

Chapter 19

Institutional Perspective on the Drivers of Green Innovations in Firms

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ABSTRACT

In recent years, firms have increasingly engaged in green innovations in response to mounting pressures on environmental protection. Regulative and normative institutions are the main drivers of this response, while its strength is contingent upon a firm's deficiency gap and resource profile. The entry into this emergent industry of diversifying incumbents is usually determined by regulative and economic opportunity while the entry of entrepreneurial start-ups is more influenced by the sociocultural environment. Under the industry deregulation, most incumbents tend to become more focused on their core competencies developed during the regulated period unless they have prior experience in green innovations. Corporate governance plays an important role in implementing green innovations because these environmental initiatives go beyond compliance and require substantial long-term resource commitment that has significant strategic implications.

INTRODUCTION

In recent years, firms have increasingly experienced pressures from their stakeholders on environmental protection. Governments have introduced more regulative policies, adding costs to corporations that release environmentally unfriendly substances. Consumers have increasingly considered a company's environmental philosophy when deciding to purchase its products. Investors have largely discounted stock prices of environmentally irresponsible firms. In response to these mounting pressures, many companies have increasingly emphasized the implementation of environmental innovation projects such as green innovations. These projects are considered risky because they usually require large financial commitments that mostly accrue returns only in the long term (Ahuja, Lampert, & Tandon, 2008).

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Green innovations are associated with new designs, and novel products and processes (Berrone, Fosfuri, Gelabert, & Gomez-Mejia, 2013). These innovations are therefore a potential source of a firm's competitive advantage. The value of green innovations to the society at large is widely acknowledged, however it is less clear as to what drives firms to pursue these innovations. Building on the institutional- and resource-based perspective, and the corporate governance literature (Peng, Wang, & Jiang, 2008), we highlight conditions under which firms are likely to pursue green innovations and reasons why some firms engage in more or less green innovations than other firms.

From the institutional perspective, we discuss to what extent the regulatory pressures (e.g., from governments) and normative pressures (e.g., from non-governmental organizations, professional organizations, and societies) influence firms to engage in green innovations (Berrone et al., 2013; Chen, Kittilaksanawong, & Weng, 2015). Given that green innovations are an emergent market, its potential entrants comprises of both entrepreneurial start-ups and diversifying incumbents. We then discuss how these institutions in terms of economic, political, and socio-cultural environment differently influence these two types of firm to enter in this emergent market (York & Lenox, 2014).

As governments have increasingly introduced deregulation in many industries, firms are pushed to adapt to an unprecedented increase in the competitive, new operating environment to achieve cost leadership or differentiation to outperform their rivals (Porter, 1980). We further discuss how incumbent firms formerly in the less competitive, regulated institutional regime should strategically react to this changing competitive landscape by engaging green innovations in their products (Flammer, 2015; Kim, 2013). Particularly, it is important to explore whether and how these incumbents should use green innovations as a differentiation strategy to compete against new rivals that increasingly enter the industry as a result of the deregulation.

Institutional pressures from environmental concerns are also directed toward the governance of corporations. Corporate governance plays an important role in responding to these pressures because green innovations go beyond compliance and these innovations require substantial long-term resource commitment that has significant strategic implications on firms (Hart & Ahuja, 1996). In particular, corporate governance plays an important influential role in determining whether a firm should include such environmental responsibility as a part of its corporate missions or it should focus instead largely on maximizing shareholder returns (Margolis & Walsh, 2003). We therefore discuss how corporate governance structures can effectively influence green innovations of organizations (Walls, Berrone, & Phan, 2012).

In sum, the following sections discuss in order these four critical questions related to green innovations from the institutional perspective. In particular, first, whether and to what extent would firms pursue green innovations? Second, to what extent entrepreneurial start-ups and diversifying incumbents would differently pursue green innovations in their competitive strategy? Third, how does the industry deregulation affect competitive strategy of firms via green innovations? Fourth, how does corporate governance play role in decisions to pursue green innovations of firms?

INSTITUTIONAL PRESSURE AND GREEN INNOVATION

Institutional perspective emphasizes the social influence on conformity of organizational actions (Scott, 1995). To survive and prosper, organizations try to maintain or enhance legitimacy toward their stakeholders (Deephouse, 1999; Scott, 1995). Such institutional pressures are resulted from economic, regulatory,

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