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Stakeholder–firm power difference, stakeholders' CSR orientation, and SMEs' environmental performance in China

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ABSTRACT

Although stakeholder power theory has been at the forefront of environmental studies, extant research has focused on stakeholders' power while firms' countering power has not been systematically examined. Furthermore, different stakeholders may prioritize social goals differently. In this paper, we propose that stakeholder–firm power difference determines firms' environmental performance and stakeholders' CSR orientation (i.e., the degree to which a stakeholder holds firms' engagement in CSR as important) moderates this relationship. Utilizing a sample of 144 Chinese small- and medium-sized enterprises (SMEs), we found that governments-, competitors-, and the media-firm power difference indeed significantly affect Chinese SMEs' environmental performance. Besides, governments' and the media's CSR orientation moderate the relationship between stakeholder–firm power difference and firms' environmental performance. Research and practical implications are discussed.

1. Executive summary

Although classic stakeholder theory considers power as the net exchange of mutual dependencies between two parties, extant research has focused on stakeholders' power over firms while the countering power from firms has not been systematically examined. In the current study, we explore *stakeholder–firm power difference*, i.e., the net difference between a stakeholder's power over a firm and a firm's countering power to this stakeholder, which determines the extent to which the stakeholder is able to pressure firms to engage in environmental activities. Another gap in stakeholder research is an inadequacy to attend to the varying degree to which different stakeholders hold firms' engagement in corporate social responsibility (CSR) as important, i.e., *stakeholders' CSR orientation*. Understanding stakeholders' CSR orientation is important because when two stakeholders have the same net power exchange with a target firm, the stakeholder with a greater CSR orientation will be motivated to exercise a larger portion of its net power to drive improved environmental behaviors by the firm.

In the present study, we focus on four major external stakeholders, i.e., governments, competitors, customers, and the media, and analyze their power difference with small- and medium-sized enterprises (SMEs) under the current institutional environments in China. We propose that stakeholder–firm power difference leads to better environmental performance of Chinese SMEs. Further, stakeholders' CSR orientation moderates these relationships so that the positive relations are stronger when stakeholders' CSR orientation is high. We interviewed 10 SME owners to verify the face validity of the measures and to collect information on the power exchange between stakeholders and SMEs. Then a Pilot Study was conducted, with 40 SMEs surveyed, to develop the stakeholders' CSR orientation measure and to initially validate stakeholder–firm power difference and environmental

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performance measures. In order to cross-validate these measures and test our hypotheses, in the Main Study, we employed a relatively larger-scale field survey with 300 SMEs who are suppliers of a large chemical product company in Shandong province.

Results indicate that governments– and competitors–firm power differences have positive relationships with Chinese SMEs' environmental performance. Although customers–firm power difference positively affects Chinese SMEs' environmental performance, this effect is not statistically significant. The media–firm power difference has a significant and negative relationship with SMEs' environmental performance. Evidence also suggests that governments' CSR orientation strengthens the positive relationship between governments–firm power difference and SMEs' environmental performance. Interestingly, the media's CSR orientation moderates the relationship between the media–firm power difference and SMEs' environmental performance such that the negative relationship is stronger when the media has high, rather than low, CSR orientation.

2. Introduction

Stakeholder power theory has been at the forefront in explaining the motivation and strategies of a company's environmental initiatives (Agle et al., 1999; Frooman, 1999; Mitchell et al., 1997). While adequate attention has been given to the absolute power of stakeholders, the countering power of firms has not been systematically examined in the extant literature. This topic is especially acute in emerging economies because in the process of developing their regulatory, industrial, and social environments, firms can utilize “gray areas” to challenge stakeholders' power (Li and Zhang, 2007). Thus, the net power between stakeholders and the firm, instead of stakeholders' absolute power, should be a better predictor of the firm's environmental performance. Furthermore, in the context of an emerging economy, stakeholders may not desire environmental performance to the same extent as their counterparts in a mature economy do. Constrained by low income and low environmental awareness, some stakeholders may prefer to mobilize their power to pursue goals other than environmental friendliness.

Drawing from research on stakeholder salience (Agle et al., 1999; Mitchell et al., 1997), stakeholder influence strategies (Frooman, 1999), and the effect of institutional environments on firms' social performance (Maignan and Ralston, 2002; McCarthy and Puffer, 2008a), we attempt to move the stakeholder theory forward by addressing two questions: (1) How does *stakeholder–firm power difference*, i.e., the net difference between a stakeholder's power over a firm and a firm's countering power to this stakeholder, affect Chinese small- and medium-sized enterprises' (SMEs) environmental performance? (2) How does *stakeholders' CSR orientation*, i.e., the degree to which stakeholders hold firms' engagement in corporate social responsibility (CSR) as important, affect the above relationship? In the present research, CSR refers to a company's configuration of social responsibility, social responsiveness, policies, programs, and observable outcomes as they are related to the company's relationship with society (Wood, 1991). This definition has been found especially applicable to international CSR studies (Maignan and Ralston, 2002), including the CSR studies conducted in the Chinese context (Luo, 2006).

We focus on Chinese SMEs because although China is playing an increasingly important role in the world economy and a substantial amount of effort has been devoted to studying Chinese firms' financial performance, little is known about their environmental performance (e.g., Fryxell and Lo, 2003; Matten and Moon, 2008). SMEs in China warrant special attention due to the vast number of SMEs and their dominant position in the national economy. For example, 99% of ventures in China are SMEs which collectively generate 60% of total industrial GDP and 75% of jobs (China Statistical Yearbook, 2008). Meanwhile, according to the Ministry of Environmental Protection of the People's Republic of China (2006), 80% of Chinese SMEs have pollution problems, which account for 60% of the national pollution. Indeed, large-scale empirical research on Chinese SMEs' environmental performance is urgently needed.

Our study helps fill in a few gaps in stakeholder research. First, previous stakeholder theorists (e.g., Mitchell et al., 1997; Pfeffer and Salancik, 1978) have largely depicted firms as recipients of stakeholder power, whereas the countering power possessed by firms has not been empirically explored. Although the importance of studying the mutual power between stakeholders and firms has been acknowledged (Clement, 2005; Frooman, 1999), efforts to define and examine such a mutual power in CSR studies are limited. In this study, we systematically assess the impact of the net power difference between four major external stakeholders (i.e., governments, competitors, customers, and the media) and SMEs on SMEs' environmental performance in an Eastern Chinese manufacturing region.

Second, although extant stakeholder research recognizes that stakeholders *in general* prefer improved environmental performance (e.g., Kassinis and Vafeas, 2006), it rarely incorporates the fact that the degree of that preference may vary among stakeholder groups. In this paper, we account for this variance by proposing the notion of stakeholders' CSR orientation. When the stakeholder–firm power difference is the same, stakeholders with stronger CSR orientation will direct more of their power to influence firms' environmental performance. Hence, our study extends stakeholder research by taking into account the effect of stakeholders' CSR orientation when examining the stakeholder–firm power relationship.

Third, our study highlights the important role of institutional environments in stakeholder research. Due to the idiosyncratic political structure, social norms, and legal environment in China (Baron and Tang, 2009; Tang et al., 2008), conclusions regarding the stakeholder–firm relationship drawn from Western studies may not be generalized to the Chinese context. For instance, China became the first major country that bans the production, selling, and usage of plastic bags with thickness under .025 mm, on June 1, 2008. Such an impulsive action can probably only take place in China (i.e., without a lasting, draining legislative process) due to heavy governmental interventions in economic activities. In addition, as the media in China do not possess the same level of independence as their Western counterparts do, it will further complicate the interaction between the media and firms. In this study, we illustrate how the unique institutional environment in China may change the power exchange between stakeholders and SMEs.