

Dealing with Social Contestation of Environmental and Economic Solutions: Nascent Enterprises Entering Liquefied Natural Gas (LNG) Import Industry in the US from 2000 to 2014

Burndtland report (World Commission on Environment and Development, 1987) proposes that sustainable development emerges from an alignment of the ‘three pillars’ – economic, social and environmental. However, achieving such a balance is an extremely complicated and cumbersome process for many firms. The three pillars do not always align well and there is no one clear solution presenting itself. Navigating such a contested terrain, especially for a nascent enterprise becomes a very dangerous endeavor – often threatening their very survival.

Nascent enterprises face multiple uncertainties, so much so that as Sine & Lee, (2009) point out, “between 50 and 90 percent of nascent entrepreneurs fail to reach operational start-up”. Nascent enterprises devote a substantial amount of attention and resources to securing economic viability (Aldrich & Fiol, 1994) and establishing a solid foothold (Santos & Eisenhardt, 2009). Further, scholars have argued that in order to survive, nascent enterprises engage in an active discursive construction of sociocultural norms that define how they are evaluated (Khaire & Wadhvani, 2010; Lounsbury & Glynn, 2001; Santos & Eisenhardt, 2009; Weber, Heinze, & DeSoucey, 2008). If such nascent enterprises become socially contested (Durand & Vergne, 2014) then their norm-construction agenda is threatened by hostile stakeholders who raise issues publicly to contest the enterprise’s activities, values or goals. In this study we consider LNG import industry in the US, which was promoted as a solution to economic and environmental problems, and yet nascent enterprises entering the industry faced intense social contestation. Hence we pose the following research question: How do nascent enterprises react to social contestation in industries that are promoted as a potential sustainable solution to environmental and economic problems?

For nascent enterprises, negative attention from increased intensity in contestation can be quite costly because it has to spend effort and resources addressing every aspect of the issue. If the issues are not addressed it can become rooted in the ongoing evaluation of the enterprise with other stakeholders referring to those issues in their evaluation. In the LNG context of this study, terrorist threats to LNG facilities became a prominent source of contestation for many LNG terminals in the Northeastern part of the US. So much so that this became a reference point for diverse types of stakeholders – from prominent federal politicians such as Sen. John Kerry to major environmental NGOs such as Sierra Club. Thus nascent enterprises facing social contestation have to figure out ways to allocate their limited resources in *actively promoting* the positive aspects of their economic endeavor as well as *countering the contestation* from stakeholders. This conundrum gets further amplified because countering the issues embedded within the contestation can take the focus away from economic or environmental benefits promoted by the firms and can give greater salience to the issues raised by hostile stakeholders. For example, Hoffman & Ocasio (2001) find that escalation of the issues in the Chemical industry when the industry insiders (rather than outsiders) paid greater attention to that event. Extending their illustration into contexts involving nascent enterprises, countering potential issues can actually be counter-productive because those issues lack empirical credibility, as they haven’t yet occurred. In such contexts, Nascent enterprise’s disapproval of stakeholders becomes

a proactive option that demonstrates the firm's strategic intent as opposed to passive conformity (Oliver, 1991).

We define disapproval of stakeholders as: The **publicly visible rhetoric** employed by firms that **expresses negative evaluation** of the **stakeholders themselves**, in their role as the firm's audience; the target of the evaluation is directly the stakeholder, and **not the issues and themes** that the stakeholders are explicitly associated with. The quote from Gordon Shearer at the beginning of this paper provides one such example. This concept departs from extant literature on legitimation, which predicts that nascent enterprises should be seeking legitimacy from their stakeholders (Aldrich & Fiol, 1994; Navis & Glynn, 2011; Überbacher, 2014; Zimmerman & Zeitz, 2002) and certainly not publicly disapprove of them. To further understand nascent enterprise disapproval of stakeholders and develop our theoretical arguments we combine two previously disconnected perspectives that seek to understand organizational survival through legitimation; research on *nascent enterprises* (Jones, Maoret, & Massa, 2012; Khaire & Wadhvani, 2010; Lounsbury & Glynn, 2001; Santos & Eisenhardt, 2009; Sine, Haveman, & Tolbert, 2005; Weber et al., 2008) and research on *social contestation* (Elsbach, 1994; Galvin, Ventresca, & Hudson, 2004; Hudson & Okhuysen, 2009; Vergne, 2012). Drawing on these literatures we hypothesize that intensity of contestation predicts the occurrence of disapproval of stakeholder by nascent enterprises. We further argue that market volatility casts doubts about firm's survivability and decreases the credibility of the strategic intent of the nascent enterprise; the strategic intent relies on an optimistic outlook of a future state that could 'potentially' result in economic and environmental benefits. Thus, high uncertainty about survival amidst intense contestation should make disapproval of stakeholder relatively less likely.

To test our hypotheses we consider nascent enterprises entering the LNG industry in the US from 2000 to 2014. Liquefied Natural Gas (LNG) import terminals in the US provide a unique context to study the dynamics of social contestation. LNG was meant to solve multiple problems that were starting to assume crisis mode in the US during the early part of 2000s. Following the Kyoto protocol there was pressure on even the non-signatories such as the US to reduce greenhouse emissions and so most power companies were moving away from coal to natural gas. The reemergence of LNG industry was also seen as a solution for natural gas supply and pricing issues, which had taken a crisis mode because of multiple other factors apart from the shifting emphasis of power companies. However, the nascent enterprises entering it not only faced uncertainties related to the factor markets (supply side), product market (demand side), regulatory and policy arena but they also faced social uncertainties because of the contesting stakeholder.

For preliminary hypotheses testing we used longitudinal dataset for 30 enterprises. The unit of analysis is Enterprise-Quarter and there are currently 492 observations in the model. Details of the variables, models, analysis and results are provided in the methods and preliminary findings section. Preliminary results indicate that degree of contestation, defined as the intensity of public expression of negative sentiment targeting a nascent enterprise, predicts nascent enterprise's disapproval of stakeholders. We also find that, as hypothesized, this relationship is attenuated by market volatility.