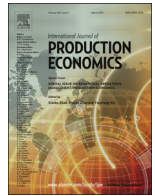




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# The interaction effects of institutional constraints on managerial intentions and sustainable performance

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## ABSTRACT

This study examines the interaction effects between institutional constraints and managerial intentions on firms' sustainable performance. It focuses on two distinct dimensions of managerial intentions: proactive versus protective. Using survey data from 145 manufacturing firms in the Pearl River Delta region of Guangdong Province in China, responses were collected from senior executives of each firm. The results find broad support for the proposed hypotheses and the interactional framework. Proactive orientation alone, and in conjunction with low and moderate levels of perceived institutional constraints are all positively related to performance. In contrast, protective orientation alone is negatively related to performance. Also, the interaction effect of perceived institutional constraints on protective orientation was not significant. To conclude, proactive intention tends to have a stronger positive effect on sustainable performance, in particular under less institutional constraints. Such a positive effect remains significant at low and moderate levels of institutional constraints. On the contrary, protective firms tend to relate negatively to sustainable performance at all levels of the perceived institutional constraints. The results provide important political and managerial implications on sustainable consumption and production in emerging markets.

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## 1. Introduction

Previous literature tends to use one single lens of either focusing the effect of institutions (e.g. Jennings and Zanbergen, 1995; Schroeder, 2014) or managerial behaviors (e.g. Sully de Luque et al., 2008), but neglecting the combined or interaction effects of both factors on sustainable performance. Such interactional effects of managerial actions or intentions and environments have been widely suggested in previous literature (e.g. Oliver, 1991; Schroeder, 2014; Dubey et al., 2015), but few of them attempt to focus on a direct theoretical model for systematic statistical testing. This paper aims to contribute to the sustainable management literature by examining the interaction effects of institutions and managerial intention on sustainable performance.

In this globalization era, firms are in intense competition with each other for various resources including financial capital, material inputs, and human capital (Dicken, 2011). This competition makes profitability and growth survival imperatives for each firm (Elkington, 1994, 1998). However, such imperatives for

growth and survival can present a management dilemma (Gimenez et al., 2012; Martínez-Alier et al., 2010). On the one hand, the system of market competition has stimulated productivity and innovation (Zhong et al., 2015), which in turn helps to generate benefits to individuals and societies (Hollos et al., 2012). On the other hand, such a system also leads to considerable negative consequences to the natural or social environment (Sorrell, 2009). The processes of promoting sustainable production and consumption practices require an appropriate “managerial intention”: to strike a proper balance between management concerns from the enhancement of market competitiveness and the development of a sustainable business goal (Lozon, 2012; Prajogo, 2016; Silvestro, 2014).

The ultimate goal is the achievement on the triple bottom line to ensure a better future world (Elkington, 1994, 1998). This has become an important challenge for executives doing business in emerging markets (Tseng et al., 2013; Tan et al., 2015). The “managerial intention” plays a significant part in coping with the dynamicity of the competitive environments, in particularly the institutional pressures (Oliver, 1991). The aim of balancing the goals of social, economic and environmental benefits is particularly challenging given the concerns arisen from the constraints related to the transformative institutional characteristics and the

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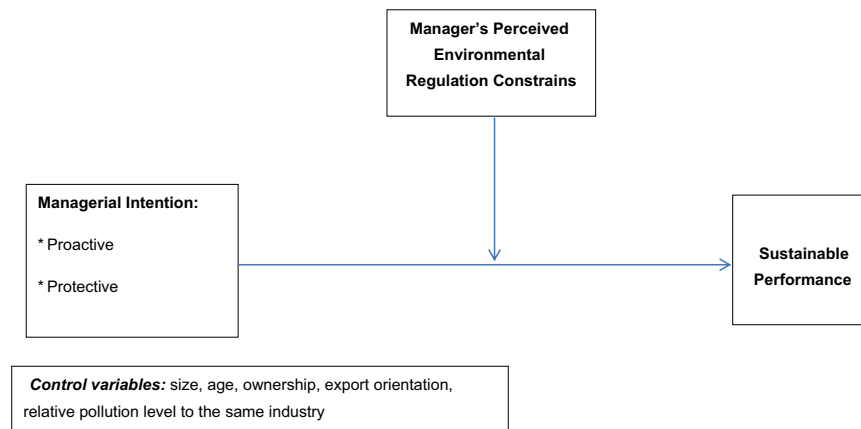


Fig. 1. Theoretical model.

unique cultural background of China (Geng, 2011; Tan and Rae, 2009; Zhu, 2015).

From the institutional perspective, “varieties of capitalism” approach argues that variations in capitalist relations of production are essential to explain the national differences of firms’ commitment to protect the environment (Witcher and Chau, 2012). The rationale behind their commitment reflects the institutional contexts of both the home and host countries, where they are economically, politically, socially, culturally, and historically embedded (Mikler, 2008). China, in its re-entry into the world market since 1978, has developed a socialist form of capitalism with Chinese characteristic (Henderson et al., 2013; Huang, 2008). As a result, western theoretical approaches like “ecological modernization theory” (EMT) cannot fully explain the development of environmental management in China (Mol, 2006).

Since the 1980s, China has become the base of production for MNCs, widely known as the “World Factory”. After decades of market reform, its economic growth has fueled a remarkable increase in per capita income and thus effected a notable decline in the poverty rate from 85% in 1981 to 6.3% in 2011 (<http://povertydata.worldbank.org/poverty/country/CHN>). However, after enjoying decades of impressive economic growth, pollution problems have become so serious that only 8 out of China’s 74 largest cities were able to meet the government’s basic air quality standards in 2014 ([www.mep.gov.cn](http://www.mep.gov.cn)).

The Pearl River Delta region (PRD) of Guangdong Province in China is chosen for this study because PRD is the earliest opening location for foreign investment since the 80s and has been among the most rapidly developing areas in China. It is home to countless manufacturing enterprises that produce enormous amounts of pollutants nationwide. These pollutants have not only adversely affected the region’s quality of life but also its prospects for long-term sustainable development. Therefore, PRD faces the most serious environmental challenges and its local government officials have targeted to improve their capacity for regulatory enforcement. This study was administered with the endorsement and support of the Guangdong Provincial Environmental Protection Bureau.

Overall, Chinese government faces the challenge to develop policies which decouple economic growth from excessive greenhouse emissions (Lo et al., 2009). In addition, the rapid urbanization processes have changed the people’s consumption pattern and led to significant adverse consequences on resources, ecosystems, and the well-being of urban citizens (Schroeder, 2014). As ecological, societal and political demands to reduce pollution increase in China, manufacturing firms operating there must develop best strategies in response to these unprecedented institutional green pressures in order to survive and prosper in a

sustainable manner. Institutional forces, especially in terms of governmental rules and regulations, play a coercive part for managers to act in an environmentally responsible way (Scott, 2008; DiMaggio and Powell, 1983).

According to managerial intention perspective, organizational activities and structures are shaped by managers’ intention in maximizing organizational efficiency (Chung, 2014) and in seeking a fit between environmental needs and their organization’s capabilities (Tseng et al., 2013). This formulation implies that the managerial intention is strategically derived, yet the decision to adopt may also be based on consideration of external conditions, like competitive pressures of the business environment (Oliver, 1991, 1997; Prajogo, 2016) and regulation measures imposed by the government (Child and Tsai, 2005; Tan and Rae, 2009; Schroeder, 2014). As suggested by the neo-institutional perspective, managers, on one hand, have a strong attempt to maintain legitimacy in the face of pressure from the external environment (Suchman, 1995; Greenwood and Hinings, 1996). On the other hand, institutional impact can also be more pervasive to corporate strategic action and allow for firm proactivity (Child and Tsai, 2005). Previous studies have suggested that government regulation represents the single most important source of pressure on firms to environmental concern (e.g. Medhurst, 1993; Henriques and Sadosky, 1996). However, will this pressure be the same to firms having different strategic orientations? Not many studies have conducted serious investigation on this question. The present study will focus on this under-investigated issue.

Drawing on both managerial intention and institutional perspectives, this study aims to identify the interaction effects between institutional influences from the regulation pressures and managerial intention on firm sustainable performance. The research was conducted at the Pearl River Delta region of Guangdong Province in China: the home to countless manufacturing enterprises. This study seeks to examine an empirical model to understand how the interaction effects between institutions and managerial intentions affect firms’ sustainable performance (Fig. 1).

## 2. Literature review and hypothesis development

Through the literature review, this study formulates an empirical model to test the effects of managerial intention and institutions on sustainable performance (see Fig. 1). In addition, their interaction effects on performance will also be examined. The two perspectives of “managerial intention” and “institutions” have been highlighted in the literature as important perspectives in studying firm performance (e.g. Vastag et al., 1996; Staniskis and

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