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# Shareholders' environmental profile and its impact on firm's environmental proactivity: An institutional approach

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## Abstract

Theorists and practitioners still argue about different shareholders' environmental preferences. Drawing on various processes of institutional theory such as deinstitutionalization and defensive institutionalism, we test the differences between foreign and national shareholders' influences on firms' environmental proactivity. Specifically, we focus on the country of origin of the dominant shareholders and the environmental culture of the countries of origin of the shareholders. Using unbalanced panel data from between 2006 and 2017, which includes 12,527 observations of 1532 different firms from 11 economic sectors and across 23 countries, our results show that foreign shareholders are more prone to modifying existing environmental practices, whereas national shareholders may accept them, despite being reluctant to implement such changes. We make a contribution by showing that the deinstitutionalization forces coming from foreign shareholders are stronger than the defensive institutionalism efforts of national shareholders. However, such forces are not always the best options for sustainability.

**KEYWORDS**

environmental proactivity, home country, institutional theory, shareholders

## 1 | INTRODUCTION

In an increasingly globalized world where firm ownership has tended to become distributed between dominant shareholders—those with sufficient shares outstanding allowing them to have a significant influence over the decision-making process (Licht, 2001)—dominant shareholders' concerns about environmental issues have experienced an increase across frontiers (Argento, Culasso, & Truant, 2019; Lori & Schneider, 2002; Mackey, Mackey, & Barney, 2007). In fact, with the passage of time, the attitude of certain shareholders when it comes to using their ability to influence the direction of the company has changed from a more passive role to a more active role (Alda, 2019; Diestre & Rajagopalan, 2014; Paruchuri & Misangyi, 2015) leading to them having a greater influence over the firm's environmental strategy (e.g., Berrone, Gómez-Mejía, Cruz, & Larraza-Kintana, 2010; Calza, Profumo, & Tutore, 2016; Doluca, Wagner, & Block, 2018; Walls, Berrone, & Phan, 2012). For example, RobecoSAM is a specialist investment firm focused exclusively on sustainable investing which has created several scores and is well known in the management literature (Argento et al., 2019), also publishing the globally recognized Dow Jones Sustainability together with Standard and Poor's (S&P) and Dow Jones indexes. The relevance of RobecoSAM rests on its attempts to influence the environmental strategy of firms and shareholders from other countries with different green standards. This case illustrates how dominant shareholders' interests in environmental issues go beyond frontiers but may differ across countries.

Observing this phenomenon, institutional theory scholars have long studied how different environmental practices may act as different templates within an institutional context, leading certain owners to preserve their profitability by influencing managers to engage in more sustainable practices (Bansal & Clelland, 2004; Berrone et al., 2010). This is not always an easy task, given that dominant shareholders from different countries may have divergent

  

views about what is right (Beugelsdijk, Kostova, Kunst, Spadafora, & Van Essen, 2018; Faelten, Gietzmann, & Vitkova, 2015; Rejchrt & Higgs, 2015) and may vary in their understanding of the firm's environmental strategy. Hence, shareholders' home country's institutional differences play a particular role in their influence on sustainable practices.

In this sense, there is a lack of consensus in the literature regarding foreign and national shareholders' influence on firms' environmental strategy. In particular, foreign shareholders may support sustainable investments when good opportunities appear, but they may lead to underinvestment if they identify them as threats which jeopardize their future economic profits (Aguilera & Jackson, 2003; Ahmadjian & Robbins, 2005; David, Yoshikawa, Chari, & Rasheed, 2006; Kim, Kim, & Lee, 2008). In the same vein, national shareholders are thought to be more committed to sustainable practices because they are more closely aligned with the local context (Aguilera & Jackson, 2003; Ahmadjian & Robbins, 2005); however, this factor may provoke lower environmental proactivity due to a desire to maintain the status quo and thus not improve environmental results. Moreover, the cultures of foreign and national shareholders differ depending on their home country, leading to conflicts (Desender, Aguilera, Lopezpuertas-Lamy, & Crespi, 2016), with the foreign shareholders either succeeding in imposing their environmental preferences (Kim, Pevzner, & Xin, 2019; Tsang, Xie, & Xin, 2019), or failing in their attempts following strong opposition and resistance from nationals (Baik, Kang, Kim, & Lee, 2013). This being the case, what extent do foreign and national shareholders' influences over firm's environmental proactivity depend on their home country? Furthermore, which of these influences is the stronger?

Based on the institutional theory different processes (Farjoun, 2002; Maguire & Hardy, 2009), in this paper, we analyze dominant foreign shareholders as deinstitutionalization agents who will try to improve a firm's environmental proactivity, whereas dominant national shareholders are defensive institutionalism agents who will try to retain established green practices. Additionally, we argue that the environmental profile of shareholders' respective home countries modifies such processes, because the particular home country embeds specific cultural perceptions within a firm's agents (Drogendijk & Holm, 2012; Siegel, Licht, & Schwartz, 2013; Zhu, Ma, Sauerwald, & Peng, 2019) and thus intensifies their influence over what must be changed or defended. We finally test the joint effect of these processes to shed light on which is stronger, because foreign shareholders' actions to improve green practices may triumph over national shareholders' defensive actions (Ahmadjian & Robbins, 2005) or may be stopped by existing home country practices (Ortiz-de-Mandojana, Aguilera-Caracuel, & Morales-Raya, 2016; Slangen & van Tulder, 2009).

This paper thus examines the institutional theory literature as well as relevant insights into shareholders' influence over a firm's environmental strategy. We found that foreign shareholders are successful in their deinstitutionalization process, increasing firms' environmental proactivity, when they are nationals of countries with a strong environmental profile However, their efforts lead to lower environmental results when they are from countries with lower environmental standards, but only if they operate within firms based in more sustainable countries. Ultimately, our paper suggests the idea that deinstitutionalization forces are stronger than defensive institutionalism (Ahmadjian & Robbins, 2005), and, moreover, it shows how the deinstitutionalization process is further activated when agents and firms' cultural distance is higher (Drogendijk & Holm, 2012; Schwens, Eiche, & Kabst, 2011; Siegel et al., 2013; Xu & Shenkar, 2002).

The paper is structured as follows. In the next section, we present the theoretical background and develop our hypotheses. Then, we describe our dataset and the methodology we employed to test it, followed by our results. Finally, we conclude with a discussion of the implications, limitations, and future research avenues.

## 2 | THEORETICAL BACKGROUND AND HYPOTHESES

### 2.1 | Environmental proactivity within a deinstitutionalization and defensive institutionalism framework

The concept of firms' environmental proactivity necessarily implies a move to improve existing green practices. In this sense, environmental proactivity is understood as the extent to which a firm voluntarily implements innovative environmental practices to reduce its environmental impacts, avoiding penalties rather than reacting to them, and with the potential to generate a competitive advantage from its proactivity (e.g., Aragón-Correa & Sharma, 2003; González-Benito & González-Benito, 2006; González-Benito & González-Benito, 2010). Firms present an environmentally proactive attitude as a strategy to distinguish their behavior from established green practices within the context in which they operate, through being perceived as more environmentally committed (Aragón-Correa, Marcus, & Hurtado-Torres, 2016; Berrone, Fosfuri, Gelbert, & Gomez-Mejia, 2013; Kock, Santaló, & Diestre, 2012), because this emphasis on investments in green innovation provides legitimacy and reputation in the community. Therefore, environmental proactivity is a firm outcome that essentially requires changes, that is, improving a firm's green behavior beyond existing environmental practices within an institutional context (Aragón-Correa, 1998; Aragón-Correa & Sharma, 2003; González-Benito & González-Benito, 2006).

Institutional theory postulates that existing practices comprise an established template which makes firms behave in the same way to survive in contexts where they face regulatory, normative, and/or competitive pressures (DiMaggio & Powell, 1983). Ergo, institutionalized practices are established, and conformity is secured, through which firms acquire legitimacy (Scott, 2001). In certain contexts, the legitimacy of existing practices may be called into question (Ahmadjian & Robinson, 2001) due to outsider agents highlighting their unappropriated development (Maguire & Hardy, 2009), and thus, such previously institutionalized practices are abandoned

(Farjoun, 2002). This phenomenon is called the "deinstitutionalization process" and may lead to a change in existing practices, due to the institutional pillars becoming independent and beginning to collapse (Ahmadjian & Robbins, 2005). However, outsider-driven deinstitutionalization may not succeed due to insiders' attempts to defend existing practices in a defensive institutional way (Maguire & Hardy, 2009), in which case insiders control sufficient resources to impose their view and their goals and thus mitigate or stop the abandonment of existing practices. Therefore, the change of existing practices within an institutional environment will initiate a deinstitutionalization process which may lead to defensive institutionalism.

Taking this as a basis, the same logic regarding the deinstitutionalization and defensive institutionalism process applies to firms' corporate governance dynamics, because the ownership of firms is strongly influenced by the institutional environment because shareholders have close ties with the institutional context (e.g., Argento et al., 2019; Berrone et al., 2010; Gómez-Mejía, Makri, & Kintana, 2010; Tihanyi, Johnson, Hoskisson, & Hitt, 2003; Tsang et al., 2019) as they are used to worrying about what is required to maximize their profits. Together, they will try to bring about change to a firm's environmental practices depending their outsider or insider position within the firm's institutional environment.

Hence, we assert in the following section that foreign shareholders are deinstitutionalization agents, whereas national shareholders are defensive institutionalism agents, which implies a differential influence on a firm's environmental proactivity. We argue that deinstitutionalization driven by foreign shareholders will lead to better environmental proactivity, whereas the defensive institutionalism of national shareholders will imply lower levels of environmental proactivity, because a firm's environmentally proactive behavior necessarily includes changes in existing green practices.

## 2.2 | The influence of foreign and national shareholders on a firm's environmental proactivity

In a global world, certain shareholders may have a particular interest in changing green practices so as to achieve higher profits in the future. Indeed, improving firms' environmental practices may become a competitive advantage for handling the emerging global demand of green products (Bansal & Roth, 2000; Kock et al., 2012), due to the avoidance of potential environmental litigation and by satisfying an emerging demand (Cormier & Magnan, 2015). As such, dominant shareholders will exert a different influence on a firm's environmental proactivity according to how they identify environmental changes as future gains (e.g., Berrone et al., 2010; Calza et al., 2016; Shubham, Charan, & Murty, 2018). Specifically, the literature places a special emphasis on the distinction between dominant foreign and national shareholders (Ahmadjian & Robbins, 2005; David, O'Brien, Yoshikawa, & Delios, 2010), describing foreign shareholders as having a more distant relationship with the firms in which they hold shares as they come from a different culture, and national shareholders as corporations and institutions with close relational ties with firms.

On the one hand, foreign shareholders have fewer links to the institutional environment and the environmental standards of the home country of the firm in which they hold shares. Hence, they may more readily identify poor environmental and cultural practices because they are accustomed to different environmental standards, and thus, they will try to enact a process to change such established practices, thereby starting a deinstitutionalization process. Although foreign shareholders have stronger links with the institutional environment of their country of origin, they lack close ties with firms' domestic agents (Aguilera & Jackson, 2003; Ahmadjian & Robbins, 2005). This may mean that when foreign shareholders operate within a particular national system, their governance logic and interests move in a different direction from domestic practices (Desender et al., 2016), and they therefore start to change practices in ways that national agents had not previously considered.

In addition, their lower level of motivation for retaining national practices is also due to their higher international position. In general, foreign shareholders are more likely to operate in an international arena (Argento et al., 2019; Tsang et al., 2019), so they are more in touch with green requirements and they tend to present similar interests in international scenarios (e.g., Gómez-Mejía et al., 2010; Tihanyi et al., 2003), particularly when it comes to environmental concerns (e.g., Kalt, Adel-Turki, Grant, Kendall, & Molin, 2018) given that institutional pressures receive greater prominence in the international sphere (e.g., Aragón-Correa et al., 2016; Berrone et al., 2013; González-Benito & González-Benito, 2006). They may try to push local partners to invest more in technology development because they are more in contact with good opportunities abroad (Chang, Chung, & Mahmood, 2006; Choi, Park, & Hong, 2012), and so they may be more able to identify those practices with higher legitimacy in global markets. Therefore, they will try to influence the use of good green practices and improve the firm's environmental results above and beyond what is required from the institutional framework.

On the other hand, national shareholders are more closely linked with the national culture of a firm's country of origin because they are more deeply embedded in the local system (Ahmadjian & Robbins, 2005; Berrone et al., 2010). National shareholders are comfortable with and accustomed to local cultural and environmental standards, so they are more concerned about maintaining what is required by local institutions because they consider these established practices to be the correct ones. This means that national shareholders are closer to the firm's existing corporate governance, because its corporate practices are a key institutional element of a nation's business system, which reflects economic and social templates in a country (Aguilera & Jackson, 2003). Such proximity will lead them to defend what is already established, because national shareholders understand how to preserve the financial gains from their shareholdings in firms through maintaining business and reciprocal relationships with those firms that yield benefits (Aguilera & Jackson, 2003) within an institutional environment. In

this situation, they allow managers and employees to appropriate more of the rents arising from the firm's operations in global markets (David et al., 2010) to obtain a stronger position within the company through more welcome governance practices (Desender et al., 2016). As such, they tend to reinforce their profits by maintaining existing green practices to stay in line with institutional requirements, and so they will try to defend the already institutionalized structure.

As environmental proactivity implies changes to improve existing environmental practices, dominant foreign shareholders will drive better environmental proactivity as deinstitutionalization agents, whereas dominant national shareholders will promote lower environmental proactivity due to performing defensive institutionalism of such practices. Hence, we develop the following hypotheses:

**H1a.** : A higher presence of dominant foreign shareholders will lead to a deinstitutionalization process and this will lead to higher level of firm's environmental proactivity.

**H1b.** : A higher presence of dominant national shareholders will lead to a defensive institutionalism process and this will lead to lower level of a firm's environmental proactivity.

## 2.3 | The moderating effect of the shareholders' home country's environmental profile

Home country is a determinant factor for companies and their internal agents in determining different behaviors and the perception of green practices. Various studies have examined the cultural features of agents with differing backgrounds (Doidge, Karolyi, & Stulz, 2007; Hofstede, 2001), including cultural differences across countries. Indeed, institutional theory argues that agents and firms from different countries differ in behaviors and strategies when they attempt to understand a new market (Drogendijk & Holm, 2012; Siegel et al., 2013), due to each country possessing a particular set of institutions that shapes their perceptions (Wan & Hoskisson, 2003).

In particular, there is a growing interest in environmental factors of cultural country profile, although it is more evident in some countries than in others. Specifically, some works highlight that proactive environmental behavior differs between firms from different countries (Chatterji, Levine, & Toffel, 2009; Dögl & Behnam, 2015) due to different institutional pressures for improving green practices (e.g., Berrone et al., 2013; González-Benito & González-Benito, 2006; González-Benito & González-Benito, 2010). For example, there is a marked difference between developed countries and developing countries (Li et al., 2018) due to the dissimilar institutional environments and differences in culture and that these differences are especially evident in the environmental behavior (e.g., Damert & Baumgartner, 2018; Edwards, Birkin, & Woodward, 2002).

As such, the particular institutional framework leads to cultural preferences becoming embedded into its members, including environmental, social, and ethical awareness of internal firm's agents (Bansal & Roth, 2000; Paulraj, 2009). Thus, the home country's institutional environment shapes agents' perceptions of environmentally sustainable practices—perceptions which differ depending on the specific country.

In this sense, the dominant shareholders' culture will vary according to their home country (Beugelsdijk et al., 2018; Faelten et al., 2015; Rejchrt & Higgs, 2015), due to it being influenced by national structures which shape their practices abroad (Kim et al., 2008; Zhu et al., 2019) and thus their identification of business opportunities from proactive environmental strategies (Bansal & Roth, 2000). Therefore, dominant shareholders' home countries will cause them to amplify or mitigate their behaviors, that is, their deinstitutionalization and defensive institutionalization processes towards environmental practices.

The deinstitutionalization process could be more or less intense, depending on the country's environmental culture. Foreign shareholders from a country with a more environmental commitment will exert a greater influence over institutionalized practices due to their being accustomed to higher standards of corporate governance and environmental practice (e.g., David et al., 2006; Tsang et al., 2019). As such, a larger presence of foreign shareholders from countries with higher governance practices will lead to more responsible firm behavior (Kim et al., 2019; Tsang et al., 2019), due to the greater intensity of the desire to import better practices (Miletkov, Poulsen, & Wintoki, 2017). Hence, the deinstitutionalization forces introduced by foreign shareholders will have a more positive impact on a firm's environmental proactivity if the shareholders come from more environmentally sustainable countries.

In contrast, the degree of national shareholders' defensive institutionalism will also depend on the environmental culture of their home country. Dominant shareholders from emerging economies are used to having weak levels of environmental protection (Kim et al., 2008), so they may give green improvements lower priority. This is because the level of attention paid to environmental behaviors is higher in developed nations, whereas in developing countries, it is less high (Aragón-Correa et al., 2016). As national shareholders are more embedded in the local system (Ahmadjian & Robbins, 2005; Berrone et al., 2010), they will seek to defend existing negative practices if they are based in countries where the environment is not a priority. As such, the negative effect of national shareholders based in a country with low environmental protection goals on a firm's environmental proactivity will be amplified.

Following these arguments, we can hypothesize as follows:

**H2a.** : The foreign shareholders' environmental country profile moderates the relationship between foreign shareholders and the deinstitutionalization process, increasing the positive effect for higher levels of environmental proactivity.

**H2b.** : The foreign shareholders' environmental country profile moderates the relationship between foreign shareholders and defensive institutionalism, increasing the positive effect for higher levels of environmental proactivity.

### 2.4 | A three-way interaction: How much of a cultural clash?

Ultimately, blocks of foreigners and nationals will meet and jointly try to impose their different preferences depending on their home country's culture, which sometimes may lead to a potentially conflicting situation: a cultural clash. In fact, literature supports the notion that a cultural clash arises from divergent organizational characteristics and behaviors (Kelley & Worthley, 1981; Scarborough, 2000), where frictions between an investing agent and the invested firm depend on the cultural distance of the countries involved (Drogendijk & Holm, 2012; Siegel et al., 2013). The institutional distance between the countries generates disagreements over environmental interests between the host firm and the foreign shareholder and tends to increase the challenges of doing business in the host country (Schwens et al., 2011; Xu & Shenkar, 2002), thus jeopardizing environmental investments. In sum, a cultural clash exists: Foreign shareholders will try to implement their own environmental practices in the country of destination (deinstitutionalization), and then—at the same time—nationals will use every defense mechanism (defensive institutionalization) in order to maintain existing environmental practices.

For these reasons, the environmental country profiles of both foreign and national shareholders will jointly influence the firm's environmental proactivity. As the presence of foreigners from high environmental countries increases, the deinstitutionalizing force will increase; however, it may be mitigated by the presence of a dominant national investor from a country with a significantly different environmental culture, that is, with a low environmental country profile. Indeed, as the national structures shape the orientation of firm's internal agents to ease or challenge the action of the shareholders (Zhu et al., 2019), dominant foreign shareholders from highly environmentally conscious countries can operate within firms where internal agents do not have a preference for developing higher green practices (Darnall, Henriques, & Sadorksy, 2010; Kock et al., 2012). For example, the actions of independent directors to improve environmental practices are mitigated due to existing structures of national agents within the focal firm (Ortiz-de-Mandojana et al., 2016). As such, foreign shareholders may find it difficult to adapt to the national practices and preferences of the country in which the investments are made (Slangen & van Tulder, 2009) if greater discrepancies with institutionalized practices are in operation.

Conversely, we argue if the percentage of nationals increases, defensive institutional strength will increase, but it will be mitigated depending on the presence of a dominant foreign investor from a sustainable country. Firms' agents may feel pressured to adopt environmentally proactive practices by foreign shareholders that decide to invest in them (Clarkson, Li, Richardson, & Vasvari, 2008) because foreign shareholders may have a better reputation due to being in contact with more sustainable practices overseas. Therefore, national shareholders and managers may be influenced to improve legitimacy when poor practices appear (Ahmadjian & Robbins, 2005). Hence, national shareholders' defensive institutionalization may be mitigated by the presence of a dominant foreign shareholder from a highly environmentally conscious country.

Therefore, the interaction between foreign and national shareholders will jointly influence the firm's environmental proactivity where, depending on the environmental profile of their home country, deinstitutionalization and defensive institutionalism forces will mitigate against each other. Thus, we propose:

**H3a.** : The foreign and national shareholders' countries' environmental profiles jointly moderate the relationship between foreign shareholders' deinstitutionalization process and the firm's environmental proactivity.

**H3b.** : The foreign and national shareholders' countries' environmental profiles jointly moderate the relationship between national shareholders' defensive institutionalism and the firm's environmental proactivity.

## 3 | DATA AND METHODS

### 3.1 | Sample

We selected MSCI World Index companies, a global index that covers 85% of market capitalization for each of the 23 different countries in which its firms are based. Hence, our original sample included 1626 international firms from the 11 different economic sectors of the database during the period ranging between 2006 and 2017 (i.e., 12 years). The relevance of the firms involved and their different home countries make this sample appropriate for the objectives of this paper, in analyzing the relationship between the different natures of a firm's dominant shareholders and its environmental proactivity in international contexts.

Our final analysis uses an unbalanced panel dataset including 12,527 observations from 1532 different firms. We can see in Table 1 the variety of different countries included in the analysis, with a higher percentage of firms belonging to the United States, Japan, Canada, and Australia. We also considered companies from Singapore, China, and several European countries. Some firms in the original sample were not included in this analysis because of missing data. Each observation includes information about the nature of the dominant shareholders, the environmental situation, and the financial information for a firm in a specific year. We collected the information from the Environmental, Social and Governance (ESG) templates and the shareholder reports in the Thomson Reuters Eikon database.

### 3.2 | Operating variables

#### 3.2.1 | Environmental proactivity

Measuring environmental proactivity is not an easy task. Several scholars started to analyze environmental performance as a proxy for

**TABLE 1** Firm countries for final sample

| Country | Number of firms | Percentage |
|---|---|---|
| United States | 542 | 35.38 |
| Japan | 309 | 20.17 |
| United Kingdom | 98 | 6.40 |
| Canada | 86 | 5.61 |
| France | 72 | 4.70 |
| Australia | 63 | 4.11 |
| Germany | 60 | 3.92 |
| Switzerland | 44 | 2.87 |
| China | 33 | 2.15 |
| Sweden | 28 | 1.83 |
| Ireland | 24 | 1.57 |
| Singapore | 23 | 1.50 |
| Netherlands | 22 | 1.44 |
| Spain | 21 | 1.37 |
| Italy | 19 | 1.24 |
| Denmark | 17 | 1.11 |
| Finland | 13 | 0.85 |
| Belgium | 10 | 0.65 |
| Israel | 10 | 0.65 |
| Norway | 10 | 0.65 |
| New Zealand | 7 | 0.46 |
| Austria | 6 | 0.39 |
| Luxembourg | 6 | 0.39 |
| Macau | 3 | 0.20 |
| Portugal | 3 | 0.20 |
| Argentina | 1 | 0.07 |
| Mexico | 1 | 0.07 |
| Papua Guinea | 1 | 0.07 |
| Total | 1532 | 100 |

environmental proactivity (e.g., Berrone & Gómez-Mejía, 2009; Darnall & Edwards, 2006; Kock et al., 2012). However, a proactive strategy is not only about performance, because environmental performance levels may actually differ from an environmental proactive attitude (e.g., Aragón-Correa et al., 2016; Radu & Francoeur, 2017; Walls et al., 2012), as we noted earlier. For this reason, other authors sought better environmental proactivity measures using environmental scores such as the Carbon Disclosure Project, which includes the commitment of institutional shareholders to climate change and the publication of environmental information (Calza et al., 2016). More recently, multiple works have highlighted the potential of measuring environmental innovation as a good proxy for proactivity (e.g., Berrone et al., 2013; Leyva-de la Hiz, Hurtado-Torres, & Bermúdez-Edo, 2018; Ortiz-de-Mandojana, Aragón-Correa, Delgado-Ceballos, & Ferrón-Vílchez, 2012; Radu & Francoeur, 2017) because an environmental proactive strategy relies on increasing green innovation investments, as these investments seek to improve existing environmental results (Cormier & Magnan, 2015; Radu & Francoeur, 2017). Hence, higher green innovation investments imply a greater commitment to the natural environment over existing demands that go beyond simply matching regulatory requirements.

Therefore, we have opted to use the "environmental innovation category score" from the Thomson Reuters Eikon database, defined as an indicator which "reflects a company's capacity to reduce the environmental costs and burdens for its customers, and thereby creating new market opportunities through new environmental technologies and processes or eco-designed products." This value ranges between 0 and 100, where higher values mean greater levels of environmental proactivity. We consider this variable a good proxy for measuring the response of the firm to shareholders' demands because this variable focuses on the efforts of the company to do more than is legally required. Several studies have been identified in the literature a range from reactive to proactive corporate behavior (Aragón-Correa, 1998; Hart, 1995), with regard to differences in firms' environmental responsiveness (Bansal & Roth, 2000). Some of these studies specifically state that firms implement their responses as a result of shareholder pressures (Buysse & Verbeke, 2003; Henriques & Sadorsky, 1999). Furthermore, this variable is different from environmental performance, which can be a result of other factors, like the resources of the firm and the sector; typically, the companies with better environmental performance are those with less proactivity as they consider that they have met the requirements. So the real influence of a shareholder can be seen in proactivity and not in environmental performance.

### 3.2.2 | Dominant foreign and national shareholders

In line with previous ownership studies in the management literature (e.g., Calza et al., 2016; Desender et al., 2016; Kim et al., 2019), we measure our shareholders' variables as the percentage of each type of shareholder. This option is a good proxy for different shareholders, because an increase in the percentage of a specific type will increase the presence of such a group in the ownership structure, making a higher level of activism or greater influence in the direction of their interests more likely (e.g., Cundill, Smart, & Wilson, 2018; Dam & Scholtens, 2013). Hence, an increase in the percentage of a specific shareholder group will lead to more powerful pressures on managers to implement their environmental preferences, thereby making sure that such preferences are reflected in a firm's environmental behavior.

We used information from the Thomson Reuters Eikon database to distinguish between dominant shareholders' different national cultures, focusing on their country. Specifically, we calculated the percentage of shares held by all foreign and national shareholders per firm, aggregating all dominant shareholders' shares for each company-year. We have excluded both foreign and national shareholders holding less than 1% of the total portfolio, as is done in other management studies (e.g., Johnson & Greening, 1999), because those shareholders with less than 1% are not thought to have a real and tangible influence on corporate strategy. Therefore, we focused on studying the behavior of dominant shareholder blocks—those with enough capacity

to have an influence on firm strategy—and we excluded floating capital from our analysis. Hence, our variable "foreign shareholders" is the sum of the percentages of all foreign shareholders with more than 1% of the total portfolio, whereas the variable "national shareholders" is the sum of the percentages of all national shareholders with more than 1% of the total portfolio.

### 3.2.3 | Country's environmental profile

To measure the country level of environmental culture of the dominant shareholders, we selected the Environmental Performance Index (EPI), as used in other studies (e.g., Leyva-de la Hiz et al., 2018; Siegel et al., 2013), to get a score for each country from 2006 to 2017, and then set the value for each country-year. EPI is produced by Yale University (e.g., Wendling, Emerson, Esty, Levy, & de Sherbinin, 2018) by aggregating several environmental items, such as water waste, energy, and other factors, and taking into account countries' features, such as gross domestic product. This index is ranged between 0 for the worst environmental value and 100 for the maximum environmental performance for a country.

Therefore, we use the EPI of the firm's country for each year to measure the national shareholders' environmental profile, which we labeled "National EPI." For the environmental country profile of foreign shareholders, we selected the EPI of the country of the main foreign investor, labeled as "Foreign EPI." It is not possible to take in to account all the countries of the foreign investors within the shareholders portfolio using this measurement, but we also included the percentage of shares held by this main foreign investor to control this fact in a first step. However, we had to remove this variable due to strong collinearity with the variable of percentage of foreign shareholders, because in a wide range of cases both percentages were the same. So the EPI of the main foreign shareholder is a good proxy for the environmental country profile of foreign shareholders.

### 3.2.4 | Control variables

Previous environmental literature has found that multiple internal variables may influence the firm's environmental proactivity. We have controlled the firm size (Size), measured as the natural logarithm of the firm's total annual assets (Berrone & Gómez-Mejía, 2009; Johnson & Greening, 1999; Radu & Francoeur, 2017), the financial situation of the firm by using the firm's return on asset (ROA) (Dam & Scholtens, 2013), and the firm value using the natural logarithm of the firm's annual capitalization (Capitalization) in line with previous ownership and environmental studies (e.g., Calza et al., 2016). Moreover, we include a sector dummy variable to account for the different industries of the firms in our analysis.

Because there are other variables related to the governance situation, we include ownership concentration, measured using the Herfindahl–Hirschman Index (HHI), because it takes into account information about all shareholders of a firm (Dam & Scholtens, 2013). We have separately produced a concentration index for both foreign (Foreign Concentration) and national (National Concentration) shareholders to independently control for their powerful influence. Additionally, we included a proxy of good governance from the Thomson Reuters Eikon database, including the Corporate Governance Pillar Score (Governance), defined as a "measurement of company's system and processes, which ensure that its board members and executive act in the best interest of its long term shareholders." By using these control variables, we aim to mitigate for the limitations of not knowing all the information about the shareholders because they can have different profiles (investment funds, pension funds, governments, etc.). Moreover, we address the diversity of foreign shareholders within a portfolio by setting as a control variable the number of different foreign countries present in the firm's dominant shareholders' portfolio for each year (No. of countries).

### 3.2.5 | Method

We used STATA 12 software, using a random effect (RE) model to test our hypotheses. RE presents some advantages with respect to fixed effect (FE): (1) RE disseminates variance components for times and error, assuming the same intercepts and slopes; (2) FE requires significant variation of variable values to be an efficient technique and provide consistent estimators; and (3) FE may lead to a multicollinearity problem due to not allowing the inclusion of sector dummies, so we need to use RE in order to control the effect of firms belonging to different economic industries adding sector dummies. Results were consistent where similar values were obtained by using both FE and RE. Moreover, we performed a Breusch–Pagan Lagrange Multiplier test to manage heterogeneity (Breusch & Pagan, 1980) to check whether panel regression is the correct statistical technique rather than linear regression. We used a robust standard errors cluster at firm level to avoid serial correlation and heteroscedasticity and controlled with year dummies to manage for temporal effect. Finally, similar to other studies of ownership (e.g., Earnhart & Lizal, 2006; Kock et al., 2012), we selected our dependent variable as 1 year lagged, so that dependent environmental proactivity is recorded for the period from 2007 to 2018, and all of the independent variables are for 2006 to 2017. This allowed us to better disseminate the effect of dominant shareholders on environmental proactivity, because their influence does not provoke immediate changes in the firm's strategy, needing at least 1 year to show potential impact.

## 4 | RESULTS

Table 2 contains the descriptive summary and Pearson correlation values for each variable used in this paper. We observe that variance inflation factors (VIF) are within acceptable values, ranged between 1.08 and 3.52 with a mean of 1.87, suggesting that the correlation between variables does not generate relevant multicollinearity issues in our analysis.

**TABLE 2** Descriptive statistics and Pearson correlations

| Variable | Mean | SD | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) Env. Proactivity | 59.165 | 26.729 | 1.000 | | | | | | | | | | |
| (2) Foreign Shareholders | 13.865 | 16.052 | 0.004 | 1.000 | | | | | | | | | |
| (3) National Shareholders | 30.359 | 20.645 | −0.134*** | −0.506*** | 1.000 | | | | | | | | |
| (4) Foreign EPI | 71.289 | 10.671 | 0.016* | −0.107*** | 0.160*** | 1.000 | | | | | | | |
| (5) National EPI | 71.795 | 10.32 | 0.140*** | 0.078*** | −0.130*** | 0.610*** | 1.000 | | | | | | |
| (6) Size | 24.447 | 2.344 | 0.194*** | −0.149*** | −0.224*** | −0.036*** | 0.041*** | 1.000 | | | | | |
| (7) ROA | 5.337 | 7.014 | −0.108*** | 0.023** | 0.012 | 0.012 | −0.046*** | −0.256*** | 1.000 | | | | |
| (8) Capitalization | 24.116 | 2.031 | 0.097*** | −0.135*** | −0.187*** | −0.000 | 0.017* | 0.846*** | −0.011 | 1.000 | | | |
| (9) Governance | 56.211 | 20.909 | 0.175*** | −0.025*** | −0.195*** | 0.023** | 0.073*** | 0.146*** | −0.057*** | 0.104*** | 1.000 | | |
| (10) No. of countries | 2.092 | 1.179 | 0.088*** | 0.428*** | −0.326*** | 0.016* | 0.228*** | −0.082*** | −0.005 | −0.111*** | 0.037*** | 1.000 | |
| (11) Foreign Concentration | 183.38 | 667.543 | −0.024*** | 0.696*** | −0.274*** | −0.048*** | −0.050*** | −0.048*** | 0.047*** | −0.023** | −0.055*** | 0.051*** | 1.000 |
| (12) National Concentration | 421.749 | 825.767 | −0.011 | −0.186*** | 0.555*** | 0.017* | −0.018** | −0.045*** | 0.031*** | −0.046*** | −0.139*** | −0.097*** | −0.096*** |

*Significance level at 0.1.
**Significance level at 0.05.
***Significance level at 0.01.

Table 3 presents the results of the RE models. Model 1 shows control variables results. This model shows a positive and significant effect of firm size on environmental proactivity in line with previous literature (Berrone & Gómez-Mejía, 2009; Johnson & Greening, 1999; Radu & Francoeur, 2017) because bigger firms have more resources and tools to improve environmental results. Similarly, we find a positive and significant effect of governance on environmental proactivity, suggesting that companies whose board members and executive act in the best interests of its long-term shareholders will improve their environmental results. In addition, this model shows a different effect for the variables foreign and national concentration, supporting our view regarding independent control for their influence.

Model 2 was used to test H1a and H1b. For foreign shareholders, we find no significant coefficient regarding the direct effect of foreign shareholders on environmental proactivity for the sampled firms, so we reject H1a. For national shareholders, we observe a negative and significant effect on a firm's environmental proactivity, with a coefficient ($\beta$ = −0.104; $p$ value < 0.01). This result provides support for our baseline H1b, which predicts that a higher presence of national shareholders has a negative effect on environmental proactivity.

Model 3 was used to test H2a. The $p$ value observed for the moderating coefficient is significant ($\beta$ = −0.003; $p$ value < 0.05), and thus, this result provides statistical support for H2a. Model 4 analyzes H2b, which predicts that the national shareholder country would moderate

**TABLE 3** Statistical results for random effect models

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|---|---|---|---|---|---|---|
| Controls | | | | | | |
| Size | 2.132*** (0.412) | 1.977*** (0.411) | 1.955*** (0.410) | 1.991*** (0.411) | 1.922*** (0.410) | 1.939*** (0.411) |
| ROA | 0.017 (0.036) | 0.008 (0.036) | 0.009 (0.036) | 0.010 (0.036) | 0.011 (0.036) | 0.009 (0.036) |
| Capitalization | −0.026 (0.421) | −0.101 (0.418) | −0.083 (0.416) | −0.126 (0.418) | −0.077 (0.416) | −0.110 (0.417) |
| Governance | 0.076*** (0.015) | 0.074*** (0.015) | 0.074*** (0.015) | 0.073*** (0.015) | 0.073*** (0.015) | 0.073*** (0.015) |
| No. of countries | 0.097 (0.253) | −0.032 (0.270) | −0.026 (0.270) | −0.029 (0.270) | −0.045 (0.270) | −0.038 (0.271) |
| Foreign Concentration | −0.002*** (0.001) | −0.003*** (0.001) | −0.003*** (0.001) | −0.003*** (0.001) | −0.003*** (0.001) | −0.003*** (0.001) |
| National Concentration | 0.001 (0.001) | 0.002*** (0.001) | 0.002*** (0.001) | 0.002*** (0.001) | 0.002*** (0.001) | 0.002** (0.001) |
| Direct effects | | | | | | |
| (FS) Foreign Shareholders | | 0.004 (0.040) | −0.173* (0.094) | 0.010 (0.040) | −0.985** (0.497) | 0.012 (0.040) |
| (NS) National Shareholders | | −0.104*** (0.031) | −0.102*** (0.031) | −0.239*** (0.079) | −0.101*** (0.031) | −0.317*** (0.499) |
| (FE) Foreign EPI | | 0.035 (0.046) | −0.003 (0.048) | 0.042 (0.046) | −0.017 (0.240) | 0.364 (0.284) |
| (NE) National EPI | | 0.049 (0.067) | 0.060 (0.067) | −0.019 (0.080) | 0.120 (0.258) | 0.179 (0.275) |
| Interactions | | | | | | |
| FS × FE | | | 0.003** (0.001) | | 0.018** (0.007) | |
| NS × NE | | | | 0.002* (0.001) | | 0.005 (0.007) |
| Three-way interaction | | | | | | |
| FS × NE | | | | | 0.009 (0.007) | |
| FE × NE | | | | | −0.000 (0.003) | −0.004 (0.004) |
| | | | | | | −0.001 (0.007) |
| Three-way moderating effect | | | | | | |
| FS × FE × NE | | | | | −0.0002* (0.0001) | |
| NS × NE × FE | | | | | | −0.0001 (0.0001) |
| Sector dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Year dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| $R^2$ | 6.91% | 8.28% | 8.36% | 8.24% | 8.32% | 8.31% |
| Wald Chi | 4239.15*** | 4364.32*** | 4371.04*** | 4376.19*** | 4386.29*** | 4386.14*** |
| ΔWald Chi | | 13.86*** | 4.07** | 3.42* | 11.70** | 7.24 |

*Note*: Robust standard errors in brackets.
*Significance level at 10%.
**Significance level at 5%.
***Significance level at 1%.

the negative relationship between national shareholders and environmental proactivity. In this case, we find a significant *p* value for the interaction variable coefficient at 10% (*p* value < 0.1) that provides statistical support for H2b.

Figures 1 and 2 graphically depict both relationships. The country's environmental profile does moderate the relationship between both foreign and national shareholders with environmental proactivity, and these moderating effects are as predicted. For foreign shareholders, Figure 1 shows that the influence of foreign shareholders on environmental proactivity is more positive for higher levels of the foreign country's environmental profile and reduces the positive effect for lower levels, providing support for H2a. Similarly, Figure 2 shows that the influence of national shareholders on environmental proactivity is more negative for lower levels of the national country's environmental profile and reduces the negative effect for higher levels, providing support for H2b.

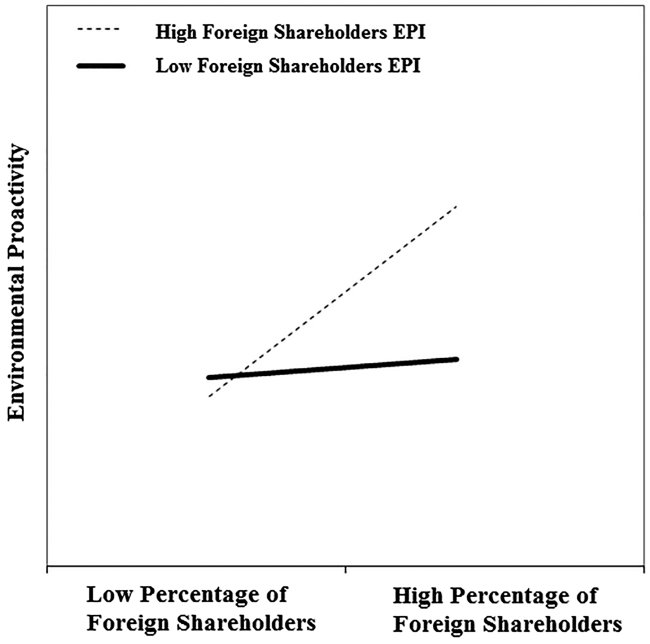


**FIGURE 1** Moderating effect of foreign shareholders Environmental Performance Index (EPI) on foreign shareholders

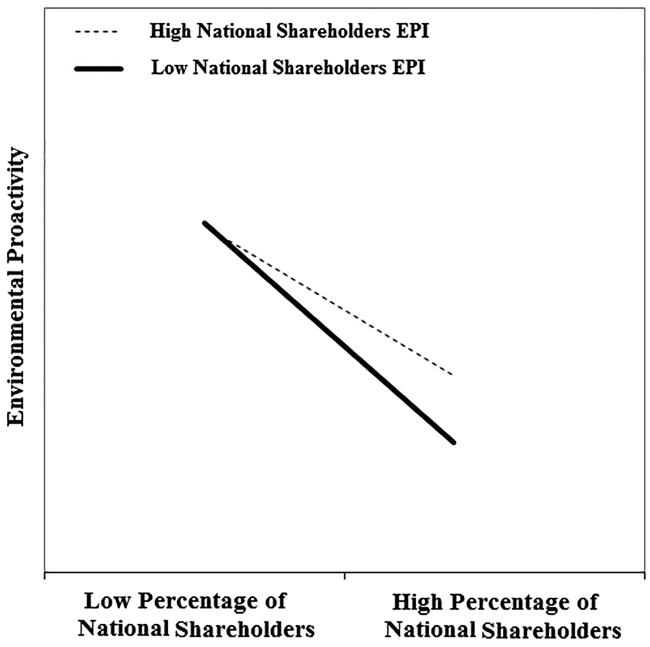


**FIGURE 2** Moderating effect of national shareholders Environmental Performance Index (EPI) on national shareholders

Model 5 was used to test H3a. The *p* value observed for the moderating coefficient is significant (*p* value < 0.1), and thus, this result provides statistical support for H3a. Finally, Model 6 analyzes H3b, where we did not find a significant *p* value for the interaction variable coefficient, so H3b is rejected.

Figures 3 and 4 show the relationship between foreign shareholders with environmental proactivity when they jointly interact with the foreign and national countries' environmental profiles. Figure 3 presents this phenomenon for companies based in countries with low environmental profiles, where a slight effect appears when foreign shareholders are also from countries with low environmental profiles. However, as the number of foreign shareholders from countries with high environmental profiles increases, a firm's environmental proactivity will improve, leading to an environmental deinstitutionalization.

For companies based in countries with a high national environmental profile, Figure 4 shows that, in the extent to which foreign shareholders from high environmental countries increase, environmental proactivity slightly improves its levels. However, if foreign shareholders come from countries with low environmental profiles, an increase of foreign shareholders will negatively impact a firm's environmental proactivity levels. Hence, when foreign and national

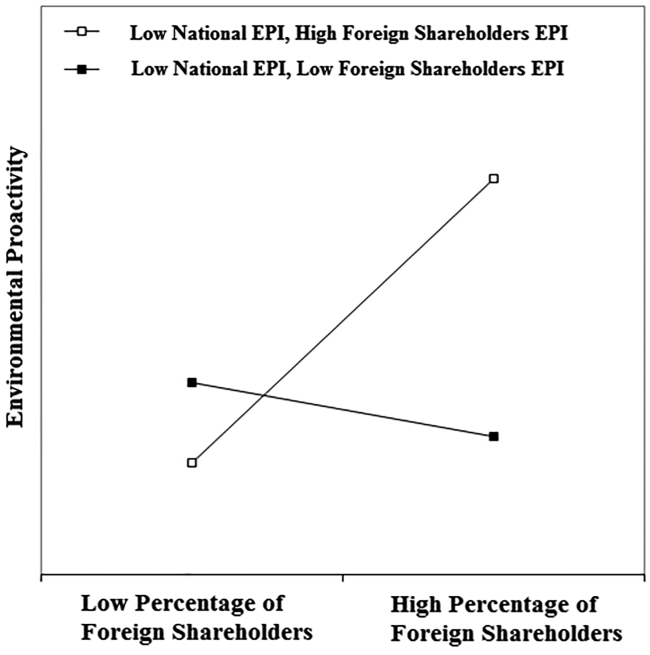


**FIGURE 3** Moderating effect of foreign shareholders Environmental Performance Index (EPI) for low national EPI countries

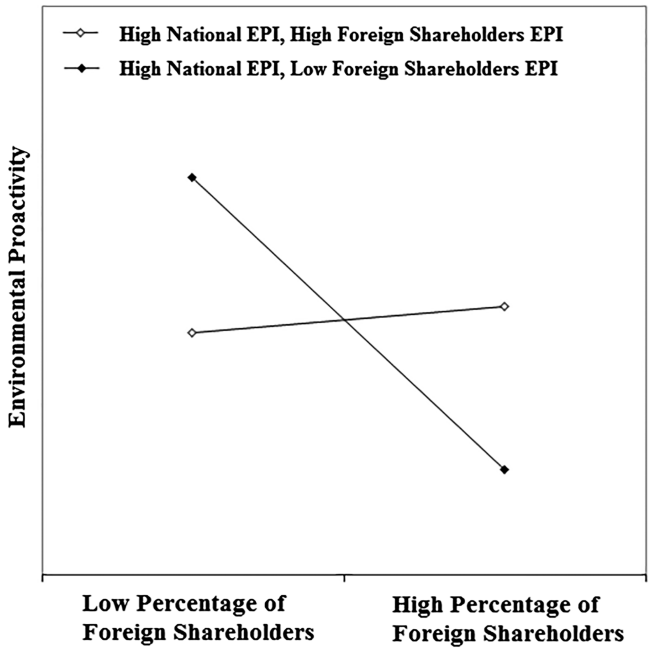


**FIGURE 4** Moderating effect of foreign shareholders Environmental Performance Index (EPI) for high national EPI countries

shareholders are from good environmental countries, deinstitutionalization and defensive institutionalism processes do not arise, which leads to consensus on good environmental practices. By contrast, we find here a singular case when foreign shareholders come from poor environmental countries, where negative environmental deinstitutionalization will occur in the extent to which the percentage of foreign shareholders increases.

With Figures 3 and 4, we find a statistically significant effect for our H3b but in an opposite sense than hypothesized. These results suggest that the deinstitutionalization effect of foreign shareholders is not mitigated by the presence of dominant national shareholders: It is further activated when the difference of foreign and national shareholders environmental home country profile is high, that is, when the cultural distant between both environmental country profiles is high.

## 5 | DISCUSSION AND CONCLUSIONS

Previous studies have analyzed the effect that the environmental commitment or culture of a country has on managers and firms. Each country, with its respective level of environmental commitment, whether it is a country with a high level of environmental proactivity or a country that is not very aware of its impacts on the environment, has defined specific targets to be achieved, and this can be beneficial for the performance and environmental proactivity of the firm, as several scholars have demonstrated (e.g., Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009; Huang, Zhu, & Brass, 2016; Reus & Lamont, 2009; Zhu & Qian, 2015). Our results suggest that firms can learn from foreign shareholders located in culturally distant countries, acquire new knowledge about environmental practices that they had not previously identified, and put them into practice, thus building new capacities to survive. Moreover, we identify that there are certain different situations in which the effect of deinstitutionalization and defensive institutionalism affect the degree of environmental proactivity.

Our research makes some contributions to the literature. First, our findings extend the applications of institutional theory and the specific framework of deinstitutionalization and defensive institutionalism. Research on the links between dominant shareholders and environmental proactivity has been limited and focused on corporate and institutional ownership (Alda, 2019; Calza et al., 2016), whereas our work represents a further step in the application of this concept in the context of the distance in behavior between national and foreign shareholders. We show that foreign shareholders do succeed in their deinstitutionalization process, increasing the firm's environmental proactivity when they are from environmentally conscious countries, but, surprisingly, their presence leads to lower environmental results when they are from worse environmental countries, but only if they operate within firms based in more sustainable countries. By contrast, although firms with a higher presence of national shareholders tend to exhibit worse environmental proactivity, national shareholders are not able to stop the influence of foreigners and thus defensive institutionalism succumbs to deinstitutionalization forces. Together, these results confirm the notion that deinstitutionalization forces are stronger than defensive institutionalism (Ahmadjian & Robbins, 2005) and, moreover, show how the deinstitutionalization process is further activated when agents' and firms' cultural distances are higher (Drogendijk & Holm, 2012; Schwens et al., 2011; Siegel et al., 2013; Xu & Shenkar, 2002); that is, the change will be greater when they identify existing practices as more different from their own. Finally, our contribution to the identification of the importance of the EPI of the countries in moderating these relationships and the changes in the institutionalization forces is also of relevance.

As regards managerial implications, our study offers some recommendations to managers on how they should deal with the different pressures exerted by dominant shareholders (national or foreign). For example, managers may play a mediating role between the different influences of the dominant shareholders, as seen in previous studies (Chithambo, Tingbani, Agyapong, Gyapong, & Damoah, 2020). It is also important for dominant shareholders, in the context of the new call for green and sustainable investing, to acquire knowledge and capital to increase environmental proactivity. Our study clarifies which pressures lead to higher environmental proactivity, which complements previous work in the field (Shubham et al., 2018), and how managers can interpret the cultural clash between national shareholders and international shareholders in terms of improving environmental proactivity.

Although we consider our results to be important for academia and practitioners, this work is not free of limitations. The main limitation is that we have used only the EPI of the top shareholder of each company in order to calculate the moderation variable. We also have only tested one investing index, even though this includes firms from many different countries and sectors. Finally, this analysis is focused

on big public companies, and therefore, the effect for small- or medium-sized companies could be different due to different institutional scenarios.

In terms of future avenues of research, one way of reducing some of the limitations of this paper could be by testing other indices, for example. Another important aspect could be the study of the influence of foreign and national shareholders on resilience or innovation, as well as analyzes of whether the moderation effect of the environmental profile of the dominant shareholders country affects those variables. A study of other stakeholders and their different effects due to country of origin could be interesting, too, allowing the dissemination of different views of a firm's strategy depending on national cultures.

Finally, we hope that this study has clarified the relevance of the dominant shareholders' profile in terms of environmental proactivity and will further help to motivate and trigger future research in this direction.

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