

Abstract

Environmental concerns have gained global attention during recent years due to the increase in the demand for more greener products. Firms take several actions to uplift the level of firms' environmental management as a response to environmental concerns. When referring to the previous studies it can be identified that the level of adoption of green practices by the firms is at a lower level. Further revealed by other surveys done in Sri Lankan context shows that consumer awareness about green practices is at a lower level, hence it can be identified that customers may not exert much pressure on firms to adopt green practices. Previous studies have identified customer pressure as an important determinant that exerts pressure on firms green practices adoption. And also there are other stakeholders that exert pressure on the firms to adopt green practices. When it comes to the relationship between stakeholder pressure and green practices adoption, there is evidence for mix results. Some studies have found positive relationships while some other studies have found negative and insignificant relationships. The institutional theory explains that when the firms are subjected to similar institutional pressures they should adopt similar practices but with the available empirical findings, there are contradictions in the relationship. Dynamic capability theory explains that a firm should possess capabilities that are changing with the dynamics of the environment and with the changing capabilities a firm may adopt practices differently. Hence, the purpose of this study is to identify the role of dynamic capability in the relationship between stakeholder pressure and green practices adoption.

The present study is quantitative research under the deductive approach which belongs to the positivist philosophy. The unit of analysis of the study is plant level as the problem statement of the study was based on the adoption of green practices by the firms. Hence, the unit of analysis of the study is manufacturing plants that have adopted green practices where the population of the current study would be all the manufacturing plants registered in the Board of Investments (BOI) in Sri Lanka. A questionnaire was developed to measure the five variables; where adoption of green practices was measured by using a 9-item scale, Stakeholder pressure was measured by 10-item. Out of the ten items: three items were aimed at regulatory pressure, another four items aimed at customer pressure, and the rest of the items were aimed at competitor pressure and Dynamic capability was measured by 21- items. This questionnaire was used for the survey and one hundred and eleven usable responses were taken to the analysis. The data analysis was performed based on Structural

Equation Modelling (SEM) using Smart PLS and SPSS. Initially, the measurement model was used to assess the validity and reliability of the model and the structural model is used to analyses the relationship between the variables.

The findings of the study revealed that dynamic capability fully mediates the relationship between customer pressure and green practices adoption, the relationship between regulatory pressure and green practices adoption and the relationship between competitor pressure and green practices adoption. Further findings revealed that there is no significant relationship between customer pressure and green practices adoption, the relationship between regulatory pressure and green practices adoption and the relationship between competitor pressure and green practices adoption. But all the indirect relationships via the mediator shows a significant relationship. Hence it can be identified that dynamic capability fully mediates the relationship between the above identified variables.

The study tried to breach the identified gap in the literature based on the institutional theory that the theory alone does not explain the reasons for differences in the practices, even though firms are subjected to similar institutional pressures. In doing so, the present study combined the institutional theory along with the dynamic capability theory to identify and explain the differences in practices even though the firms are subjected to similar institutional pressures. These two theories have not studied together to identify the impact on the adoption of green practices by the firms. Hence, this study can be identified as an extension to the institutional theory since this study added the dynamic capability as a new variable to mediate the relationship between stakeholder pressure and dynamic capability.

The present study provides many implications for managers. From a managerial perspective, the findings of this present study help top-level and middle-level managers to understand the importance of developing the dynamic capabilities that comply with the pressure exerted by several stakeholders and to develop green practices accordingly. Further findings of this study will help to improve the green practices within the firm to manage the external pressure exerted on the firm. Further research can be conducted by extending the population that covers multiple industries and by considering different dimensions of dynamic capabilities.

Keywords: Stakeholder pressure, Dynamic capability, Adoption of green practices.