

Summary

Previous research has separately examined two forces that determine an establishment's environmental performance, internal motivation and external pressure. As a consequence, one group argues that establishments close to the owners (local ownership) would produce less pollution than others due to their intrinsic interest to promote the local environment while the other suggests that establishments far from the owners (foreign ownership) would pollute less as they are under higher scrutiny by the local community. The primary purpose of the present study is to reconcile disagreements in the existing studies by showing that two forces, internal motivation and external pressures, jointly determine establishments' environmental performances. To that end, first, I extend the prevailing dichotomy approach (local vs. non-local and domestic vs. foreign) in the current literature to a trichotomy distinction (local vs. non-local domestic vs. foreign), adding 'non-local domestic' whose owner is not located in the same local community but still in the same country. Second, I compare a focal establishment's environmental performance in two different pollutants, toxic chemical compounds and greenhouses gases (GHGs). The former features locally bounded environmental externality, while the latter is well-known for its global scale externality. Distinguishing these pollutants would help to understand varying interaction of internal motivation of an establishment and external pressure from stakeholders.

I argue that an establishment of foreign ownership emits less GHGs than establishments of local or non-local domestic ownership. Due to its global implication, there is expected to be no differences among three types of establishments in terms of internal motivation to reduce GHGs. On the other hand, an establishment considered as foreign is under highest scrutiny by the external stakeholders as they tend to discriminate against foreign firms compared to domestic counterparts. Stakeholders of the home country of a foreign owner add external pressure on foreign-owned establishments as they are concerned about global-level issues that might impact their well-being. As stakeholders close to the top management have strong influence on corporate-level decisions to engage in socially responsible or irresponsible activities, an establishment of foreign ownership would consider their pressure salient. The impact would be especially strong, if the stakeholders in the home country collectively consider climate change as a serious threat while the stakeholders in the host country are less concerned about the issue.

As per toxic chemical compounds, I argue that an establishment of non-local domestic ownership emits more than the other two types of establishments. On the one hand, an establishment of local ownership is deeply embedded in the local community, gaining higher socio-emotional utilities from maintaining high environmental standards for the local environment than the other two types. On the other hand, an establishment of foreign ownership is expected to be under intense scrutiny by the local stakeholders as they would consider a foreign firm less legitimate. Especially, the regulatory threat involving the Environment Protection Agency (EPA) would be high for foreign-owned establishments. The regulators would audit and investigate establishments of foreign ownership more frequently as they are less familiar with foreign firm. The cost of non-compliance is also expected to be higher as a foreign owner's weak connection to the politicians in the host country would penalize its establishments in the settlement process with the EPA. Thus, an establishment of non-local domestic ownership, less impacted by internal motivation and external pressure, would pollute more than the other two types.

The empirical context to test my predictions is 2,315 manufacturing establishments operating in the US from the year 2010 to 2016, which report their toxic chemical and/or GHGs releases to the EPA. A series of regression analyses partially support my predictions and the underlying mechanisms. Establishments emitted more GHGs after they became local- or non-local domestic-owned from foreign-owned. This effect was more pronounced when the home country stakeholders of foreign owners have strong concern on climate change. Establishments emitted less toxic chemical when its ownership type changed to foreign-owned from non-local domestic-owned. This effect was found only in those states that put higher regulatory and non-regulatory pressure on establishments.

The most immediate contribution of the present study is that it helped to deepen the current understanding on the mechanisms behind the heterogeneous environmental performances among firms by expanding the current dichotomy approach into the trichotomy distinction. In addition, the study also compares an establishment's environmental performance in two different types of pollutants in one study, revealing that an establishment may exhibit idiosyncratic behaviors dealing with different types of pollutants.