

Stakeholder's Pressures on the Firm's Environmental Strategy in Malaysia

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Abstract

The triple focus on “the environment”, “quality”, and “profit” has become a new business mindset motivating the firms to achieve and sustain their competitiveness through better environmental strategy. Although firms are motivated to do so, higher operational costs resulting from the extra prevention and clean-up costs (thus lowering the profitability) often inhibit such willingness. This paper seeks to propose a research framework that analyzes the stakeholder's pressures on a firm's environmental strategy. Four propositions were generated. The firm's commitment to go green can significantly improve its environmental performance. The findings from a focus group with six industry panels are included to illustrate the proposed model.

Keywords: Stakeholder pressure, green practices, environmental strategy, Malaysia

1.0 Introduction

Major global issues on the natural environment are becoming more intense and widespread. These largely resulted from the human and industrial impacts e.g. global warming, pollution issues on ozone depletion and others (IPCC, 2007). It was found that these damages are mostly caused by humans due to poor planning of activities and management. In addition, the topics of flora and fauna preservation and forest degradation have long been debated at the international level (Eltayeb & Zailani, 2009).

According to the report on the Climate Change Performance Index (CCPI 2014, CCPI, 2013), the environmental quality of Malaysia is on the decline. Malaysia has been rated poorly at the level of 51 in 2014 and 55 in 2013 respectively. The Prime Minister of Malaysia Dato' Seri Mohd Najib Bin Tun Haji Abdul Razak in his keynote speech addressed in Copenhagen, Denmark expressed the nation's commitment in reduction of emission intensity on Gross Domestic Product (GDP). It is hoped that by the year 2020, this emission intensity can be further reduced up to 40%. While Malaysia has participated in the United Nations Framework Convention on Climate Change (UNFCCC) to address issues on global warming, we need a more drastic change and greater commitment from both the industrial players and the community.

Today, we have witnessed an increased adoption of green concepts in the business strategy. Firms have placed greater importance on environmental and social issues as the way to enhance their competitiveness (Dou & Sarkis, 2010; Kleindorfer, Singhal & Van Wassenhove, 2005; Seuring & Muller, 2008). As highlighted by Esty and Winston (2006):

“Environmental missteps can create public relations nightmares, destroy markets and careers, and knock billions off the value of a company. Companies that do not add environmental thinking to their strategy arsenal risk missing upside opportunities in markets that are increasingly shaped by environmental factors.” (p. 10).

One of the ways to gauge a firm's seriousness and efforts in environmental activities is through the pro-activeness to seek certification under recognized international standards e.g ISO 14001 from the International Organization for Standardization (ISO), the European Union Eco-Management and Audit Scheme (EMAS) and the British Standard 7750 (BS 7750). The application of these global standards can create values for the firms because it can be associated with positive market reaction and innovative business practices which lead to better organizational outcomes (Jacobs, Singhal & Subramaniam, 2010). However, it was found that the application of global standards such as ISO 14001 is still very much lacking in Malaysia. Recognizing the determinants for these environmental commitments is a must so that Malaysia can achieve both economic growth and ecological sustainability. We know that greater conservative efforts such as using the scientific technology and waste management system could and would contribute to better environmental management, but what drives these business firms to take

initiatives towards their environmental strategy? Drawing from the stakeholder theory, this paper attempts to analyze the determinants of a firm's pro-activeness towards the environmental management. This paper begins with a literature review relating to the firm's environmental strategy. Then, we develop the theoretical argument for illustrating this research including the perspective of stakeholder theory. Subsequently, we present a research framework and discuss preliminary findings from a focus group with 6 industry panels to demonstrate the application of our theoretical framework. The implications of the study are included as well.

2.0 Literature Review

2.1 Stakeholder's Pressure

2.1.1 Stakeholder Theory

The stakeholder theory by Freeman (1984) outlined how an organization satisfies its internal or external stakeholders through the pressures exerted by them. The general conceptualization on Stakeholder Theory cited from Sarkis, Zhu and Lai (2011, p. 5) as follows:

“Stakeholder theory suggests that companies produce externalities that affect many parties (stakeholders), which are both internal and external to the firm. Externalities often cause stakeholders to increase pressures on companies to reduce negative impacts and increase positive ones.”

The basic stakeholder theory indicated that firms must take actions with respect to the claims made by important stakeholders in order to exist, prosper and get increased recognition (Freeman, Wicks, & Parmar, 2004; Freeman, Harrison, Wicks, Parmar, & de Colle, 2010). Here, we ask *who counts as a stakeholder?*

The classical works on stakeholder theory by R. Edward Freeman and David L. Reed defined the stakeholder from the perspectives of wide sense and narrow sense. The wide sense of a stakeholder includes any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives whereas the narrow sense of a stakeholder only comprises any identifiable group or individual on which the organization is dependent for its continued survival (Freeman & Reed, 1983). Nevertheless, both family and non-family firms will be subjected to stakeholder's demand. Firms that do not comply with stakeholder's demand will risk detrimental outcome.

Stakeholder's involvement in environmental concern has increased in line with the increase in environmental regulations. Public expectations on the role of firms on environmental conservation have increased over time. This helps in shaping the way how firms look at environmental conservation. With external pressure coming from external stakeholders, firms are now more proactive in their views and approach in laying out strategies to meet demands from environmental stakeholders. Some writers disputed on stakeholder theory that environmental strategies are the outcomes of organizations' efforts to meet stakeholders' environmental pressures (Garces-Ayerbe, Rivera-Torres & Murillo-Luna, 2012). Generally, these stakeholder pressures came from the (1) regulatory stakeholders (2) organizational stakeholders (3) community stakeholders and (4) media stakeholders as outlined by Huang (2005).

2.1.2 Government and Regulatory Stakeholders

Findings in the study by Kamarul Zaman (2012) showed that among the factors for firms to deal with environmental issues and achieve environmental success are stakeholders, regulations, cost aspect and ethical motives. While regulations have been emphasized by Klassen (2000) and Sharma (2000) as the drivers for firms to act for the environments, a study by Weaver, Trevino and Cochran (1999) found that both regulations and stakeholders pressures contributed to greater environmental initiatives. Further cited from Beise and Rennings's study (2005), the prospect of market formation increased when regulatory trends and global demands exist together with stricter environmental regulations. Results showed that as long as the firms comply with the laws and regulations, their stakeholders seem to ignore environmental management (Iwata & Okada, 2011).

2.2.2 Organizational Stakeholders

According to Sakr, Sherif and El-Hagggar (2010), market pressure drives companies to implement the ISO14001 to achieve a green public image and to gain competitive edge in markets that place certification as an entry

precondition. External institutions also play a part in influencing managerial perception of Environmental Management System (EMS) implementation.

According to Luken and Rompaey (2007), the awareness and knowledge of the potential benefits that cleaner process techniques and technologies (CTs) bring in terms of cost saving and improvement on overall manufacturing efficiency often motivate the plant managers to implement CT in their effort to remain competitive. Luken and Rompaey further added that plants business partners e.g. primary supply chain buyers and customer's environmental requirements also act as driver for plants to improve their environmental performance. The pressure increases as the product is closer to the final customers. The plant managers may adopt environmentally sound technology so that such good environmental performance can improve their environmental edge in surpassing their competitors.

2.2.3 Public and Community Stakeholders

The stimulus wielded by non-governmental organizations (NGOs), the community and local societies act as an effective balance to match formal regulations at large on pollution as found by Luken and Rompaey (2007) and many other scholars. They observed that the firm's environmental behavior is likely to be swayed by the trade and business which is linked to CT adoption. Executives are deemed to have many choices when social pressures are weak (Correa, Reche & Barrio, 2004). This might place the firm in a vulnerable position and subsequently lose its competitive advantage.

Correa et al. (2004) found that, in a given situation, the outside forces can sometimes influence how an organization tackles an environmental issue but do not standardize the commitment in the whole organization. Low social pressures may lead to executives having many choices to select from. Governing group of executives thus has more weights for greater environmental commitments.

Also, globalization has positive impacts on environmental management as found by Cole, Elliott and Shimamoto (2006) in his study on Japanese firms. Stakeholders exposed to global warming issues on a larger scale as compared to waste problems expect firms to do more to improve their corporate image in the future as researched by Iwata and Okada (2011). Iwata and Okada further noted that the regulations and laws will need to intervene when market mechanism alone has failed to solve the environmental issues.

3.0 Methodology

The present study is a preliminary attempt to propose a research model for examining the stakeholder's pressures on the firm's environmental strategy. During the first stage of the process, we have identified three major stakeholders that exert influences on the firm's environmental commitment: regulatory stakeholder, organizational stakeholder and community stakeholder. It has yielded four specific propositions as shown in Fig. 1:

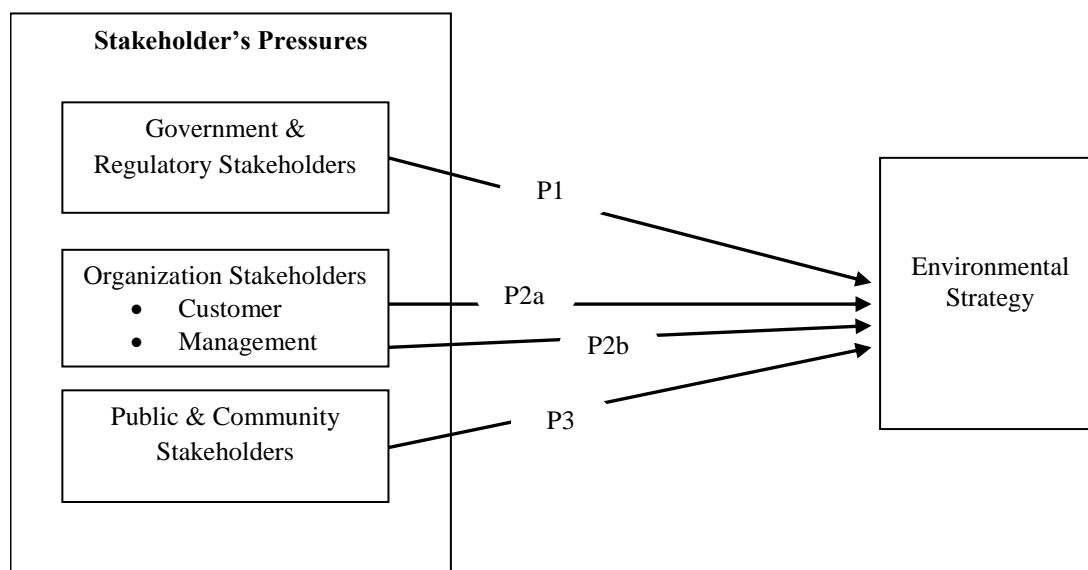


Fig. 1: Research Framework

Findings from the focus group discussion with selected six industry panels were included to illustrate the selected propositions. We delineated the participating company in focus group discussion as A,B,C,D,E and F to preserve their anonymity. The profiling details of these participating companies are as follow:

Company	Industry and Related Business Activities	Local / International Market	Number of Employees
A	<ul style="list-style-type: none"> Trading of Halal food products Also manufacture noodles and other related snacks 	Both Local and International Market	Less than 50
B, C	<ul style="list-style-type: none"> One of the world's largest integrated oil and gas services and solutions provider. Principal business include providing end-to-end solutions and services to the upstream petroleum industry Covers activities such as installation of offshore pipelines and structures, fabrication of offshore structures Support vessels, drilling vessels, hook-up and commissioning, topside maintenance services, underwater services, offshore geotechnical and geophysical services, project management, diving services, offshore support services, infrastructure and specialised steel fabrication works. 	Both Local and International Market	More than 10,000
D	<ul style="list-style-type: none"> A prime mover and market driven on biotechnology, green- technology and biodiversity sectors 	Both Local and International Market	Less than 50
E	<ul style="list-style-type: none"> A full-service shipyard, handling ship repairs, emergency repairs, refitting, refurbishment, scheduled maintenance, conversion work and hull, mechanical and electrical work on a routine basis. It's also a shipbuilder offering steel and aluminum construction for Anchor Handling Tugs (AHTS), utility vessels, accommodation barges, pipe lay barges, tugboats, patrol boats, crew boats, assault boats and more. 	Both Local and International Market	Between 150-500
F	<ul style="list-style-type: none"> Property management, property maintenance and rental of property, in house security services, cleaning and parking services. 	Only Local Market	Between 150-500

4. Findings and Discussion

This paper aims to identify the role of stakeholders on a firm's environmental strategy so that green practices can be established to mitigate the environmental issues caused by their business activities. The objective of the proposed framework is to synthesize the causal factors of the organizational stakeholders (both internal and external) on their environmental strategy.

Eltayeb and Zailani (2009) also urged further researchers to look into the requirements of environmental action and the roles of firm's stakeholders in relation to the Malaysian context so that better solutions can be embraced by firms that are adopting environmental initiatives. Loke, Khalid, Shafie and Sayaka (2014) found that regulatory pressure causes business firms to adopt green practices. During the focus group discussion, we observed similar views from the participants. The manager of the Company F expressed the importance of government intervention as a regulatory stakeholder in promoting the firms to be more pro-active in the environmental management: *"If the law says we have to do it, we have to. No choice!"* The executive from Company B echoed, comparable to manager of Company F. According to her, *"Each of us must follow every guideline that spells out in the SOP (Standards Operating Procedures)... Our manager is very particular with it because if we don't follow the rules, we will get penalty and fine."* Thus, it is proposed that:

Proposition 1: The higher the level of pressures from the government and the regulations, the greater the degree of a firm's environmental strategy.

There was a paradigm shift in green product demand within the Asian customer settings (Anbumozhi & Kanda, 2005). Previous researchers (e.g. Zailani, Eltayeb Hsu & Tan, 2012) found that customer pressure has an indirect impact on a firm's environmental performance in which the eco-design becomes a mediator. During the focus group discussion, the executive from Company B claimed that the customer pressure is one of the major factors that causes the company to be pro-active in environmental strategy. She says, "*The laws drive us to respond. And same goes to our customers. As a supplier, if we provide something sub-standards to them, we will end up paying the penalty. So, we have to be very cautious reading line by line at the contract, what is the specification... how the services must be delivered because they have certain environmental clauses to fulfil and so on.*" Indeed, we found that a customer, being one of the organizational stakeholders, exerts great pressure to shape the companies' behaviors in a more environmentally cautious manner.

While the top management is known as the internal stakeholder, it appeared that the successful implementation of the firm's environmental strategy is largely dependent upon the support of top management. As pointed out by the manager of Company C. He agreed that the aspirations from the top can certainly change the behaviors of the subordinates, "*If you want to promote the entire organization to go green or to take these so called green initiatives, the head must be in the game! The top says 'do it', then the bottom will follow. As simple as that.*" The executive of Company E highlighted the needs for environmental policy and system so that the firm can take on a larger role to manage its operations in order to better preserve the environments. Her observation also illustrated our second proposition (b). She noted, "*In our company, the policy is given to all of us from the first day at work so that each of us will know exactly what to do. Our company pays great attention in the production so that we don't pollute the environment.*" Thus, it is proposed that:

Proposition 2a: The higher the level of customer pressures, the greater the degree of a firm's environmental strategy.

Proposition 2b: The higher the level of management support, the greater the degree of a firm's environmental strategy.

The pressures from the environmental NGOs and local community are found to enhance the likelihood of green practices adoption by a firm (Bluffstone & Sterner, 2006). Such coercive pressures imposed on the firms created mainly through the vote in elections and citizen lawsuits. During the focus group discussion, the director from Company D felt that the technical skills are needed for the implementation of the environmental strategy and urged the government to provide more related seminars and training to equip the industry players. She noted, "*Well, I feel that the government needs to do more in order to promote greater initiatives for the company to adopt green practices. For example, to do chemical waste removal and reduction of emission... all these require technical knowledge and the company must know how to do it before everything can be implemented well.*"

A previous study by Abdul Rashid, Sambasivan and Johari (2003) revealed a strong correlation between corporate culture and organizational commitment, and these have effects on the organization's performance. The firm's performance was also found to be associated with its environmental performance and market performance (Jacobs et al., 2010). Thus, it is proposed that:

Proposition 3: The higher the level of pressures from the public and the community, the greater the degree of a firm's environmental strategy.

5.0 Conclusion And Implications

The global climate changes and world economic integration are gaining greater attention from the firms which has led to an increased environmental concern among the industrial community. As highlighted in the study by Loke et al. (2014), regulatory pressure is found to be a major driver that pushes the firms to go green. Stringent monitoring process should be in place to ensure the company's environmental performance is satisfactory. While we know that we need a better environmental management, meeting this challenge is not an easy task for the firms. Here, we aim to provide a thought model for examining and understanding the relationship between the stakeholders' pressures and environmental strategy. The discussion of a focus group with industry panels has been included. We believe that these preliminary findings contribute to the body of knowledge for both academics and practitioners and they certainly deepen our understanding on a firm's commitment towards environmental management.

It is hoped that this proposed conceptual model will serve as the catalyst for future research. In the academic study, a resilient theoretical framework is required to pilot the research objectives, research questions, and hypotheses

development. The conceptual model of this study covers the collective research of literature review concerning the firm's environmental performance. Even though there are previous studies analyzing the firm's environmental strategy, our study specifically addresses the stakeholders' pressures (combined impact of both internal and external stakeholders) on the firm's green practices and subsequently on its environmental performance.

In the later stage of the study, the proposed framework model will be empirically tested within the manufacturing firm settings. It is expected that greater insights can be shed on the managers in the environmental management strategy and to advance our understanding in these areas.

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