

Internal Business Factors for Business Sustainability: A realistic View from sustainability managers

Nur Syuhada Jasni ¹, Haslinda Yusoff ², Purwatiningsih Wibowo³

^{1,2} Faculty of Accountancy, Universiti Teknologi MARA (UiTM) Selangor, Malaysia

³ Accounting Department, Faculty of Economics and Business, Universitas Indonesia

Abstract

Sustainability has received a great deal of criticism, particularly the development of strategies, operationalization and implementation of those strategies. The study aimed to understand environmental practices in business operations and identify the internal business factors that influence the success of environmental practices. Semi-structured interviews were used to gather information from Malaysian Public-Listed Companies (PLCs) that significantly contributed to the advancement of sustainable development in the country. This study suggests a comprehensive set of data to investigate comparative analysis based on different industries for better insights.

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Keywords: Sustainability, environmental, social, internal business factors

1.0 Introduction

Today, sustainability is the world's primary concern. Thus, critical attention focuses on how best businesses address this issue. The situation could be worse if businesses, the major economic player, do not think of the necessary ways of operation that could harm humans and the environment. More businesses intend to sustain and adopt kill two birds with one stone strategy to balance business continuity and responsibility (Ibrahim, Hua, & Omoola, 2019) to stakeholders and the environment. Previous research has demonstrated that embracing sustainability improve financial performance, attracts sustainable investors, lowers operating costs, and enhances brand image and reputation. The studies also indicated that sustainability increases sales, customer loyalty, productivity and quality. All the benefits contribute to the company's market value and business sustainability (Klofsten, Urbano, & Heaton, 2021; Mohammad & Wasiuzzaman, 2021). Nevertheless, businesses crucially require unwavering support from top management at the micro-foundations level and a proactive approach to tackle long-term risks and possibilities, ultimately leading to the development of a stronger and sustainable stock market. Therefore, operationalization should shift from old approaches towards sustainable innovations and business models (Geissdoerfer, Vladimirova, & Evans, 2018). Resultantly, developing sustainable strategies that address sustainability dimensions will contribute to sustainability performance and affect the entire business performance.

Nonetheless, the inability to identify sustainability operationalization will negatively affect businesses, including over-consumption of vulnerable resources, increasing rather than addressing sustainability concerns, a lack of competitive advantage, deteriorating company's reputation, and decreasing investor confidence (Vilanova, Lozano, & Arenas, 2009). Interestingly, observing how a company aligns with productivity, lower costs, and provides an overall better environment for employee engagement, results in increased revenue and lower costs. If a company has the right behaviour (Tunprawat, Rugwongwan, & Singhirunnusorn, 2017), implementing waste

management (Abdul Latif & Tengku Iskandar, 2019) and recycling activities can influence a company's culture, resulting in cost savings and a more profitable bottom line. Moreover, this study expects companies to attract new customers as more awareness is attentive to environmental practices, including product or service quality and safety.

Resultantly, empirical evidence is required at the corporate level to highlight unresolved issues by identifying the fundamental causes or challenges associated with implementing successful sustainability and addressing them accordingly (Jasni, Yusoff, Zain, Md Yusoff, & Shafee, 2019). The contributions may potentially assist businesses in rethinking and identifying an effective method of undertaking business that benefits internal and external stakeholders by balancing profit motives with sustainable development. Thus, sustainability issues can be alleviated before turning unmanageable while promoting macro-level (national) policies and long-term sustainable development progress. The findings are likely to contribute to increased corporate awareness, information, and preparedness to implement sustainability and overall sustainable development. Besides, this study will contribute to the literature on Asia, as previous studies were conducted in Western countries. A distinct absence of research focused on this theoretical framework has been observed in the Asian context. Additionally, this study can add value to the literature by providing information from the perspective of a developing country and complementing previous studies from developed countries.

The study aimed to explore the influence of internal business factors in effectively implementing sustainability practices, which ultimately results in the company's success. The study objectives were: 1) to understand environmental practices in business operation and 2) to identify the internal business factors in influencing the success of environmental practices. This study contributes to corporate sustainability by providing preliminary evidence that integrates the core factors of business prosperity methodically.

2.0 Literature Review

2.1 The Role of Internal Business Factors in Improving Sustainability Practices

Internal business factors, such as resources and capabilities, have been analysed to understand sustainability incorporation in businesses (Portillo-Tarragona, Scarpellini, Moneva, Valero-Gil, & Aranda-Usón, 2018). Exploring resources application together with the capabilities and how they complement one another is interesting. The company owns and manages resources that are tangible or intangible. Tangible resources include factors with a financial or physical value that could contribute to economic benefits, such as financial. Conversely, intangible assets (or non-financial) factors are rarely included in a company's balance sheet, notably humans and information systems and technology (Portillo-Tarragona et al., 2018).

Hofmann, Theyel, and Wood (2012) surveyed 294 small and medium-sized manufacturers in the United States (US) and established the relationship between the underlying capabilities and environmental management practices. Specific competencies and sufficient training for employees were suggested as crucial for success, followed by a dedicated environmental manager. In summary, the study indicated that the finding could be applied to the best practices of large companies with more resources than small and medium-sized companies. Overall, ethical leadership and innovation outcomes are vital to reducing resource waste in operation and cost-effectiveness. Therefore, sustainability commitments lead to a competitive advantage beyond the traditional view of a business.

Identifying and responding to sustainability-related strategic issues is an essential process for a company. Thus, after discussing the company resources, this section presents a considerable amount of literature on optimising the company's resources by acquiring specific corporate capabilities. Attitudes and norms that serve as drivers for sustainability practices have been studied extensively (Grewatsch & Kleindienst, 2017; Jasni & Yusoff, 2020). Therefore, the relative importance of sustainability in corporate capabilities positively encourages the development of strategic organisational capabilities and addressing internal and external environments, which consider short-term and long-term horizons.

2.2 Overview of Environmental Practices and Financial Performance

Greater environmental improvement is related to environmental practices linked to the company's core business. Environmental practices integrated into processes and products are highly dependent on managers' commitment and cost control. Compliance comes with a particular cost because the company incurs environmental costs (Brooks & Oikonomou, 2018). Operating costs would increase due to investment in purchasing equipment to meet compliance requirements (Barnett, 2007) for sustainable, safety, and control purposes.

Green innovation solves waste disposal problems while positively affecting financial performance (Perez-Aleman & Sandilands, 2008). Thus, a good supply chain leads to operational efficiency, which means fewer resources are consumed, thus, indicating less pollution (Amran, Ooi, Wong, & Hashim, 2016). Moreover, operational efficiency requires companies to continuously improve their processes to avoid the over-consumption of vulnerable financial, natural, and social capital (Vilanova, Lozano, & Arenas, 2009). Operational efficiency enhances sustainable development and environmental and economic performance. Conversely, strategic planning is crucial to assist the adaptation and transformation of environmental improvement and enhance internal processes of costs and resource efficiency.

Product differentiation increases customer demand and might be appealing to new customers. New customers are responsive to environmental practices, including the good quality and safety of a product or service (Bird, Hall, Momentè, & Reggiani, 2007; Grewatsch & Kleindienst, 2017). The product marketing strategy is vital in the marketplace, as the strategy provides opportunities to penetrate new markets due to improved environmental practices. Green products might potentially lead to customer loyalty (De Giovanni, 2012) and enhance the corporate image. However, the premium price of green products raises an argument, doubting the eco-friendly stance

(Knight, Megicks, Agarwal, & Leenders, 2018) that questions the products' quality rather than simply adhering to environmental guidelines.

Overall, environmental practices could integrate the processes and products that potentially enhance financial performance. In short, a company with good environmental practices will outperform other companies by differentiating proactive and weak environmental practices. In summary, the review and discussion above show that cost controlling, supply chains, and producing green products are the contributing factors that influence corporate environmental and financial performance.

3.0 Methodology

3.1 Research Methodology

The researchers interviewed employees from five experienced Malaysian Public List companies that have been listed for over ten years in Bloomberg ESG Index. Opportunistic sampling was used to recruit participants that are interested in the topic to answer the research questions. The study suggests that these companies are creating long-term goals in their sustainability journey. As this research is driven by a qualitative deductive technique, a semi-structural interview was used to assure data collecting consistency (Jasni & Yusoff, 2020). The semi-structural interview is an excellent way to grasp the complexities of a situation and the varying perspectives concerning the situation. The data were presented in the audio format during the interview. Subsequently, the audio data were retrieved and transcribed to text for analysis.

The interviews took place over six months in 2019 and were conducted one-on-one with the Head of Sustainability and Executives, who are reliable to provide inputs for this study. The main interview question addressed in this study was: "What are the variables that determine practical environmental success?" This study chose thematic analysis, although numerous qualitative analysis approaches are available (Hazira, Alagas, Amin, Zamzuri, & Zairul, 2021).

4.0 Findings

4.1 Factors that Influence the Success of Environmental Practices in Sustainable Companies

Previous research found that environmental practices influence the operational and market success of a company. Besides, the commitments are respected by investors. Therefore, this research attempted to examine the results by addressing: "How do environmental practices refine financial performance?" The current research found that green efficiency is a factor that affects financial results. One interviewee said:

"We also do things around diesel converting, moving away from diesel and petrol. So, we've actually reduced a lot of ...environmentally, the more efficient your company, there will definitely be cost savings." (P2)

Another interviewee explained:

"We measure but not holistically because the matter is handled by our support divisions, and they have the nationwide data. Still, not holistically because we are not disclosing non-certified AMS buildings. There are about 5, 6 certified building electricity. It is not really accurate." (P3)

By commenting on the cost-saving measure in recycling initiatives, one interviewee said:

"Departments are encouraged to do cost-saving. They maintain things like this, such as recycling or any other 3R initiative, how much is their cost-saving?" (P5)

Additionally, one interviewee emphasised that investment in renewable energy is costly but reduces environmental impact. Besides, focusing on reduce, reuse and recycle initiatives will potentially lead to cost-saving.

One interviewee commented:

"Renewable energy is expensive, but you're saving on the resources; coal, gas, and hydro. We are not burning fossil fuels; we used energy from the Sun." (P4)

The interviewees anticipated green efficiency to influence their financial performance positively. Recycling initiatives require a commitment to spur changes in the company culture which subsequently improve cost control and boost the company's bottom line.

Conversely, the essence of the interviewees in revenue-generating activities is moving from traditional products or services by adding green elements and building a strong base of satisfied customers. Previous studies agreed that green products are gaining more loyal customers (De Giovanni, 2012) and improving corporate image. Interestingly, one interviewee (P5) highlighted that certification recognition could bring value-added to products sold at a premium price. The interviewee said:

"We sell organic fertiliser made of compost at RM5 per packet. The palm waste product is made into compost, and it becomes fertiliser. And, we could sell it, so that has monetary value, which might not be much, but at least there is something." (P5)

Another two interviewees alluded to the notion that they provide green products for the target customers. The interviewees commented:

"We build green buildings so that we attract clients who are looking for contractors that can build green buildings and have the expertise to do it." (P1)

Another interviewee stated:

"We know if we do this, it will put us in favour for customers, younger customers. So, we see that as a very important growth factor for millennial relevant." (P2)

Green products create new markets, and consumers are more willing to pay a higher price for green products from environmentally or socially responsible companies (Grewatsch & Kleindienst, 2017). The innovation solves green issues, carbon emission, and pollution (Perez-Aleman & Sandilands, 2008) and potentially increase sales and enhance financial performance. This statement is explained below:

"If we have the sustainability certification, we could sell the product with a premium price to our customer." (P5)

One interviewee also addressed the remarkable findings for beyond compliance commitment. Employees are working and planning to meet guidelines, accomplish targets, and accept that the compliance area is expanding as the business grows. As mentioned by the interviewee:

"As we grow the business, we expand the coverage as well... we follow the Intergovernmental Panel on Climate Change guideline." (P4)

Another interviewee explained:

"For example, to reduce carbon in 2020 by 40%, then we start to have our plan, such as building our biogas plant." (P5)

One interviewee (P5) pointed out that companies need to equip employees with particular skills and upgrade the Property Plant Equipment (PPE) according to the green requirement to meet safety requirements. This view mirrored the suggestion by Brooks and Oikonomou (2018). They asserted that special equipment is needed to be sustainable (Barnett, 2007), related to safety and control. Incompliance to specific settings and PPE guidelines may potentially revoke environmental accreditation. This statement justifies this explanation:

"In terms of compliance, the contractor has to comply with our code of business conduct; they are not allowed to employ workers who don't have a permit. This part is difficult for us to control. They have to follow the minimum wage rule. We have to ensure they applied this to their workers. This is not only for our workers. It is quite difficult and challenging to control. So, sometimes it could be costly...PPE cost also needed to meet the safety requirements." (P5)

In response to the research question, the results agreed with the findings of other studies, where the driving factors are cost control, supply chains, and green products. A possible explanation for the finding could be because cost control and supply chain are linked to green efficiency and beyond compliance commitment. In addition, the green product is also linked to activities that produce revenue. The valuable result impacts the financial result since excellent internal processes and the development of quality green products are crucial. The qualitative result of internal business factors that influence the success of environmental practices is shown in Table 1.

Table 1. Qualitative Results of Factors that Influence the Success of Environmental Practices

	Deductive	Codes	Categorising	Final Theme
		Cost-saving measure incurred compliance cost	Green efficiency	Excellent internal processes
Internal Business Factors that Influence the Success of Environmental Practices	Influencing factors of environmental practices	Operating with lesser environmental impact, planning and setting targets	Beyond compliance commitment	
		Generate income from waste, provide green products for the target customer, a premium price for green products	Top-line growth	Produce quality green products

5.0 Discussion

Based on the findings, companies are more proactive in both practices and green products. A possible explanation for the finding might be companies considering a massive amount of investment and cost. Therefore, the initiative consumes time to materialise and enhance financial performance. These outcomes align with previous studies. The study findings agree that green practices imply that resources are effectively used with less pollution (Amran et al., 2016). Operational effectiveness indicates cost-effective, time-saving and employee engagement with high-quality results. Besides, the combination increased revenue and lowered costs, thus, driving financial results.

Importantly, this study validated previous findings regarding internal business factors, resources and capabilities that environmental performance affects financial performance. This study aligns with Grewatsch and Kleindienst (2017) and Jasni and Yusoff (2020), which has established internal business factors as core competencies of a company. Green efficiency considers investing financial resources in green technology, such as renewable and solar energy. In addition, the expertise and capabilities of human resources are utilised to

handle technology effectively and help meet pre-planned targets and cost-saving steps. Financial resources should be expended in investing and expenses for people and PPE beyond the conformity commitment (internal capacity) to meet safety standards. In contrast, compliance concerns require strict supervision by management to prevent the revocation of certain certifications and losses on investments.

Interestingly, the sample companies increase revenue through core business operations by implementing top-line growth strategies. Beyond conventional goods, the companies produce products by investing in additional green elements, including biodegradable and biological sources. Consumers interpret green goods as good internal manufacturing processes, good quality and trusted consumption to make purchasing decisions. Therefore, building a solid customer base is essential to meet customer satisfaction with green product purchasing decisions. These products or services generate specific market demands, which leads to higher sales and financial results.

Factors that influence environmental performance through financial performance include excellent internal processes and the development of a high-quality green product. Overall, financial, human and information systems resources were utilised. Referring to the earlier research question, excellent internal processes and producing quality green products are identified as internal business factors that should be highlighted in environmental practices and business sustainability.

6.0 Conclusion and Recommendations

The study findings agree that green practices indicate that resources are used with fewer emissions. Operational productivity implies cost-effective, time-saving interaction and high-quality outcomes for employees. Moreover, the combination has increased sales and decreased costs, leading to financial results. Essentially, this study validated previous findings in terms of internal business factors, resources and capabilities that impact the success of sustainability practices. Green performance has been considered when investing financially in green technologies, such as renewable and solar energy. In addition, human resource skills and capabilities are used to leverage technology efficiently and help achieve the pre-planned goals and cost-saving measures. Financial resources are spent on investment and spending on people and PPE beyond the compliance obligation commitment to comply with safety standards. Additionally, enforcement issues require strict management oversight to avoid the revocation of certain certifications and investment loss.

Interestingly, besides traditional products, consumers have recognised that green products indicate good internal production processes, good quality, and trusted consumption. Hence, buying decisions are made possible. Therefore, creating a strong customer base is necessary to meet consumer satisfaction during green product buying decisions. These products or services have developed unique market requirements that result in higher sales and financial results. The established factors that affect the success of environmental practices are excellent internal processes and quality green product development.

The companies included in this study sample are pioneers of sustainability practices with more than ten years of experience. The authors believe that the companies are in the maturity stage of sustainability evolution. Nevertheless, this study only interviewed a small number of sustainability managers and executives from the sample. Resultantly, the conclusions are confined to the interviewees' personal opinions and viewpoints. Only a small number of participants were interviewed due to time constraints despite more possible participants being discovered.

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Paper Contribution to the Related Field of Study

This study is also an eye-opener to companies in determining whether their resource usage is optimal, what capabilities are needed to deal with the related challenges and how to treat them as opportunities. There is no 'one-size-fits-all' solution as the process is continuous experimenting. Thus, this study provides support by assisting companies in finding the right response and strategically making decisions. Companies' wrong responses would waste potential resources, raise more complicated issues, lose competitive advantage, and ruin companies' reputations. In terms of future study directions, additional work may be undertaken to deepen the existing examination of behavioural and management concerns. Malaysian corporations' approach to sustainability reveals that ongoing encouragement from senior management is essential.

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