Commercial Organizations, Local Institutions, and the Receptivity of Pro-Environmental Practices

Environmental degradation is a deep-seated grand challenge that aggravates human misery (Margolis and Walsh, 2003) and requires solutions from both the public and private sectors. From an institutional logic perspective (Greenwood et al, 2011; Thornton, Ocasio, and Lounsbury, 2012), a state logic prescribes state building and social stability (Greenwood et al, 2010), and hence naturally tends to promote pro-social practices. Prior research indeed suggests that states play a major role in protecting the environment by promoting corporate environmental standards and enforcing environmental laws (Delmas & Montes-Sancho, 2011; Frank, Hironaka, & Schofer, 2000; Jennings & Zandbergen, 1995). On the other hand, the role of the private sector is also promising. Historically, commercial organizations might maximize profits at the expense of ecological considerations under the influence of a market logic, but the rising business case rationales have prompted an increasing number of commercial organizations to develop innovative solutions to environmental problems, such as renewable energy (Sine & Lee, 2009; York, Hargrave, & Pacheco, 2015) and waste recycling (Lounsbury, 2001).

Prior research has compared whether the state or the market better induces pro-social organizational proclivity. For example, Luo, Wang, and Zhang (2017) found that state might be more committed to environmental causes than markets and regional institutions that both emphasize economic growth, but the focus remains at how the nature of different institutional logics are compatible with each other (Lee & Lounsbury, 2015; York et al, 2018). Few have systematically considered institutional conditions at local levels might changes or even shifts the comparison between state and market logics in complementing pro-social practices. The impact of institutional logics operates across multiple levels of analysis (Thornton, Ocasio, & Lounsbury, 2012). Local variants of logics are not simple replications of the societal logics, but are importantly shaped by local conditions (Ocasio, Thornton, & Lounsbury, 2017). Despite these recent advances (Lee & Lounsbury, 2015; York et al, 2018; Luo, Wang, & Zhang, 2017), we need more research on how logics at local levels are influenced by – yet differentiated from – societal logics (Ocasio et al, 2017) and "more attentions to interactions between logics at different levels" (Lee & Lounsbury, 2015: 862).

Our theory explains how local conditions underlie the impact of logics on organizational responses to the same pressure. Central to our theory is that the extent to which organizations adapt to state-initiated pro-environmental demands is largely determined by how they perceive the state pressure as it is filtered through the dominant logic at the organization level, and whether this filtering is facilitated by local institutional conditions. We test our theory by examining the context of the Chinese banking industry from 2007 to 2016, a setting that underwent substantial changes towards pro-environmental practices from an institutional perspective and that has considerable variations in local institutional conditions. Historically, the banking industry did not adequately consider environmental issues, so a series of political moves under the umbrella of the *Green Credit Initiative* were made with a primary goal of discouraging financial lending to polluting firms. A major hallmark of the initiative took place in 2013, when the government authority institutionalized the mandate on the 21 major banks but not on other banks. It provides an ideal context to study the implications of state intervention aimed at injecting social commitment into commercial practices. We compare two type of banks: *merchant banks* that are influenced by a market logic which may prescribe against prosocial practices, and *state banks* that are influenced by a state logic which is directly aligned with the state and is therefore supposed to be more receptive of state-initiated prosocial practices (Luo, Wang, & Zhang, 2017).

Using the empirical context of Chinese commercial banks, we show how different logics lead organizations to enact different sensegiving mechanisms towards the external change. When local institutions promote and value market-based rules, a dominant market logic triggers organization to perceive the external change as an opportunity to gain a competitive edge based on cost-benefit calculations. On the contrary, when local institutional conditions fall short on environmental surveillance, which is an important mechanism to enforce responsibilities, especially within state banks, a dominant state logic triggers organization to minimize their efforts to engage due to lack of extrinsic motivations. These mechanisms shall be strengthened where enabling factors for either market or logic are respectively distributed, thus we also theorize how local institutions amplify the discrepancy between the effects of these two logics. We illustrate our theoretical framework on how institutional logic triggers Chinese banks to orient differently towards prosocial activities, with supports from qualitative evidence collected during field visits.

We test our theories via a quasi-experimental design by pooling quantitative data from multiple sources. Our sample consists of 1,838 loans issued by 46 bank groups to 453 firms. These loan transactions took place in 973 bank branches located in 32 provinces between 2007 and 2016. We merge data on firm environmental penalty records to capture pollution level of banks' lending portfolio. We evaluate changes in pollution level of bank's portfolio before and after policy shock in 2013 that mandates major banks to disclose their green credit performance. We complement our theory with a selection of qualitative evidence gathered from field trips in two municipalities (*Beijing, Shanghai*) and three provinces (*Shandong, Jiangsu, Guangdong*) through interviews with 23 professionals over a course of seven months, including government officials, loan officers and account managers.

Our findings show that lending portfolios of major commercial banks became less polluted after the policy shock of the *Green Credit Initiative* in 2013. We also found a much larger effect on the *merchant* banks than the *state* banks. One important mechanism that led to a stronger commitment was the capacity of market-oriented private actors to use their business acumen and organizational agility to adapt to the external changes. This capacity was enabled by their market logic, which is buttressed by pro-market local institutions and prescribes an opportunity-seeking lens to mitigate political hazards and extract values from new policy shifts, more so than their counterparts with a dominate state logic. Our study reveals how organizations with a market logic may possess a relative inherent advantage when it comes to reconciling social commitment with commercial interests—when local institutions facilitated market-based arrangements.

The study has broader implications for how regulatory coercion may result in disparity in organizational outcomes. We contribute to literature on institutional complexity by proposing institutional conditions at local levels to shift the complementarity between market logic, state logic, and pro-environmental practices. Our findings also highlight the importance of recognizing logic compatibility as shaped by local institutional conditions and point to a need to examine factors that contribute to the strength of a logic configuration and its effect on desirable outcomes across multiple levels.