Corporate Environmental Practices in Thailand: Will the Social and Individual Goals Mutually Be Achieved?

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Abstract

This research aims at proposing a research model to assess the environmental practices of Thai manufacturing firms based on the international standard, mainly represented by ISO26000, and the effects of such practices on factors in individual investor's investment decision. Corporate Environmental Responsibility (CER) is expected to promote sustainable development of society and benefit corporate stockholders. Numerous studies have highlighted the advantage of CER as it leads to better corporate reputation, higher sales and competitiveness. Although investors' goal is to maximize return from investment, they have become more increasingly aware of CER importance and related CER in their factors in investment decision. Nevertheless, differences between western where CER is rooted and Thailand, as an eastern country, where CER is implemented may create diverse CER consequences. Thai CER is still in an early stage. CER implementation may result in an instant cost to firms while benefit takes time to yield. Management may hesitate to fully implement CER. Investors may not like it. After a comprehensive review of literature, related CER papers and factors in investment decision in behavioral finance theory, a model and set of hypotheses are specified. Critically, this research provides the very first model proposing association of CER and factors in investment decision as there is very limited study on Thai investors' responses to CER adoption. Empirical model is proposed to be tested whether CER theories are held in the Thai context. If they are held, social and individual goals can mutually be achieved.

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I. Introduction

Corporate Social Responsibility (CSR) is broadly known as the corporate actions, making corporate profit and contributing to society well-being at the same time. In this case, the corporation takes into account its impact on relevant stakeholders including customers, employees, shareholders, supplier, and community. The concept of CSR is composed of various dimensions depending on the variety of frameworks. The Corporate Environmental Responsibility (CER) is regarded as one of the dimensions included in CSR. It is the corporate commitment to adopt the precaution and policies in order to prevent deterioration on the environment (Kusku, 2007). Based on the study of Prayukvong and Olsen (2009), environment is the important dimension and included in every framework. This implies the high concerns of people on environmental issues.

For decades, CER has received high attention. It was provoked from corporate hazardous actions on environment. Evidences have shown the severe environmental damage such as pollution, climate change, and huge waste caused by the poor corporate environmental practices. The consequences of such poor behavior have led to the adverse impact on corporation and society. Furthermore, there has been both external and internal pressure arising from many parties including government, community, suppliers, employees, and shareholders forcing the corporation to adopt CER (Sindhi & Kumar, 2012). Internationally, there are several organizations which are relevant to CER implementation such as United Nations (UN), the Kyoto Protocal, playing important roles in forcing industrialized countries to reduce the emission of Greenhouse Gas, the main source of climate change. Other international organizations are, for instance, the World Business Council for Sustainable Development (WBCSD), the Organization for Economic Co-operation and Development (OECD), and the Global Reporting Initiative (GRI).

Although the cost of implementing CER is observed, the benefit of CER is also well noted. CER is pinpointed for creating corporate competitive advantage (Porter & van de Linde, 1995), corporate reputation (Fombrun & Shanley, 1990), and corporate performance (Hart & Ahuja, 1996). It is no doubt that CER is critical for today's business success. In fact, it has become an imperative practice for corporate survival. Additionally, it is believed that shareholder is another group that benefits from CER adoption. Numerous scholars have posited the positive relationship between environmental performance and corporate performance (Hart & Ahuja, 1996), and equity price (Klassen & McLaughlin, 1996; Wahba, 2008). In other words, the CER practice is expected to be incorporated in the investors' investment decision.

In Thailand, the effort in bringing CER into practice can be observed concretely via the implementation of CSR-DIW which is fully adopted from the international standard, ISO26000. CSR-DIW has set out the CSR guideline for the Thai manufacturing firms. In this guideline, CER has been included and has been applied to the Thai manufacturing firms. According to various sizes of Thai manufacturing firms, guidelines are applied differently. Some of the guidelines appear to be a strict requirement for only the big-sized Thai manufacturing firms while some of them strictly require all Thai manufacturing firms to follow. Four dimensions of CER are covered in the CSR-DIW including 'prevention of pollution', 'sustainable resource

use', 'climate change mitigation and adaptation', and 'protection of the environment and restoration of natural habitats'.

Several studies have reported the diverse CER development and consequences that emerge from the variant orientation (Jamali & Mirshak, 2007; Saleh et al., 2011). It is documented that the place where CSR is rooted, the West, and Thailand, the East, where CSR is applied have several differences including culture (Hofstede, 1980), institutions (Chapple & Moon, 2005), economic development (Singhapakdi, Karande, Rao, & Vitell, 2001), and legal/political systems (Singhapakdi et al., 2001). Notwithstanding, the implementation of CSR-DIW in Thailand is still in an early stage. It is doubted that the implementation of CSR-DIW, fully adopted from ISO26000, is applicable in Thai context and is related to factors in investment decision. CER implementation may result in an instant cost to firms while benefit is observed in the long term. Management may hesitate to fully implement CER because the benefit takes time to yield and investors may not like it. This implies the need to conduct the empirical study in the Thai context.

After a comprehensive review of literature, related CER papers and factors in investment decision in behavioral finance theory, a model and set of hypotheses are specified. Critically, this research provides the very first model proposing association of CER and factors in investment decision as there is very limited study on Thai investors' responses to CER adoption. Empirical model is proposed to be tested whether CER theories are held in the Thai context. If they are held, social and individual goals will mutually be achieved.

II. Literature review

CER

CER is a multidimensional concept embodied in CSR. It is defined as the corporate duty to make a positive impact on the environment and embrace the sustainability (Jamison et al., 2005). The environmental implications may include waste elimination, efficiency use of resource, productivity maximization. Moreover, corporations should avoid the practices that adversely affect the enjoyment of the country's resources by future generation. To date, investment pattern has been changed. Investors are increasingly interested in corporate environmental practices. In some countries, it even is considered in the investment decision context (Fayer, Cocklin, & Holmes, 2000).

From investment perspective, investors incorporate return and risk into investment decision. If CER implementation does generate higher benefit for investors, investors are more likely to invest in the CER stock. To answer the question "does it pay to be green?" several scholars have tried to investigate the linkage between environmental performance, and, environmental practices to the corporate profitability, corporate performance, some of the corporate financial indicators such as Tobin's q, ROA, ROE, ROS. Yet, there is still no conclusive answer (Wahba, 2008). The debate on whether CER creates benefit for corporation or shareholders is still ongoing (King & Lenox, 2002).

Although the effect of CER on corporate performance has been controversy, several scholars have posited the significantly positive relationship between the CER and corporate performance (Hart & Ahuja, 1996; Russo & Fouts, 1997; King & Lenox,

2002). The better corporate performance is driven by higher corporate competitive advantage (Porter & van de Linde, 1995), better corporate reputation (Fombrun & Shanley, 1990), higher corporate return on assets (ROA) and return on sales (ROS) (Hart & Ahuja, 1996), higher stock return (Klassen & McLaughlin, 1996), higher Tobin's q and ROA (King & Lenox, 2002). In contrast, some scholars reported the negative findings. They posited that environmental performance leads to lower corporate performance (Cordeiro & Sarkis, 1997; Wagner et al., 2002).

The benefit of CER can be observed in other areas. Some scholars asserted that the implementation of CER also lead to lower cost of production due to new innovation (Porter & van de Linde, 1995), rises in efficiency (King & Lenox, 2001), and relative cost advantage (Hart, 1997). It is added that the corporations with better environmental practices provides environmentally friendly image for the products and thus being demanded more by environmentally conscious customers. This leads to higher market share and better economic performance (Nishitani et al., 2011). In addition, CER also helps corporation to attract the moral employee. Ekwueme, Egbunike, and Onyali (2013) suggested that the corporation implementing CER is perceived as green corporation or having healthy work environment by employees. Thus, they increase the willingness to work for the corporations. Additionally, the corporation that contributes socially and environmentally to society receives good reputation which induces not only employee to work with but also investors to invest in that corporation.

From the theoretical perspective, Friedman (1970) asserted that the only corporate responsibility is to increase the shareholders' wealth. Later, Freeman (1984) posited the role of corporation in the stakeholders' theory. He stated that corporation must be responsible for all stakeholders whom are affected by its actions both directly and indirectly including shareholders. This is consistent with many studies (Carroll, 1979; Elkington, 1991). Based on this, the concept of CER is supported by the stakeholders' theory. Still, the hesitant of managers may arise due to the immediate cost burden of CER implementation. Nevertheless, the benefit for the corporation will be observed in the long run. The conflict between principal and agent explains that the problem arises because the manager is only an agent of the shareholder / principal (Jensen & Meckling, 1976). Therefore, spending money in any activity that does not generate profit for the owners of corporation might impact manager's future in the corporation.

Although, in the traditional view, the improvement of environmental performance is traded-off with the corporate performance. Numerous scholars have indicated that this is not generally true. Evidently, there are many scholars supporting the idea of "it pays to be green" (Porter & van de Linde, 1995; Hart & Ahuja, 1996; Russo & Fouts, 1997). In the meantime, it is observed that people are more aware of the environmental issues and they increasingly demand corporation to be responsible for it.

ISO26000

The international organization for standardization (ISO), the world largest developer of voluntary international standard, has launched the new CSR guidance, ISO26000, in 2010. The guideline consists of seven core dimensions. They are corporate governance, human rights, labor practices, fair operating practices, consumer issues, community involvement, and environment issues (CER). ISO26000 is the efforts of

many international organizations including UN, ILO, GRI, and is an officially recognized standard around the world. Based on ISO26000, CER consists of four dimensions which are prevention of pollution, sustainable resource use, climate change mitigation and adaptation, and protection of the environment, biodiversity and restoration of natural habitats (ISO26000, 2010). Each of these dimensions is elaborated below.

a) Prevention of pollution

The pollution is referred to the pollutants (mercury, sulphur oxides, nitrogen oxides), waste, toxic or hazardous chemical which are emitted to air or discharged to water and caused environmental or health impact (ISO26000, 2010). There are other identifiable forms of pollution including noise, odor, and radiation. The pollution abatement can be conducted by two means: control and prevention (Hart, 1995). The pollution control is known as the way in which emissions and effluents are stored, treated, and disposed by using the pollution-control equipment, such as end-of-pipe method, while pollution prevention is known as the way in which emissions and effluents are reduced, changed, or prevented through better housekeeping, material uses, recycling, or any process innovation (Hart, 1995). The prevention of pollution does not only save cost of installing end-of-pipe pollution control device, but it also increase efficiency and productivity. Hart and Ahuja (1996) asserted that corporation realizes more saving through pollution prevention because prevention of defects is superior to finding and fixing them after the occurrence.

The effect of prevention of pollution on corporate performance can be listed. Several scholars supported the idea of corporation implementing prevention of pollution as it enhances the corporate performance. Hart and Ahuja (1996) posited the significantly positive relationship between emission reduction and corporate ROS, ROA, and ROE. Moreover, the reduction of pollution helps improve competitiveness over time. This idea is supported by Hart (1995). Consistently, King and Lenox (2001, 2002) also found that lower pollution and waste prevention led to corporate performance and better corporate valuation. However, Wagner (2002) reported no significant linkage between environmental performance, the end-of-pipe strategy, and economic performance. Findings revealed that the implementation of pollution prevention can result in more positive economic performance than the end-of-pipe strategy. In the case of toxic emission, the reduction of toxic chemical emission leads to higher corporate market value (Konar & Cohen, 2001), and higher financial performance (Bosworth & Clemens, 2011). In sum, it is expected that the CER practice, prevention of pollution, has impact on factors in investment decision.

b) Climate change mitigation and adaptation,

The emission of greenhouse gas (GHG) including carbon dioxide (CO2), methane (CH4), and nitrous oxide (N2o) has likely caused the global climate change which significantly affects environment and human well-being. There has been risen in temperature, changed in rainfall pattern, and changed in extreme weather events (ISO26000, 2010). In order to control or reduce the impact of such change, the climate change mitigation and adaptation are essential (Aggarwal & Dow, 2012). Several scholars pinpointed the benefit of such practices. By reducing the carbon and GHG emission, it enhances corporate performance (Iwata & Okada, 2010), higher corporate value (Nishitani, Kaneko, Komatsu, & Fujii, 2011), and higher corporate profit (Nishitani, Jannah, Ridwan & Kaneko, 2013). In contrast, Aggarwal and Dow

(2012) reported that there is no clear link between GHG mitigation and corporate value, but the emission of GHG reduces the corporate value. Thus, it is expected that the climate change mitigation and adaptation has effect on factors in investment decision.

c) Sustainable resource use

The sustainable resource use is referred to the use of resource at a rate which is less than, or equal to, the rate of resource replenishment (ISO26000, 2010). It is suggested that the corporation should use resource in a sustainable way by utilizing electricity, fuel, land, and water, etc. in a more responsible way. It is expected that the influence of such CER practice should lead to the improvement of society and betterment of relevant stakeholders. Therefore, the corporation that utilizes the resource sustainably will experience the corporate competitiveness, corporate reputation, and profitability. Additionally it is expected that the factors in investment decision will be influenced by the CER practice.

d) Protection of the environment, biodiversity and restoration of natural habitats

It is suggested that for a corporation to become socially responsible, it should protect the environment and restore natural habitats, ecosystem diversity, species diversity, and natural ecosystems (such as food and water, climate regulation, soil formation). Consequently, the protection of environment, biodiversity and restoration of natural habitats is expected to enhance the corporate competitiveness, corporate reputation, and profitability. In addition, the individual investor's factors in investment decision are anticipated to be affected by such corporate CER practices.

Factors in investment decision

In traditional view, investors take into account the return and risk when considering stock selection (Markowitz, 1952). However, recent evidences have posited the critical impact of other relevant factors other than return and risk in the investment decision. The behavioral finance theory (Statman, 2008) stated the importance of incorporating other factors relating to human behavior, the psychology-based factors, in the investment decision process. Baker and Haslem (1973) proposed 33 factors which can be employed as factors in investment decision. This is based on the fact that individual investors are human with broad interests and backgrounds. This is consistent with Nagy and Obenberger (1995), and Al-Tamimi (2006). The numerous relevant factors utilized in investment decision context are such as expected corporate earnings, dividends paid, broker recommendation, firm status in industry, etc. (Baker & Haslem, 1973; Nagy & Obenberger, 1994; Al-Tamimi, 2006). From large pool of elements presented, attempts have been made to categorize them into few dimensions. Previous studies have presented the groups of factors influencing investment decision. In this regards, Nagy and Obenberger (1994) categorized their elements into seven dimensions: neutral information, self-image/firm-image coincidence, advocate recommendation, accounting information, classic, social relevance, and personal financial needs. Later, the items were adopted by Merikas et al. (2004). In this study, some items such as "Financial press coverage", "Annual report", "Prospectuses", "Tax consequences", and "Recommendations from individual stock broker" have been removed. Nevertheless, there were also new items created such as "Statements from politicians and governmental officials", "Fluctuations/developments in the indices of the major markets", "Current economic indicators", "Past performance of stock", "Get rich quick", "Gut feeling on the economy". Thus, there are 26 items

utilized under the study. Additionally, the study of factors influencing individual investor behavior has been adopted by Al-Tamimi (2006). The study yields 34 items. Five dimensions, namely, neutral information, self-image/firm-image coincidence, advocate recommendation, accounting information, and personal financial needs, were affirmed. As compared to Merikas et al. (2004), Al-Tamimi (2006) added the elements such as "Information obtained from internet", "Stock marketability", "Dividend paid", "Religious reasons", "Reputation of the firm's shareholders", and "Increase of the firm's involvement in solving community problems" in the study while removed some elements such as "Environmental record", "Protection or not of the investor" from the study.

Al-Tamimi (2006)'s work is observed as being adapted from Nagy and Obenberger (1994) and Merikas (2004). Moreover, numerous authors have employed Al-Tamimi (2006)'s items in their recent studies regarding the factors influencing individual investor decision such as Iqbal and Usmani (2009), and Obamuyi (2013). Consequently, the present study utilizes the items and dimensions adopted in Al-Tamimi (2006)'s work for factors influencing investment decision. They are as followed.

a) Neutral information refers to information relating to government holdings**,** fluctuation/developments in the stock index**,** coverage in the press**,** statements from government officials**,** current economic indicators**,** and recent price movement in a firm's stock

b) Accounting information refers to information relating to expected corporate earnings**,** condition of financial statements**,** dividends paid**,** affordable share price**,** expected dividends**,** past performance of the firm's stock

c) Self-image/firm-image coincidence refers to religious reasons**,** feeling about firm's product and services**,** reputation of the firm's shareholders**,** "get rich quick"**,** firm status in industry**,** perceived ethics of firm**,** gut feeling on the economy**,** reputation of firm**,** increase of the firm's involvement in solving community problems

d) Advocate recommendation refers to broker recommendation**,** family member opinions, friend or coworker recommendations**,** opinions of the firm's majority stockholders

e) Personal financial needs refers to attractiveness of non-stock investment**,** diversification needs**,** ease of obtaining borrowed funds**,** minimizing risk

III. Research model and Hypotheses

According to the literature, it is doubted whether the practices of CER in Thailand relates to factors in investment decision. CER in this research is based on CSR-DIW guideline fully adopted from the international standard, ISO26000. It consists of four dimensions: prevention of pollution, sustainable resource use, climate change mitigation and adaptation, and protection of the environment, biodiversity and restoration of natural habitats Five factor in investment decision: neutral information, accounting information, self-image/firm-image coincidence, advocate recommendation, and personal financial needs are adopted from Al-Tamimi (2006).

CER has been applied to investment decision for various reasons. CER can signal good reputation (Fombrun & Shanley, 1990), create corporate competitiveness (Porter & van de Linde, 1995), and corporate performance (Hart & Ahuja, 1996; Russo & Fouts, 1997; King & Lenox, 2002). Consequently, twenty hypotheses are proposed as follow.

List of Hypotheses	
H1:	The more corporations prevent pollution based on the international standard, the more the investors consider CER as neutral information factor in investment decision
H2:	The more corporations prevent pollution based on the international standard, the more the investors consider CER as accounting information factor in investment decision
H3:	The higher the corporations prevent pollution based on the international standard, the more the investors consider CER as self-image/firm-image coincidence factor in investment decision
H4:	The higher the corporations prevent pollution based on the international standard, the more the investors consider CER as advocate recommendation factor in investment decision
H5:	The higher the corporations prevent pollution based on the international standard, the more the investors consider CER as personal financial needs factor in investment decision
H6:	The more the corporations use resource sustainably based on the international standard, the more the investors consider CER as neutral information factor in investment decision
H7:	The more the corporations use resource sustainably based on the international standard, the more the investors consider CER as accounting information factor in investment decision
H8:	The higher the corporations use resource sustainably based on the international standard, the more the investors consider CER as self-image/firm-image coincidence factor in investment decision
H9:	The higher the corporations use resource sustainably based on the international standard, the more the investors consider CER as advocate recommendation factor in investment decision
H10:	The higher the corporations use resource sustainably based on the international standard, the more the investors consider CER as personal financial needs factor in investment decision
H11:	The more the corporations adopt climate change mitigation and adaptation based on the international standard, the more the investors consider CER as neutral information factor in investment decision
H12:	The more the corporations adopt climate change mitigation and adaptation based on the international standard, the more the investors consider CER as accounting information factor in investment decision
H13:	The higher the corporations adopt climate change mitigation and adaptation based on the international standard, the more the investors consider CER as self-image/firm-image coincidence factor in investment decision
H14:	The higher the corporations adopt climate change mitigation and adaptation based on the international standard, the more the investors consider CER as advocate recommendation factor in investment decision
H15:	The higher the corporations adopt climate change mitigation and adaptation based on the international standard, the more the investors consider CER as personal financial needs factor in investment decision
H16:	The more the corporations adopt protection of the environment, biodiversity and restoration of natural habitats based on the international standard, the more the investors consider CER as neutral information factor in investment

List of Hypotheses	
	decision
H17:	The more the corporations adopt protection of the environment, biodiversity and restoration of natural habitats based on the international standard, the more the investors consider CER as accounting information factor in investment decision
H18:	The higher the corporations adopt protection of the environment, biodiversity and restoration of natural habitats based on the international standard, the more the investors consider CER as self-image/firm-image coincidence factor in investment decision
H19:	The higher the corporations adopt protection of the environment, biodiversity and restoration of natural habitats based on the international standard, the more the investors consider CER as advocate recommendation factor for investment decision
H20:	The higher the corporations adopt protection of the environment, biodiversity and restoration of natural habitats based on the international standard, the more the investors consider CER as personal financial needs factor in investment decision

IV. Discussion

The research model and hypotheses are proposed based on the literature review. Empirical tests are needed to be conducted to examine the specific impact of CER on factors in investment decision in Thailand. The results are expected to indicate the extent of Thai CER adoption based on the international standard of ISO26000 and whether such adoption will affect Thai individual investor's investment decision. Moreover, findings will benefit the Thai manufacturing firm managers and Thai capital market regulator, including the SEC and the SET, who are in the early stage of developing best practices in CER, to implement their corporate environmental strategy that can be materialized and actually attract investors toward their investment decision. Thai CER investors should incorporate such insights into their strategy for the better investment decision. In the end, the finding will prove whether CER theories are held in the Thai context. If they are held, social and individual goals can mutually be achieved.

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