

Corporate Environmentalism: A Perspective of Multinational Company

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Abstract

Research on environmentalism is still inconclusive and limited especially for global company. This paper tried to explore the theoretical framework in examining how the concept should be applied by multinational firm in order to be accepted by the host society. Having adequate combination between stakeholder theory and international business concepts, we found that there are possibilities for reverse relations between parent and subsidiaries environmentalism-based competitive advantage. Having examining potential challenges on host country, the study highlighted the importance of internal and external awareness for environment-friendly business atmosphere and the existence of the three antecedents: regulatory, industrial and market pressure. Regulatory pressure comes from host government policy which tried to protect local environment from pollutions. For high awareness nations, obligation to prolong environment quality has become one of industrial policy which in turn creates pressure to the company. The same pressure count for customer side. Lastly, having treating the variable on learning management context, there is possibility that after subsidiary achieved its best performance, then it will have an inverse impact to an internal, external and the three antecedents simultaneously. The final contribution of this study is comprehensive environmental-based competitive advantage for multinational companies. We enclosed the paper by proposing questionnaires for future research.

Keywords: Corporate Environmentalism; Multinational Company; Market pressure; Industrial pressure; Green regulation; Competitive advantage

1. Introduction

The discussion of corporate environmentalism theory has been expanded tremendously for the past twenty years. The topic is no longer limited to how the concept might help most companies to achieve stronger competitive advantage (Banerjee, 2002, 2001; Banerjee et al., 2003) but also how to introduce the spirit to all stakeholders using cultural and behavior point of view (Kollmuss and Agyeman, 2002). This is logically acceptable since the stakeholder has played an important role within environmentalism circle of paradigm.

The topics become more challenging up to the context of multinational business, since level of adoption of the concepts into practical terms found to be different among nations (Chan, 2010). Most researches which were using US and European data had succeeded in proofing relevance of environmentalism spirit to company's financial performance while at the same time giving the best value to the stakeholder (Sharma & Henriques, 2005; Claycomb et al., 2001; Gilley et al., 2000). Meanwhile, conclusion for emerging market is still inclusive (Perkins, 2007; Sandhu et al., 2005). Former researches – as hypothesized by Banerjee (2002) – had identified pivotal role of public concern to the adoption level of corporate environmentalism. Addressing the true position of the society among the concept would be advantageous. Public concern has double action in environmental-related analysis: as the initiator and also as evaluator.

As the initiator, society tend to proposed the importance of preserving the environment from impendences such as water, air and land pollution caused by irresponsible production process from commercial sector. In reality, promoting the environmental awareness is not easy; most cases indicate the vital role of government as representative from the society to include this matter into legal-basis regulation (Claycomb et al., 2001). At the time when the issue had been addressed on governmental policy, then the position shifted to evaluator. As the one who justify the proper behavior of the company, society shared strong position to direct future policy and movement.

For some society, firm's contribution in preserving public water and land from the waste of production process would be best representing for environment-friendly policy (Sandhu et al., 2005), while other community think that it should be expanded to the post-consumption phase of the product. The lagged of concern might impacted the level of environmentalism practice which required as important notice for multinational company.

This paper tried to identify environmentalism antecedents from multinational perspective while proposing direction for future agenda. The paper will be structured as follows: section two will describe theoretical framework relating corporate environmentalism unto multinational business with the main construct to develop sustainable competitive advantage. Section three provided discussion and future agenda, while section four described the practical implication from the model. We enclosed the paper with conclusions.

2. Convergence of Environmentalism

As public domain, concerned about environment arise in accordance with stakeholder theory, proposed by Edward Freeman. Addressing the question what is the basic reasons for business existence allowing us to examine factors that support the firm operation.

From financial perspective, liquidity ratio had identified as the main determinant of performance (Vintila and Nenu, 2015). The ratio showed firm's ability to fulfill its short term liabilities using current asset. Greater current asset usually lead to better performance. However, all current assets – ranging from cash, account receivable and inventory – has underlined performance on how well firm's product can be accepted by markets. This proofed that giving more attention to company's product performance might guarantee future performance (Attalay et al., 2013; Artz et al., 2010; Michelle and Gow, 2008; Amara and Landry, 2005).

Further analysis signaled the hard pressured from customer on the content of product innovation (Weng et al., 2015; Chen et al., 2011;). Using Taiwan manufacturing companies, Weng et al. found that customer awareness tend to induced environmentalism concern which might impacted firm's new product decision. This leads to the vital role of environmental knowledge and how the society reflected the concept as their daily values. However, failure in developing the paradigm among people might minimize public concern on the importance of the concepts, thus reflecting lowered pressured from externalities.

Customer pressure on the product level may act as triggered for the new platform of competition. Each player tend to follow the new rules to stand survive during the competition. This fact led us to the concept of green business which later highlighted the importance of environment strategy within strategic management concepts (Bisgaard et al., 2012; Lombardy & Laybourn, 2012; Cocklin & Stubbs, 2008).

Moreover, new trend from the player sides shared systemic impact to all network. Having considered that players are implementing green-business model, supplier will tend to follow the trend by providing necessary supply based on the essence of environmental-friendly (Kabiraj et al., 2010). This might require changing on technological perspective. Recently more products have been produce by green-technology. Reciting Newsweek for 2014 top 10 green company in the world, Adobe System (Nasdaq) Ecolab, and Schneider Electric are among the list. Higher rank representing high green score.

Uniquely, the new wave of appreciating environment successfully induced government policy. As representative of the society, every government shared the same responsibility to define and ensuring the creation of common virtue for the society (Sandle, 2009). Up to this context, when the awareness of the society has set the high standard of environmental appreciation, the government will acknowledge the needs through law and regulation. Furthermore, the movement had supported by United Nations. Thus, environmental concern has become a new global agenda (Sovacool, 2014; Tsai & Chou, 2005).

The convergence of environmentalism concepts would be on competitive advantage. This is the real challenge for multinational company (Muller-Camen et al., 2001). If the home's level of environment awareness higher than the host country, company can act as the pioneer for the movement and when public concern has developed, the company will recognized for its great contribution. Contrary, if the host country level of awareness higher than the home, then it is the right time for the company to learn faster in order to join the competition easier.

3. Environmentalism-based Competitive Advantage

One clear definition of competitive advantage had been profound by Gold et al., (2001). As a means to win the competition, competitive advantage was understood as unique, un-imitable strength possessed by the company. It can be on the context of efficiency, effectiveness nor even productivity. Relating to resource-based view, competitive advantage is beneficial to earn higher power within targeted market (Mugera, 2012; Grant, 2001; Oliver, 1997; Peteraf, 1993; Barney, 1991). Therefore, the top management was required to maintain competitiveness over long-run period once they succeeded in finding the strength.

Recent study on network and knowledge management had strongly proposed that achieving competitive advantage can be done through proper collaborations (Foss & Nielsen, 2012; MacCormack et al., 2007; Todeva & Knoke, 2005). Furthermore, the type of collaboration could be happened from different side of stakeholder point of view: customer, supplier, government and society. Banerjee (2002) had explained clearly the potentiality of customer relations to environment strategy. Within this context, customer can take the position as company's partner in defining criteria of green product. By having good collaboration with the customer along new product development stages, multinational company can build up better relationship in order to acquire more accurate information.

Becoming first mover on specific business theme has acknowledged as one of the potential triggered for longer-term competitive advantage, including for multinational company. Environmental-friendly technological transfer from parent to subsidiaries may act as potential driver to be the early adopters (Lopez-Gamero et al., 2009). Once the concept can be well received by society on the host country, then it will infected company's image.

Up to this context, multinational company has the opportunity to be more proactive in promoting the green business philosophy (Judge & Elenkov, 2005). Eagerness to move further beyond existing regulation and policy might create strength as the first mover. From the marketing perspective, it can be seen as the most valuable brand equity.

4. Discussion

4.1 Parent effects on subsidiaries

Using the concept of parenting company, many research found the centralized control over subsidiaries (Shah et al., 2012; Baglieri et al., 2009; Vachani, 1999). By having this mechanism, it is plausible that environment-based paradigm will be induced by parents to the subsidiaries. Within the context where level of awareness at home country is higher than on the host country, multinational company tend to extrapolate parent's value in order to become the first mover. On the contrary, if the host country shared higher level of environmental concern then it may induce the paradigm for the parents.

Putting environment concern as habit or culture, every multinational company shared knowledge creation and cross-culture transfer among nations (Kohlbacher and Krahe, 2007, Weir and Hutching, 2005, Zhu, 2004). Higher level of awareness which representing better knowledge tend to affected lower level organization, since each company is willing to enhance its best corporate image. Addressing this issue, we proposed the propositions as follows:

Proposition 1 : Parent environmentalism-based competitive advantage is positively impacted subsidiaries competitive advantage

Proposition 6 : Subsidiaries environmental-based competitive advantage is positively impacted parent competitive advantage

4.2 Antecedents effects

Research on the antecedents of corporate environmentalism has been done by Banerjee (2002). Factors such as public concern, regulation and external awareness had acknowledged as the potential antecedents. Unfortunately, not all antecedents have been proven empirically. Therefore deeper analysis regarding the concept is needed.

Within the context of international business, pressure for conducting environmental-friendly philosophy might come from three respectable factors: government, customer and competition themes. As representative of the society, government on the host country can make green-business as mandatory policy. For example, some governments are trying to implement the policy by giving some tax benefit as appreciation. Contrary, they can arise the pressure using written law which complementary to regulations.

Transparency on environment-friendly business that has been regulated formally tends to impacted industrial practice. For example, more technology will be produced using green concepts which are low emission and contributing on green environment. Over the long run, this pressure will create shifting unto market side. More customer will shared environment concern by using the philosophy as their basic considerations. All of the antecedents might have huge contribution to corporate strategy. Therefore we proposed propositions as follows:

Proposition 2 a : Regulations regarding environmental-friendly business on host country is positively related to corporate strategy

Proposition 2 b : Industrial pressures on environmental-friendly business on host country is positively related to corporate strategy

Proposition 2 c : Market pressure for environment-friendly product on host country is positively related to corporate strategy

4.3 Internal-external awareness

As mentioned by Banerjee (2002), Sandhu et al., (2005) and Porter (1995), the underlying concepts of corporate environmentalism was awareness for both internal nor externally. Internal awareness relates to how firm's member proactively engaging on environment matters. Having formal-written mechanism on energy saving, paperless-based administration and controlling production waste might be best representing the internal awareness.

External awareness comes from the society's value, environmental concern showed by the existing mass-media, financial support institution and community of practice. Pressure from these actors may have huge impact to company's paradigm, since they are the truly stakeholder which impacted by firm's strategic decision. Therefore having balanced pressure between internal and external might result on better environment-based strategic management. Having this concern, we proposed the propositions as follows:

Proposition 3 : Internal environmental awareness is positively related to corporate strategy in accordance with environmentalism based competitive advantage

Proposition 4 : External environmental awareness is positively related to corporate strategy in accordance with environmentalism based competitive advantage

After accomplishing corporate strategy which had been considering the importance of environment, the subsidiaries or parent company can have benchmark for future guidance. Over the long run, this strategy might lead the company to achieved better competitive advantage.

Proposition 5 : Environment-based corporate strategy is positively related to long term competitive advantage

4.4 Possibility of the inverse flow

Having considered that environmental concern can be seen as continuous learning process therefore it is possible to have systematic outcome. Once the company has been acknowledged as success player in conducting green business globally, then it may strengthen the internal awareness. Appreciation from the host country can be used as effective proof to convince both internal and externally that engaging on environment concern is fully benefited for the society. Unconsciously, the process tends to create a learning cycle.

Another impact would be on the three potential antecedents. By having one example, the government can evaluate the regulations to increase the quality of implementation stages, while providing better benchmark for industrial practice as one of the vital considerations for future market idealism. Putting all considerations, we proposed the three last propositions as follows:

Proposition 7 : Environmentalism based competitive advantage is positively related to internal awareness

Proposition 8 : Environmentalism based competitive advantage is positively related to external awareness

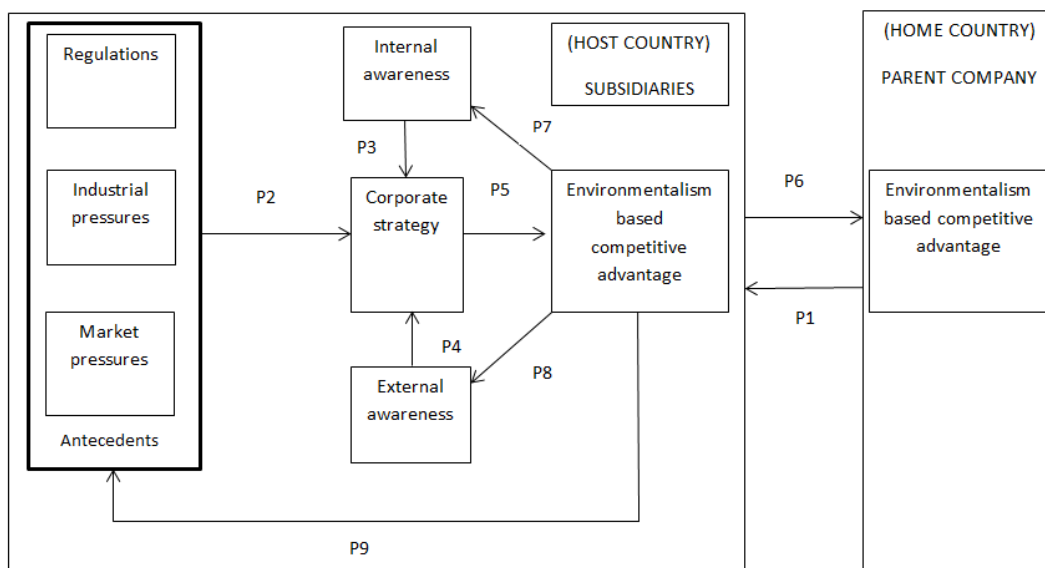
Proposition 9 a : Environmentalism based competitive advantage is positively related to regulations

Proposition 9 b : Environmentalism based competitive advantage is positively related to industrial pressures

Proposition 9 c : Environmentalism based competitive advantage is positively related to market pressures

The proposed research model can be seen on figure 1.

Figure 1
Proposed research model



Source: develop for the research

5. Practical Implications

Retrieving from figure 1, the first antecedents are coming from the way parent company addressing the issue correctly. The level of understanding and implementation for the green-concept in parent company will reflected future internal awareness brought to the subsidiary in host country. Our field observations found that strong commitment on environmental policy on parent company tend to influence the behavior of each overseas subsidiary. Parent company with strong awareness level shared the power to direct the policy of the subsidiary. On contrary, parent company with low value on the implementation of green business shared lower influenced to the subsidiary. For those who justified as the last category, dealing with environmental issues will be seen as cost rather than future investment.

Our proposed theoretical framework fits in with the phenomenon faced by most multinational company especially to those who operates on highly environmental-awareness country. Company which is coming from high environmental-awareness should acting as messenger to the host country which categorized as low environmental-awareness nation. The message can be disseminate through several ways. First is by using product or services as representative of the ideas. Applying green-marketing campaign by introducing the green

product produced by the company – for example: the core content of the product, packaging and after-used recycled system – might be the best way to develop local awareness.

Secondly, by promoting the green-process in production system to ensure that the final product will be fully equipped with environmental considerations. To make the efforts fruitful, multinational firm needs to convince the potential market regarding the idea, since they might rise as market pressure to the industrial player. The key for successful disseminating process is to have strong internalization within the company. Some indicators such as minimum number for paper-used administration mechanism, special attention to global warming issues by adjusting building and factory physical condition to be more environmental-friendly, redesigning production layout to ensure the minimum level for working accident or even energy saving must be triggered factor for internal pressure.

Now for the three possible antecedents namely regulations, industrial pressure and market pressures, the common explanation would relate to some intra-organizational relationships. As secondary stakeholder, government acts as agent of society which pertains to creating and formulating the common virtue for current and future civilization. For the case of low environmental-awareness society, the government must take the position as initiator for future movement. In this case, network and close-relationship with matured country will provide opportunities for source of idea and benchmarking process.

Another possible source would come from global level. The United Nations – through its categorical body – has created some policies concerning the environmental protection which bound the participation of each country. Ignoring the requirements would lead to international band among nation all exporting product.

In the reality, some global-scale policy tends to used regional organization to promote the message effectively. Through per to per knowledge learning process, the dissemination of the new idea mostly can be done easier. For some reasons, this effort is effective in shifting the current paradigm concerning green-business.

The second antecedents would be industrial pressure. At this point, environmental business policy can be used as organic barriers for the entrants in joining the industry. Incumbent with high-sophisticated system in protecting the environment might direct future dictation. They tend to set up the rule of the game, including investment needed by the new entrants to deal with environmental issues within industry.

Redirecting from organizational inertia concepts, strong-stable incumbent has the power to influenced another player, including those with smaller-sized. For most cases, they can perform the relations through formal or non-formal organizations. This organization will then provide collaborative movement which seen as barriers to the new entrants.

For multinational companies, dealing with local phenomenon requires sufficient supporting funds. Therefore firms need to consider this issue carefully by having this element in the considerations.

The third antecedents would be coming from customer point of view. Due to internet rapid development, knowledge dissemination from higher environmental-awareness country can smoothly go through the lower level country. As the number of internet user arose, then environment-friendly concept will become popular to the young generation. This is the embryo for future market pressures. Reflecting to some cases from the emerging markets, internet issues has gone viral effectively compare to the other traditional news media. Therefore if the multinational firm signaled the rise of youth customer in some targeted region, then they must fully consider the environmental-issue driven by the local community.

Uniquely, the way the local external factors create pressure to the industry will further be impacted the behavior of the subsidiary which in turn can be disseminated to the parent company. Therefore it is possible for the subsidiary to do the reversing flow regarding the environmental knowledge to the parent company.

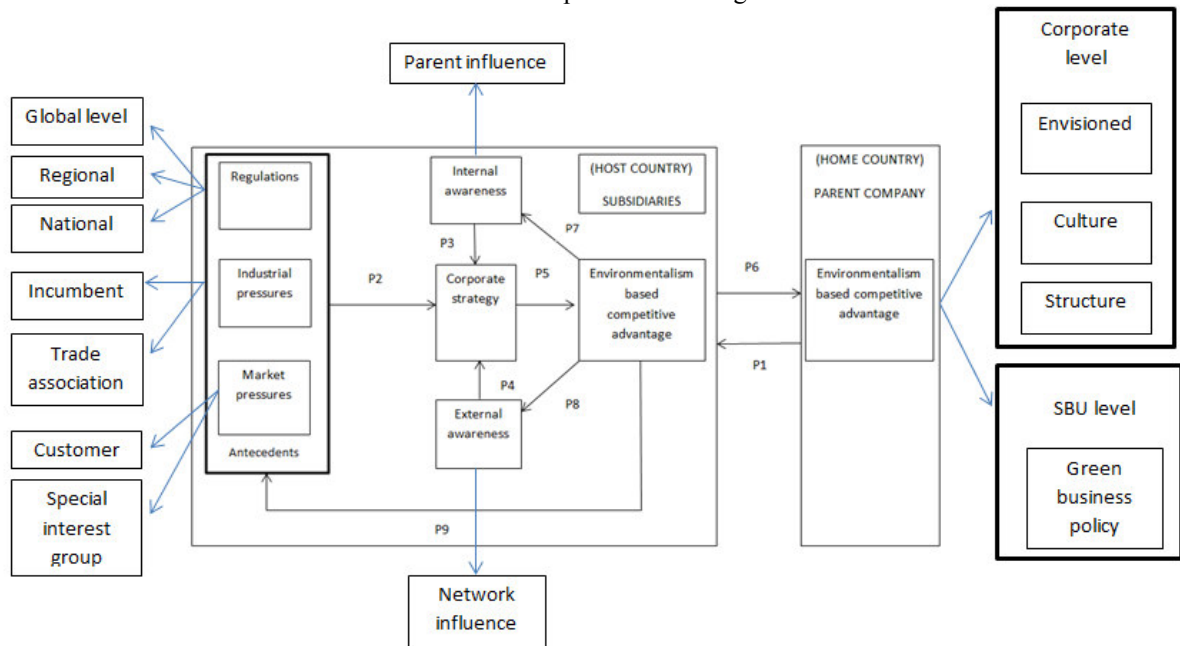
Our explanation has converged to the point that having environmental business policy for multinational company is found to be at the intersection between fully awareness level of thoughts and mandatory by tripled forces: regulatory, industrial and market pressures. The future direction will be influenced by the evidence provided by scholars. If the number of empirical research which conclude that the benefits for dealing with environmental issues arise, then company will have firmly considerations to choose the best path ways.

6. Future agenda

After carefully considering the conceptual response of multinational company to environmentalism issue, in this section we will propose theoretical construct in relating environmental paradigm from parent company to subsidiary and its possible-reversal relationships. The overall construct can be seen on figure 2, while potential questionnaire can be seen on table 1.

We develop the questionnaire using open end interviews to 29 experts who shared top and middle managerial environmental-related position among multinational Indonesia-based company and have it combined with several journal and others academic literature.

Figure 2
 Construct for environmental-related competitive advantage for multinational firm



Source: author conceptual outcome

Table 1
 Questionnaire

| Code | Questions |
|-------|---|
| | Home country – parent company – corporate level |
| | Envisioned |
| CLE1 | My organization included environmental concern on vision statement |
| CLE2 | My organization accommodating environmental concern on mission statement |
| CLE3 | My organization shared specific environmental program on the annual target |
| | Culture |
| CLC1 | Environmental concern has implied as working behavior |
| CLC2 | Environmental concern has been one of the first three major decision |
| CLC3 | My organization has environmental evaluation-response unique mechanism |
| | Structure |
| CLS1 | My organization has one specific department dealt with environmental issues |
| CLS2 | My organization appointed top management level to deal with environmental concern |
| CLS3 | My organization shared clear-objective target on environmental issues at departmental level |
| | Business level |
| CLBL1 | My organization has clear philosophy regarding environmental issues |
| CLBL2 | My organization has strong implemented procedure in accommodating environmental issues to managerial decision |
| CLBL3 | My organization has comprehensive planning and evaluation mechanism to assess environmental matters |
| CLBL4 | My organization is conducting green-business policy |
| CLBL5 | My organization has adequate and fully monitored waste management system |
| | Subsidiaries on host country |
| | Antecedents |
| | Regulatory |
| SR1 | Motive in dealing with environmental issues is coming from global-regulation influenced |
| SR2 | Motive in dealing with environmental issues is coming from regional-policies influenced |
| SR3 | Motive in dealing with environmental issues is coming from national-policies influenced |
| | Industrial pressures |
| SIP1 | Industry where the subsidiaries are operated in has strong pressure to deal with environmental issues |
| SIP2 | Trade association on related industry shared common attention to environmental issues by having |

| | |
|-------|---|
| | justify evaluation and monitoring system periodically |
| SIP3 | Trade association is regularly performing thematic movement in preserving the environment |
| | Market pressures |
| SMP1 | Customer awareness in using green-product has established |
| SMP2 | Customer opinion towards environmental friendly product has dominate public media paradigm |
| SMP3 | Special interest group has power to do the monitoring process relating the environmental issues as impact of production process done by commercial sector |
| SMP4 | Customer can have the power to band the product if they are proofed to harm the environment |
| | Corporate strategy |
| SCP1 | My organization always consider environmental issues in vital strategic-decision |
| SCP2 | My organization convey the environmental policy strictly |
| SCP3 | My organization has the ability to promote environmental friendly business in hots country |
| | Internal influenced |
| SII1 | Environmental awareness has been successfully develop within organization |
| SII2 | All employee has been aware to have proper relationships between working outcome and environmental concern |
| SII3 | Parent company has strong influenced to subsidiary in dealing with environmental policy |
| | External influenced |
| SEI1 | My organization is operating under high environmental-awareness partners |
| SEI2 | The network provides advanced knowledge in environmental issues |
| SEI3 | The network provides fully support for environmental concern program |
| | Environmental competitive based advantage |
| SECA1 | Having proper environmental-business policy can help the subsidiary to maintain cost leadership strategy at the host country |
| SECA2 | Having proper environmental-business policy can support the new product development process |
| SECA3 | Having adequate environmental-business policy contributed a lot to company image |
| SECA4 | Having adequate environmental-business policy can make the subsidiary to have better position in the market |

Source: author compilation

Future research also need to clearly define the treatment between multinational companies that already have written-rigid policy in environmentalism and to those who only conducting the program on the policy basis. This might gave new insight to see which one is more consistent, since there is possibility for multinational company to have environmentalism policy just to ensure that they comply with the regulation. In this case, non-written but fully commitment would be better.

7. Conclusion

From the previous explanation, the paper showed that environmentalism might have impact to competitive advantage for multinational corporations. Several factors should be taken into considerations: internal and external awareness, government regulations, industrial and market pressure and also parent impact. The study found an inverse impact from subsidiary environmental based competitive advantage to internal-external awareness and also to the three antecedents. Future research might have empirical test unto the model to show the reliability and validity of the construct.

Practical implication from this research is that multinational company should take environmentalism as vital consideration, since it has acknowledged as global concern. Our study found that the company can take the benefit by becoming first mover in the topic by addressing the paradigm on the host country.

Theoretical contribution of the study can be seen clearly on our proposed research model. One important consideration is to have the impact of parent environment-based competitive advantage into future research model. Our proposed questionnaires can be used for future research in order to test the model empirically.

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