

Mimetic isomorphism and pro-environmental practices in SMEs: Evidence from formally and informally established firms.

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Background

“Regardless of the size, scale, and industry, all companies can contribute to the United Nations Sustainable Development Goals”
(UNGC, 2021).

The UN SDGs - a shared blueprint for world prosperity.



- **Small and Mid-sized enterprises (SMEs)** represent 90% of businesses and 50% of employment worldwide (World Bank, 2023).

The uptake of pro-environmental practices of SMEs vs Large firms is less.

EU Flash Barometer Survey : SMEs, resource efficiency and green markets

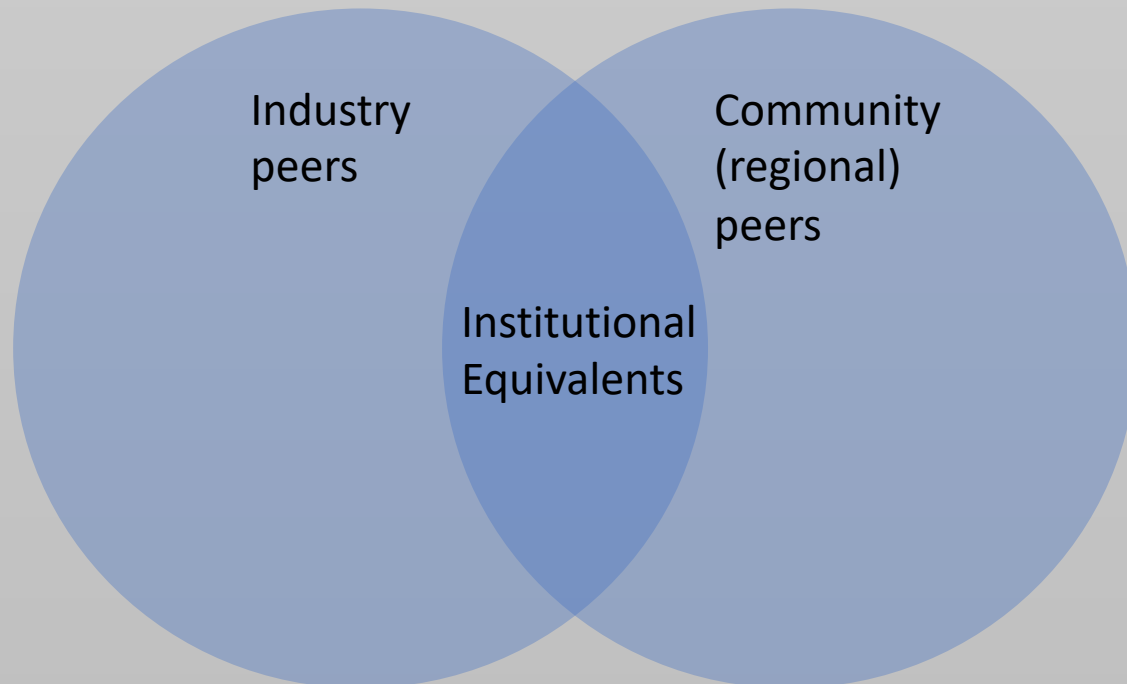


Source: European Commission, (2022)

Literature

Institutional theory

- Organisations watch for cues of 'appropriate behaviour' (Boxenbaum and Jonsson, 2017).
 - Larger and more successful peers may act as institutional equivalents



Institutional theory

- Mimetic behaviour is common among SMEs (Wahga, Blundel and Schaefer, 2017).
- SMEs may consider large firms as institutional equivalents.
- Large firms as institutional equivalents
 - Provide a clear and defined reference point for SMEs
 - Act as regional role models

Literature

Institutional theory

- SMEs may face stimuli from both formal and informal institutions.
- *Informal institutions* - societal values, belief systems, and codes of conduct (Webb, Khoury and Hitt, 2020).
- *Formal institutions* - 'hard regulations' concerning expected behaviour.



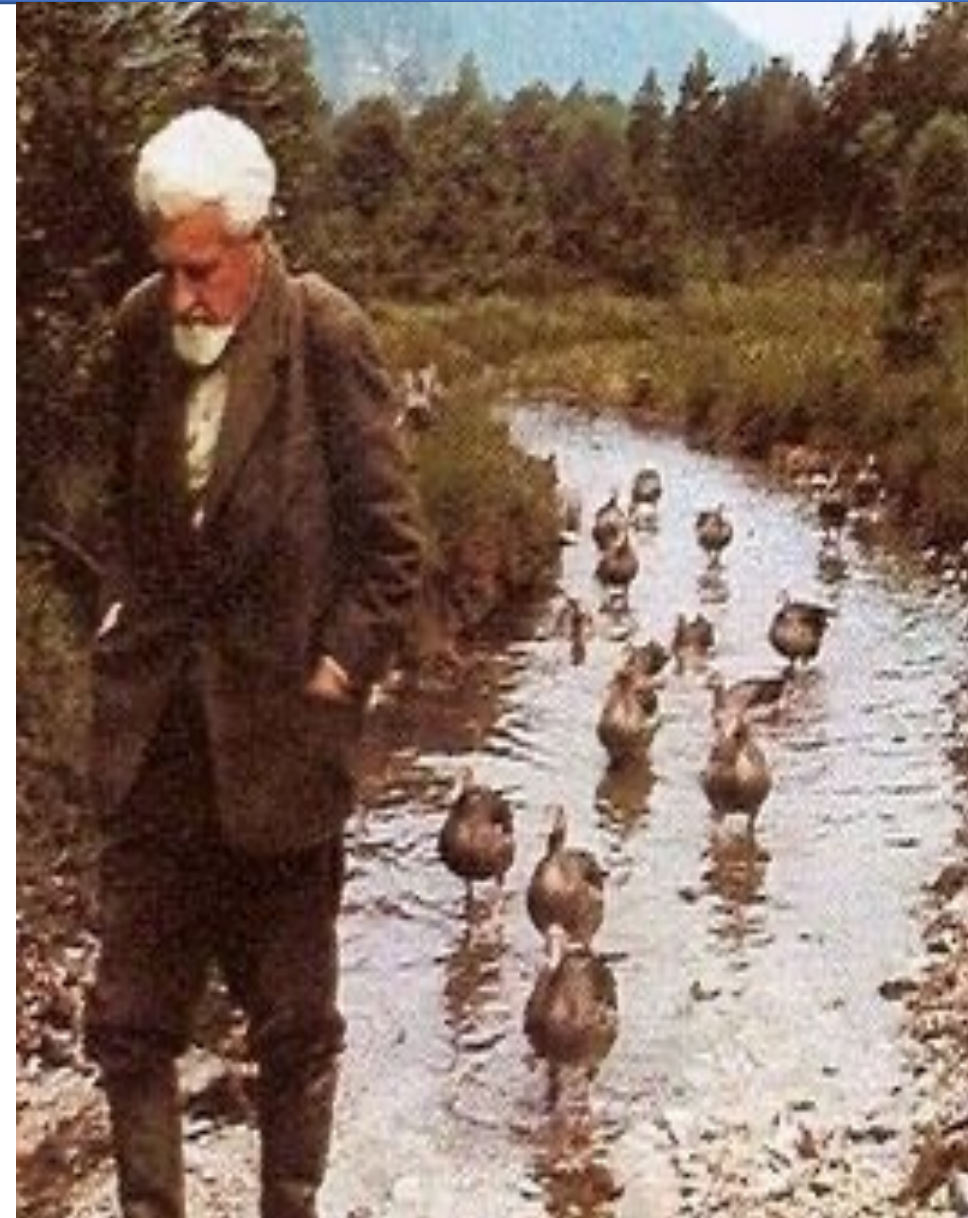
Informal Firms

- Firms that were established without registering with the appropriate governing authorities.
- Informal firms are important for economies and global trade (Narula, 2019).
- Linked to serious sustainability issues as well as unfair competition (Sultana, Rahman and Khanam, 2022).
- The need to formalise informal firms is emphasised in research (Sultana, Rahman and Khanam, 2022).

Literature

Imprinting theory

- Events that occurred and the decisions made during the founding period of an organisation can have a lasting impact on its subsequent development (Marquis and Tilcsik, 2013).
- Firms with informal origins retain their early or foundational practices and routines, after transitioning to the formal sector (Colovic, Misganaw and Assefa, 2022).
- E.g. Rely on their informal networks for information or funding.
- Liability of informality - Disadvantages arising from informal origin due to lack of formal legitimacy.



Hypotheses

- **Hypothesis 1.** SMEs mimic large peers in the implementation of pro-environmental practices.
- **Hypothesis 2.** *The propensity of SMEs to mimic large firms in the implementation of pro-environmental practices is positively moderated by the presence of strong informal institutions.*
- **Hypothesis 3.** *The propensity of SMEs to mimic large firms in the implementation of pro-environmental practices is negatively moderated by the presence of strong formal institutions.*
- **Hypothesis 4.** *The propensity of SMEs with informal origins to mimic large firms in the implementation of pro-environmental practices is positively moderated by the presence of strong informal institutions.*
- **Hypothesis 5.** *The propensity of SMEs with formal origins to mimic large firms in the implementation of pro-environmental practices is negatively moderated by the presence of strong formal institutions.*

Methods

Data sources

- Firm Level Data - 2019 World Bank Enterprise Surveys.
- Formal Institutions - The Yale environmental performance indicators.
- Informal Institutions - Joint World Values Survey and European Values Survey conducted between 2017 – 2022 (EVS/WVS, 2022).
- Across 32 countries.

Results of moderated regression analysis.

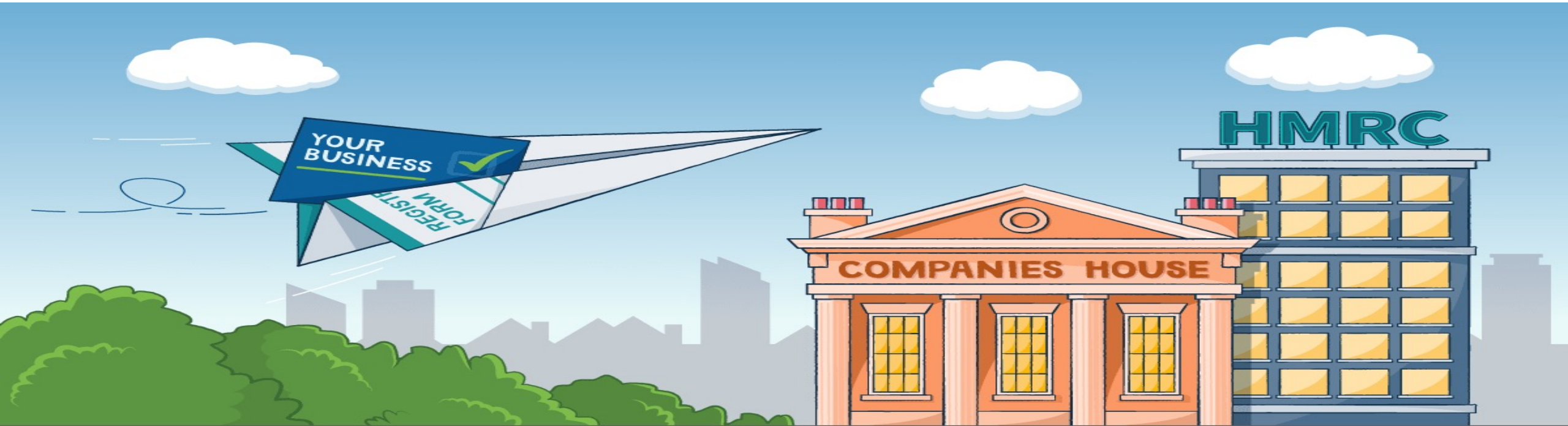
Variable	Model 1 (all)	Model 2 (Informal origin)	Model 3 (Formal origin)
Large firm Influence H1 →	0.58***	0.56***	.55***
Informal Institutions	-5.76***	3.67	-2.17***
Formal Institutions	0.05***	-0.017	.04***
Interaction effects		H4	H5
Large firm Influence x informal institutions H2 →	.71***	-1.56	↓
Large firm Influence x formal institutions H3 →	-.01***		↓
Control variables			
Firm ownership	.63***	-1.5	.70***
Age	0.01***	.02***	.01***
Financial performance	0.75***	0.45	.77***
Size	0.96***	1.02***	.95***
Financial Leverage	0.78***	0.86	.80**
Industry Controls	Yes	Yes	Yes
R2	.41	0.57	.40
Adjusted R2	.17	0.33	.16
F	101.05	15	93.36
Max VIF	1.25	1.45	1.24
Number of observations	9065	538	8527

Findings

- **Large firms** - serve as institutional equivalents and are viewed by SMEs as a crucial set of referents in relation to pro-environmental practices.
- **Informal institutions** - Effective in enabling mimetic isomorphism (Promoting the shared vision, purpose, and responsibility).
- **Formal institutions** - Weakens the mimetic effect of SMEs (The existence of standardised policies and procedures within that context).
- The mimicking by **SMEs with informal origins** are **not motivated by informal institutions**. - Motivated by practices implemented by institutional equivalents that are seen to be conducive to firm growth.
- Instead of seeking knowledge, information, and guidance from informal institutions, these firms may focus primarily on the firm's survival.
- **Liability of informality**: Causes to operate outside informal networks and exclude these firms from social ties.

Findings

- In SMEs originated formally, strong formal institutions - Tend to weaken the mimetic effect.
- Strong standardised rules, regulations, and policies may lead these SMEs to follow formal institutions rather than copying large firms as they've been imprinted to work within formal frameworks.



Contributions

1. The role of large firms as institutional equivalents in a regional context.

Regional industry leaders can be considered as important institutional equivalents to influence SMEs towards environmental sustainability and achieving SDGs.

2. Different effects of guidance arising from formal and informal institutions.

Strong formal institutions are important to dampen, whereas informal institutions are important to foster mimicry of pro-environmental practices in regions.

3. SME origin influences decision-making.

Mimicry practices of informal firms that were later formalised depend on actors conducive to their growth.

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