



## Adoption of corporate environmental policies in Turkey



Ekrem Tatoglu <sup>a</sup>, Erkan Bayraktar <sup>b,\*</sup>, Ozlem Ayda Arda <sup>c</sup>

<sup>a</sup> Faculty of Economics and Administrative Sciences, Bahcesehir University, Besiktas, Istanbul 34349, Turkey

<sup>b</sup> Faculty of Engineering, Bahcesehir University, Besiktas, Istanbul 34349, Turkey

<sup>c</sup> Graduate School of Social Sciences, Bahcesehir University, Besiktas, Istanbul 34349, Turkey

### ARTICLE INFO

#### Article history:

Received 23 January 2014

Received in revised form

3 December 2014

Accepted 11 December 2014

Available online 20 December 2014

#### Keywords:

Corporate environmental policies

Environmental management

Survey

Structural equation modeling

Turkey

### ABSTRACT

Drawing on a sample of 519 Turkish firms operating in a wide variety of industries, this study aims at investigating the adoption of corporate environmental policies in a key emerging country. To this end, we first develop a conceptual framework relying predominantly on the arguments of stakeholder and institutional perspectives. Secondly, we examine the moderating effects of a number of firm specific contingency factors on the implementation level of corporate environmental policies. Among the underlying dimensions of corporate environmental policies, “stakeholder pressures” is found to be the most important followed by “environmental management practices”, while “sources of greenhouse gas emissions” feature as relatively less important. Regarding the moderating effect of firm specific contingencies, only firm size and geographic location are noted to have a strong impact on the implementation of corporate environmental policies.

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### 1. Introduction

Environmental management (EM) issues have received considerable attention of researchers from a wide variety of disciplines ranging from operations management, business ethics to international and strategic management. As both institutional and stakeholder pressures mount, firms increasingly adopt corporate environmental policy (CEP) practices to monitor and control the effect of their business operations on natural environment (Hofer et al., 2012). CEPs are usually considered as the first and a crucial stage for firms to ensure environmentally sustainable business development (Tilt, 2001). These policies emphasize the firm's philosophy and the background to all of their activities related to proactive environmental protection measures that are beyond regulatory compliance (Ramus and Montiel, 2005). Especially, the tendency of customers to choose the products of environmentally sensitive firms (Ginsberg and Bloom, 2004; Jabbour and Santos, 2008) not only affects firms' supplier selection decisions but also lead firms to integrate CEP practices to their existing management applications (Molina-Azorin et al., 2008).

This study contributes to extant EM research in a number of ways. Since the introduction of ISO 14001 EM system, the number of companies acquiring certification has increased remarkably in both developed and emerging countries (ISO, 2008). Notwithstanding the release of new standards and voluntary initiatives, there is a dearth of empirical research investigating the underlying determinants of CEP practices particularly in emerging countries (Zhang et al., 2008; Montiel and Husted, 2009; Vazquez-Brust et al., 2010; Tatoglu et al., 2014), as the bulk of this research still focuses on firms in developed countries. On the whole, firms in emerging countries operate in an environment characterized by institutional voids in which the market ecosystem is underdeveloped or not fully functional, leading to environmental degradation (Khanna et al., 2005). For this reason, we argue that in emerging markets, voluntary adoption of CEP initiatives effectively substitutes for institutional deficiencies related to one or more relevant stakeholder groups (i.e., governments, nongovernmental organizations (NGOs), customers and competitors).

Second, this study addresses the voluntary adoption of CEP initiatives of firms in a key emerging country, Turkey. The Turkish context provides an interesting research setting characterized by its bold attempts to become both a more Western style market economy and member of the European Union (EU). Significant improvements in macroeconomic stability and institutional structure over the past decade have placed Turkey on the world economic scale as an outstanding emerging economy. Turkey is the

\* Corresponding author. Tel.: +90 212 3810566; fax: +90 212 3810020.

E-mail addresses: [ekrem.tatoglu@bahcesehir.edu.tr](mailto:ekrem.tatoglu@bahcesehir.edu.tr) (E. Tatoglu), [erkan.bayraktar@bahcesehir.edu.tr](mailto:erkan.bayraktar@bahcesehir.edu.tr) (E. Bayraktar), [ozlem.arda@stu.bahcesehir.edu.tr](mailto:ozlem.arda@stu.bahcesehir.edu.tr) (O.A. Arda).

16th largest economy in the world and the 6th largest economy within the EU countries in 2013 and certainly the leading economy in south-eastern Europe and the Middle East (Invest in Turkey, 2014). This boom in economic activity has also led to significant surge in the volume of foreign direct investment and has also accelerated the pace of internationalization among domestic firms. Despite still pending environmental issues to be addressed, Turkey has also made a good progress toward environmental protection over the same period. The industrial strategy of the Government of Turkey for 2011–2014 has emphasized the importance of integrating environmental considerations into industrial development. In particular, it has assigned a great importance to the harmonization and effective implementation of the EU directives on *Integrated Pollution Prevention and Control* (IPPC) and the *Industrial Emissions Directive* (IED). Certain pilot programs were implemented to promote cleaner technology in Turkey where firms applying cleaner production principles have made an important step towards satisfying the requirements of the IPPC and IED directives (Regulatory Impact Assessment Report, 2013). According to an OECD (2008) report, Turkey has been successfully dealing with environmental issues concerning air quality, water services and resources, waste management, soil erosion and nature protection. Action plans along with substantial budget allocations have been in effect since the early 2000s where approximately 10 billion USD have already been expended to deal with environmental issues. Of this amount, nearly 80% has been made by local governments; while the remainder has been spend by private companies (Investment Support and Promotion Agency, 2010). Furthermore, organized industrial zones (OIZs) that have been established especially through public-private partnerships offer wide-ranging environmental services to the manufacturing industries in Turkey where expenditures on pollution reduction and control rose from 1.1% to 1.24% of the total GDP within the last ten years (OECD, 2008).

Given the paucity of empirical research on EM in emerging countries, examining the adoption of CEP in Turkey also contributes to extant EM research enabling comparison with other emerging countries. To this end, based on a sample of 519 Turkish firms operating in a wide variety of industries, we first develop a conceptual framework drawing largely on the arguments of stakeholder and/or institutional perspectives. We identify three distinct dimensions of CEP practices, which allow us to analyze the relative importance of each dimension by this sample of firms. Secondly, we examine the moderating effects of a number of firm specific contingency factors on the implementation level of CEP applications.

## 2. Background literature and the conceptual framework

The EM field emerges as part of the broader area of sustainability that has received a growing attention in management research. There have been several studies linking a wide variety of concepts and tools within the extant field of EM ranging from EM and firm performance (Claver et al., 2007; Lopez-Gamero et al., 2009; Aragon-Correa et al., 2008; Vachon and Klassen, 2008), green supply chain management and EM systems (Zhu et al., 2008a,b; Walker et al., 2008; Adriana, 2009), waste management (Daian and Ozarska, 2009; Turan et al., 2009), environmental transformation and market orientation (Gonzalez-Benito and Gonzalez-Benito, 2010) to barriers to EM (Massoud et al., 2010; Shi et al., 2008), environmental behaviors of the firms (Liu, 2009; Liu and Ye, 2012) and human resources dimensions and EM (Jabbour and Santos, 2008). Moreover, mounting environmental concerns have also led to research on the implementation of CEP practices focusing on the antecedents and drivers of CEP (Christmann, 2004; Cho and Voss, 2011; Gonzalez-Benito and Gonzalez-Benito, 2010, Tatoglu et al., 2014).

Previous studies that have examined the determinants of CEP have adopted predominantly the arguments of stakeholder and/or institutional theories (e.g., King and Lenox, 2000; Cespedes-Lorente et al., 2003; Delmas and Toffel, 2004, 2008; Rueda-Manzanares et al., 2007; Montiel and Husted, 2009; Sarkis et al., 2010; Marshall et al., 2010; Vazquez-Brust et al., 2010). These studies emphasize the importance of growing pressures exerted by internal and external stakeholders including employees, shareholders, customers, governmental bodies, NGOs, as well as the community, on the adoption of CEP. However, a firm and its senior management are totally free to decide to what extent they will recognize or pursue requirements and responsibilities to their stakeholders concerning with environmental issues (Vazquez-Brust et al., 2010). This implies that the adoption of CEP initiatives hinges not only on the strength of stakeholders' pressures but also on how it is perceived and evaluated by senior managers (Madsen and Ulhøi, 2001).

The institutional theory emphasizes the role of regulatory, normative and cognitive factors that influence firms' decisions to adopt certain strategies and organizational practices (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 2001). Normative structures of institutions provide a moral context for the social life where "social obligation to others" and "acting in an appropriate way" gain importance among organizations (Scott, 2001). Organizations devise internal and external strategies in order to be perceived as legitimate by their stakeholders. Mostly, they imitate the strategies and structures of their competitors in order to conform to normative standards (Sila, 2007; Wagner et al., 2001). To exemplify, Kassolis (2007) provides evidence to this argument that the firms in Greece imitate the norms that are systematized by institutions in order to gain prestige and legitimacy from EU. Recently, it has also been applied to the study of CEP by explaining how stakeholders, changes in social values, regulations and technological advancements impose coercive and normative pressures on firms' decisions to adopt CEP initiatives. Thus, the institutionalization of the CEP in the organizations should follow the normative forms of adoption. Norms have also been developed by the early adopters in some industries and the new entrants conform to the norms that have been already tested on the stakeholders and accepted by organizations to follow (Sila, 2007). As Liu and Ye (2012) put forward, some of the most influential factors on firms in changing their environmental behaviors are the pressures that stem from market and public. Consistent with the arguments of most institutional theorists, it is generally argued that firms tend to adopt diverse sets of environmental practices since they perceive these pressures differently due to some firm and industry specific contingency factors (Delmas and Toffel, 2008). In line with this argument, Christmann (2000) also denotes that there may not be broad applicability of best practices of EM. Even organizations that are subject to same level of institutional pressures, may react to these external factors differently because of the differences in their organizational structures, strategies, and financial and environmental performances (Delmas and Toffel, 2004; Madsen, 2009).

In a broader sense, the cultural characteristics of an institutional environment along with the nature of economic and sector-based structures are also influential in gaining legitimacy by the organizations. National or regional level strategies in adopting CEP may be different from each other and lead companies to adopt different CEP in order to gain acceptance and legitimacy from their cultural context. Accompanied by cultural and normative elements, institutions have also regulative elements which indicate organizations as systems of rules and governance (Scott, 2001). In this regulatory view of institutions, the compliance to rules and codes becomes as major mechanism in order to have rewards or to avoid punishments (North, 1990). Thus, it is essential for organizations to

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