Journal of Sociological Research
ISSN 1948-5468
2020, Vol. 11, No. 1

A Conceptual Study on the Impact of Sustainable Practices for Business Performance

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Received: August 10, 2019 Accepted: September 3, 2019 Published: September 13, 2019

doi:10.5296/jsr.v11i1.15253 URL: https://doi.org/10.5296/jsr.v11i1.15253

Abstract

Purpose: The main purpose of this paper is to develop a conceptual framework to determine the impact of sustainable practices (SP) on business performance (BP).

Methodology: The study conducted using a thorough review of selected appropriate extant literature in developing the conceptual model.

Findings: The major finding reveals that sustainable practices can be measured using environmental practices, corporate social responsibility practices and human resource practices and those practices are having an influence on business performance.

Originality: This paper can be considered as an advancement over the previous research as it contributes to broadening the understanding of the possible variables that can be used in results of studies linking SP with BP. Moreover, the conceptual model proposed is a new one covering the approach to ascertain the link between SP and BP.

Research implication: The findings are likely to help to use the conceptual framework towards broadening and deepening the understanding of the debate regarding the sources of variation in the measurement of SP and BP link.

Limitation: This research is limited to papers published up to 2018. Future research can update the findings by using data beyond 2018.

Keywords: Sustainable Practices, Business Performance, Environmental practices, Human Resource practices, Corporate Social Responsibility practices

1. Introduction

With the Development of world trade activities, sustainability is becoming a buzzword within the industry with the beginning of the 21st century (Oyegungle & Weber, 2015). In simple terms, sustainability means the way an organization conducts its operations to generate long -term value creation taking into consideration of ecological, social and economic environment. Dixon-Fowler et al. (2013) indicated that in ever-changing market companies have understood that focusing only on the economic side of the business is not sufficient. Nowadays, leaders, managers', and business people are pressurized about the necessity of giving donations to "sustainable development" covering all parts of the society. Today, most of the manufacturing firms are entering into programs like "corporate governance", "CSR", "green production", "green value chain", "paperless banking"' and conservation of water usage that indicates the importance placed on sustainability (Choi & Yu, 2014). Furthermore, a considerable amount of research work conducted in developed countries to determine the connection between sustainability practices and company profitability using ROE, EBITDA, and ROI (Kusuma & Koesrindartoto, 2014; Siew et al., 2013). According to Kusuma and Koesrindar (2014), the impact of sustainability practices on profitability related research has been done in Indonesia, Japan, China, and India.

According to Albertini (2013), "corporate sustainability" is an extension of the financial base for the 'triple bottom line' and that covers the corporate performance of environmental and social factors. Elkington (1994) proposed "Triple Bottom Line" concept, to describe sustainability in a much broader manner covering economic prosperity, social development and environmental quality. In other words, to be sustainable in the long run, the firm shall consider all three pillars of sustainability and give equal emphasis in a balance manner (Amini & Bienstock, 2014). Young and Tilley (2006) indicated that at business level the focus towards sustainability practices has shifted from "pollution control" to "eco-efficiency" and "socio-efficiency". Furthermore, Tomsic, Bojnec and Simcic (2015) pointed out that in the competitive market environment a firm requires to have a mechanism to equilibrium "economic", "environmental" and "social dimensions" of sustainability to have an optimal operation.

Sri Lanka being a developing country has a number of challenges to address in order to gain a higher sustainable economic growth with greater equity without making irreparable destruction to the environment. Because of the globalization, most of the governments and people are demanding more socially and environmentally responsible activities when doing business. This has led to a situation of sustainable manufacturing practices as a guideline in the global world. Moreover, there are huge opportunities for business firms in moving towards green business as sustainable business practices have now become a norm in the global economy. Society is continually watching the activities of the business firms which in turn help the business firms recognize in the business environment while creating a room to achieve the best performance (Oyegungle and Weber, 2015). The newly developed concept of sustainable business is catching up very fast within the responsible business community and in the world by integrating corporate sustainable business strategy as part and parcel for the approach of business. Considering those it is important to determine the sustainability practices of Sri Lankan manufacturing firms and the impact on firm performance and to achieve this it is paramount important to determine the exact variables those can be used to develop a conceptual framework so that it can be used to address this problem.

The review of Literature has been done on a comprehensive manner focusing on various research from well recognized peer-reviewed academic papers, articles, reports and journals connected to the subject matter so as to obtain a clear picture with respect to the "grey" areas of the literature. In doing so the study conducted by reviewing of carefully selected articles up to the year 2018 to understand the theoretical perspective related to sustainable practices. Moreover, the study organized in such a way to discuss the constructs which are having a connection with the business performance. Furthermore, to describe various theoretical reflections highlighted by the different scholars with regards to the subject has been selected in order to provide a practical insight. Hence the paper has organized in such a manner to provide a deeper understanding of the constructs connected to business performance discuss the constructs that can be used for developing a conceptual framework along with conclusions.

2. Development of Conceptual Framework

2.1 Theoretical Perspectives on Factors Affecting Sustainable Practices

With the increase awareness and the importance of sustainable development, sustainability related theories were developed over the decades giving more attention to the manufacturing environment. . This section of the article presents a critical review of the evolving theories connecting to sustainability to firms.

Selznick (1948), made an influential contribution to organization theory indicating that the behavior of the organization provides an impact from its the operating institutional environment. Moreover, Institutional context can be divided as formal and informal. According to Berrone et al. (2010), the power of Institutional theory is that provides an explanation about the selection of some practices without any economic value. According to DiMaggio and Powell (1983); Scott (2003), institutional theory provides three types of environmental pressures for firms namely isomorphism- Coercive isomorphism, Normative isomorphism and cognitive isomorphism that have an institutional influence for firms. Formal or informal pressure that influence on the organization by the government or any other organizations like regulatory bodies for example as environmental authorities. Rashid et al., (2014) indicates that some researchers pointed out that fulfillment of environmental regulations by a manufacturing firm leads to an enhance reputation and effective operation of green practices.

Mimetic isomorphism is linked to the unpredictability of market situations, goals, and technology that helps the strategy makers to adopt suitable structures and practices that may become a benchmark for other organizations in the same fields. Normative isomorphism generates from the conscious mental process and standards which are formulated and controlled by professionals and other moral standards-making bodies. Furthermore, Ball and

Craig (2010) indicates that Institutional theory is possible to use to discuss social values, technological advancements, and regulations having an influence on green sustainable activities. One important factor of this theory is to comply with the governing rules of the country by the relevant firms and that indicates the importance of proper environmental practices of the relevant firms as those are regulated as environmental laws of the country. Hence the theory explains that organizations have to comply with the requirements imposed by powerful organizations leading to environmental sustainability.

According to Barney (1991) resources of a firm are unique to the organization and are treasures with non-possible applicability and support to gain competitive advantage leading to excellent performance once these resources utilize properly. RBV theory suggests that utilization of tangible and intangible resources of a firm contributes to performance. Moreover, Barney (1991) classified three different resources, namely, Physical capital resources, Human capital resources, and Organization capital resources. However, combine effect of all three types of resources and its utilization makes the firm competitors in the market. Moreover, the Human capital resource is the total capacity of employees that contributes in making the firm competitive and in meeting the expected performance as such resource cannot be substitutable. According to Haffar and Searcy (2017), Resource Based View theory suggests that a firm can gain competitive advantage paving the way to have a sound financial performance if the firm strategically utilize its unique capabilities. Hence the theory suggests that human resource practices contributes to have a sound organization leading to sustainability.

In other words, companies need to conduct functions in a responsible manner to address social, environmental and ethical activities. The book "Strategic Management: A Stakeholder Approach" (1984) written by Freeman first introduced the Stakeholder Theory, which indicates the mechanisms that can be used to manage the interests of the stakeholders connected with the business operations. According to Freeman, Harrison, and Wicks (2007), in a dynamic and changing environment the manner of running an organization in a practical, ethical, and efficient and effective manner is supported by the Stakeholder theory. This is because every organization needs to manage stakeholders and therefore Stakeholder Theory is a practical one. Moreover, Tantalo and Priem (2016) indicates that look after of all stakeholders well makes a synergistic effect as per the Stakeholder Theory. According to Chernev and Blair (2015), the stakeholder theory suggests that fulfillment of stakeholders needs covering environmental and social lead in financial performance. Therefore, the theory clearly indicates the necessity to give due consideration for societal needs by taking care of the impact of the business activities of parties interact with the business firm. In other words, the theory proposes the necessity of conducting operations of a firm in a socially responsible manner is very much important.

3. Sustainability Practices

In today's context a business enterprise success is determined based on the contribution made to the society and the environment and not only considering profits. According to Altınay

(2016) sustainability supports to minimize the risks of the firms creating opportunities to connect with the stakeholders and firms' strategies. In this context, the implementation of sustainable practices within the business entity with the support of all stakeholders is becoming an important task. Furthermore, Tüm (2014) indicated that the firm needs to give much attention related to the matters pertaining to responsibility and sustainability when stakeholders closely monitor the firm operations. Moreover, an equitable dissemination of sources among prevailing and future generations having a balanced approach on ecological cycle covering the totality of economic affairs is highlighted as sustainability (Gray & Milne, 2017). Shank and Shockey (2016) indicated that designing of a complete business strategy is gaining utmost important and it depends based on the way that the company projects its image in respect of sustainable development having a balanced approach covering financial, environmental, and human development. According to Grewatsch and Kleindienst (2017), in the prevailing literature sustainability and corporate financial performance have shown mixed results and researchers pointed out that no possible direct relationship leading to generalizability across all organizations covering all instances remains.

However, the knowledge about the relationship between the sustainability practices and business performance needs to be further expanded even with the increasing pressure for firms to function in a socially responsible way with the growing communication on Corporate Sustainability (CS) matters (Epstein & Rejc-Buhovac, 2010).

3.1 Corporate Social Responsibility (CSR) Practices and Business Performance

In today's environment, companies are pressurized to be in line with the "Sustainable Development" concept and in that context Corporate Social Responsibility (CSR) is as an important tool to be incorporated as part and parcel of the firms' strategy development work. Companies are not only responsible for shareholders but also to the society as those are operating in the society and therefore the companies are accountable for all parties (McDonald & Puxty, 1979). Castello Branco et al., (2014) indicated that CSR is a concept that explains the connection between the firm and the society and in that context, stakeholders are an important and unavoidable one. Moreover, Weber et al. (2010); Mishra and Suar (2010); Doh et al. (2010) concluded that in the large percentage of existing literature scholars and researchers indicated that the adoption of CSR practices support the companies to enhance the level of performance. According to Demetriades and Auret (2014); Taiwo and Adeniran (2014); Oh, and Park (2015), within the last thirty years there were a considerable number of different theoretical and empirical research studies that analyzed and discussed the prevailing association of CSR and company performance.

Moreover, Tantalo and Priem (2016) indicates that look after all, stakeholders well make a synergistic effect as per the Stakeholder Theory. This indicates that CSR is having a direct link with the Stakeholder theory as CSR also means the consideration of societal needs by taking care of the impact of the business activities of parties interact with the business entity. Furthermore, CSR activities having a well focus approach on a wider range of stakeholders with well -to-do CSR arrangements are positively related with unusual returns (Dimson et al., 2015).

3.2 Environmental Practices and Business Performance

Karagozoglu and Lindell (2000) pointed out that proactive based environmental strategies support to enhance ecological innovations paving the way to competitive advantage. After having a thorough review of the prevailing literature Guenstar et al., (2011); Tung (2014); Qi et al., (2014) deduced that environmental practices positively connected to financial performance. Moreover, after conducting a meta-analytical review of 149 studies, Endrikat et al., (2014) deduced that corporate environmental performance is positively related to corporate financial performance. When considering the unclean and no commitment industry contexts with the clean, positive approach industry contexts having environmental management practices with pollution prevention actions show a higher contribution on financial performance (Lucas & Noordewier, 2016).

Furthermore, Graham and McAdam (2016) found that the manufacturing plants which have made investments increasingly towards environmentally friendly manner for prevention of pollution technologies do have significantly better performance. According to Dangelico and Pontrandolfo (2015) a survey of 63 studies green practices indicate that Green Product Development (GDP) gives economic, market and financial benefits simultaneously. Moreover, Jabbour et al. (2012) indicated that there is a correlation between the reduction of carbon footprint and the cost reduction or the increase of performance. Furthermore, the findings of the research studies supported that environmental management system practices provide the pathway to innovation (Hofer et al., 2012). The multidimensionality of Corporate Environmental Performance (CEP) derives from an amplitude of practices which contribute to the overall environmental performance and embrace other actors along the supply chain and the entire life cycle of a product (Testa et al., 2016). According to Testa et al. (2016), the diversity of Corporate Environmental Performance (CEP) obtains from a magnitude of practices bestow the total environmental performance combined with the other activities of the supply chain including the complete life cycle of a product.

According to Ferron Vilchez and Darnall (2016), the energy consumption and resources, cost analysis related to the execution of life-cycle, and also other vital environmental practices are evaluated through internal assessments with the use of ISO 14001 and such activities are directly connected to the reduction of environmental impact. In a study on reduction the level of energy intensity in the corporation based on the important suggestions using a sample of firms was investigated and found that factors such as that ROA, ROE, and ROS has a positive impact on energy intensity (Vinayagamoorthi et al., 2015). Based on the self -reported data of a Chinese manufacturer it was found that usage of EMS has a positive impact on financial performance and this association is negatively moderated by switching cost and positively by competitive intensity (Feng & Wang, 2016).

3.3 Human Resource Practices and Business Performance

Ahmad and Schroeder (2003), proved that HRM practices and organizational performance have a positive significant relationship. According to Wright et al., (2005), the in-depth review of the literature provided considerable evidences about realistic and methodological problems and the relationship between the HRM practices and operations and financial performance of organizations. Moreover, Busienei (2013) proved that HRM practices contribute significantly to firm performance. Similarly, Pirzada et al., (2013) showed the effect of HRM practices on "turnover", "productivity" and "corporate financial performance". Crook et al., (2011); Oliveira; Oliveira (2011) concluded that the empirical studies show HRM and organizational performance are positively related. Abu et al., (2015) revealed that based on a study of sustainable manufacturing the factors like 'modern manufacturing equipment', 'adequate financial resources', 'flexible', 'intelligent and skilled personnel' are necessary. According to Chadwick, Super, Kwon (2014); Razouk (2011), concluded that majority part of the literature demonstrates positive results about the effect of Human Resource Management practices on performance. Sheikh et al. (2016) based on the study of manufacturing firms concluded with powerful evidence that human resource practices, namely 'training provided', 'compensation' and 'promotion' influence on firm performance.

3.4 Firm Size

In determining the effect about the association of supply chain integration for sustainable performance a firm size needs to be considered as a moderating variable (Carr et al., 1999). Corporate Social Responsibility (CSR) practices can be fully accommodated by larger firms as such firms do have ample resources necessary in involving of CSR (Blomback & Wigren, 2009; Gallo & Christensen, 2011). According to Chandran and Rasiah (2013), prevailing literature shows that the economic and productivity enhancement is most likely in bigger companies. Vanpoucke et al., (2014) indicated that bigger firms do receive more environmental pressure when compared to smaller firms as such firms have more resources and therefore the firm size may influence on the execution of organizational level environmental, practices. Murad et al., (2015) indicated that bigger firms contribute to the economy in a superior manner when compared to smaller firms because of the availability of resources and capabilities. On the same line Singh et al., (2017) indicates bigger firms are inclined for more external pressures and therefore firm size reflects CSR.

4. Conclusions

The conceptual framework presented in this paper is a contribution to the existing literature as the extant literature is having only limited information on sustainability practices and business performance. Therefore, a combination of variables as shown in the conceptual framework provides to formulate concepts for analyzing and understanding the relationship between sustainability practices and business performance in divergent research contexts. In other words, the study provides a new conceptual framework based on the theoretical framework to define sustainability practices and business performance and to provide research opportunities for future research studies. In this context, the paper has given a framework to open a discussion about the theoretical underpinnings of how sustainable practices determinants can be differentiated and the kinds of results that can be achieved. Moreover, the conceptual framework shows three different independent determinants of sustainable practices and also provides the provisions to examine the moderating effect from firm size on the association between Sustainable Practices and Business Performance which adds new knowledge to the literature as such literature is limited.

Moreover, Sustainability is a main area for any business in the today's competitive environment and therefore stakeholders require the business entities not only to focus on bottom-line, but also to have a transparent mechanism of consideration for environmental and social dimensions and require more information to make such decisions. Furthermore, most of the entrepreneurs, irrespective of the size of the entity are looking for appropriate determinants of sustainability practices not only to satisfy stakeholders but also to be competitive. In this context, the entrepreneurs want to understand what kinds of sustainable practices provide better results, especially to be recognized and to obtain competitive advantage. Hence the conceptual framework presented in this paper also makes a significant contribution to the industry and trade as it can be used in different industrial settings. In other words, this study contributes to the literature for the enterprises to encompass sustainable practices mentality and the value of applying sustainable practices in their operations.

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Journal of Sociological Research
ISSN 1948-5468
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