



Making the case for operating “Green”: impact of environmental proactivity on multiple performance outcomes of Malaysian firms

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ABSTRACT

In spite of the significant amount of work that has been conducted to investigate the impact of environmental proactivity on firm financial performance, limited research has focused on other firm performance outcomes such as operational performance and stakeholder satisfaction. The roles played by interacting and mediating constructs have not been addressed adequately in the environmental proactivity/firm performance literature. Drawing on stakeholder theory and the resource-based view of the firm, this study on 291 firms in Malaysia has hypothesized that environmental proactivity is positively related to (1) operational performance, (2) organizational learning, (3) environmental performance, (4) stakeholder satisfaction and (5) financial performance. The study has also hypothesized that the types of technologies deployed to address environmental issues moderates the relationship between environmental proactivity and operational performance, whilst environmental performance mediates the relationship between environmental proactivity and stakeholder satisfaction, which in turn mediates the relationship between environmental proactivity and financial performance. Using structural equation modeling (SEM) for the data analysis, findings indicate that environmental proactivity is positively related to operational performance, organizational learning, environmental performance, stakeholder satisfaction and financial performance. Significantly, the mediating role of stakeholder satisfaction is also supported by the data even though the mediating role of environmental performance and the moderating role of types of technologies are not supported by findings.

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1. Introduction

It is increasingly becoming difficult to ignore the high toll human activity is inflicting on the natural environment. Individuals, governments and even business organizations, which have emerged to be very powerful in the world and whose activities can be argued to be responsible for the greatest percentage of direct damage to the natural environment can no longer just sit by and do nothing (Hutchinson, 1996; Lindsey, 2011; Lozano, 2008). Based on the current trends, it is not difficult to realize that business organizations and other stakeholders are still struggling to identify an economic model, which incorporates the natural environment and is still suitable for businesses (Aragón-Correa et al., 2008; Christmann, 2000; Sangwan, 2011). The conventional wisdom which holds that investing in environmental management practices increases operational costs (Palmer et al., 1995; Walley and Whitehead, 1994) with little or no financial benefits to the organization still persists

(Ambec and Lanoie, 2008). Some empirical studies also seem to indicate that going green does not bring added advantage to a firm (Aragón-Correa and Rubio-López, 2007; Gilley et al., 2000; Link and Naveh, 2006; Wagner, 2005). This school of thought explains the ambivalence toward and sometimes, outright resistance to international as well as national efforts to cap toxic emissions. Despite several arguments for and against, there seems to be a consensus among researchers and practitioners that a more sustainable society (developed or developing or under-developed) is in the best interest of current generation and future generations of people to come (Dyllick and Hockerts, 2002; Lindsey, 2011; Lozano, 2008).

Empirical research linking environmental proactivity and business performance outcomes have been largely inconclusive (Gonzalez-Benito and Gonzalez-Benito, 2005). Some researchers argue that implementing proactive measures can be expensive and unrealistic to many firms (Walley and Whitehead, 1994; Newton and Harte, 1997). In the last two decades an increasing number of scholars have postulated a new paradigm which basically argues that going green makes good business sense (Ambec and Lanoie, 2008; Elkington, 1994; Hutchinson, 1996; Orsato, 2006; Porter

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and van der Linde, 1995a) though research findings in the field have so far been mixed (Aragón-Correa et al., 2008; Christmann, 2000). A large amount of empirical research seems to suggest that going green is good for business at least financially (Ann et al., 2006; Claver et al., 2007; Lee, 2005; Molina-Azorín et al., 2009; Wagner, 2007). Even though the majority of studies have reported a positive impact of environmental performance on firm financial performance (Aragón-Correa et al., 2008), the lack of consensus means the debate is still not over. More research on the impact of environmental proactivity on firm performance is needed to help provide a solid foundation that will guide industry practitioners on how to achieve a triple bottom line (operational, environmental and financial performances) (Dyllick and Hockerts, 2002; Elkington, 1994) or at the very least make environmental proactivity less of a burden to firms. Gonzalez-Benito and Gonzalez-Benito (2005) have argued the roles of environmental proactivity as a source of (1) strategic resources and capabilities, (2) cost and differentiation competitive advantage and (3) new business opportunities. In this research, we have considered several dimensions of firm performance (environmental performance, operational performance, organizational learning, stakeholder satisfaction and financial performance).

Environmental proactivity, in this study, refers to voluntary actions beyond compliance that a firm undertakes to minimize or eliminate the negative impact of its activities and/or products on the natural environment (Menguc and Ozanne, 2005). These actions include policy planning, employee training, investments in environmental technologies (Shrivastava, 1995); introduction of green products and life cycle analysis in product design, implementing environmental management systems, enforcing environmental criteria for suppliers and distributors, obtaining environmental certifications as well as efforts to protect natural habitats and restoration measures of affected habitats (Menguc and Ozanne, 2005). In other words, environmental proactivity refers to the firm's actions to limit both upstream and downstream negative impacts on the natural environment. Environmental proactivity, in general, refers to a "process" rather than an "outcome" (Gonzalez-Benito and Gonzalez-Benito, 2005).

In spite of the significant amount of work that has been conducted to investigate the impact of environmental proactivity on firm financial performance and operational performance (Casadesus-Masanell et al., 2009; Gonzalez-Benito and Gonzalez-Benito, 2005; King and Lenox, 2002), we observe that limited research has focused on other firm performance outcomes such as environmental performance, organizational learning and stakeholder satisfaction. A number of researchers have called for interacting and intervening variables to be factored in while studying the influence of environmental proactivity on firm performance (Aragón-Correa and Sharma, 2003; Wagner et al., 2001). To respond to the call made by these researchers, we have also investigated the mediating effects of environmental performance and stakeholder satisfaction. The moderating effect of type of technologies between environmental proactivity and operational performance has been examined.

The contributions of this study are fourfold. First, the multiple performance outcome approach used in this study draws attention to the fact that environmental proactivity may be significantly associated with a range of firm performance indicators like operational performance, environmental performance, financial performance, organizational learning and stakeholder satisfaction, which taken together provides researchers with a holistic approach of investigating the impact of investing in environmental proactivity. Second, the relationship between environmental proactivity and financial performance has received considerable attention but the mechanism(s) of the relationship have not been addressed

adequately. In this study, we argue that environmental performance and stakeholder satisfaction are the mediating constructs that explain this relationship. Earlier studies have mainly focused the direct relationship between environmental proactivity and financial performance (Ambec and Lanoie, 2008; Casadesus-Masanell et al., 2009). Third, this study has recognized the role of technologies (prevention and control) in improving operational performance by interacting with proactive measures. Many researchers have argued and empirically tested the direct effect of technologies (Christmann, 2000; Klassen and Whybark, 1999; Porter and van der Linde, 1995a). In this research, we have explicitly tested the moderating role of technologies. Fourth, most of the studies related to environmental proactivity have been conducted in developed countries where the firms have more resources to implement proactive systems and technologies. This is one of the very few studies conducted in a developing country like Malaysia. Malaysia has been chosen as the area of study for the following reasons: (1) it is one of the fastest growing economies in the South-East Asia with very rich natural resources (about 60% of the land area is forest); (2) It ranks 25th in the world on Environmental Performance Index (EPI); (3) It is moving toward achieving the developed country status by 2020; (4) Rapid industrialization and urbanization, typical of developing countries, have put tremendous pressure on the environmental health of Malaysia and in spite of these pressures the country has been doing well on the environmental front; (5) Malaysia has a well drafted environmental policy and one of the major emphasis of this draft is on taking proactive measures by firms to reduce environmental damage. More than 600 companies in Malaysia have ISO 14001 certification. The lessons learned from this study can benefit developing countries and the governments can formulate strong policies in favor of being environmentally proactive.

2. Theoretical framework and hypotheses development

The theoretical framework for this research has been drawn using the theories of RBV (Resource Based View) (Barney, 1991; Grant, 1991) and Stakeholder satisfaction (Freeman, 1984, 2004). According to Gonzalez-Benito and Gonzalez-Benito (2005: p. 8), "most of the arguments that are used to explain the existence of advantages associated with environmental proactivity are based on the RBV of the firm". They have explained the effect of environmental proactivity on business performance (operational performance, financial performance and marketing performance) through three distinct resources: (1) physical assets and technology, (2) human resources and organizational capabilities and (3) intangible resources. Recognizing that resources by themselves are not sufficient to create competitive advantage, a firm's specific ability to utilize these resources to its own advantage (Amit and Schoemaker, 1993) becomes very important. Hence, in applying the resource-based view we follow the lead of Russo and Fouts (1997) in not only considering the possession of the bundle of resources that engaging in environmental proactivity may bring to a firm but also the development of the required capability to convert them into an advantage to the firm. The advantage can be in the form of improved operational performance, environmental performance, organizational learning and financial performance.

According to Freeman (2004), stakeholders are those groups that are vital to the survival and success of a firm. Based on the Stakeholder Theory, perspectives of the stakeholders have to be taken into consideration in the management of firms. The main groups of stakeholders are the customers, employees, local communities, suppliers, distributors, and shareholders. According to the Stakeholder Theory, the main task of the stakeholder management process is to manage and integrate the relationships and interests of groups of stakeholders in such a way that will satisfy the

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