

The Customer Pressure And Organizational Commitment On Environmental Performance Mediating Proactive Environmental Strategies

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ABSTRACT

The survey found that more than 6 in 10 consumers in Indonesia (64%) are more willing to pay extra for products and services that come from companies who are committed to making positive social and environmental impact. This contrasts from the results of the pre-survey which showed that 5 companies which applied the environmental system management, showed that they found it difficult to enhance their environmental performance due to the lackness of the organizational commitment. This study aims to know how corporate strategies that implement *green marketing* can affect to the environmental performance. This study used quantitative approach. The population in this research are 50 companies listed in the Jakarta Stock Exchange which has implemented environmental management system. The data has been processed by using SmartPLS software version 3.0. The result conclude that there are four hypotheses accepted, they are : Customer Pressure has positive impact towards Proactive Environmental Strategies; Organizational Commitment has positive impact towards Proactive Environmental Strategies; Proactive Environmental Strategies has positive impact towards Environmental Performance and Organizational Commitment has positive impact towards Environmental Performance. While the result showed that Customer Pressure has negative impact towards Environmental Performance. Nevertheless, each hypotheses has significant impact.

Keywords: Customer Pressure (CP), Organizational Commitment (OC), Proactive Environmental Strategies (PES), Environmental Performance (EP).

INTRODUCTION

Consumers in Indonesia are socially-conscious when it comes to purchasing goods and services, and a majority say they check product packaging to gauge a brands' commitment to making a positive social and environmental impact (Nielsen, 2014).

The survey found that more than 6 in 10 consumers in Indonesia (64%) are more willing to pay extra for products and services that come from companies who are committed to making positive social and environmental impact. This compares to a global average of 55% (Nielsen, 2014).

The Nielsen Global Survey of Corporate Social Responsibility polled 30,000 consumers in 60 countries* to understand: how passionate consumers are about sustainable practices when it comes to purchase considerations; which consumer segments are most supportive of ecological or other socially responsible efforts; and which social issues/causes are attracting the most concern.

Because of the people in developed countries were starting to become more aware about environmental issues so the company should be aware as the green company. The emergence

of “green consumers” has mainly been the main background that forced companies to be more environmentally conscious and improve their environmental performance. In line with the external pressures, the motives behind environmental management have changed. Forward thinking corporates started to implement more proactive environmental strategies – the aim is to gain competitive advantage and also to enhance their environmental performance – rather than just complying with laws and regulations (Ates et al., 2012).

The researcher also did pre-survey to strengthen the background of this study to examine their experience in implementing the environmental management system. The pre-survey was distributed on March 2018 to 5 (five) companies which has implemented the environmental management system. The result of the pre-survey showed that those 5 (five) companies found it difficult to implement it because there is no support from the management and most of the employers are not aware of the importance of the environmental management system.

Many corporates hope that by implementing the proactive environmental system, it will enhance their environmental performance. However, many studies found contradictory result on the improvement of corporates’ environmental performance. This phenomenon appeared because many firms corporates do not take account on its commitment towards the environmental system implemented in the company.

In order with the phenomenon and the result of the pre-survey, the researchers will examine the role of organizational commitment and customer pressure in the implementation of proactive environmental strategies and the improvement of environmental performance.

Following the problem statement as above, the researchers construct the following are the research question :

1. Does Customer Pressure (CP) impact positively on the Proactive Environmental Strategies (PES)?
2. Does Organizational Commitment (OC) impact positively on the Proactive Environmental Strategies (PES)?
3. Does Proactive Environmental Strategies (PES) impact positively on the Environmental Performance (EP)?
4. Does Customer pressure (CP) impact positively on the Environmental Performance (EP)?
5. Does Organizational Commitment (OC) impact positively on the Environmental Performance (EP)?

LITERATURE REVIEW

Proactive Environmental Strategies

Proactive environmental strategies is described as a pattern of company practices beyond the requirements of environmental regulations and standard aiming in minimizing environmental impact of operations (Moreno & Reyes, 2013). Proactive environmental strategies are also defined as the set of environmental objectives, plans and procedures of a company, which is beyond basic compliance to laws (Ates *et al.*, 2012).

Calub (2015) stated that proactive environmental strategies focus on a combination of:

1. Waste minimization and prevention (i.e. actions built on reduction, minimization or elimination of pollutants and waste at the source);
2. Demand-size management (i.e. actions that minimize waste or pollution through better understanding of customer needs and building efficiencies around the product);
3. Design for the environment (i.e. action that design out pollutant or waste);

4. Product stewardship (i.e. actions that reduce environmental risks or problems throughout a product's life-cycle); and
5. Full-cost (environmental) accounting (i.e. actions that evaluate direct and indirect environmental costs for a product, process or project).

Sharma & Vredenburg (1998) also stated that a company that implements proactive environmental strategies is a company that exhibits a consistent pattern of environmental practices, across all degree applicable according to their length of activities, not required to be confirmed in fulfillment of environmental regulations or in response to isomorphic pressures within the industry as standard business practices.

Environmental Performance

Ates *et al.* (2012) defined environmental performance as the reduction of environmental impact, where the reduction can be done by reducing material use, waste, and energy use. Prabandari and Suryanawa (2014) also defined environmental performance as a way to keep the surrounding environment as a form of responsibility and concern, which will build a good image in the eyes of stakeholders.

Shrivastava (1995) stated that corporations should not only limit their objectives to maximize areas such profits, revenues, or competitiveness only, but also their activities' impacts on the environment. It reflects measuring the outputs of environmental management activities, which could be indicated by corporate environmental performance. Lakonski (2000) stated that the smaller the harmful impact, the better the environmental performance and vice versa.

In Indonesia, there are three indicators that can be used, they are:

1. AMDAL, a study of the major and significant impacts of a planned business and/or activity on the environment required for the decision-making process on the operation of the business/activity. The aspect measured by AMDAL must follow six criteria, they are 1) the number of people to be affected; 2) the area of impact distribution; 3) intensity and duration of impact; 4) the number of other environmental components affected; 5) cumulative nature of impact; and 6) reversible or irreversible impacts.
2. PROPER, is one of the efforts of the Ministry of Environment in encouraging the corporate in environmental management through information instruments.
3. ISO 14001, is an international standard that provides a framework for corporate in setting up an effective environmental management system (Nemati *et al.*, 2016), and in monitoring and evaluating their success.

Customer Pressure

Ates *et al.* (2012) defined customer pressures as the requests and requirements of end consumers and business customers for the firm to reduce its environmental impact.

"Customers are important intangible assets of a firm that should be valued and managed" (Gupta & Lehmann, 2013). This showed that customers have a major impact apart of the size and power. Ileska (2013) defined customers as a subject who purchases goods and services to satisfy their needs. Nowadays, corporate takes seriously what has become the customer demand. In line with that, Ates *et al.* (2012) stated that customers are one source concerning non-regulatory pressure for environmental management into many corporates and are increasingly demanding that manufacturing firms reduce any negative impact of their products and operations on the natural environment. Zhu and Sarkis (2007) also stated that the reason

behind the implementation of proactive environmental strategies and environmental investments in China was encouraged by their customer.

Further in the study, Ates *et al* (2012) stated that recently, the corporate has faced five following customer pressures related to their environmental activities:

1. Pressure to meet environmental requirements set by their main customers;
2. Demanding detailed information to ensure their environmental performance;
3. Required by the customers to improve the environmental quality of their products;
4. Requesting the corporates to fulfill waste reduction goals; and
5. Requesting the corporates to initiate in recycling, remanufacturing and/or re-use.

Organizational Commitment

Gudermann (2010) defines organizational commitment as identification with organizational goals, a desire to belong to the organization and a willingness to show effort in the interest of the organization. In many literatures related to the proactive environmental strategies, organizational commitment is defined as the intention and willingness of the managers and employees in a firm to be engaged in environmental management and to reduce environmental impact (Ates *et al.*, 2012). Organizational commitment is also identified as one factor that cause different and diverging environmental strategies of the firms which operate in the same industry.

Ates *et al* (2012) stated that organizational commitment towards environmental strategy can be showed in five ways, they are:

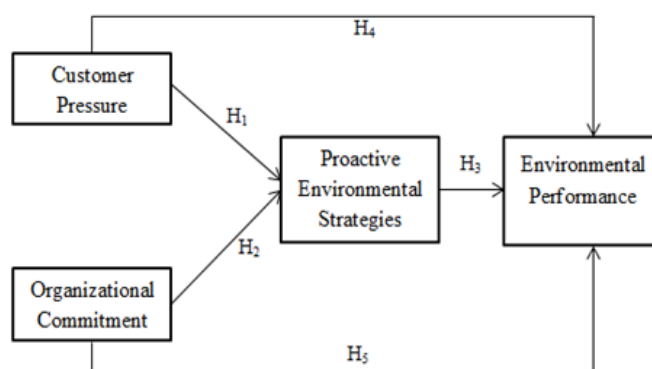
1. Top management commitment towards environmental management and policies;
2. Support of mid-level managers on environmental management and policies;
3. Organizational support for new environmental initiatives;
4. Cross-functional cooperation between departments for environmental improvements;
5. Training related to environmental for employees and employee involvement.

METHODOLOGY

This research is quantitative research, researchers used questionnaire for collecting the data. The sampling of this research are 50 companies which are obtained by using G*Power 3 software. This result consists of five hypotheses, based on the research framework (figure 1).

The data used in this research is tested by using Partial Least Square-Structural Equation Modelling (PLS-SEM) software to analyze: 1) the validity and reliability through individual item reliability test, composite reliabilities, AVE (Average Variance Extracted) and HTMT; 2) the hypotheses proposed in this research through path coefficient, T-significance, P-Value and determination coefficient test (R^2).

Figure 1 : Research Framework



(Source: Ates *et al.*, 2012)

RESULT AND DISCUSSION

Respondent Data

In this research, the researchers gathered 50 respondents which are the companies listed in the Jakarta Stock Exchange which have implemented the environmental management system. The questioner was distributed via e-mail which led the respondents to fill the questioners in Google Forms. The researchers used e-mail because the respondents are located in many provinces in Indonesia.

From table 1 about respondent data, it is acknowledged that majority of the respondents are chemical company which have 1,001 – 5,000 employees., Those respondents' annual sales in majority are more than > 100.000.000 \$.

Table1 : Respondent Data

| Description | Category | Nominal | Percentage |
|------------------|----------------------------|-----------|------------|
| Industry | Agriculture | 1 | 2 |
| | Automotive | 6 | 12 |
| | Battery | 2 | 4 |
| | Cable | 5 | 10 |
| | Chemicals | 10 | 20 |
| | Construction | 6 | 12 |
| | Consumer Goods | 1 | 2 |
| | Cosmetics | 3 | 6 |
| | Pharmacy | 2 | 4 |
| | Food & Beverages | 2 | 4 |
| | Metal | 5 | 10 |
| | Mining | 1 | 2 |
| | Pulp and Paper | 1 | 2 |
| | Textile | 4 | 8 |
| | Tire | 1 | 2 |
| No. of Employees | > 20,000 | 5 | 10 |
| | 10,001 – 20,000 | 7 | 14 |
| | 5,001 – 10,000 | 3 | 6 |
| | 1,001 – 5,000 | 21 | 42 |
| | 251 – 1,000 | 14 | 28 |
| Annual Sales | > 100.000.000 \$ | 44 | 88 |
| | 50.000.000 – 100.000.000\$ | 6 | 12 |
| | < 50.000.000 | 0 | 0 |
| | | | |

Source : Questionnaire, 2019

Descriptive Analysis

According to the data based on Proactive Environmental Strategies (PES), it is acknowledged that most respondents consider to implement the type of proactive environmental strategies that is incorporate innovative, with the mean is 3.48. Based on the variable of Environmental Performance (EP), most respondents that has implemented the environmental management system are successful in reducing the usage of their material during the production process with the mean is 3.30. Based on the variable of Customer Pressure (CP), it is acknowledged that most respondents face the pressure from their customer to provide detail information to their customer in assuring their environmental compliance, with the mean is 3.62. Whilst, based on the variable of Organizational Commitment (OC), most respondents do the cross-functional cooperation between departments, with the mean of 3.36.

Table 2 : Descriptive Analysis

| Variable | The Most Category | Mean |
|--|---|------|
| Proactive Environmental Strategies (PES) | Implementing the Incorporate Innovative | 3.48 |
| Environmental Performance (EP) | Reducing the usage of material | 3.30 |
| Customer Pressure (CP) | Providing Detail Information | 3.62 |
| Organizational Commitment (OC) | Doing Cross-Functional Cooperation | 3.36 |

Source : Questionnaire, 2019

Measurement of Outer Model

Measurement of outer model is used to test the construct validity and the instrument reliability. This measurement is assessed on two aspects; they are convergent validity and discriminant validity.

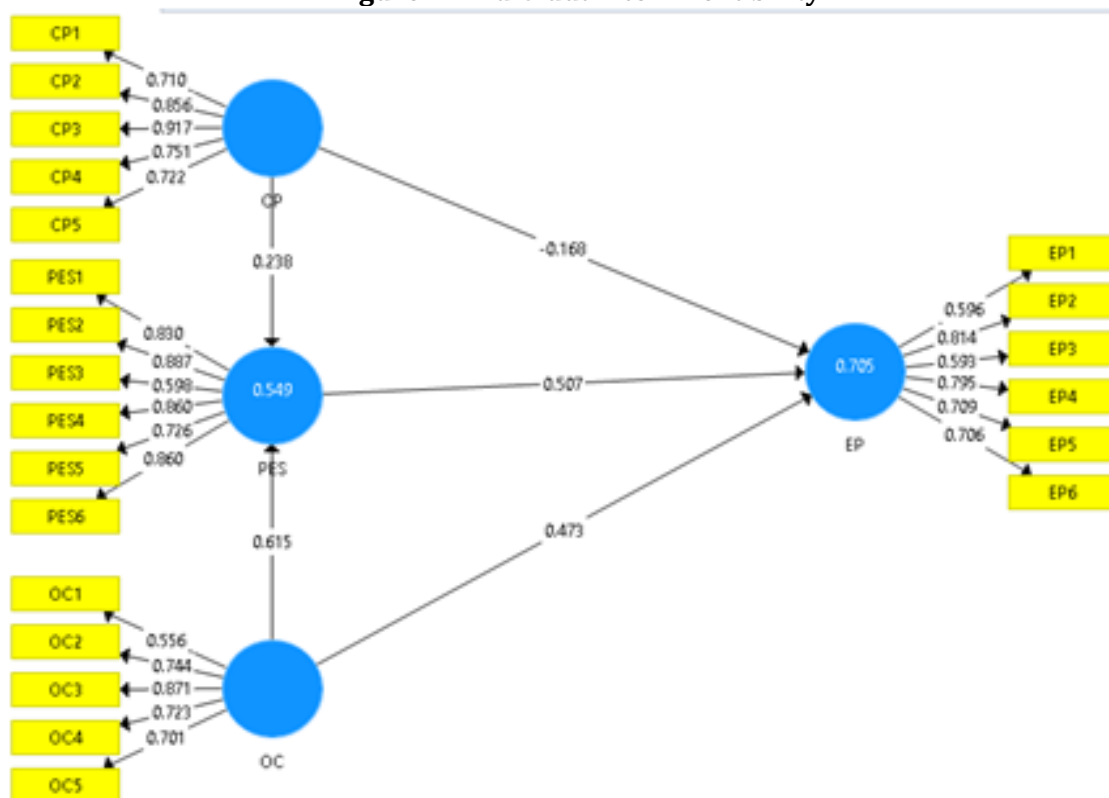
Convergent Validity

Convergent validity is assessed to measure the magnitude of the correlation between the construct and latent variable. Convergent validity can be assessed on individual item reliability, composite reliabilities and average variance extracted value.

Individual Item Reliability

Individual item reliability is assessed on the loading factor value, which is ideal if loading factor >0.5 (Hair *et al.*, 2014)

Figure 2 : Individual Item Reliability



(Source: Questionnaire processed by PLS, 2019)

Based on figure 2 we can conclude that all indicators of each variables are valid. It is proved by all loading factor value that are greater than 0.5. Thus, all indicators can be used for this research.

Composite Reliabilities

Composite reliabilities is assessed to describe how reliable is the outer model in measuring the latent construct, where outer model is reliable if composite reliabilities is greater 0.7 (Henseler *et al.*, 2012). Based on figure 2, we can conclude that the outer model is reliable in measuring the latent constructs. It is proved by the composite reliabilities value of each variable that is showed on figure 2 are greater than 0.7.

Average Variance Extracted (AVE)

Average variance extracted describes the magnitude of variance of the manifest variable that a latent construct can have, where a good convergent validity is if AVE is at least 0.5 (Garson, 2016). Based on figure 2 we can conclude that all constructs are valid. It is proved by the average variance extracted (AVE) value of customer pressure (CP), organizational commitment (OC), and proactive environmental strategies (PES) are greater than 0.5. Whilst, the AVE value of environmental performance is at the cut-off and considered as accepted.

Discriminant Validity

Discriminant validity is assessed to ensure that there will be no multicollinearity issues. It can be assessed on the HTMT (Heterotrait-Monotrait Ratio), where the HTMT value should not be greater than 0.9 (Henseler *et al.*, 2015).

Table 3 : HTMT Value

| | CP | EP | OC | PES |
|-----|-------|-------|-------|-----|
| CP | | | | |
| EP | 0.447 | | | |
| OC | 0.535 | 0.900 | | |
| PES | 0.515 | 0.889 | 0.799 | |

Source: Data processed by PLS

Based on the result showed on table 3, we can conclude that there is no multicollinearity issues. It is proved by the HTMT value that are less than 0.90.

Measurement of Inner Model

Measurement of inner model is used to test the hypotheses proposed in this study and also the significance relationship among latent construct. This measurement is assessed on 3 (three) aspects, they are path coefficient, R² value, F² and Goodness of Fi (GoF).

Path Coefficient

Path coefficient is assessed to test the hypotheses proposed in this study and the significance of relationship of each construct which are assessed on the Path Coefficient value, T-Value, and P-Value.

Path coefficient is used to observe whether the hypotheses proposed in this study are accepted, where the hypotheses are accepted if the sign of the path coefficient are the same as the hypotheses proposed.

The hypotheses proposed in this study are in positive. Based on figure 2 we can conclude that there are 4 (four) hypotheses proposed in this study are accepted, they are:

H₁: Customer Pressure (CP) impact positively the Proactive Environmental Strategies (PES) where the path coefficient value is 0.238.

This result is consistent with the research conducted by Gonzalez-Benito & Gonzalez-Benito (2007) and Ates *et al.*, (2012) which concluded that customer pressure (CP) has positive impact towards proactive environmental strategies (PES).

H₂: Organizational Commitment (OC) impact positively the Proactive Environmental Strategies (PES) where the path coefficient value is 0.615.

This result is consistent with the research conducted by Gonzalez-Benito & Gonzalez-Benito (2007) and Ates *et al.*, (2012) which concluded that organizational commitment (OC) has positive impact towards proactive environmental strategies (PES).

H₃: Proactive Environmental Strategies (PES) impact positively the Environmental Performance (EP) where the path coefficient value is 0.507.

This result is consistent with the research conducted by Aragon-Correa and Rubio-Lopez (2007), which stated that proactive environmental strategies (PES) do affect the environmental performance (EP)

H₅: Organizational Commitment (OC) impact positively the Environmental Performance (EP) where the path coefficient value is 0.473

While, there is 1 (one) hypothesis that is not accepted, it is:

H₄: Customer Pressure (CP) impact positively the Environmental Performance (EP) where the path coefficient value is -0.168.

After path coefficient, we must run the T-Value test to check if the hypotheses that has been proposed are significance, where the T-Value should be greater than 1.64 (Hair *et al.*, 2010)

Based on figure 2 we can conclude that all hypotheses proposed in this study are significance, where the T-Value of H₁, H₂, H₃, H₄ and H₅ sequentially are 1.987, 7.929, 4.787, 2.194 and 4.938 which are greater than 1.64.

After finding out that all hypotheses are significance, we should find out the value of the significance of each hypotheses by assessing the P-value, where the P-value should be less than 0.05 or 5% (Hair *et al.*, 2010). Based on the figure 2 we can conclude that the significance of H₁, H₂, H₃, H₄ and H₅ sequentially are at 0.047, 0.000, 0.000, 0.029 and 0.000, which are less than 0.05.

Coefficient Determination

Coefficient determination is assessed on the value of R² to see how much variance of dependent construct can be explained. Whereas, the criteria of the R² value (Hock & Ringle, 2010), are:

- **R-square >0.67**: Strong
- **R-square >0.33**: Moderate
- **R-square >0.19**: Weak

- 1) Figure 2 showed that the environmental performance has strong correlation with customer pressure, organizational commitment and proactive environmental strategies, where the R^2 value is 0.705. It also showed that the variance of environmental performance that can be explained by customer pressure, organizational commitment and proactive environmental strategies is 70.5%, while 29.5% is explained by other factors which is not taking part in this research.
- 2) Figure 2 showed that the proactive environmental strategies has moderate correlation with customer pressure and organizational commitment, where the R^2 value is 0.549. It also showed that the variance of proactive environmental strategies that can be explained by customer pressure and organizational commitment is 54.9%, while 45.1% is explained by other factors which is not taking part in this research.

Goodness of Fit (GoF)

Goodness of Fit is used to validate the combined performance of outer model and inner model. GoF can be assessed by the SRMR value, whereas the SRMR value should be ≤ 0.08 (Hu & Bentler, 1998)

Figure 3 : SRMR

| Model_Fit | | |
|------------|-----------------|-----------------|
| | Fit Summary | rms Theta |
| | Saturated Model | Estimated Mo... |
| SRMR | 0.076 | 0.076 |
| d_ULS | 7.845 | 7.845 |
| d_G1 | 335.191 | 335.192 |
| d_G2 | n/a | n/a |
| Chi-Square | 5,706.582 | 5,706.582 |
| NFI | 0.078 | 0.078 |

(Source: Data processed by PLS)

Based on figure 3, we can conclude that the model is fit. It is proved by the SRMR value of 0.076, which less than the requirement.

CONCLUSION AND RECOMMENDATION

Conclusion

Four hypotheses proposed in this research are accepted, they are 1) customer pressure (CP) impact positively the proactive environmental strategies (PES); 2) organizational commitment (OC) impact positively the proactive environmental strategies (PES); 3) proactive environmental strategies (PES) impact positively the environmental performance (EP); and 4) organizational commitment (OC) impact positively the environmental performance (EP). It is proved by the path coefficient value of those hypotheses, which are positive value. While, the hypothesis of customer pressure (CP) impact positively the environmental performance (EP) is not accepted due to the path coefficient value of the hypothesis is negative value.

Recommendation

Managers should start considering implementing environmental management system that is beyond the regulation and the environmental law. They also need start considering the usage of energy in the company. Those factors are also important factors that can enhance the

environmental performance of the company. Except those factors, the managers should also realize that to be able to implement the proactive environmental strategies successfully, it needs the commitment of every employer. Therefore, the company need to rally all employment to support the policies and strategies of the company.

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