

Multicultural Education

Research Article

Homepage: www.MC-caddogap.com**THE STUDY OF THE INTERNATIONALIZATION PROCESS AND ITS RELATIONSHIP WITH ENVIRONMENTAL SUSTAINABILITY AND INSTITUTIONAL PRESSURES IN THE GLOBAL MARKETS.****Niels Le Duc**

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ABSTRACT

This study contributes to the internationalization processes and sustainability literatures by looking into how, when, and why companies respond differently to formal and informal institutional pressures in favor of environmentally friendly practices during international expansion processes. When companies enter new foreign markets or expand their sales into existing ones they can be subject to increased formal and informal pressures. I show, theoretically and empirically, that in these cases the informal pressures' tacit and experiential nature affects the timing and the likelihood of compliance with these pressures. First, compliance with informal pressures takes longer than for formal ones. Second, companies that cannot afford learning about informal pressures, because of resource constraints or a limited learning efficiency due to a narrow previous international experience, tend to forgo compliance with these pressures. Failure to comply with these pressures or to do so in a timely manner can have devastating consequences for internationalizing companies' legitimacy.

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1. INTRODUCTION

The international business literature has studied how multinational enterprises (MNEs) respond to institutional pressures in favor of environmentally friendly practices in the countries where they operate. While some companies may relocate high environmental impact activities to foreign countries where these pressures are weaker (Surroca et al., 2013), internationalization in the form of foreign direct investment (FDI) often has a positive effect on companies' social and environmental performance, especially if the foreign countries have more stringent social and environmental requirements than the home country (Kostova and Zaheer, 1999; Lin et al., 2013; Marano and Kostova, 2016; Sharfman et al., 2004; Spencer, 2008). Moreover, MNEs from emerging and developing countries that have invested in foreign countries with strong speech and press freedoms exhibit lower levels of corporate social irresponsibility, especially if they have already adopted explicit corporate social responsibility (CSR) policies (Fiaschi et al., 2017). Interestingly, Zyglidopoulos et al. (2016) also found that developing countries' MNEs exhibited higher levels of corporate social and environmental performance than their domestic-only counterparts.

Higher levels of internationalization in terms of exports (Attig et al., 2016; King et al., 2005) and selling to markets with more stringent environmental requirements (Christmann and Taylor, 2001; Prakash and Potoski, 2006; Vogel, 1997) also seem to result in more environmentally friendly practices. Moreover, Lim and Tsutsui (2012) found that an increased presence of United Nations Global Compact participants in a country's export destinations made this country's corporations more likely to adopt CSR frameworks. Finally, a higher level of

internationalization in terms of sales has also been reported to reduce the likelihood of CSR decoupling in MNEs from emerging countries (Tashman et al., 2019).

While, according to this literature, selling in countries with stronger pressures in favor of environmentally friendly practices seems to lead to a higher level of corporate environmental performance, we know little about how companies deal with these pressures as they are entering new foreign markets or expanding their operations in existing ones, that is, during the firm's internationalization process. To what extent do firms manage to address new pressures in favor of environmentally friendly practices adequately during this process? And do they manage to do so in a timely manner? These questions have important consequences for the internationalizing company's legitimacy.

The literature on internationalization processes, on the other hand, looks into the difficulties that companies face when they internationalize and, as a result, are subject to foreign business environments that they need to learn about. However, it does not consider sustainability issues, nor how companies deal with different types of institutional pressures, such as formal and informal ones. Formal institutions include laws, regulations, constitutions, and statutes. Informal institutions include norms, moral values, traditions, customs, and culture. While formal institutions emanate from governmental authorities, who have the power to enforce laws and regulations, the enforcement of informal institutions takes place through a transgressor's loss of social approval and legitimacy (Pejovich, 1999).

In this paper I show that learning about these pressures plays a key role in the ability of companies to respond to foreign markets' pressures in favor of environmental sustainability as they internationalize. More precisely, I theorize about how learning processes affect the timing and the extent of companies' compliance with increased institutional pressures in favor of more environmentally sustainable practices following new market entry or an expansion in an existing foreign market. To that end, I rely not only on extant literature on international business, with a focus on internationalization processes, but also on the literature on institutional theory and sustainability.

In this study's theorization, I rely on the Uppsala Internationalization Process Model (UIPM) (Johanson and Vahlne, 1977, 2009), where learning about foreign markets, which happens through the companies' participation, activities, and relationships within the networks established by the firm in these markets, has a central role. Additionally, a substantial part of institutional knowledge is experiential knowledge, which can only be acquired through the development of activities in foreign markets (Eriksson et al., 1997). It is important to note that experiential learning has a central role in the UIPM (Vahlne and Johanson, 2017).

The UIPM considers two directions of internationalization: (1) entry in a new foreign market and (2) the increased involvement of the firm in an existing foreign market where the company is already present but in which this extra involvement requires additional learning (Johanson and Vahlne, 1977, p. 23). Therefore, I must consider both foreign market entry and expansion in existing foreign markets, because companies must learn about institutional pressures both in new and insufficiently known foreign markets, respectively. Moreover, the literature on internationalization processes shows that these learning processes require time and company resources, including managerial attention and effort (Eriksson et al., 1997; Johanson and Vahlne, 1977; Jones and Coviello, 2005; Knight and Cavusgil, 2004; Love and M'anez, 2019). Therefore, time and company resources also have a central role in this study.

This paper contributes to the literature on international business and sustainability by showing how the differences between formal and informal pressures (North, 1990; Peng, 2003), affect learning processes and have consequences for both the timing and the likelihood of compliance with the two types of pressures. It shows that companies that cannot allocate sufficient resources to learning about institutional pressures, or do not have the knowledge-based capabilities that are acquired through a sufficiently broad international experience, tend to forgo compliance with informal pressures in favor of environmentally friendly practices. Moreover, even for companies that comply with these informal pressures, it takes some time to do so, because the learning process is slower than for formal ones. All this can compromise the company's legitimacy and success in foreign markets, as well as the ability of the business sector to internationalize sustainably. A company that loses its legitimacy in the eyes of its stakeholders will not be able to renew its license to operate, that is, it will be unable to secure from its stakeholders the tacit or explicit permission needed to survive, succeed, and grow (Castelló and Lozano, 2011). This study's findings thus have important implications for managerial practice.

A second important contribution of this study is showing that the timing and the extent to which companies are able to address different types of institutional pressures during an internationalization process depend on how difficult and costly it is to learn about this pressure given (1) the characteristics of the institutional pressure, and (2) the company characteristics that determine whether it is able to afford the learning costs and effort.

2. THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1. Foreign markets' formal and informal institutional pressures in favor of more environmentally friendly practices

Companies are subject to both formal and informal institutional pressures in their markets (North, 1990; Pejovich, 1999; Peng, 2003). In the last decade, sustainability-related regulations, norms, and values have become more important all around the world, with an increasing popularity of global initiatives such as the Global Compact or the Global Reporting Initiative (Lim and Tsutsui, 2012), as well as the Sustainable Development Goals. However, and despite the increased popularity of these sustainability-related initiatives and standards, country-level institutional pressures remain key drivers in their adoption (Orcos et al., 2018; Van Zanten and van Tulder, 2018).

Therefore, both formal and informal pressures are important drivers of companies' implementation of environmental strategies, especially for those operating in high environmental-impact industries. In the case of formal pressures, a survey of environmental directors in the Canadian pulp and paper industry showed that 70 % of the respondents reported that governmental regulation was the main source of pressure to improve environmental performance (Doonan et al., 2005). Moreover, two other empirical studies have shown that environmental regulation is an important driver of change in companies' environmental practices in other high environmental-impact industries, such as the chemical, metallurgic, and pharmaceutical ones (Ayres et al., 1997; Testa et al., 2012).

Informal institutional pressures are also an important driver of companies' environmental performance. However, prevailing norms and values may not guide a company's actions if its owners or managers think they can get away with it. Activists, non-governmental organizations (NGOs), and other civil society members are important sources of informal pressures (Peng et al., 2008), because they act as watchdogs and 'whistle-blowers', and can expose an actor who is breaking a norm. In free (or democratic) countries, the freedoms of speech and association allow not only NGOs, but also other civil society members, including concerned private citizens, to expose companies who do not comply with norms and values that promote socially and environmentally responsible behavior (Bansal and Roth, 2000; Diermeier, 2011; Eesley and Lenox, 2006; Lenox and Eesley, 2009). Freedom of expression in the media and the internet also provides all these civil society members with a formidable weapon to publicly expose companies' environmental records (Diermeier, 2011).

Therefore, in these countries it is much more difficult for any company to get away with behavior that goes against prevailing norms and values, because anyone can expose this behavior to the eyes of everyone else (Habermas, 1996). And such exposure can lead to protests, boycotts, reputational damage, loss of the license to operate, etc. In sum, in free countries it is easier for civil society members, and everyone else, to hold companies accountable for their actions (Di Rienzo et al., 2007; Teegen et al., 2004). This is an important motive for companies that sell in these countries to learn about, and comply with, informal pressures in favor of environmentally friendly practices (Fombrun, 1996; Porter and van der Linde, 1995).

Another crucial aspect is that, in free countries, citizens, civil society organizations, and the press generate high volumes of freely expressed opinions in newspapers, magazines, websites, social media, and other outlets. These non-governmental actors are free to expose companies' and other organizations' records when they do not behave according to prevailing values and norms. Moreover, in free countries companies can easily interact with citizens (e.g. through social media) and with civil society organizations (e.g. through partnerships). Therefore, in free countries it is also easier for foreign companies to learn about, and become familiar with, prevailing values and norms.

When a company enters a foreign market where institutional pressures in favor of environmentally friendly practices are stronger than in its other foreign markets, the company has a good reason to increase its environmental performance. An example of formal pressures would be the US Environmental Protection Agency (EPA)'s restrictions on volatile organic compound levels in imported goods, which force companies wishing to sell in the US to reformulate their products' composition, making them more environmentally friendly. In the case of informal pressures, a company that enters a new foreign market where social norms shun single-use plastic, and where companies using this type of plastics are at risk of being publicly condemned, is likely to feel pressured to explore more environmentally friendly options. These phenomena should result in an increase in the company's environmental performance. For example, in the mid-2010s, Hubei Dinglong, a Chinese producer of toners, realized, according to its Vice General Manager, that meeting high environmental standards was a "requirement in the European market" and adopted the standards of a stringent Nordic ecolabel (The Recycler, 2015).

Besides new market entry, internationalization processes also take place through an increase in the companies' sales and/or other activities in existing foreign markets (Johanson and Vahlne, 1977). If a company increases its sales in a foreign country where institutional pressures in favor of environmentally friendly practices are stronger than in its other foreign markets, the company also has a good reason to increase its environmental performance. For example, an agricultural company that produces fruit in its home country could apply more environmentally friendly pest control methods in fields whose products are destined for foreign markets with particularly stringent regulations regarding pesticide content in fruit. If this company enters these stricter foreign markets, or increases its sales in them, the proportion of fields benefitting from environmentally friendly pest control methods would increase, raising the company's environmental performance. Or, if we consider informal pressures, increasing sales in a market where NGOs and the public are particularly opposed to animal suffering, for example, could be a powerful motive for a company to revise its animal testing policy. The adoption of these measures should result in an increase in the company's environmental performance.

Hypothesis 1a. Companies subject to an increased level of formal institutional pressures in favor of more environmentally friendly practices in their foreign markets comply with these pressures, raising their environmental performance.

Hypothesis 1b. Companies subject to an increased level of informal institutional pressures in favor of more environmentally friendly practices in their foreign markets comply with these pressures, raising their environmental performance.

While I have just hypothesized that stronger formal and informal pressures in favor of environmentally friendly practices in foreign markets lead a company to raise its environmental performance, the literature on internationalization processes shows that it takes time and company resources to learn about the new or insufficiently known foreign markets' institutional pressures, as we shall see. Therefore, in what follows, we will consider how this affects the timing and the likelihood of compliance with these pressures.

2.2. The timing of the response to formal and informal institutional pressures

In order to be able to comply with institutional pressures in new or insufficiently known foreign markets, and overcome the liability of foreignness, companies must first learn about these pressures (Johanson and Vahlne, 1997, 2009; Luo and Peng, 1999; Petersen and Pedersen, 2002). However, the acquisition of knowledge about such markets' institutional characteristics takes place along time and through the company's activities in these markets. The reason is that institutional knowledge is, at least in part, experiential, as we shall see. This means that it can only be gained through the managers' personal experiences in these foreign markets (Eriksson et al., 1997; Johanson and Vahlne, 1977) and the development of relationships with the actors who belong to local networks (Johanson and Vahlne, 2009). According to Li and Fleury (2020), learning from local stakeholders in a new foreign market is often crucial for the success of a new entrant in this market.

The information required to comply with formal pressures is relatively easy to obtain, because laws, regulations, and public policies are usually written, providing explicit knowledge about the regulator's expectations regarding companies' practices. Although learning how to correctly interpret laws, regulations, and public policies in a new business environment is, to some extent, experiential knowledge, an important part of knowledge about formal pressures is explicit, which makes learning about it relatively easy.

However, learning about informal pressures in a new or insufficiently known country is much more difficult. Indeed, the social values, norms, customs, traditions, and socially shared universes of meaning that make up informal institutions are internalized (Berger and Luckmann, 1966; Scott, 1995). They are transmitted, within society and along time, through imitation, oral tradition, and teaching (Pejovich, 1999). Learning about expectations associated with informal institutional pressures often requires tacit information that is opaque to outsiders (Eden and Miller, 2004). Tacit knowledge is acquired through immersion, through the lived experience and interactions with other members of the community or social environment, and is generally inferred from the others' statements and actions (Armstrong and Fukami, 2009; Armstrong and Mahmud, 2008; Baumard, 1999). Informal pressures have the added difficulty that they originate from a larger diversity of stakeholders than formal pressures (Mitchell et al., 1997), which can make learning about informal pressures even more difficult in comparison with formal ones. In sum, because the knowledge associated with foreign markets' informal pressures is essentially tacit and experiential, it requires repeated interactions with local actors to be integrated into the company's pool of knowledge (Luo and Peng, 1999).

This is why learning about informal pressures requires the firm to be sufficiently integrated in these markets' local networks, which allow the firm to overcome or mitigate the liability of outsidership by learning from local stakeholders (Johanson and Vahlne, 2009). Indeed, companies that enter new foreign markets are

often excluded from domestic relational networks where information about norms and values circulates, and they also lack the local-specific knowledge that would allow them to properly interpret such information (Maitland and Sammartino, 2015). Hence, it is important for these companies to reach the level of integration into local networks required to successfully pursue their international expansion plans. The same applies to companies that are expanding their operations in existing, but as yet insufficiently known, foreign markets. It should be noted that belonging to local networks and acquiring experiential knowledge through interactions with local actors can also help companies to interpret laws and regulations adequately, as well as to better anticipate future regulatory changes. However, the role of experiences in foreign markets, integration in local networks, and repeated interactions with local actors is far more important for learning about informal pressures than for formal ones. As seen above, this is because the latter are tacit, rely on experiential learning, and require interacting with a diversity of stakeholders, while formal pressures are much more explicit and emanate from the regulators.

When companies are faced with new foreign markets, or insufficiently known ones, it takes time for them to establish relationships with local actors, join the relational networks where information circulates, and ultimately learn about informal pressures through their day-to-day interactions with local actors. These interactions allow the company to acquire and develop valuable “relationship-specific knowledge” about the new or insufficiently known foreign market (Johanson and Vahlne, 2009, p. 1416). This means that learning about informal pressures usually takes a lot of time (Peng, 2003). This is likely to be even more the case with informal pressures in favor of environmentally friendly practices, because obtaining the relevant information about environmental issues from stakeholders and understanding and charting the causal relationships between corporate activities and socio-environmental outcomes is particularly difficult (Bey et al., 2013; Wijen, 2014). Additionally, expectations associated with informal institutions can conflict with one another, both within and between countries (Oliver, 1991; Symeou et al., 2018). Learning about these conflicts and the diverse stakeholders' expectations is also likely to raise the cost, in terms of company resources, of learning about informal pressures, in comparison to learning about formal ones.

To sum up, learning about informal pressures in new or insufficiently known foreign markets is more difficult and time-consuming than learning about formal pressures, and requires establishing relationships in these foreign markets and repeated interactions with local stakeholders. Along time, both cooperative and confrontational interactions with these stakeholders allow companies to become aware of the foreign country's informal pressures and to understand their nature, as well as the consequences associated with failure to comply. Therefore, a company that, in its foreign markets, is subject to formal and informal pressures to improve its environmental practices, is likely to be able to address the environmental requirements associated with formal institutional pressures sooner than any environmentally related expectations associated with informal pressures that go beyond regulation. Indeed, it will take longer, on average, to learn about these expectations than about laws and regulations.

Hypothesis 2. It takes longer for companies to comply with informal pressures in favor of more environmentally friendly practices in a company's new and insufficiently known foreign markets than with formal pressures in favor of such practices.

2.3. The resources needed to learn and comply with institutional pressures

Learning about the institutional pressures in a new or insufficiently known foreign market takes not only time, but also a substantial amount of financial and human resources, as we shall see next. The UIPM, in its most recent version, acknowledges that it takes both time and effort for managers and other employees to build the relationships with local actors that allow companies to learn about their foreign markets and identify new opportunities within them (Johanson and Vahlne, 2009). But this is as far as the model goes regarding learning costs. Other studies about internationalization processes have recognized the important role of these costs. Eriksson et al. (1997, p. 352), for example, point out that the activities that companies carry out abroad, which allow these companies to learn about foreign markets, entail costs “related to collecting, encoding, transferring, and decoding knowledge”. Moreover, according to Knight and Cavusgil (2004, p. 127), the efficiency with which knowledge about foreign markets is obtained is “a critical determinant of superior international performance in entrepreneurial firms”, as this efficiency allows companies to acquire the knowledge they need with less resources. Learning efficiency is particularly crucial as far as internationalization process are concerned, as gathering information on new markets has been reported to be a considerable sunk cost associated with market entry (Meinen, 2015).

In sum, extant literature shows that learning about the institutional pressures in new or insufficiently known foreign markets requires not only time, but also financial and human resources required for the

collection, processing, and decoding of knowledge. Among these resources, managerial time, attention, and effort are likely to be particularly important, and yet they tend to be limited in many companies (Ghemawat, 1991; Ocasio, 1997). When these valuable managerial resources are invested in expanding a company's operations abroad, they are less available to determine which information about institutional pressures should be collected and which part of it is relevant to the company's objectives, as well as to decode and interpret it (Bouquet et al., 2009).

Moreover, starting selling to new foreign markets requires large sunk costs, such as adapting the production processes so that the product fits foreign customers' tastes, establishing a distribution system, or hiring local agents to distribute the goods (Becker et al., 2013; Conconi et al., 2016; Yi and Wang, 2012). It should be noted that these costs are not only associated with managerial time, attention, and effort, but also with financial resources (Bellone et al., 2010). Increasing the level of sales in an existing foreign market may also require changing or adapting existing exporting procedures, entering new distribution channels, investing in new marketing strategies, etc. In both cases, increased internationalization also frequently means changes in the organizational setup of the firm, such as changes in the organization's structure, routines, reporting systems, and procedures (Eriksson et al., 1997), which also place pressure on resources. So when a firm's resources are engaged in these activities and uses, they are less available for learning about foreign markets' institutional characteristics. While this is problematic for any type of institutional pressures, it is particularly so for informal pressures, whose information is more costly and difficult to obtain than for formal ones, as seen in the previous subsection.

Indeed, learning about informal pressures takes a substantial amount of managerial and employee time and effort, as it takes time to learn about tacit knowledge, to get accepted and immersed in the local community, social environment, and networks where this tacit knowledge is, and to learn from repeated interactions with a large diversity of local stakeholders. In the case of formal pressures, managers and employees can focus on one type of stakeholder (i.e. regulators), and the information about the expectations is much more explicit and easily accessible.

It should be noted that once the learning process is over and managers have decided what should be done, the cost of compliance with informal pressures is not necessarily higher or lower than for formal pressures. Despite this, companies are unlikely to forgo compliance with formal pressures, because they are less costly in terms of learning, and failure to comply is associated with relatively certain and tangible sanctions imposed by the regulator. On the other hand, and under resource constraints, companies may forgo complying with informal pressures in favor of more environmentally friendly practices, because it is particularly difficult and costly to learn about them.

Therefore, in what comes next, I hypothesize that, while companies are unlikely to forgo compliance with formal pressures, the likelihood of compliance with increased informal pressures in favor of environmentally friendly practices in their foreign markets is higher for companies that can afford learning about these informal pressures. We will see that this is more likely to happen (1) in companies where managers can allocate relatively more resources to this learning process and/or (2) in companies that, because of their broader previous international experience, have been able to develop capabilities that make them more efficient at this learning process, and hence require less resources to acquire, process, interpret, and integrate knowledge about foreign markets.

2.4. The amount of resources allocable to learning about institutional pressures

Profitable companies have more financial resources for investments in environmental and social measures, while companies with poor financial performance are more likely to restrict managerial discretion over such expenditures (Adams and Hardwick, 1998; Campbell, 2007; Ioannou and Serafeim, 2012). Investments in environmentally friendly measures, whose implementation is costly (Chandler, 2014), are also easier to justify to shareholders when the company is doing well than when profitability is low (Lenox and Eesley, 2009). Relatedly, prior high levels of financial performance are positively associated with the availability of unabsorbed slack resources (Singh, 1986), and therefore companies that have been profitable in the recent past are more likely to be able to allocate unabsorbed slack resources to improve the company's environmental performance (Symeou et al., 2019). These slack resources are probably used not only to actually implement environmental policies and measures, but also for the process of learning about the institutional pressures in new or insufficiently known business environments that I discussed in previous sections.

Therefore, managers of profitable companies are more likely to be able to allocate resources to the costly process of learning about informal institutional pressures in favor of more environmentally friendly practices in new or insufficiently known foreign markets. For example, financial unabsorbed slack resources that can be

easily mobilized by managers can be used to hire additional employees who can (i) help with the ongoing learning process and/or (ii) take over tasks that were performed by existing managers and other employees, allowing the latter to dedicate more time, attention, and effort to learning about the institutional environment.

Moreover, existing literature shows that obtaining external funding to finance the costs required by the company to adapt to the new market can be difficult (Becker et al., 2013), and that the inability to secure external funds to cover the high fixed costs associated with market entry can prevent financially constrained companies from starting to export to the new market (Bellone et al., 2010). Therefore, companies with poor financial performance are not only likely to face difficulties trying to enter new foreign markets or to expand sales in the existing ones, but they also have limited resources to allocate to learning about, and complying with, institutional pressures. As discussed in the previous section, companies are unlikely to forgo compliance with formal pressures, because they are less costly in terms of learning, and failure to comply is likely to be the object of penalties. However, I hypothesize that if they are facing substantial resource constraints, they are unlikely to allocate resources to learning about, and addressing, informal institutional pressures in favor of more environmentally friendly practices.

To sum up, a higher recent profitability should allow managers to dedicate more resources to learning about, and complying with, institutional pressures in new or insufficiently known foreign markets. Once companies have complied with formal pressures, and given that learning about informal pressures is particularly costly in terms of resources, a higher recent profitability is likely to result in a higher likelihood of compliance with informal pressures.

Hypothesis 3. Companies with higher recent profitability are more likely to comply with informal pressures in favor of more environmentally friendly practices in new and insufficiently known foreign markets than their less profitable counterparts, while compliance with formal pressures in favor of these practices is likely to happen regardless of recent profitability.

2.5. The breadth of international market experience and learning efficiency

The UIPM considers that learning about foreign markets is a cumulative process, suggesting that the knowledge a company has acquired in its past international experience helps with its subsequent international expansion moves. However, as they internationalize, companies acquire not only knowledge, but also capabilities that will allow them to learn and adapt to any new foreign market in their future internationalization path (Deng et al., 2020). More precisely, when considering learning processes, what really matters are the individual and organizational knowledge-based capabilities that a company has developed throughout its previous international experiences (Jones and Coviello, 2005) and that allow it to learn about foreign markets easily, quickly, and efficiently (Knight and Cavusgil, 2004).

Hence, we should expect the costs, in terms of resources, of learning about institutional pressures in new or insufficiently known foreign markets to be lower when managers, and the company in general, have a broader international experience. Indeed, international experience provides managers, other employees, and the organization not only with knowledge about foreign cultures and practices, but also with capabilities and a skill set that are useful for understanding institutional pressures in foreign business environments and operating in them. This leads to fewer mistakes when a company enters a new market and, consequently, it increases this company's likelihood of success in this new market (Herrmann and Datta, 2002; Sethi and Guisinger, 2002). Moreover, expertise accumulated through expansion to international markets increases the ability to use new information available about foreign markets and the tacit knowledge obtained from new partners (Petersen and Pedersen, 2002; Tuppara et al., 2008). Consistent with this, Love and Máñez (2019) observe that companies that have been able to develop a long and continuous process of learning by exporting are more likely to be successful in their subsequent exporting activities.

The literature on the microfoundations of decision-making processes also shows that the mental models of decision-makers who have experienced a diversity of international locations are richer and more connected than those of managers with a less diverse experience, increasing their ability to make sense of new international environments and mitigating the negative consequences of the liability of foreignness (Maitland and Sammartino, 2015). Moreover, international experience and cross-cultural training programs can, over time, lead managers in MNEs to develop cognitive capabilities that are valuable for companies operating in foreign countries (Levy et al., 2007).

Therefore, all other things being equal, a company with a broader international experience should face fewer difficulties and costs associated with the gathering and interpreting of information about new or insufficiently known foreign markets. Additionally, such experience should also reduce the amount of resources

needed to carry out the operational and organizational activities and changes related to the new foreign operations, leaving more resources available to learn about foreign markets.

As a result, companies with broader international experience should be more likely to be able to learn about, and comply with, informal pressures, which are particularly costly in terms of company resources. However, most companies are likely to comply with formal pressures in favor of environmentally friendly practices regardless of their previous international experience, for two reasons. First, the explicit nature of these formal pressures makes learning about them easier than for informal ones. As a result, while learning about informal pressures in new or insufficiently known foreign markets is likely to be highly dependent on the knowledge-based capabilities developed during previous internationalization experiences, doing so for formal pressures is likely to be less so. The second reason is that formal pressures are coercive in nature, as discussed above.

Hypothesis 4. Companies with a broader international market experience are more likely to comply with informal pressures in favor of more environmentally friendly practices in new and insufficiently known foreign markets than their less experienced counterparts, while compliance with formal pressures in favor of these practices is likely to happen regardless of international market experience.

3. METHODOLOGY

3.1. Sample and data

The sample contains the 2237 high environmental-impact companies that were covered by the Asset4 database (Thomson-Reuters) at the end of 2012. The Asset4 database covers companies that are constituents of major global and country-level indices. Since its inception in 2002, Asset4 has been continuously incorporating new companies in its universe by gradually including, over the years, an increasing number of constituents of an expanding range of stockmarket indexes, resulting in unbalanced panel data. Moreover, since the regression model uses two lags of the dependent variable, as we shall see, the estimation procedure only uses the data of companies for which there are enough consecutive periods of the dependent variable. As a result, the number of companies used in the estimation procedures is actually below 2237, as shall be seen in the tables. An additional reason why the panel data is unbalanced is some companies' absence of data for the independent variables, which is principally due to the companies' incomplete reporting of which their foreign markets are. I will address these potential sources of sample selection bias in the Robustness Check subsection.

This study focuses on high environmental-impact companies because their environmental performance is particularly relevant for regulators and society in general and they are more likely to be scrutinized by the media, activists, and the public in general. In order to identify them, I use each company's 2-digit Standard Industrial Classification (SIC) code as reported by Worldscope (Thomson-Reuters). I consider as high environmental-impact the companies with a primary 2-digit SIC code between 10 and 14, between 20 and 39, and SIC code 49. The reason why I decided to use these codes to define what is a high environmental-impact industry (and company), is that they cover the industries that must report their emissions of toxic chemicals to the EPA, and also include the codes that define high environmental-impact companies in existing studies (Cho and Patten, 2007; Delmas and Toffel, 2008; Innes and Sam, 2008). The data used in this study covers the 2002–2012 period. In the sample, each company's home country, retrieved from Worldscope (Thomson-Reuters), remains unchanged during this period. All the data was collected in October 2014, when I was reasonably confident that Thomson-Reuters' Asset4 analysts had incorporated all the 2012 data required for the indicators of environmental performance that I use as the dependent variables.

The sample used in this study contains companies from 48 different countries around the world. The countries whose companies represent at least 1 % of the sample are: Australia, Brazil, Canada, China, Germany, France, Hong Kong, India, Italy, Japan, South Africa, South Korea, Sweden, Switzerland, Taiwan, United Kiopean countries are also represented in the sample.

3.2. Dependent variable

The indicator of environmental performance is the environmental score provided by the Asset4 database (Thomson-Reuters), whose values are between 0 and 100. I use the Asset4 database, which provides environmental, social, and governance (ESG) information to investors, because it contains comprehensive annual data on company-level environmental performance of a large sample of companies that belong to many countries and industrial sectors.

At the time of the data collection, over 130 analysts were collecting publicly available data from a wide range of sources, including company reports, news sources, NGOs, the Carbon Disclosure Project (CDP) and stock exchange filings. Asset 4's environmental score considers the company's impact on the natural environment across three dimensions (emissions, resource use, and environmental product innovation). It also captures whether the company has environmental policies or programs in place, is a member of environmental initiatives, engages in corporate environmental donations, and reports about its environmental policies, programs, and impacts. A thorough multi-step verification and process control allowed checking the answers to each of these data points. These answers were also regularly updated as new public information becomes available. This qualitative and quantitative data was subsequently transformed by the Asset4 analysts into consistent units, which allowed the calculation of the environmental score used in this study.

The Asset4 database is probably the best source of environmental data about companies (Barnett et al., 2018) and has been used as a measure of ESG performance in numerous studies (Cheng et al., 2014; Eccles et al., 2014; Ioannou and Serafeim, 2012; Luo et al., 2015; Zygliopoulos et al., 2016).

3.3. Independent variables

In order to test this study's hypotheses, I use two explanatory variables, Foreign Markets Formal Pressure and Foreign Markets Informal Pressure, which account for the average level of formal and informal pressures in the company's foreign markets, respectively. Entering a market where formal pressures in favor of more environmentally friendly practices are higher than in the company's average existing market, or increasing the sales in a market where formal pressures are stronger than in the average market, leads to a higher value of Foreign Markets Formal Pressure. The same reasoning applies to Foreign Markets Informal Pressure. These two variables are calculated in the same manner as Lim and Tsutsui (2012, p. 93)'s bilateral exports indicator, which captures the average level of pressures to adopt socially and environmentally responsible measures in a country's export markets. These authors determine how these pressures affect this country's companies' commitment to global initiatives that promote CSR. It should be noted that a change in the geographical scope of a company's sales can result in a change in one independent variable, the other, or both at the same time.

To calculate the value of Foreign Markets Formal Pressure, I use each company's geographic segments in each year, which I retrieved from the Worldscope database (Thomson-Reuters). This database provides up to 10 geographic segments per company and year, which it collects from companies' public information. While geographic segments are often countries, a geographic segment can sometimes cover two or more countries, such as "Eastern Europe" or "Rest of the World". Second, I attribute to each geographic segment (provided it is a country) and each year the corresponding value of the World Economic Forum (WEF) indicator of environmental regulation stringency, which captures the strength of the environmental regulation and policy signal (OECD, 2016).

Most regulatory bodies, if not all, presently use a combination of "command and control" or hard regulation and voluntary measures to achieve their environmental goals (Martinez Hernandez et al., 2021), using a "carrot and stick" approach. While only hard regulation is actually the object of enforcement, voluntary measures are (1) as explicit as hard regulation, because they are written, and (2) important signals about the environmental issues the regulator cares about, which are frequently taken seriously by managers, as they are sometimes already, or could quickly become, the object of hard regulation. The WEF indicator of environmental regulation stringency measures the strength of the signal that the regulator sends in terms of its expectations regarding appropriate behavior, and is therefore a good indicator of formal institutional pressures in favor of environmentally friendly practices. Finally, for each company and year, I calculate the average value of Foreign Markets Formal Pressure, weighted by proportion of sales in each of the foreign markets with respect to the total of this company's sales in all these markets.

In the hypothesis development section I have discussed the crucial role of the freedoms of expression and association in allowing societal actors to be effective sources of informal institutional pressures in favor of environmentally friendly practices and to hold companies accountable if they fail to comply with the prevalent norms and values. Thus, the value of Foreign Markets Informal Pressure is calculated following the same procedure as for Foreign Markets Formal Pressure but using the World Bank's "Voice and Accountability" value, which captures "the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media" (World Bank, 2014).

While "Voice and Accountability" does not measure the extent to which norms and values in favor of environmental protection are prevalent in a country, the companies' ability to learn about, and understand, these values and norms, as well as the need to comply with them to preserve their legitimacy and license to operate, are highly dependent on the freedoms that "Voice and Accountability" captures, as discussed above. Indeed,

even if a country's citizens strongly believe that companies should behave in an environmentally friendly manner, without free media, citizens, and a civil society able to scrutinize and publicly expose companies' environmental records, these companies have less opportunities to learn about, and few reasons to worry about and comply with, informal pressures, as discussed above.

In fact, Inglehart (1995), using the World Values Survey (WVS)'s 1990/91 data, found that countries in which people believed that protecting the environment was important were either advanced democracies characterized by postmaterialist values, or severely polluted countries, such as China, Russia, or Mexico. The latter probably exhibit high levels of pollution, at least in part, because of the difficulties that society members would encounter if they tried to expose companies' records and pressure the business sector into changing its practices. In these countries, and even if public concern for the environment may be high because people suffer the negative consequences of pollution and ecological degradation, informal pressures in favor of environmentally friendly practices are actually weak, probably because of the lack of freedom. Therefore, while the WVS database is, to the best of my knowledge, the source of data on values related to environmental protection with the widest country coverage, its indicators are not good proxies of the informal pressures companies are subject to.

In sum, since "Voice and Accountability" captures the ability of citizens, journalists, and civil society to make their expectations known to companies and to pressure them to improve their environmental practices, I use it as a proxy for informal pressures in the calculation of Foreign Markets Informal Pressure. Moreover, while the "Voice and Accountability" indicator is available at least in one year for 206 countries, the WVS's indicators related to environmental protection are available for <100 countries.

However, despite the issues and limitations associated with the existing indicators of values favorable to environmental protection, and because Foreign Markets Informal Pressure simultaneously depends on the country's values and norms related to environmental protection and the ability of citizens to exert pressure on companies, I also performed a robustness check with a version of Foreign Markets Informal Pressure that takes into account these two dimensions. This robustness check is described in Section 4.3.

3.4. Control variables

Extant literature shows that there are many company characteristics that can affect a company's environmental performance, as shown, for example, in Ioannou and Serafeim (2012)'s study on the determinants of a company's corporate social and environmental performance. As we shall see in the next section, the identification strategy uses company-fixed effects, which control for any time-invariant company-specific characteristic that could be an omitted variable and confound the estimates. However, there might still be time-varying company characteristics that could be omitted variables and that must be controlled for.

A key element of this study's theorization is that international expansion and investments in environmental measures require resources. Since larger companies tend to have more resources, I introduce a company's Assets to control for company size. I also control for Net Sales, a proxy for size that is correlated with a company's performance, as companies with more revenues may also be more likely to invest in both international expansion and environmental measures. The flow of liquid capital (Cashflow) and the stock of Cashare resources that a company can use for CSR investments and/or to counteract any disruption costs imposed by stakeholders' actions against this company (Eesley and Lenox, 2006; King, 2008; Lenox and Eesley, 2009), as well as for international expansion. Thus, these two variables are also introduced as controls. I calculate the value of Cashflow using Eesley and Lenox (2006)'s procedure.

Since poor financial performance can lead to restrictions in managerial discretion over CSR expenditures (Adams and Hardwick, 1998), and profitability can influence international strategic decisions, I introduce the company's annual return on assets to control for a company's Profitability. Moreover, high levels of company leverage can impose high debt contracting costs, which can reduce the resources available for CSR (Adams and Hardwick, 1998) and for international expansion. Thus, the company's debt as a percentage of total assets is introduced to control for the company's Leverage. The data required for all the control variables were retrieved from the Worldscope database (Thomson-Reuters).

There are a number of time-varying firm-level determinants of CSR considered by Ioannou and Serafeim (2012) that are not included in the model because there is no valid theoretical reason for which they could be omitted variables given this study's empirical model. However, I still performed a series of robustness checks by including each of these variables one at a time, so as not to have a problem of "too many" control variables. This study's results are robust to the inclusion of each of these variables.

3.5. Identification strategy

To evaluate whether an increase in the formal and informal institutional pressures in a company's foreign markets has a positive effect on this company's environmental performance, I use the following econometric model:

$$\begin{aligned} \text{Environmental Performance}_{it} = & \alpha + \sum_{j=1}^J \gamma_j \text{Environmental Performance}_{it-j} + \sum_{k=1}^K \theta_k \text{Foreign Markets Formal Pressure}_{it-k} \\ & + \sum_{m=1}^M \rho_m \text{Foreign Markets Informal Pressure}_{it-m} + \delta X_{it-1} + \mu_i + \tau_t + \varepsilon_{it} \end{aligned}$$

where $\text{Environmental Performance}_{it}$ is company i 's environmental performance in year t , and $\text{Foreign Markets Formal Pressure}_{it}$ and $\text{Foreign Markets Informal Pressure}_{it}$ are the two independent or explanatory variables, and $J, K, M \geq 1$. Introducing several lags of the explanatory variables in the model allows capturing the timing of the response to institutional pressures. $X_{i,t}$ is a column vector that contains the control variables. Because a company's present environmental performance and its foreign market strategic decisions, which determine the explanatory variables' values, can both depend on this company's previous environmental performance, I introduce lags of $\text{Environmental Performance}$ on the right-hand side of the equation, in order to control for this potential source of endogeneity. In other words, the introduction of lags of the dependent variable not only accounts for the fact that a company's present environmental practices and policies depend on its past ones, but also controls for any potential endogeneity due to reverse causality (Leszczensky and Wolbring, 2019). Company-fixed effects (μ_i) and time-fixed effects (τ_t) are also introduced in the regression models. The coefficients of interest for this study are θ_k and ρ_m .

Because of the inclusion of lags of the dependent variable, the model above is a dynamic panel data model. Given that in this kind of model the fixed-effect coefficient estimates are biased (Nickell, 1981), the Arellano-Bond estimator, which relies on an instrumental variable Generalized Methods of Moments (GMM) procedure, must be used to obtain unbiased coefficient estimates (Cameron and Trivedi, 2005). This estimator has already been used in the literature in Management (Alessandri et al., 2012; Bapna et al., 2013). An additional advantage of this estimator is that, as an over-identified instrumental-variable GMM approach, it allows testing whether the instruments are truly exogenous with the Sargan test. If there was a problem of omitted variables that resulted in an estimation bias, the Sargan test results would capture this endogeneity problem. All the econometric procedures were carried out using Stata 13 (Statacorp, LP).

4. RESULTS

4.1. Descriptive statistics

Table 1 reports the descriptive statistics and the pairwise correlations of the variables. There is a relatively high level of correlation between $\text{Foreign Markets Formal Pressure}$ and $\text{Foreign Markets Informal Pressure}$, which could result in a problem of multicollinearity and potentially compromise these two variables' coefficient estimates. One of the main consequences of multicollinearity is that coefficient estimates are markedly sensitive to changes in model specification (Farrar and Glauber, 1967). Moreover, if multicollinearity is caused by two highly correlated variables, removing one of these two variables from the regression model should result in coefficient estimates not affected by this high correlation. The results I obtain are essentially the same whether I include only one of the independent variables in the regression models or both, as we shall see in Table 2. Since the coefficient estimates of $\text{Foreign Markets Formal Pressure}$ and $\text{Foreign Markets Informal Pressure}$ do not seem to be affected by changes in model specification, and the results are very similar whether I include both of these two variables or only one of them, there is no reason to be concerned about these two variables' correlation.

Table 1 also shows that Assets , Net Sales , Cashflow , and Cash exhibit high levels of correlation with one another. In order to assess whether this is a source of multicollinearity, I ran the regression model in Table 2's column (3) four times, but each time I kept only one of these four variables, removing the three others. The results of these four specifications and of the one that includes the four variables one at a time are very similar. Therefore, one should not be concerned by the fact that these four variables are correlated. After addressing these issues, I first test Hypotheses 1a, 1b, and 2 by determining the effect of the lags of $\text{Foreign Markets Formal Pressure}$ and $\text{Foreign Markets Informal Pressure}$ on the dependent variable. Then, I perform a number of robustness checks to rule out alternative explanations of the observed effects and to address a potential problem of sample selection bias. Finally, I test Hypotheses 3 and 4, which require exploring the effects of recent

profitability and the breadth of previous international market experience on the internationalizing companies' ability to comply with these stronger institutional pressures.

Table 2: Effect of the change in institutional pressures in the company's foreign markets on its environmental performance.

Variables	(1)	(2)	(3)
Environmental Performance at <i>t-1</i>	0.51 ^{***} (0.06)	0.44 ^{***} (0.06)	0.45 ^{***} (0.07)
Environmental Performance at <i>t-2</i>	0.14 ^{***} (0.03)	0.12 ^{***} (0.03)	0.14 ^{***} (0.03)
Foreign Markets Formal Pressure at <i>t-1</i>	3.03 ^{**} (1.30)		4.08 ^{**} (1.85)
Foreign Markets Formal Pressure at <i>t-2</i>	0.22 (1.24)		-1.65 (1.49)
Foreign Markets Formal Pressure at <i>t-3</i>	-0.15 (1.12)		-0.13 (1.66)
Foreign Markets Informal Pressure at <i>t-1</i>		0.37 (1.00)	-1.78 (1.45)
Foreign Markets Informal Pressure at <i>t-2</i>		3.01 ^{**} (1.43)	3.52 ^{**} (1.70)
Foreign Markets Informal Pressure at <i>t-3</i>		0.55 (1.27)	0.56 (1.89)
Assets at <i>t-1</i>	-0.12 ^{***} (0.04)	-0.12 ^{***} (0.04)	-0.12 ^{***} (0.04)
Net Sales at <i>t-1</i>	0.05 (0.03)	0.04 (0.03)	0.04 (0.03)
Cashflow at <i>t-1</i>	0.13 (0.14)	0.17 (0.14)	0.18 (0.15)
Cash at <i>t-1</i>	0.20 (0.17)	0.24 (0.16)	0.22 (0.17)
Profitability at <i>t-1</i>	-0.03 (0.03)	-0.02 (0.03)	-0.02 (0.03)
Leverage at <i>t-1</i>	0.06 (0.06)	0.07 (0.05)	0.06 (0.06)
Constant	8.74 (10.4)	28.32 ^{***} (5.27)	15.09 (11.71)
Company-fixed effects	Included	Included	Included
Year-fixed effects	Included	Included	Included
Number of observations	2494	2668	2383
Number of companies	677	722	668
Sargan Test p-value	0.68	0.30	0.48
Arellano-Bond test p-value (order1)	0.00	0.00	0.00
Arellano-Bond test p-value (order2)	0.89	0.35	0.81

Notes: The Sargan test null hypothesis is that the overidentifying restrictions are valid. The Arellano-Bond test null hypothesis is that there is no autocorrelation of the first-differenced error terms. Below each coefficient robust standard errors are reported in brackets. Exact p-values of the effects of interest are reported in the "Results" section's text.

** p < 0.05.

*** p < 0.01.

4.2. The timing of the response

In Table 2, Column (1)'s results for the lags of Foreign Markets Formal Pressures show that companies subject to an increase in the average formal institutional pressure in favor of environmentally friendly practices exhibit an increase in their Environmental Performance in the year following the change in the company's foreign markets but not in the second and third years (coefficient estimate of Foreign Markets Formal Pressure at $t-1$: $\beta = 3.03$, $p = 0.02$; 95 % confidence interval (c.i.) 0.49–5.57; p-values at $t-2$ and at $t-3$ are 0.86 and 0.90, respectively). Column (2)'s results show that companies comply with an increase in informal institutional pressures two years afterwards instead of in the following year (coefficient estimate of Foreign Markets Informal Pressure at $t-2$: $\beta = 3.01$, $p = 0.04$; 95 % c.i. 0.21–5.81; p-values at $t-1$ and at $t-3$ are 0.71 and 0.67, respectively). Column (3), which shows the results when the lags of both explanatory variables are included in the regression models, confirms Columns (1) and (2)'s results. These results provide support for Hypotheses 1a and 1b, according to which an increase in formal and informal pressures in favor of environmentally friendly practices in a company's foreign markets lead to the adoption of such practices, raising the company's environmental performance, respectively. They also provide support for Hypothesis 2, which states that informal pressures in favor of environmentally friendly practices in its foreign markets are addressed later than formal pressures.

It should be noted that an increase in either of the two explanatory variables, or of both at the same time, could result from (i) new foreign market entry, (ii) the expansion of sales in an existing foreign market whose pressures are stronger than in the company's average market, and/or (iii) an increase in the pressure within an

existing market due to a change in regulation, norms, and/or values (Zhao et al., 2014). Given that, as we have seen, internationalization processes take place through (i) and (ii), and all this study's hypotheses apply to both, I need to confirm that the effects observed exist for both (i) and (ii) by disentangling the three sources of change in the explanatory variables from one another. A way to remove the effect described by (iii) from the other two effects, that is, (i) and (ii), is to calculate Foreign Markets Formal Pressure and Foreign Markets Informal Pressure using each country's intertemporal mean of the indicator that captures formal and informal pressures, respectively. This renders the explanatory variables insensitive to temporal changes in a foreign markets' level of institutional pressures. However, after doing so, it is still necessary to disentangle (i) and (ii).

This can be done by separating observations for which there has been an increase in the number of foreign markets from those where there has not. To that end, I create two dummy variables for each observation, one that is equal to unity when the number of foreign markets has increased and zero otherwise, and a second one that is equal to unity when the number of foreign markets has not increased and zero otherwise. Thus, when one of these two dummy variables is equal to one, the other is equal to zero. Then I multiply Foreign Markets Formal Pressure by each of the two dummies, which allows separating effects (i) and (ii) for formal pressures. Applying the same procedure to Foreign Markets Informal Pressure allows disentangling (i) and (ii) for informal pressures. The results confirm that the effects observed do happen for both (i) and (ii), as expected.

The coefficient estimates of the explanatory variables in Table 2's Columns (1)–(3) are robust to (a) the addition of an additional lag of Environmental Performance and of each of the two explanatory variables, (b) replacing Assets, Net Sales, Cashflow, and Cash with their respective natural logarithms, and (c) introducing the second and third lags of all the control variables. Moreover, for Table 2's Columns (1)–(3), as well as for all the other regression models in this study, the Sargan test p-values (reported in the tables) do not detect any source of endogeneity that could bias the coefficients. Finally, in all the tables, p-values of the Arellano-Bond test also indicate that there is first-order autocorrelation of the first-differenced error terms, which is to be expected by construction, but no second-order autocorrelation. This means that the validity of the results is not compromised by a potential serial correlation of the error terms (ϵ_{it}) in the dynamic panel data regression model I use.

4.3. Robustness checks

There are four important robustness checks that must be conducted before proceeding to test Hypotheses 3 and 4. First, as discussed in Section 3.3, the “Voice and Accountability” indicator used to calculate Foreign Markets Informal Pressure accounts for the ability of citizens, civil society, and the media to make companies aware about their expectations and to pressure them into acting according to prevalent values in order to preserve their legitimacy, but not for the prevalence of values in favor of environmental protection. At the same time, the WVS indicators that capture these environmental values have limitations, as reported in Section 3.3.

Despite these limitations, I perform a robustness check by constructing an indicator that uses both “Voice and Accountability” and one of the WVS indicators, and which allows including the two dimensions associated with informal pressures in favor of environmental protection in one single indicator. First, among the WVS indicators, I select the percentage of people in a country who agree with the statement “Protecting the environment should be given priority, even if it causes slower economic growth and some loss of jobs”.¹ Instead of using the data of a single WVS wave, which covers a limited number of countries, I calculate the intertemporal mean of the three survey waves that took place between 2005 and 2020, in order to maximize this indicator's country coverage. I recode both this intertemporal mean, which is available for 90 countries, as well as “Voice and Accountability”, which is available for 206, so that their values are between 1 and 3. Then, I multiply these two measures to obtain a country-level indicator of informal pressures in favor of environmental protection. This indicator's value is, by construction, between 1 and 9, and it is available for 87 countries.

This indicator is subsequently used to calculate a second version of Foreign Markets Informal Pressure using the procedure described in Section 3.3. Finally, I run Table (2) Column (3)'s model with this new version of Foreign Markets Informal Pressure, and report the estimates in Table 3's Column (1). Despite the fact that the new country-level indicator is an intertemporal mean and it is only available for 87 countries instead of 206, Column (3)'s results are robust to using this new indicator instead of one that relies exclusively on “Voice and Accountability”. The rest of this study's results, which rely on Foreign Markets Informal Pressure calculated as described in Section 3.3, are also robust to using this new country-level indicator.

The second robustness check seeks to determine whether the effect observed in Table 2's Columns (1)–(3) is driven by the fact of selling the product in the foreign market, which could happen through exports or through the presence of a subsidiary in this foreign market that produces the good or services sold there, or it is exclusively driven by the presence of the subsidiary. Indeed, while some companies internationalize by exporting a product to a new market, or increasing their exports to existing markets, others establish subsidiaries

in the foreign markets they sell to because they need to adapt the product, the advertising, and/or the distribution strategies to the foreign markets' particularities (Bartlett and Goshal, 1987; Doz and Prahalad, 1984). Since the regression models of Table 2's Columns (1)–(3) do not differentiate between the two situations (subsidiary vs. no subsidiary), the effect could be exclusively due to the presence of subsidiaries in the foreign markets (e.g. environmental regulations for buildings) rather than the fact that the company is selling in the foreign market. Therefore, I need to determine whether the effect is still present in the absence of any subsidiary.

To that end, I calculate Foreign Markets FDI Formal Pressure and Foreign Markets FDI Informal Pressure following the same procedure as for Foreign Markets Formal Pressure and Foreign Markets Informal Pressure, respectively, but using each company's assets in its foreign markets instead of the sales. Then, I run Table 2 Column (3)'s regression model adding the three first lags of Foreign Markets FDI Formal Pressure, and report the results in Table 3's Column (2). I repeat the same procedure but with the three first lags of Foreign Markets FDI Informal Pressure instead, and report the results in Table 3's Column (3).

In Table 3's Column (2), none of the coefficient estimates of the three lags of Foreign Markets FDI Formal Pressure is significantly different from zero (p-values of 0.48, 0.46, and 0.94, respectively). Moreover, the coefficient estimate of Foreign Markets Formal Pressure at t-1 remains positive, with a p-value of 0.05, and so does the Foreign Markets Informal Pressure at t-2's coefficient estimate (even if the p-value rises to 0.21). In Table 3's Column (3), the coefficient estimates of the three lags of Foreign Markets FDI Informal Pressure are never significantly different from zero either (p-values of 0.46, 0.49, and 0.62, respectively), while the coefficient estimates of Foreign Markets Formal Pressure at t-1 and Foreign Markets Informal Pressure at t-2 are still positive and significantly different from zero (p-values of 0.04 and 0.10, respectively). These results strongly suggest that the effects observed in Table 2's Columns (1) to (3) are essentially linked to the sales and not to the presence or absence of subsidiaries in the foreign markets. Finally, it is important to point out that Foreign Markets FDI Formal Pressure and Foreign Markets FDI Informal Pressure only account for the FDI that happens in markets where the company sells, and not for all the company's FDI, because companies can have subsidiaries in countries where they do not sell for a variety of reasons (e.g. lower production costs), and this phenomenon is not captured by Foreign Markets FDI Formal Pressure and Foreign Markets FDI Informal Pressure, which only consider the presence of assets in the foreign countries where the company does sell. This should explain why these two variables' coefficient estimates are not significantly different from zero, while existing literature shows that pressures in favor of CSR in countries where a company has carried out FDI positively affect this company's CSR performance (Marano and Kostova, 2016).

The third issue I need to address is the fact that companies with a higher degree of internationalization of their sales may have higher levels of environmental performance and, simultaneously, have developed better environmental capabilities, because they have had to deal with the greater levels of complexity generated by selling in many different countries (Kostova and Zaheer, 1999; Sharfman et al., 2004). As a result of these better environmental capabilities, these companies would also be more likely to enter new foreign markets with higher levels of institutional pressures in favor of environmentally friendly practices, where they may have a competitive advantage (Bu and Wagner, 2016). If this was the case, the degree of internationalization of sales could simultaneously affect a company's environmental performance and its independent variables' values, and thus be a confounding factor in the regression models.

Table 3: Robustness checks.

Multicultural Education

Variables	(1)	(2)	(3)	(4)
Environmental Performance at $t-1$	0.52*** (0.063)	0.43*** (0.08)	0.39*** (0.08)	0.45*** (0.07)
Environmental Performance at $t-2$	0.14*** (0.030)	0.17*** (0.04)	0.15*** (0.04)	0.14*** (0.03)
Foreign Markets Formal Pressure at $t-1$	4.64** (1.87)	5.42** (2.74)	4.66** (2.27)	4.12** (1.83)
Foreign Markets Formal Pressure at $t-2$	-1.76 (1.50)	-1.13 (3.30)	-2.32 (2.18)	-1.66 (1.51)
Foreign Markets Formal Pressure at $t-3$	-0.71 (1.77)	1.61 (3.15)	1.36 (2.51)	-0.19 (1.67)
Foreign Markets Informal Pressure at $t-1$	-2.16 (1.39)	-1.45 (1.96)	0.02 (2.02)	-1.74 (1.47)
Foreign Markets Informal Pressure at $t-2$	3.34** (1.54)	3.40 (2.71)	4.75* (2.85)	3.45** (1.70)
Foreign Markets Informal Pressure at $t-3$	1.18 (2.09)	-1.24 (2.92)	-1.51 (3.42)	0.52
Foreign Markets FDI Formal Pressure at $t-1$		-1.11 (1.56)		
Foreign Markets FDI Formal Pressure at $t-2$		-2.01 (2.74)		
Foreign Markets FDI Formal Pressure at $t-3$		-0.17 (2.15)		
Foreign Markets FDI Informal Pressure at $t-1$			-1.46 (1.97)	
Foreign Markets FDI Informal Pressure at $t-2$			-2.43 (3.51)	
Foreign Markets FDI Informal Pressure at $t-3$			1.50 (3.04)	
Percentage Foreign Sales at $t-1$				0.01 (0.04)
Percentage Foreign Sales at $t-2$				-0.01 (0.04)
Percentage Foreign Sales at $t-3$				-0.01 (0.03)
Assets at $t-1$	-0.12*** (0.04)	-0.23** (0.10)	-0.28*** (0.11)	-0.12*** (0.04)
Net Sales at $t-1$	0.05* (0.027)	-0.02 (0.08)	-0.04 (0.08)	0.04 (0.03)
Cashflow at $t-1$	0.16 (0.15)	1.98* (1.19)	2.11* (1.20)	0.18 (0.15)
Cash at $t-1$	0.17 (0.17)	0.84 (0.73)	0.95 (0.76)	0.22 (0.17)
Profitability at $t-1$	-0.03 (0.03)	-0.06 (0.05)	-0.06 (0.05)	-0.02 (0.03)
Leverage at $t-1$	0.06 (0.06)	0.13 (0.09)	0.14 (0.09)	0.06 (0.06)
Constant	0.56 (11.15)	10.35 (16.76)	10.38 (17.13)	17.39 (11.52)
Company-fixed effects	Included	Included	Included	Included
Year-fixed effects	Included	Included	Included	Included
Number of observations	2457	1680	1679	2383
Number of companies	667	513	513	668
Sargan Test p-value	0.74	0.79	0.83	0.48
Arellano-Bond test p-value (order1)	0.00	0.00	0.00	0.00
Arellano-Bond test p-value (order2)	0.78	0.23	0.21	0.79

Notes: Foreign Markets Informal Pressure is calculated as described in Section 3.3, except for Column (1), which uses a different country-level indicator of informal pressure and corresponds to the robustness check described in Section 4.3's first three paragraphs. The Sargan test null hypothesis is that the overidentifying restrictions are valid. The Arellano-Bond test null hypothesis is that there is no autocorrelation of the first-differenced error terms.

Below each coefficient robust standard errors are reported in brackets.

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

Table 4: The moderating effects of recent profitability and previous international market experience on the relationship between institutional pressures and environmental performance.

Moderating effect	Foreign Markets X	X = Formal Pressure	X = Informal Pressure
Low recent profitability	<i>at t-1</i>	2.56* (1.34)	-0.89 (1.36)
	<i>at t-2</i>	-0.26 (1.23)	1.60 (2.09)
	<i>at t-3</i>	-0.47 (1.07)	0.58 (1.76)
High recent profitability	<i>at t-1</i>	2.68** (1.28)	0.16 (1.00)
	<i>at t-2</i>	0.01 (1.24)	2.97** (1.40)
	<i>at t-3</i>	-0.28 (1.07)	0.48 (1.25)
Company-fixed effects		Included	Included
Year-fixed effects		Included	Included
Number of observations		2,465	2,635
Number of companies		674	718
Sargan test p-value		0.49	0.19
Arellano-Bond test p-value (order1)		0.00	0.00
Arellano-Bond test p-value (order2)		0.96	0.65
Narrow previous international market experience (the company exported to one foreign market or none in the previous year ¹)	<i>at t-1</i>	4.15** (1.54)	0.86 (3.96)
	<i>at t-2</i>	-0.62 (1.36)	-2.93 (3.28)
	<i>at t-3</i>	-0.23 (1.22)	-1.95 (1.88)
Broad previous international market experience (the company exported in at least two markets in the previous year ¹)	<i>at t-1</i>	3.09** (1.28)	0.36 (1.00)
	<i>at t-2</i>	0.44 (1.25)	3.16** (1.43)
	<i>at t-3</i>	-0.33 (1.16)	0.60 (1.26)
Company-fixed effects		Included	Included
Year-fixed effects		Included	Included
Number of observations		2,494	2,668
Number of companies		677	722
Sargan test p-value		0.58	0.27
Arellano-Bond test p-value (order1)		0.00	0.00
Arellano-Bond test p-value (order2)		0.77	0.33

Table 2's Column (1), and only the coefficient estimates for this variable are reported. The baseline regression model used for Foreign Markets Informal Pressure is Table 2's Column (2), and only the coefficient estimates for this variable are reported. The Sargan test null hypothesis is that the overidentifying restrictions are valid. The Arellano-Bond test null hypothesis is that there is no autocorrelation of the first-differenced error terms. Below each coefficient robust standard errors are reported in brackets. Exact p-values of the effects of interest are reported in the "Results" section's text.

* p < 0.10.

** p < 0.05.

The previous year for the Foreign Markets Formal Pressure at t-j is the year t-j-1 (Please see Section 4.4 for further details).

Therefore, as an additional robustness check, I introduce the three first lags of a company's Percentage of Foreign Sales, whose data is retrieved from Worldscope (Thomson-Reuters), in Table 2's Column (3)'s regression model, and report the results in Table 3's Column (4). These results show that the degree of internationalization of a company's sales is not a confounding factor that could bias the effects found in Table 2's Column (3). While none of the coefficient estimates of the three first lags of Percentage of Foreign Sales are significantly different from zero (p-values of 0.86, 0.79, and 0.33, respectively), the coefficient estimates Foreign Markets Formal Pressure at t-1 and Foreign Markets Informal Pressure at t-2 are still positive and significantly different from zero (p-values of 0.03 and 0.04, respectively).

Finally, as a last robustness check, I also need to check whether the fact that the panel is unbalanced is

introducing a bias in the coefficient estimates. Indeed, in the context of an unbalanced panel, if the data on the dependent and/or the independent variables is not missing at random, one could end up with a selection bias. The literature in Econometrics provides a sample selection bias test that can be applied to any type of unbalanced panel in the context of dynamic panel data estimation (Semykina and Wooldridge (2013)'s Procedure 3). This procedure was initially designed for situations with missing values in the dependent variable, but it can be easily adapted to test whether missing values in the dependent and independent variables are missing at random or not. The null hypothesis is that there is no selection bias. I ran this test for Table 2's Models (1), (2), and (3), first considering only the missing values in the dependent variable (original test), and then considering missing values in both the dependent and the independent variables (adapted test). In all the tests, the p-value is always above 0.35. Hence, there is no evidence of a potential sample selection bias problem.

4.4. Company resources and the likelihood of compliance

In order to test Hypothesis 3, I separate the company-year observations into two groups, one where the company's average profitability (return on assets) of the three previous years is negative (low recent profitability) and one where this average profitability is positive (high recent profitability). To that end, I create two dummy variables for each company-year observation, one that is equal to unity when recent profitability is low and zero otherwise, and a second one that is equal to unity when recent profitability is high and zero otherwise. Thus, when one of these two dummy variables is equal to one, the other is equal to zero. Then I interact each of the lags of Foreign Markets Formal Pressure in the model in Table 2's Column (1) with each of these two dummies, and report the results for the lags of this variable in the first column at the top of Table 4. I then repeat the same procedure for Foreign Markets Informal Pressure by interacting each of the lags of this variable in the model in Table 2's Column (2) with each of the aforementioned dummies, and report the results in the second column at the top of Table 4.

Table 4's results show that both companies with low recent profitability (Foreign Markets Formal Pressure at t-1: $\beta = 2.56$, $p = 0.06$; 90 % c.i. 0.36–4.76) and high recent profitability (Foreign Markets Formal Pressure at t-1: $\beta = 2.68$, $p = 0.04$; 95 % c.i. 0.17–5.18) respond to stronger formal pressure in favor of environmentally friendly practices with an increase in environmental performance. However, only companies with high recent profitability respond to informal pressures (Foreign Markets Informal Pressure at t-2: $\beta = 2.97$, $p = 0.03$; 95 % c.i. 0.22–5.71), while companies with low recent profitability do not (Foreign Markets Informal Pressure at t-2: $\beta = 1.60$, $p = 0.44$). Hence, the results provide support for Hypothesis 3. The results are robust to defining recent profitability as the average over the four previous years instead of three, and to using five dummies (one per quintile) to separate the observations instead of two dummies. The results of these robustness checks are not reported here but are available upon request.

In order to test Hypothesis 4, I repeat the two-dummy procedure described above but here I separate the observations into two groups depending on whether the number of foreign markets in the year preceding the observation is zero or one (narrow previous international market experience), or it is at least equal to two (broad previous international market experience). With this identification strategy, the coefficient estimate for Foreign Markets Formal Pressure at t-1 for narrow previous international market experience, for example, captures the effect of last year's Foreign Markets Formal Pressure on this year's company's Environmental Performance, when the company's number of foreign markets two years ago (in t-2) was zero or one, meaning that the company started year t-1 with a narrow international experience. While this same company might have sold to more than two countries in t-3, t-4, etc., I use the number of foreign markets in the year preceding the observation as a proxy of the breadth of international experience. However, the results obtained are robust to using the same definition of breadth of international experience but considering the two preceding years instead of only one.

The results in Table 4 show that, as far as formal pressures are concerned, both companies with a narrow international market experience (Foreign Markets Formal Pressure at t-1: $\beta = 4.15$, $p = 0.007$; 95 % c.i. 1.13–7.17) and a broad one (Foreign Markets Formal Pressure at t-1: $\beta = 3.09$, $p = 0.02$; 95 % c.i. 0.58–5.60) respond to stronger formal pressure with an increase in environmental performance. However, only companies with a broad international experience respond to informal pressures (Foreign Markets Informal Pressure at t-2: $\beta = 3.16$, $p = 0.03$; 95 % c.i. 0.35–5.97), while companies with a narrow one do not (Foreign Markets Informal Pressure at t-2: $\beta = -2.93$, $p = 0.37$). Hence, the results support Hypothesis 4.

5. DISCUSSION

In this study, I rely on the literature on internationalization processes to set up this study's starting point, which is that when companies internationalize by entering a new foreign market or expanding their sales in an existing one, and as a result they are faced with increased institutional pressures in favor of more environmentally friendly practices, compliance with such pressures first requires learning about them. I then develop a theory on how the difficulties and costs associated with this learning process affect how companies deal with formal and informal institutional pressures. While managers can learn relatively quickly about formal pressures, whose information is easily accessible in the form of written regulations, the tacit nature of norms and values, which are opaque to outsiders, means that it takes longer to learn about informal pressures. More precisely, a large part of the knowledge associated with informal pressures is experiential knowledge; it can only be acquired through experiences in the foreign market and repeated interactions with local actors. This makes learning about informal pressures slower and relatively more costly in terms of resources than learning about formal ones.

According to this study's theorization, this difference between formal and informal pressures has two consequences, one related to the timing of compliance and the other to its likelihood. First, I hypothesize that companies subject to increased institutional pressures in favor of more environmentally friendly practices in their foreign markets first comply with formal pressures, while compliance with informal pressures comes later in time. Second, I expect that once companies have complied with the expectations associated with formal pressures, because they are relatively easy to learn about and are coercive by nature, some may not be able to allocate sufficient resources to address informal pressures whose expectations go beyond regulation, because learning about the latter is particularly costly in terms of resources. This is why I hypothesize that compliance with informal pressures is more likely to happen when (1) companies are able to allocate sufficient resources to learning about informal pressures, and (2) the amount of resources required for the international sales expansion's operations and to learn about foreign-market institutional pressures is lower thanks to the company's foreign market experience. The data support all these hypotheses.

Thus, this study makes an important contribution to the international business and sustainability literatures. The literature on sustainability has extensively looked into how institutional pressures determine companies' environmental practices (see, for example, Bansal and Roth, 2000; Campbell, 2007; Delmas and Toffel, 2008; Doh and Guay, 2006; Doshi et al., 2013; or Ioannou and Serafeim, 2012). However, and similarly to the international business literature, it has not looked into how companies deal with institutional pressures in favor of more environmentally friendly practices during their internationalization processes. This study shows that the nature of informal pressures in favor of environmentally friendly practices can make it difficult for companies to comply with these pressures. Moreover, companies that comply only do so two years after the international expansion move. Failure to comply with these pressures, or to do so in a timely manner, can have devastating consequences for a company's legitimacy in a context where environmental sustainability is at the center of public debate.

Another important contribution of this study to the international business literature and institutional theory is showing that the timing and the extent to which companies are able to address different types of institutional pressures in foreign markets depend on how difficult and costly it is to learn about each type of pressure. The difficulties and costs depend on (1) the characteristics of the pressure and how they affect the company's ability to learn about it, and (2) the company characteristics that determine whether sufficient company resources can be allocated to the learning process.

This study also offers new knowledge for managerial practice regarding the difficulties of dealing with a multiplicity of institutional pressures in new, insufficiently known, or changing environments, and the difficulties and costs associated with learning about, and complying with, these pressures. From a practitioner standpoint, this study suggests that investing in individual and organizational knowledge-based capabilities that allow a company to quickly and efficiently learn about institutional pressures in new, insufficiently known, or changing business environments (Knight and Cavusgil, 2004) is crucial for these companies' legitimacy and ability to succeed in these business environments. While, according to extant literature, such capabilities are developed through previous international experience, as shown in the hypothesis development section, companies with little or no internationalization experience can also acquire these capabilities either by hiring managers and employees who have already developed them during their experiences in other companies, or by developing them through adequate employee training programs.

Finally, while these knowledge-based capabilities are important for any type of institutional pressure that companies encounter during their internationalization processes, their role is probably even more crucial when companies face pressures in favor of environmentally and socially responsible practices. Indeed, in the hypothesis development section I discussed the difficulties associated with obtaining information about

environmental and social issues from stakeholders and understanding the complex causal relationships between corporate activities and socio-environmental outcomes. Hence, developing or acquiring these knowledge-based capabilities is particularly important for the business sector to achieve a sustainable internationalization.

6. LIMITATIONS AND FUTURE RESEARCH

This study has several limitations, which can also be viewed as opportunities for future research. First, the environmental indicator I use does not distinguish between different types of environmental issues and practices, such as the implementation of environmental management systems, greener production processes, recycling, participation in voluntary initiatives, environmental reporting, etc. While in countries with high levels of institutional pressures in favor of environmental protection the regulators' and other stakeholders' expectations tend to cover a variety of environmental issues, and many companies that go greener address more than one of these at a time, not all the environmental issues require the same amount of time, effort, and attention. Indeed, some of these issues, such as securing a green supply chain, may require more time, effort, and attention than others, such as reducing the carbon footprint through easy energy efficiency improvements. Further research should look into how the time, effort, and attention required to learn about institutional pressures depend on the type of environmental subject and policy. It should also be noted that resource-constrained companies may not only be less likely to comply with informal pressures, but they may also be more likely to turn to symbolic measures than substantive ones, because the latter are more costly than the former (Durand et al., 2019). Additionally, given that the relevant environmental issues vary from one industry to another, some industries may be more affected by the difficulties and costs associated with learning about informal pressures than others. Future research should also look into how industry characteristics affect these learning processes.

Second, this study focuses on environmental performance, and does not consider the social dimensions of sustainability. This study's findings are probably applicable not only to institutional pressures in favor of more environmentally friendly practices, but also to other types of pressures, including those affecting social issues, such as employment quality or community involvement. However, further research should still look into the cost and difficulty of learning about pressures in favor of socially responsible practices, as they are also important for a company's legitimacy and success. Companies could also actively choose not to comply with local (host country) norms because they are in conflict with home country ones or simply not seen as all that relevant (Husted and Allen, 2006). While this is unlikely to be a problem for pressures in favor of environmentally friendly practices, studies considering social norms should take this aspect into consideration.

Third, in the paper, and following Johanson and Vahlne (1977), I have considered that learning about institutional pressures happens both when a company starts selling in a new foreign market and when it expands its sales in an existing one. Additional empirical tests, as mentioned in Section 4.2, confirm that the effects observed in Table 2 actually happen in both situations. While I do not distinguish between these two situations in this study, the nature and the extent of the learning processes that take place in each of the two could actually be different. Therefore, further research should look into the differences between the two types of situation.

Finally, while recent profitability and the breadth of foreign experience are two important company-specific characteristics that determine whether companies are able to learn about, and comply with, foreign markets' institutional pressures, there could be other company-specific characteristics, such as a company's organizational structure, that determine the ability to learn about these pressures, and to do so efficiently. Future research could look into how the organizational structure affects the development and use of individual and organizational knowledge-based capabilities that allow companies to learn about institutional pressures. Moreover, given the importance of these knowledge-based capabilities, a promising avenue of research is to identify what these capabilities are, how they work, and how companies can develop and strengthen them. Learning more about these important capabilities would require using qualitative methods such as participant observation and semi-structured interviews.

7. CONCLUSION

Companies that operate in several countries are faced with multiple institutional pressures, and often find it difficult to establish legitimacy with all critical stakeholders (Besharov and Smith, 2014; Kostova et al., 2008). The situation becomes even more complicated during internationalization processes, when companies enter new foreign markets or expand their operations in existing ones. Indeed, while these new operations place pressure on financial and human resources, and especially on managers' and employees' time, attention, and effort, these

resources are also needed to learn about, and deal with, the new institutional pressures companies are faced with. This study shows that when companies face new or insufficiently known institutional environments, it will take longer and it will be costlier, in terms of company resources, to learn about informal institutional pressures than about formal ones, which has important implications for the management of institutional pressures during internationalization and in terms of sustainable internationalization, as we have seen.

Importantly, this study shows that while companies will comply with formal institutional pressures in new or insufficiently known foreign markets during internationalization processes, companies with limited financial resources or limited international experience seem to forgo compliance with informal ones, which endangers their legitimacy in these foreign markets. And while the company's ability to learn about, and deal with, institutional pressures in both its new and existing foreign markets is relevant nowadays in terms of the company's legitimacy and survival, it is likely to become even more important in the future. Indeed, globalization and a faster pace of change in many business environments (Reeves and Deimler, 2011) have resulted in companies facing new, insufficiently known, or rapidly changing institutional environments with increasing frequency. In such environments, the ability to learn easily, quickly, and efficiently about informal institutional pressures, to rapidly identify changes in these pressures, and to promptly respond to these changes, is crucial for the company's survival and success.

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