENPOs normative pressure may both reinforce the coercive pressure of regulations and compensate for the lack of it.

Yet, despite the recently recognized relevance of different external environmental pressures on green management practices (Appolloni et al., 2014; Zhu et al., 2016), the environmental economic literature, has overlooked the role of non-profit organizations (NPOs) as distinctive societal stakeholders. The few aggregate analyses, which have investigated the role of local societal stakeholders as a relevant force driving firms' environmental behavior, have either focused on local communities, or bundled ENPOs together with other societal stakeholders (Aden et al., 1999; Bernauer et al., 2013; Cribb, 1990; Epstein and Schnietz, 2002; Fredriksson et al., 2005; Neumayer and Perkins, 2004; Triguero et al., 2013). The distinctive role of ENPOs gains great relevance in connection to different organizational forms and to family firms especially, because these are the dominant organizational form around the world (Gersick et al., 1997; Porta et al., 1999) and have been found to be more responsive to local societal pressure (Berrone et al., 2010; Gómez-Mejía et al., 2007).

A rigorous research on the role ENPOs play in influencing firms green behavior is still missing. We aim at filling this gap by investigating the influence of ENPOs operating in the firms' local context on the engagement in green investments strategies (GIS) (i.e., investments in environmentally oriented equipments) by family and non-family firms. Based on stakeholder theory (Eesley and Lenox, 2006; Freeman, 2004; Guay et al., 2004; Mitchell et al., 1997) and organization science (Berrone et al., 2010; Gómez-Mejía et al., 2007), we suggest that family firms are more responsive to ENPOs pressure than non-family firms and, hence, more likely to engage in GIS because their resource constraints make them less capable to bear the costs of head-to-head confrontation with ENPOs (Gómez-Mejía et al., 2003; Hamelin, 2013; Zellweger and Sieger, 2012), and, at the same time, they need to build a positive reputation that "may serve as a form of social insurance protecting the firm's assets in times of crisis" (dye, 2006). In addition, we investigate how local ENPOs interact with sectoral regulations by disclosing the existence of a substitutability linkage in prompting family firms' GIS engagement.

We test our arguments in the manufacturing sector in Italy, which represents a suitable research setting. According to Eurostat, Italy ranks among the developed countries recording the highest percentage of environmental expenditures of the manufacturing sector. Italy also displays a high geographical heterogeneity in terms of environmental performance, and number of local ENPOs (such as Italia Nostra, Legambiente and Verdi Ambiente e Società). Finally, in the country family firms account for a large share in the economy (Corbetta and Montemerlo, 1999), which European Family Businesses estimates about 75% of all active firms in Italy.¹

The work is structured as follows. The next section reviews the background literature and develops testable hypotheses. Section 3 discusses data and empirical strategy. Section 4 illustrates the results. Finally, conclusions are discussed in Section 5.

2. Background Literature and Hypotheses

Our research connects to the increasing effort of the environmental economics literature to disclose the drivers of firms' environmental behavior. To this end, we focus on GIS and draw on stakeholder theory and organization science to explore the differential role of

local ENPOs in shaping environmental responsible behavior of family and non-family firms.

In relation to primary stakeholders, a number of studies have explored customers' pressure, demand, satisfaction and benefits as a driver of firms' environmental behavior (Horbach et al., 2012; Kammerer, 2009; Rehfeld et al., 2007). The relevance of societal stakeholders has been studied both at macro and micro level.

At macro level, extant research suggests that the demand from civil society, either direct or channeled by non-governmental organizations (a specific type of NPOs), can foster countries' environmental performance (Bernauer et al., 2013; Fredriksson et al., 2005; Neumayer and Perkins, 2004). Environmental NGOs can exert pressure both on governments by promoting the ratification, enforcement and compliance of international treaties and national regulations.

In connection to firms' adoption of cleaner production technologies and behavior, the role of ENPOs has been investigated primarily by means of case studies, which have shown that environmental activists can impose losses to polluting firms (Cribb, 1990; Epstein and Schnietz, 2002). A few quantitative firm-level studies have focused on local communities and societal stakeholders (Aden et al., 1999; Becker, 2003; Mazzanti and Zoboli, 2009), but typically bundled these different actors altogether. In sum, work in environmental economics seems to have so far overlooked the distinctive role of ENPOs, although the salience of this societal stakeholder has increased drastically in the last couple of decades (Doh and Guay, 2004).

A widespread local presence of ENPOs can influence firm's GIS through different channels. First, firms may be encouraged to engage in GIS by the desire to avoid costs related to civil suits initiated by the local ENPOs as well as the protests local ENPOs may organize to physically stop firm's activities (Argenti, 2004). Second, firm's GIS may be motivated by the will to avoid negative media exposure and reputation damages resulting from the activities of local ENPOs (Deephouse and Carter, 2005). In addition, the presence of ENPOs may reflect locally shared beliefs and values (Binder and Blankenberg, 2016), which management and non-management employees, who have been raised and/or live in the local context, can bring in the firm, thus exerting a direct impact on the firm environmental strategy (Doh and Guay, 2006). At the same time, local ENPOs may favor the emergence of locally shared beliefs and values by increasing other stakeholders' (e.g. consumers) awareness on environmental issues (Sharma and Henriques, 2005).

Yet, firms are heterogeneous in the way they respond to normative pressures (Murillo-Luna et al., 2008). The influence of ENPOs on firms' GIS may then critically depend on the firm's organizational form. In particular, we expect a stronger impact of ENPOs on family firms because these firms are more resource-constrained and, at the same time, more dependent on the local context than non-family firms. Due to their typical smaller size, family firms suffer from capital constraints and, hence, are reluctant to adopt riskier behavior and aggressive competition strategies than non-family firms (Gómez-Mejía et al., 2003; Hamelin, 2013; Zellweger and Sieger, 2012). Relatively limited resources may deter also family firms from head-to-head confrontation with local ENPOs in order to avoid costs related to ENPOs protests, which may stop or delay production, legal costs associated to civil suits initiated by ENPOs, and the costs related to fines resulting from ENPOs denunciations. While large businesses would eventually have the resources to face such costs, family firms may prefer to compel with ENPOs normative pressure and proactively engage in GIS, valuing GIS engagement less costly than the costs of fighting against ENPOs. Furthermore, GIS engagement can yield reputational benefits in the local context where the firm is traditionally embedded. These benefits are especially relevant for family than non-family firms because, in virtue of their greater local embeddedness (Graafland, 2002), family businesses are more dependent on the local context for their survival than their non-family counterparts (Clarkson, 1995) and, hence, they strive to gain

¹ <http://www.europeanfamilybusinesses.eu/>

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