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Factors Determining Green Companies Performance in Indonesia: A Conceptual Model

Hasrini Sari^a, Hasnelly^b

^aDepartment of Industrial Engineering, Bandung Institute of Technology, Bandung, 40132, Indonesia

^bDepartment of Food Technology, Pasundan University, Bandung, 40153, Indonesia

Abstract

Green product companies have great potential to be developed in the future. The negative impact of non-green product has been considerable significant in human life. Although consumption of green product, especially green food, tends to increase, but green behavior is difficult to predict. Therefore, green companies could not only lean on “green” attribute to win market competition. This paper will describe a conceptual model showing several factors that important in influencing green companies’ performance based on former empirical research and literature review. Two external factors and two internal factors are identified as two factors that should be prioritized by green companies in order to win market competition.

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Keyword : Green companies,;performance,;internal factors; external factors

1. Background

Green product companies have great potential to be developed in the future. The negative impact of non-green product has been considerable significant in human life. Although consumption of green product, especially green food, tends to increase, but green behavior is difficult to predict. In most cases, customers show positive attitude towards the environment and feel worry about its condition, but they rarely adopt green behavior. Their consumption preferences do not reflect this concern. As a result, the market performance of green products is generally not as good as their competitors' (Landler in Alwitt and Pitts [1]; Reitman in McCarty and Shrum [2]).

Therefore, green companies could not only lean on "green" attribute to win market competition. This paper will describe a conceptual model showing several factors that important in influencing green companies' performance, especially in Indonesia. This model is built based on former empirical research and literature review.

2. Proposed Conceptual Model

Based on former empirical research and literature review, it could be identified several factors that influence the success of green product companies in Indonesia. The proposed model is presented in Fig. 1 below.

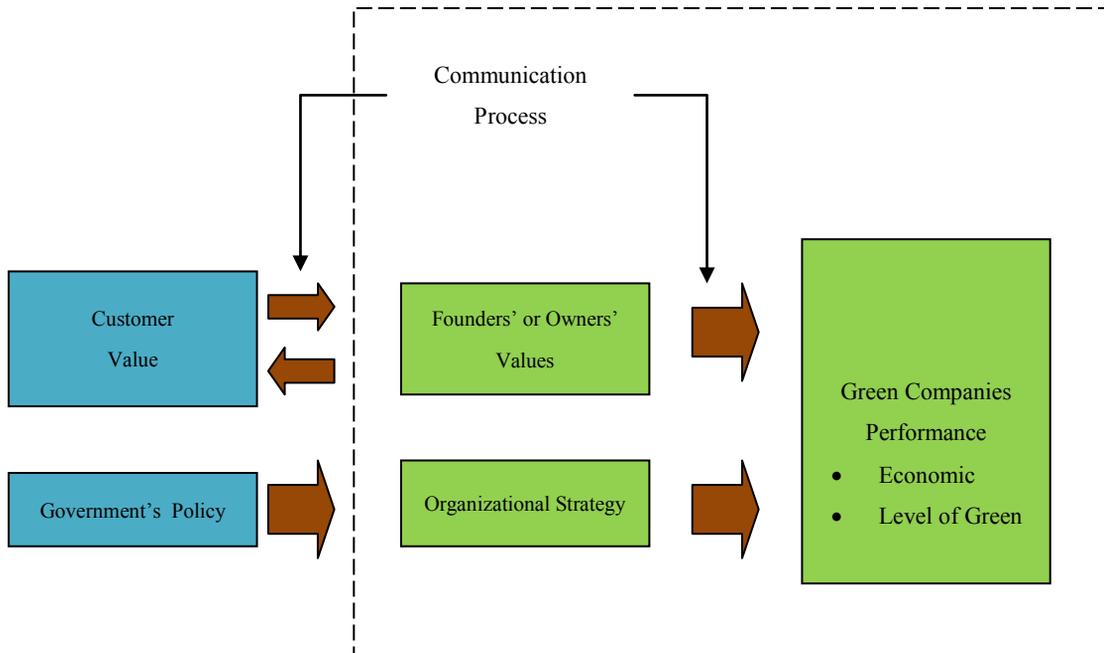


Fig. 1. Proposed conceptual model

Each box in the proposed model is described in detail in the following section.

2.1. Green Companies' Success

Green companies are defined as companies that offer green products to their customers. Nevertheless, green companies are different in their level of green, meaning level of action to overcome environmental issues. Sari [3] differentiates four types of companies based on their focus and action on environment (Figure 2).

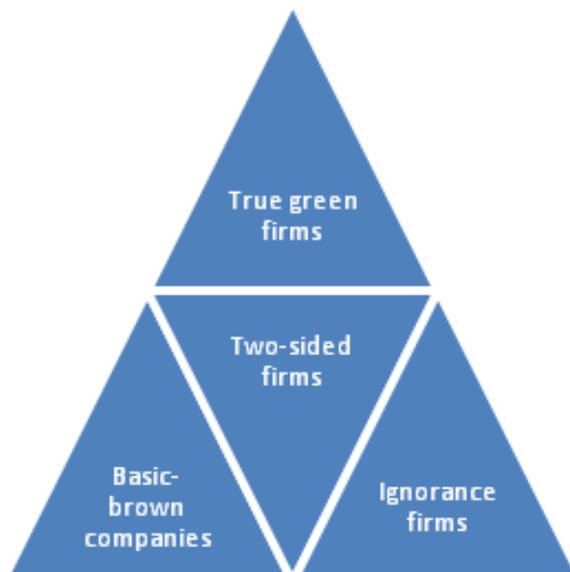


Fig. 2. Typologies of Green Companies (Sari [3])

Green companies' success is proposed to be measured by two criteria, which are economic performance and level green (level of actual action on overcoming environmental issues). In order to survive in business competition, a company must be able to support itself financially including its daily activities. It should also earn profit advantageous for its stakeholder. Therefore, superior economic performance must be achieved.

Moreover, green companies are required to prove their concerns on environmental problems. These concerns should not only be shown limited in their final products and their corporate social responsibility activities, but also become the soul of the companies. Every activity performed in the companies considers its impact on environment. Members of the organization always consider environmental aspect in carrying out their daily life.

2.2. 2.2. Founders' or Owners' Values

Sari [3] finds that value of founders or owners greatly influence the implementation of green principles in the company. The impact is even greater for green companies in Indonesia because most of them are small/medium in size. Furthermore, founders or owners' values ultimately will determine values, norms, and behavior of members of the organization utilized in solving problems. This condition, which is also called organizational culture, affects organizational performance [4].

Nevertheless, the strength of founders' or owners' value in influencing their organization will greatly depend on their ability to share their passion on environment. At this point, the key is a good communication process. A good example is Anita Roddick. Her passion on environmental issues has been spread throughout the Body Shop, and it becomes the breath of the company. Concern for environment is then become the main competitive advantage of the company. Even more, this value is still being hold after she sold the company to L'Oreal.

2.3. Organizational Strategy

Grant [5] defines strategy as “the match an organization makes between its internal resources and skills and the opportunities and risk created by its external environment”. Therefore, strategy reflects organization’s effort to survive by adapting to its environment. According to resource-based perspective, strategy could become a competitive advantage for an organization, if it is valuable, unique, hard to copy, and irreplaceable [6].

Hasnelly [7] empirically tests two kind of strategy: which are resource-based and market-based approach implemented in green companies in Indonesia. The result shows that both of them are significantly influence companies’ performance in the eye of their customers. While Rugman and Verbeke [8], propose environmental regulation will influence managers in making organizational strategy. Studies concerning organizational strategy of green product are still limited although strategy reflects how a company adopt to its environment..Therefore, a more thorough understanding on the implementation of organizational strategy in green companies is needed through more research and observation.

2.4. Customer Values

Customers’ decision to buy a product is based on their perception of its value, that is the comparison between benefit and cost [8]. They will also compare between the value of the product itself and its substitute. Unique characteristics of green products such as intangible benefit, generally higher cost, and limited distribution make them having lower values compare to substitutes. Sari and Firmanzah [10] in their study in Indonesia, state that benefit-to-self is not a significant factor which influences customers’ intention to buy green products. While three other factors, which are benefit to environment, comparative cost and attainable cost, significantly influence customers’ decision to buy. Therefore, the product price should be set carefully by considering the environmental benefit offered.

Moreover, it is revealed that potential consumers of environmental friendly products could be divided into four segments based on psychological characteristics of consumers, which are degree of environmental concern and attitude toward buying environmental friendly products [10]. Each group pays attention to different aspects of green products. Green product design should match these aspects depends on intended target market. Therefore, organization could influence customers’ perception through its product offered and communication.

2.5. Communication Process

In order to achieve organizational success, a company should hear its customers’ opinion. This opinion can be represented by customer value. Ultimately, customers’ perception on value will greatly influence how a company create and manage its products. Nevertheless, the ability of the company in capturing customers’ perception and value will depend on the process of communication between the two parties. On the contrary, companies could influence how customers perceive their product using appropriate tools. Customer education is considered as an appropriate tool to communicate green product offering to customers [1]; [11]. Firmanzah and Sari [12] find that customer education enhances customers’ perception of green product benefit and its economic accessibility. Customer education also positively influences consumers’ environmental concern. Therefore, educate customers about green products could alter the degree to which they value the products. By learning more about green products’ characteristics and contribution to themselves and the environment, customers will conclude that the product is worth to buy.

2.6. Government Policy

Green business is basically reflects interconnection among public policy, environment and green marketing [13]. Therefore, the success of green companies is related to government support as the public policy maker. The government could give pressure for many parties to be more green through its regulation. Even more, quality improvement of the environment will only be achieved through massive green action, meaning that many people and parties perform green behavior [14]. Government regulation will make this kind of movement easier to realize.

Meanwhile, support from government to green product industry in Indonesia is still low. Moreover, community education from government about environmental issue and green product is rare. In fact, this instrument will be effective if it is conducted by government instead of sporadic movement by SME producers. Moreover, government could initiate education program that involve several parties such as non-profit organizations, local authorities, and socialites.

Firmanzah and Sari [12] concludes that economic accessibility is more important in influencing consumers' attitude toward buying green product than products' benefit. This means that customers tend to hinder individual sacrifice. Accordingly, the role of government as public regulator is needed to enhance the accessibility of green product for customers economically, such as imposing lower product taxes. [16]

Prakash [13] argues that government plays an important role to encourage green behavior by imposing unavoidable collective sacrifice, for example strict standard for product sold along with certain certification. To that purpose, customers are forced to buy healthy and green product but with higher price. For lower social class society, it is recommended to plant vegetables to fulfill their own need. Nevertheless, green is not an issue for a certain group of people, but for everybody [15].

3. Conclusion

Green behavior is difficult to predict. In most cases, customers show positive attitude towards the environment and feel worry about its condition, but they rarely adopt green behavior. Their consumption preferences do not reflect this concern. As a result, the market performance of green products is generally not as good as their competitors' (Landler in [1]; Reitman in [2]).

This paper tries to identify several factors influence the performance of green companies based on former empirical research in Indonesia and literature study. In general, there are two environmental factors (customer value policy) and two internal factors (founders' values and organizational strategy). While green companies success is proposed to be measured by two factors, which are economic performance and green performance.

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