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RESEARCH ARTICLE

Factors Influencing Managers' Environmental Sustainability Intention: A Conceptual Analysis

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Abstract

In today's increasing global competition, environmental sustainability has gained importance in the eyes of both researchers and managers. There is a critical need to better understand the managers' perception of environmental sustainability concept. The purpose of this article is to develop a deeper conceptual understanding of the factors influencing managers' environmental sustainability intention by utilizing theory of reasoned action. The paper proposes that primary stakeholder pressure has a positive effect on managers' environmental sustainability intention, and suggesting that environmental sustainability cost acts as a negative moderator in this relationship. This study introduces conceptual tools for those aiming to do empirical research on environmental sustainability, and to explore the factors influencing managers' environmental sustainability intention.

Keywords: *Environmental sustainability, Primary stakeholder Pressure, Managers' sustainability intention, Theory of reasoned action.*

Introduction

Environmental sustainability is an increasingly prevalent topic of discussion that triggers a high level of interest in the academia. It becomes a hot topic also for managers due to increasing pressure from primary stakeholders. How to deal with this pressure without eroding financial status of the company is a manager's biggest problem.

Environmental sustainability is not a new concept in the business world; however it presents major difficulties to managers in application. According to a survey, 92% managers stated that the environment should be one of their top three management priorities, and 85% claimed that one of their major goals should be to integrate environmental considerations into business strategy. On the other hand, only 37% believed they successfully integrate the environment into everyday operations. So what are the main factors that retain managers to implement environmental sustainability practices?

Managers need to constitute strategies that meet primary stakeholder's increasing environmental sustainability demands but in the most cost efficient way. Unfortunately, previous studies on environmental sustainability have tended to focus on win-win relationships and ignored the cost part, which is a crucial factor for managers in their environmental sustainability implication decisions. Another issue in the literature is lack of differentiation of stakeholders in the environmental sustainability issues. Managers need to spend company sources to meet the primary stakeholder's demand first since all stakeholders are not equally important for a company [1].

To help bridge the gap, this research explores the primary stakeholder pressure, and environmental sustainability cost's effect on manager's environmental sustainability intention. So, this study specifically explores the following questions: What is the relationship between primary stakeholder pressure and managers' environmental sustainability intention? What is the relationship between cost of environmental sustainability and managers'

environmental sustainability intention? How does cost of environmental sustainability moderate the relationship between primary stakeholder pressure and managers' environmental sustainability intention?

This paper is organized as follows. First, theoretical background for the research is presented. Then, literature relating to stakeholder pressure and cost perspective and their relationship to managers' environmental sustainability intention is examined. Next, propositions are developed with support of the literature and theory of reasoned action. Finally, this paper concludes with research and managerial implications.

Theoretical Background

Theory of Reasoned Action (TRA) provides a strong theoretical basis for studying environmental sustainability intentions. Interest in environmental attitudes as predictors of environmentally based actions and participation decisions had led researchers to build on TRA. Many researchers use TRA to examine environmental decision making from source reduction preferences to ethical behavior and to green consumerism [2,3].

TRA suggests that specific behaviors are predictable from specific behavioral intentions, and these intentions are in turn a function of two components: the attitude toward the behavior and the perceived normative expectations of reference groups which is also known as subjective norm [4]. Attitude toward the behavior is defined as "a person's general feeling of favorableness or unfavorableness for that behavior". Subjective norm is defined as "a person's perception that most people who are important to him think he should or should not perform the behavior in question" [5].

This research draws on TRA in examination of managers' environmental sustainability intention. As theory argues, managers' environmental sustainability intention based on managers' positive or negative evaluation of implementation cost as attitudes toward behavior construct and managers' beliefs about whether stakeholders put pressure on them as subjective norm construct of the theory. So, if a manager expects a positive outcome and feels that stakeholders encourage environmental sustainability practices, then positive intentions are likely to result [6].

Literature Review

Primary Stakeholder

Freeman [7] defines stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Managers are responsible for the managing of stakeholder relationships, which is non-optional and morally required [8]. Managing stakeholder interests is a primary management function [9] and stakeholder pressure is a very important motivation for environmental sustainability practices [10-12].

Good relationship building with stakeholders is essential for environmental sustainability. Today, many companies realize the need to manage a larger set of stakeholders rather than focusing on the needs of owners as their sole responsibility [13]. However, identifying important stakeholders becomes a crucial step for managers since not all stakeholders appear to be perceived as equally important for firms especially when devising environmental strategies [14]. Companies exist to generate profits, not to solve social issues. Creating value for primary stakeholders, not the general public is important for firms [15]. So, it is necessary to distinguish between stakeholder issues and social issues. All social issues are not necessarily stakeholder issues, just as all stakeholder issues are not necessarily social issues and managers manage relationships with especially primary stakeholders and not with society [1]. Moreover, using corporate resources for social problems not related to primary stakeholders may not create value for shareholders [16].

So, who are the primary stakeholders of a company? According to Clarkson [1] "A primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern." Primary stakeholder groups

include customers, suppliers, shareholders and employees. This group of people is directly related to an organization and has the ability to impact the firm's bottom line [17]. There is a high level of interdependence between the company and its primary stakeholder groups. If any primary stakeholder group becomes dissatisfied, in whole or in part, the corporation will be seriously damaged. Therefore, the company is a system of primary stakeholder groups. Managers' ability to create value and satisfaction for the primary stakeholders will be determinant on the company's survival and sustainable success [1].

Stakeholders that do not control company's critical resources or those who do not have the importance can influence the focal firm only by indirectly via other stakeholders [18]. This group of people known as secondary stakeholder groups that influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the firm. So, secondary stakeholders are not essential for the company's survival [1].

What are the expectations of primary stakeholders from the managers? Today, there is a major shift in stakeholder expectations. Corporations face increased pressure from stakeholders to address performance not just in economic terms but also in environmental perspectives [19-21]. However, according to Henriques and Sadorsky [17] corporations that do not view environmental practices as important are the least likely to perceive primary stakeholders' expectations as important. But this is not the norm anymore. Many companies respond to these stakeholder requests by publishing annual sustainability reports that communicate the activities and strategies being used to address environmental issues [21]. 95% of the 250 largest companies in the world now report on their sustainability activities and 62% of these companies offer environmentally sustainable products [22]. So, meeting primary stakeholder expectations is a requirement for managers today rather than an option. Therefore, based on the literature and theory of reasoned action, the first proposition is:

P1. An increase in primary stakeholder pressure leads to an increase in managers' environmental sustainability intention.

Environmental Sustainability

For the purpose of this paper, environmental sustainability intention is defined as "Intention of integrating environmental practices into organization, including product design, material sourcing and selection, manufacturing processes and delivery of the final product to the consumers", which is based on Srivastava's [23] definition. The implementation of these practices to operations is not easy for managers. Kotler [24] presents some of the environmental challenges that companies face:

A change (probably irreversible) in the composition of the atmosphere and consequently of the climate;
A depletion of the ozone layer, the shield protecting the Earth from ultraviolet radiation;

- Soil degradation and increased desertification;
- Increased air and water pollution;
- A reduction in the availability of fresh water; and
- Increasing depletion of physical and natural resources, from oil to copper, to timber, and so forth" [24].

Corporations need to make extreme changes in their production, financial, and marketing practices if sustainability is to be implemented [24]. Will that drastic change be costly for the firms?

There is a difference in the literature about the cost of the environmental sustainability, which can be interpreted as the contrast between win-win situations vs. trade-off. Some researchers present that by implementing environmental sustainability practices, companies reduce costs due to reduction in the inputs they use and increase revenues by offering better products to the market [25,26]. Environmental business practices such as package reduction and fuel-efficient transportation usage can reduce costs while also improving firm's reputation [27]. According to Seuring and Muller [28] managers see win-win situations

as more likely in the environmental sustainability practices rather than trade-off. There are also examples from business world about the positive relationship between the saving money and implementing environmental friendly processes. For example Herman Miller saved millions of dollars per year through their environmental sustainability programs by reducing waste, material use and energy costs [29].

On the other side of the argument, many researchers believe that trade-off specifically from the cost perspective is inevitable. Instead of focusing on win-win solutions, companies are better off focusing on the trade-offs between costs and benefits [15]. Environmental practices such as remanufacturing, recycling and refurbishing add an additional level of complexity to the company, which in turn increases costs [30]. Jiling [31] defines environmental sustainability cost as "The cost that the company expenses to manage the environmental influence of its activity and achieve the environmental goal." So, how does this cost affect companies? In Abreu's [32] research, 82% of the companies state that they are not interested in environmental sustainability practices due to the cost of implementation. Companies that implemented environmental sustainability practices into their operations without analyzing the cost perspective of it usually failed. For example, one large chemical firm had the environmental sustainability intention and committed to a program to reduce emissions of hazardous wastes. The company soon figured out that they were curbing other important projects because approximately two-thirds of the firm's capital budget went to environmental spending. The company is now exploring ways to achieve greater efficiency and perhaps even to reduce some of their commitments to the environment.

Customers' perspective on environmental sustainability is crucial since they are the primary stakeholders of the companies and each company needs them to survive. Companies have to increase the price of their products inevitably if the cost of the environmental sustainability implementation increases. A recent survey revealed that most consumers indicate that they would choose a product from an environmentally friendly company only if the cost is the same as other alternatives [33]. So, customers want companies to offer products and services and create new processes, but not those that might be to the detriment of them and certainly not at a high price [15].

Broadly, environmental costs at most companies are extremely high, with little economic payback. There are some arguments that state making environmental improvements is often the best way to increase a corporation's profitability. Unfortunately, this popular idea is unrealistic. Responding to environmental challenges has always been a costly and complicated premise for managers. There are certainly win-win situations that exist in the business world but they are rare and most of them are motivated by primarily long-term economic gains like the 3M' environmental sustainability commitment [34].

In today's world, primary stakeholders are demanding improved environmental performance from the companies. The question for companies has become not whether to commit to a strong environmental practice but how to do it in a cost-effective way [35]. Each company should choose its own specific ambition and approach regarding environmental sustainability, matching the primary stakeholders' expectations and aligned with the organization's strategy [36]. Any solution to environmental sustainability challenges depends on how well managers and stakeholders can find ways to cooperate by considering the high cost of the practices [37]. These high costs may prevent managers' environmental sustainability intention. Therefore, based on the literature and theory of reasoned action, the following propositions are presented and the model is depicted in Figure 1:

P2. An increase in environmental sustainability cost negatively moderates the relationship between the primary stakeholder pressure and managers'

environmental sustainability intention.

P3. An increase in environmental sustainability cost leads to a decrease in managers' environmental sustainability intention.

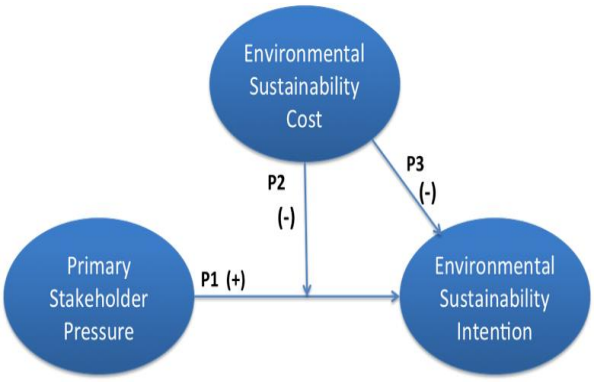

Figure 1: Environmental sustainability intention model

Research Implications

The exploration of primary stakeholder pressure and cost of environmental sustainability makes several contributions to the body of knowledge. First, this study provides better understanding of the two main factors that influence managers' environmental sustainability intention. Although, some previous studies concentrated on trade-offs between the cost and the implications of environmental sustainability, just a few presented the expense of environmental practices. Moreover, most studies completely ignored the cost part of environmental sustainability. This article bridges this gap by examining the cost's effect on manager's environmental sustainability intention which may help researchers understand the effect of this neglected factor from manager's perspective. The second contribution of this research is the distinction among stakeholders. Even though many previous studies addressed the stakeholder pressure on manager's environmental sustainability intention, many of them presented the pressure from all stakeholders as if it were equally important. This research addresses this gap and explores just the primary stakeholder pressure that has the highest impact on the company. By making this distinction, future researchers may more accurately determine the stakeholder group that has a direct effect on the manager's intentions. Future research can also test the propositions presented in this study by doing experiments since sustainability research is lacking experiment [38].

Managerial Implications

The effects of primary stakeholder pressure and environmental sustainability cost have several implications for practitioners. This research highlights the importance of cost in managers' environmental sustainability intention. If the company doesn't have the financial capabilities to implement environmental sustainability practices, managers should avoid these practices. The main challenge for managers is to balance concerns with cash flow, profitability, and environmental protection in order to respond to the demands of stakeholders [39]. Managers should concentrate on finding smarter trade-offs between business and environmental concerns to achieve truly sustainable environmental solutions.

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