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The effect of pressure from secondary stakeholders on the internalization of ISO 14001

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A B S T R A C T

Independent third party certification has been proposed as a governance mechanism to control for unobservable practices of firms, such as green practices. Although showing some promise, it has been also argued that the challenge of independent third party certification is to force firms to embrace certifications in substance (hence to internalize the certifications in daily practice) not only to adopt certifications in a symbolic manner. This paper investigates whether the pressure from secondary stakeholders can assist with this challenge. We study this problem in the context of ISO 14001 certification. Based on a study of a sample of 328 Australian and New Zealand firms, we found that ISO 14001 certificate is being accepted by secondary stakeholders as a sufficient signal of firms' environmental efforts. In other words, firms, which experience pressure from secondary stakeholders to adopt the standard, find reputational benefits from the mere fact that they are certified. At the same time, the study also shows that the pressure from secondary stakeholders is not contributing to the internalization of ISO 14001. Firms do not put extra effort into the management of their environmental systems just because they experience stakeholders' pressure to get certified. In line with the findings from other studies, we found that firms that internalize ISO 14001 do also report environmental benefits such as reduced pollution or reduced energy consumption yet the pressure from secondary stakeholders is not contributing to such improvements.

1. Introduction

Stakeholders' pressure seems to act as a powerful source in forcing firms to account for and improve their externalities (Jun et al., 2008). This pressure could be stemming from both primary and secondary stakeholder groups and stakeholders use various methods to enforce the uptake of environmental practices. For instance, primary stakeholders, such as business partners, may mandate sound green practices from their suppliers. Secondary stakeholders, such as NGOs and industry watch dogs, may use media to organise boycotts of firms and to pursue negative media campaigns on polluting firms and supply chains (Conroy, 2007). In response to pressures from primary and secondary stakeholders, firms address environmental issues and often opt to seek independent third party certifications to gain an independent verification of their efforts. In doing so, firms signal to their stakeholders that environmental issues are being addressed. This approach became very common in environmental management: firms seek certifications for various green issues such as carbon management (CarboNZero), green buildings (LEED) or environmental management systems (ISO 14001).

Even though independent third party certifications show some promising results in environmental management, the challenges and drawbacks grow alongside the widespread adoptions of environmental certifications. Research shows that firms often opt for *symbolic* implementations; i.e. they adhere to minimum requirements of respective certifications without efforts being made to *substantially* change their practices (Christmann and Taylor, 2006). In other words, the quality of implementation varies amongst adopting firms. Consequently, scholars argued that certifications could be mere signals that environmental management is in place rather than an account for actual environmental performance (King et al., 2005). In practice, certification and accreditation bodies have also recognised the need to address the quality of

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implementation. Lal (2004), for instance, argues that certification and accreditation bodies need to force firms to embrace certifications beyond the minimum requirements and to force the managers to demonstrate improvements in actual performance. Given that firms respond to stakeholders' pressure by getting certified and given that independent third party certification is in need to force firms to embrace certifications in substance, we combine these two areas and seek an understanding of the influence of stakeholder pressure on the quality of implementation. Specifically, we focus on secondary stakeholders. Unlike primary stakeholders (such as supply chain partners), secondary stakeholders (such as media or NGOs) do not have a direct stake in firms' transactions and their role is that of a control – a focus of our study. We ask: can secondary stakeholders force firms to substantially address environmental certifications? Do firms internalize the requirements of certifications if under the pressure from secondary stakeholders? Or do firms actually enjoy reputational benefits from having a certificate – regardless of how the requirements are actually internalized?

In this paper, we investigate this issue within the context of ISO 14001 certification. ISO 14001 represent a relevant context for our research question: it is an environmental standard, which relies on independent third party certification. It is also a widely adopted standard and in fact one of the largest certification schemes in the world. ISO 14001 has also attracted a substantial interest from multiple stakeholders – inclusive of secondary stakeholders. It has been reported that some stakeholders put firms under pressure to get certified against ISO 14001 whereas others are critical about the certification and its impact on the adopting firms. In a nutshell, ISO 14001 provides an excellent context to conduct a study on the effect of secondary stakeholder pressure on independent third party certification.

2. Theoretical background

2.1. Independent third party certification

Independent third party certification has been suggested as a mechanism to control firms' green practices (Castka and Balzarova, 2008a; Conroy, 2007; Smith and Fischlein, 2010). The control mechanism works under the premise that an independent organisation sets standards (for instance standards for greenhouse gas emissions, sustainable forestry or environmental management systems) and creates an infrastructure of certification bodies and auditors. Certification bodies and auditors are responsible for monitoring adherence to a standard and if a firm complies, certification bodies issue a certificate of compliance. Certified firms can then use the certificate to demonstrate that the environmental practice is in place (Uzumeri, 1997).

The literature recognises the potential of independent third party certification to act as a control mechanism to monitor the actual environmental practices of firms. For instance, Conroy (2007) proclaims that we have entered a "certification revolution". Certification seems to work in a global and transnational environment, where the power of national states and their legislation has weakened (Mörth, 2004). SustainAbility (2011) report argues that certifications are "pioneers" in building a more sustainable economy. Yet at the same time, the ability of certifications to act as a control mechanism for environmental efforts of firms was also being questioned. Certifications seem to have a focus on a limited set of environmental issues in a limited set of industries (Cashore et al., 2009). Researchers also disagree as to whether certifications improve firms' environmental performance and the results seem to be inconclusive (King et al., 2005). Boiral (2007) furthermore argues that certifications are being used to legitimize firms' practices rather than to force firms to improve their environmental performance. This issue is also highlighted by Naveh and Marcus (2005) who argue that there are differences between certified firms: the certification needs to be widely integrated with internal and external practices, and then used in daily practice and as a catalyst to change practices. Only then, firms seem to achieve environmental improvements. However, the third party certification treats all firms as equal. The certification does not distinguish between low and high performing firms and between firms who have implemented certifications in substance rather than in a symbolic manner (Boiral, 2003).

2.2. Stakeholder theory

Stakeholder theory proposes that firms create externalities, which affect a broad range of stakeholders (Freeman, 1984). Stakeholders may be primary, without whose support a firm cannot survive (i.e. supply chain partners) and secondary, which are stakeholders affected by a firm yet not engaged in firms' transactions (i.e. the general public; local communities; Clarkson, 1995). Many firms have indeed embraced 'stakeholder management' to address their externalities and it has been argued that stakeholders' pressure has led to wide spread adoption of environmental practices (Sarkis et al., 2010).

In the certification context, stakeholder pressures were studied from several angles. Many studies have considered primary stakeholders (such as suppliers, multinationals, shareholders) and their role in the independent third party certification. For instance, Corbett (2006) explored the pressure from global supply chains and argued that certification is enforced upstream in the supply chains by multinationals, a point also agreed by Guler et al. (2002). It has been also shown that the pressure to adopt may stem from mimetic and normative pressures (DiMaggio and Powell, 1983): firms and their managers may perceive a pressure to adopt in order to imitate other firms who have certified. This pressure may be stronger if a certificate is seen as a norm. Several studies have also investigated secondary stakeholder groups and their pressure on firms. For instance, Guler et al. (2002) argues that governments put a coercive pressure on firms to get certified by mandating certifications. For instance, some governments have made it their purchasing policy and only certified firms are allowed to bid for governmental contracts. Conroy (2007) have demonstrated that community stakeholders (such as NGOs and social groups) can put organisations under pressure (for instance through media and company boycotts) and coerce firms to get certified. Qi et al. (2011) have demonstrated that community stakeholders have indeed contributed to the diffusion of ISO 14001 in China. It should be also noted that secondary stakeholders are also involved in the initiation of certifications schemes (Balzarova and Castka (2012)). Secondary stakeholders were involved in set-up of certifications for instance, sustainable forestry (Forestry Stewardship Council certification – FSC; Cashore et al., 2006) or sustainable fishing (Marine Stewardship Council certification – MSC; Conroy, 2007). All these issues are a useful evidence of the important role that secondary stakeholders have within independent third party certification.

3. Hypotheses

In this section, we present a set of hypotheses of the effect of pressure from secondary stakeholders on firms that have adopted ISO 14001. First, we hypothesise that stakeholders' pressure is positively linked to reputational benefits that firms gain from the certification. Secondly, we formulate a set of hypotheses on the