

Stakeholder Pressure and Its Effect on Environmental Proactiveness and Firm Performance: The Mediating Role of Dynamic Managerial Capabilities

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ABSTRACT

This study examines how Indonesia's hotel industry responds to environmental sustainability pressure and how dynamic managerial capabilities play a significant role in defining environmental proactiveness as a proxy of strategic response and its impact on a firm's performance. This will be done using a model that integrates institutional theory, resource dependence theory, and cognitive theoretical perspectives. The findings of this study indicate that stakeholder pressures perceived by hotel managers have a positive impact on hotels' environmental proactiveness through the mediating effect of dynamic managerial capabilities. This current study also finds a strong and positive relationship between environmental proactiveness and firm performance. Drawing from the results, research contributions, managerial implication, policy implication, and future avenues of inquiries for researchers are provided.

Keywords: Dynamic managerial capabilities, environmental proactiveness, firm performance, hotel industry, stakeholder pressure

INTRODUCTION

The United Nations has been designated 2017 as the International Year of Sustainable Tourism for Development. Based on current trends, United Nation World Tourism Organization (UNWTO) has projected international tourist arrivals to grow at a rate of 3% to 4% worldwide in 2017 (Tourism Market Trends Programme, 2017). Meanwhile, the government has

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specified that the tourism industry, which contributes 13% to Indonesia's national GDP, must increase international arrivals to 15 million through the development of nationwide tourism destinations. This will be a 25% increase from 2016 and aimed at creating 12 million domestic jobs (Ministry of Tourism, Republic of Indonesia, 2016). This will also boost hotel development across the country. At the same time, there is a growing awareness on the negative impact of the tourism sector on environmental sustainability. The hotel industry plays a significant role in minimising adverse effects on the environment and therefore it is an interesting subject to be explored in strategic management studies in Indonesia.

This study contributes in enhancing sustainability in the strategic management field in two ways. First, based on Murillo-Luna, Garces-Ayerbe and Rivera-Torres (2008), it incorporates firm performance in measuring the effect of stakeholder pressures on environmental proactiveness of the firm. Second, by assessing the mediating role of dynamic managerial capabilities, this study examines the effect of stakeholder management in determining hotel performance in Indonesia. This is an extension of a case study on China (Lo, 2013). There has been limited studies on the role of dynamic managerial capabilities in determining environmental proactiveness and firm performance in the hotel industry in developing countries such as Indonesia.

The first section of this study discusses major studies on stakeholder pressure in the context of environmental responsibility,

followed by dynamic managerial capabilities, the degree of proactiveness of hotels' environmental response patterns, its link with firm performance, followed by development of hypotheses. The next section describes firm characteristics, research variables, and research methodology followed by a discussion on the results, study limitations, and summary of the main findings as well as conclusions.

LITERATURE REVIEW AND HYPOTHESES

Stakeholder Pressure

Literature on strategic management and business ethics has in recent years focused on environmental pressures on sustainability. One of the important concerns was to recognise the source of the pressures, and who are the stakeholder groups that require sustainable and environmentally friendly goods (Eesley & Lenox, 2006; Sharma & Henriques, 2005). The stakeholder theory is premised on the relationship between a firm and its stakeholder that is defined as any group or individual who has the power to affect or at the same time can also be affected by the accomplishment of one organisational objectives (Freeman, 1984). Specifically, the organisations are not self-contained or self-sufficient and are dependent on their external environment for resources (Pfeffer & Salancik, 1978).

Donaldson and Preston (1995) explained the influence of stakeholders, which are normative, instrumental, and descriptive. The normative reasons explain that stakeholder theory is focused on how

managers consider the interests of those who have a stake in the organisation, and in what way the stakeholders exercise their interest in the firm's processes or products to increase their intrinsic values. The instrumental reasons focus on the prediction of a firm's behaviours on means-ends reasoning, as Jones (1995) indicated that it is the conditions where the relationship management with its stakeholder become the firm level interests. Thus, it can be concluded that managing stakeholders' interests will maximise a firm's performance (e.g. Agle, Mitchell, & Sonnenfeld, 1999; Berman, Andrew, Suresh, & Jones, 1999; Lo, 2013; Welcomer, Cochran, Rands, & Haggerty, 2003). Finally, the descriptive reasons refer to the way a firm is focused on characterising its actual actions and stakeholder groups as they interact with one to another.

Dynamic Managerial Capabilities

Dynamic managerial capabilities are defined as the capabilities to 'build, integrate, and reconfigure organizational resources and competences' to achieve congruence to changing environmental conditions (Adner & Helfat, 2003; Sirmon & Hitt, 2008; Teece, 2007). It consists of three underlining concepts: managerial cognition, which explains the beliefs and mental models, managerial human capital which explains specific and generic skills and expertise, and managerial social capital which explains intra- and inter-organisational ties (Adner & Helfat, 2003). The managerial cognition

conception focuses on the process of decision making where managers emphasise their belief systems and mental models (Prahalad & Bettis, 1995), and also strengthen their personal and professional experience as a result of interactions between internal and external networks (Adner & Helfat, 2003). Managerial human capital is the range of skills and knowledge of managers based on their education, personal characteristics, and professional experiences (Becker, 1983). Finally, managerial social capital conception explains a manager's ability to access resources through relationships and connections (Adler & Kwon, 2002). In order to acquire an important resource including some critical information to support their decision-making process, managers often take an advantage of their formal and informal networks.

Based on the above explanations, also supported by Huff's (1992) findings which explained that the stage of managerial perceptions on one certain situation is shaped by managers' limited point of view, affected by their selective perceptions, cognitive base and value system resulting their interpretations upon the context. Accordingly, this current study argues that the more pressures perceived by managers, the higher the dynamic managerial capabilities required in the organisation. Thus, the following hypothesis was proposed:

Hypothesis 1: Stakeholder pressure has a strong positive effect on dynamic managerial capabilities of the firm.

Environmental Proactiveness

Previous studies have explained how stakeholders have the power to influence a firm's operations and its wealth creation (Buisse & Verbeke, 2003). Daft and Weick (1984) supported by Dutton and Duncan (1987) explained that an organisation scans the data from the environment, assign meaning to the data, and enact their respond upon the data most likely is the result of their interpretative system. It is the condition where managers are highly aware of their firms' vulnerability upon the institutional pressures derived from their external environment as what Prahalad and Bettis (1986) explained as managerial cognition. The higher the urgency level of stakeholder pressures perceived by firm's executives, the higher the extent of organisational responses.

Under circumstances where some issues are publicly known (Dutton & Duncan, 1987; Mitchell, Agle, & Wood, 1997), the organisation needs to act accordingly and resolve the inquiries openly in the organisations' favour (Andersson & Bateman, 2000). Buisse and Verbeke (2003) stated that when studying the causalities between stakeholder pressure and firm proactiveness, different directions might appear. It is said that the stronger the environmental proactiveness the higher the sensitivity to stakeholder pressures, but in other case, it appears that the pressures themselves may trigger more proactiveness in environmental strategy. Thus, based on the recent development in the literature, the following hypothesis is proposed:

Hypothesis 2: Dynamic managerial capabilities has a strong positive effect on environmental proactiveness of a firm.

Hypothesis 3: Dynamic managerial capabilities fully mediates the relationship between stakeholder pressure and environmental proactiveness of a firm.

Firm Performance

A firm's success may not depend on neither a single set of factors nor resources (Peteraf & Reed, 2007), and organizational performance measurement should not rely on a single method or approach. As Barney and Arikan (2001) determined that how managers utilize organizational strategic resources will significantly affect the firm performance (Sirmon, Hitt, & Ireland, 2007). One inquiry that always draw scholars' attentions is to recognize whether there are competitive advantages and opportunities associated with environmental management (Gonzales-Benito, 2008). Despite its importance, the empirical research regarding the causalities among the constructs has not been conclusive, and the debate is still open (Barba-Sanchez & Atienza-Sahuquillo, 2016).

Furthermore, some studies have developed theoretical arguments around the empirical evidence on the existence of the positive relationship between environmental proactiveness and firm performance (Gonzales-Benito & Gonzales-Benito, 2005; Gonzales-Benito, 2008). Also considering

Donaldson and Preston's critics (1995) on the lack of reliable indicators on the stakeholder management, accordingly, with the aim to validate the causalities between firm level environmental proactiveness and a firm's performance, the following hypothesis is proposed:

Hypothesis 4: Firm level environmental proactiveness has a strong and positive effect on a firm's performance.

METHODS

Sampling and Data Collection

According to National Statistical Bureau of Indonesia (2017), there are 2387 star-rated hotels across 34 provinces in Indonesia, the average occupancy rate is around 65%, and average number of guests is at least 174,168 per day. Sample hotels were selected from 20 major cities in Indonesia, including Jakarta, Bogor, Bandung, Semarang, Yogyakarta, Solo, Surabaya, Malang, Denpasar, Mataram, Makasar, Manado, Samarinda, Balikpapan, Palu, Medan, Padang, Palembang, Pekanbaru, and Bandar Lampung, considering the cities' rapid developments in business and tourism and its representativeness of regions in Indonesia.

This study focused on tourist and business hotels rated three stars and above for data sufficiency. From the population of 2387 hotels, as many as 25 hotels from each of the 20 cities have been chosen based on top-rated three- to five-stars ratings in major online travel agents' websites. Sata regarding each hotel's property location was

gained from their websites, and the research questionnaires were sent through the regular mail. Each bundle of the questionnaire was addressed to the person responsible for environmental issues or, if there was no such person, to the hotel's General Manager.

This study was measured using 64 items of indicators in total. To measure dynamic managerial capabilities, a construct consisting of three dimensions was developed: human capital (5 items), social capital (6 items), and managerial cognition which consists of two sub-dimensions: perceived urgency and perceived manageability. Perceived urgency was measured using eight items (Dutton & Duncan, 1987; Dutton, Dukerich, & Harquail, 1994) and perceived issue manageability using seven items (Dutton & Duncan, 1987). Stakeholders' pressure was measured from 5 dimensions (15 items) as shown in Figure1 based on Murillo-Luna, Garces-Ayerbe and Rivera-Torres (2008). Environmental proactiveness taken from 14 items have also been measured by Murillo-Luna, Garces-Ayerbe and Rivera-Torres (2008). Firm performance was assessed based on the objective financial performance (Knott, 2003), subjective financial performance (Powell & Dent-Mikaleff, 1997), and nonfinancial performance (Markman, Espina, & Phan, 2004).

Data Analysis

In this study, structural equation modelling (SEM) (LISREL 8.5) using a maximum likelihood (MLE) estimation method was applied to test the model and relationship between the variables within the structural

model, as shown in Figure 1. Given the large numbers of items in this study that exceeds the total data needed to apply MLE estimation, the items within each dimension were averaged to form a single score for each dimension, which then acts as an indicator to measure the variables and allow easier interpretation in first-order confirmatory factor analysis. The score then formed the basis for composite values as they met conceptual and empirical criteria of the research supported by previous studies (Hair, 2010).

Up until the end of data collection period, as much as 127 from targeted sample hotels responded, and 102 samples of data were further tested, rendering the rest of the data unable to be used due to information incompleteness from the returned questionnaires. The analysis also included testing for mediation, which depicted dynamic managerial capabilities as a mediating construct as hypothesised was supported by a comparison between the model fit without direct effect (Model 1) and including direct effect (Model 2), as shown in Table 1.

RESULTS

Demographic Characteristics

The data collection period lasted four months from March until July 2017 and 127 responses were received. Among these, 102 responses were valid, yielding a valid response rate of 80.3%; 43 responses were received from three-star hotels, 47 from four-star hotels, and 12 from five-star

hotels. About 71% of participating hotels are part of an international network hotel association, and 29% hotels are part of a local or domestic network hotel association.

From the business scale category, about 22% of the response was received from hotels which can accommodate 25–99 guest rooms, 47% from hotels with 100–200 guest rooms, 19% from hotels with 201–300 guest rooms, and 12% from hotels with more than 300 guest rooms. As many as 127 middle-to top-level management employees were involved, with the total of 75% are senior-level and top-level management, about 13% at middle-management roles, and the remaining 12% are in the lower-level management. Respondents in top-level management have their tenure with approximately 25–30 years of services, senior-middle management about 10–24.5 years of services, and lower-level management have average tenure of about 5–10 years of service in the hotel industry. Respondents' average age is between 30 to 60 years. The study showed the result of stakeholders' pressure in hotel industry influenced external social dimension the strongest (SLF = 0.92). The environmental proactiveness was also revealed to be a quite high level ($\bar{x} = 7.71$), for example in the hotel industry's efforts in creating a sustainable business for all stakeholders through environment preservation.

Hypothesised Model

Hair (2010) stated that indicators of a specific latent construct should converge (i.e.

convergent validity), which are indicated by significant high factor loadings with estimates ≥ 0.5 and are shown in Figure 1. Reliability is also another indicator of convergent reliability, which was constructed from construct reliability (CR) of 0.70 or above and an average variance extracted (AVE) of more than 0.50 to suggest good reliability (Hair, 2010). The CR and AVE were calculated from measurement model's standardised loading factor and estimated error; the results show $CR > 0.70$ and $AVE > 0.50$ (CR & AVE stakeholder pressure 0.90 and 0.66; CR and AVE dynamic managerial capability 0.82 and 0.61; CR and AVE performance 0.86 and 0.75), so the variables are deemed reliable.

A structural equation model (by LISREL 8.5) was computed to simultaneously test all the relationships as predicted by the four hypotheses, as shown in Figure 1. Evidently, all four hypotheses are corroborated. There is no single statistical test that best describes the strength of a model's predictions, so several measures of approximation were employed. To provide an adequate evidence of model fit, three or four indices can be used (Hair, 2010). With at least the χ^2 , degree of freedom, an absolute and incremental index shows good fit (>0.90), it has provided sufficient information to evaluate a model (Hair, 2010). The approximation measures found that $\chi^2 = 61.98$ (p-Value = 0.0187); $df = 41$; normed fit index (NFI), comparative fit index (CFI), incremental fit index (IFI), and the goodness-of-fit index (GFI) degree of fit was above 0.9 (NFI = 0.90; CFI = 0.95;

IFI = 0.95; GFI = 0.90) show that the model is considered sufficient and therefore meets the approximation criteria. In addition, lack-of-fit was measured by means of RMSEA, where the value of a suitable fit should be lower than 0.80 and in the current study, the results were found to be sufficient (RMSEA = 0.071).

Specifically, Figure 1 indicates positive effect of stakeholder pressure perceived by managers on dynamic managerial capabilities, as hypothesised in H1; dynamic managerial capability has positive effect on environmental proactiveness, as hypothesised in H2; dynamic managerial capability fully mediates stakeholders pressure and environment proactiveness, as hypothesised in H3; finally, environment proactiveness has positive effect on firm's performance, as hypothesised in H4.

Furthermore, supported by a comparison between the model fit without direct effect (Model 1) including direct effect (Model 2), as shown in Table 1, it was found that the addition of direct path produced similar χ^2 , with the $\Delta\chi^2 = 0.005$ and $\Delta df = 1$ (Table 1), and there is a reduction of the direct relationship between stakeholders pressure and environmental proactiveness to the point where it was not statistically significant after mediating variable was included. Thereby it was concluded that the relationship between stakeholder pressure and environmental proactiveness was fully mediated by dynamic managerial capabilities.

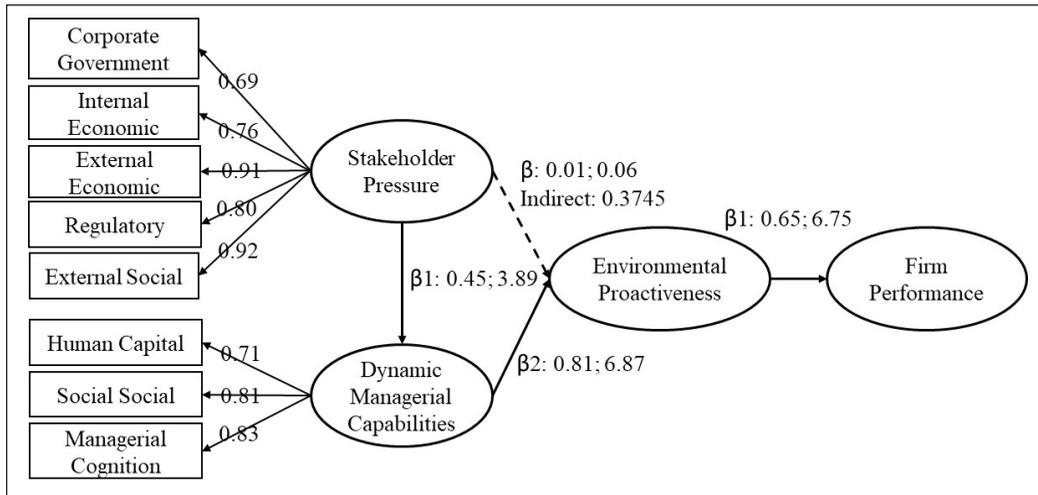


Figure 1. Structural model result

Note: Standardized regression coefficients and t-values are depicted on the paths. Dotted line represents indirect effect.

Table 1
Comparative of Goodness-of-fit Values

Fit Index	Recommended Value	Index Values		Degree of Model Fit	
		Model 1	Model 2	Model 1	Model 2
χ^2	$p \leq 0,05$	61.93 ($p=0.024$)	61.98 ($p=0.0188$)	Poor Fit	Poor Fit
χ^2/df	$1 \leq x < 3$	1.474 (df = 42)	1.511 (df = 41)	Good Fit	Good Fit
GFI	≥ 0.90	0.90	0.90	Good Fit	Good Fit
RMSEA	≤ 0.080	0,068	0.071	Good Fit	Good Fit
NFI	≥ 0.90	0.90	0.90	Good Fit	Good Fit
CFI	≥ 0.90	0.95	0.95	Good Fit	Good Fit
IFI	≥ 0.90	0.95	0.95	Good Fit	Good Fit

Notes: χ^2 = Chi-square; df = degree of freedom; GFI = Goodness-of-Fit; RMSEA = Root Mean Square Error of Approximation; NFI = Normed Fit Index; CFI = Comparative Fit Index; IFI = Incremental Fit Index

DISCUSSION

The focus of this study is on the mediating role of dynamic managerial capabilities on the relationship between stakeholder pressure and corporate environmental proactiveness, and its impact on firm performance. The results are as expected.

The stakeholder pressure shows strong and positive effect on the dynamic managerial capabilities. There is a full mediation effect of dynamic managerial capabilities on the relationship between stakeholder pressures and environmental proactiveness. It indicates that whenever the leading managers sensed and perceived that there

are growing pressures on the sustainability issues from their stakeholders, they will maximise their efforts, exercise their length of capabilities to manage the pressures, and enhance firm level environmental proactiveness. With these types of internal organisational capabilities, a firm's performance is expected to improve.

As Helfat and Peteraf (2014) explain, most management research regarded managerial cognition as an important attribute of organisational resource, specifically related to the role of dynamic managerial capabilities in the organisational change. Smith and Tushman (2005) suggested that top managers need to build a "paradoxical cognition" that enable them to pursue both exploration and exploitation in their business context simultaneously. As one of the novelty of this current study, and which adds to the findings of Helfat and Peteraf (2014) especially in the developing countries context, this study found that managerial cognition plays a bigger role compared with two other dynamic managerial capabilities dimensions in determining the mediating effect on the relationship between stakeholder pressure and corporate environmental proactiveness.

Managerial cognition in this study was assessed through its two sub-dimensions, which are perceived urgency and perceived manageability. The perceived urgency assessment focused on the cost that might arise if the firm did not take any action regarding certain issues. Previous research found that the higher the level of urgency, the higher the pressure for the organisation

to respond and resolve the problems quickly and decisively (Dutton & Duncan, 1987; Ginsberg & Venkatraman, 1995; Mitchell et al., 1997). Perceived manageability assessment concerns whether the firm possesses the resource to effectively respond to a specific set of pressures (Dutton and Duncan, 1987; Dutton et al, 1990). Perceived manageability of the leading managers represents the organisational degree of optimism, positive valence, and confidence to handle a set of circumstances (Ginsberg & Venkatraman, 1995; Kuvaas, 2002).

In the case where firm executives assess or sense a higher pressure from their stakeholder, an urgency to manage their response tends to occur, especially when certain cases that are publicly known or are assessed as the responsibility of the organisation (Dutton & Duncan, 1987; Ginsberg & Venkatraman, 1995; Mitchell et al, 1997). It produces decisive actions and efforts to resolve the issue in the organisation's favour (Andersson & Bateman, 2000). Furthermore, decision makers should also take interest group pressures into account and respond appropriately in order to preserve public image, goodwill, and reputation of the organisation (e.g., Dutton, Dukerich, & Harquail, 1994; Julian, Offori-Dakwa, & Justis, 2008).

In the context of hotel industry in Indonesia, when the operating hotel has to deal with environmental sustainability pressures from the groups of stakeholders, the greater accommodation often treated as

an urgency. The perceived manageability leads the hotel managers to respond the pressures on environmental sustainability issues and extend the array of possible accommodative responses. Most operating hotels which taken part in this study agreed on the importance of managing the environmental issues for several reasons, including to answer the inquiries from local and central governments' law and regulations, to increase their accommodative response to acknowledge the higher awareness of sustainable development from the major stakeholders, and to align with the global green movement that demand operating hotel chains to practice environmental responsibility-based policies in their business operations around the world.

This study is a timely response to the urgent call for empirical support in the field of stakeholder management, supporting Harrison, Bosse and Philips (2010), which suggests that the stakeholder relationship should be based on a firm's history of interaction with its stakeholders, and a firm's long-term success can be determined by its ability to maintain positive relationships with key stakeholders (Post, Preston, & Sachs, 2002a, 2002b). The results of the present study are also consistent with that of Lo (2013) who examined the Chinese hotel industry. Lo (2013) suggested that the stakeholder management practices had positive and significant influences on financial performance and customer satisfaction. This study strengthens the empirical evidence on the influence of

environmental proactiveness toward a firm's performance. Within the theoretical frame, this study contributes in boosting the argument regarding the causalities between stakeholder management view, resource dependence theory, and cognitive theoretical perspectives, especially in the context of developing countries.

CONCLUSION AND IMPLICATIONS

This study extended the theoretical framework on the link between stakeholder management and organisational resource allocation on the hotel industry of Indonesia. As many as 127 managers from 127 hotels from major cities in Indonesia participated in this study, and 102 responses were found to be valid, yielding a valid response rate 80.31%. Four hypotheses were tested and several conclusions could be drawn.

First, from the result, it can be concluded that stakeholder pressure has a strong and positive relationship on the dynamic managerial capabilities in the context of hotel industry in Indonesia ($\beta = 0.45$). This result supports Hypothesis 1. Participating managers were asked about how stakeholders put pressure to ensure implementation of environmental responsibility in their hotels. The results show that managers perceived all the stakeholder groups to be putting high pressures, with the highest coming from external social stakeholders consisting of society, mass-media, and non-profit organisations (NGOs). This is followed by external economic stakeholders consisting of group of guests, suppliers, competitors, on-line travel agents, and event organisers

for Meeting, Incentive, Convention, and Exhibition (MICE) programmes.

Findings also show that dynamic managerial capabilities have strong positive relationship on the environmental proactiveness of the firm ($\beta = 0,81$). This study has additionally shown stakeholder pressure cannot directly affect environmental proactiveness without the mediating role of dynamic managerial capabilities ($\beta = 0.01$) on the relationship between stakeholder pressure and environmental proactiveness of the firm. Thus, Hypothesis 2 and Hypothesis 3 are supported. From the three dimensions of dynamic managerial capabilities, managerial cognition has the highest mediating role in determining the effect of stakeholder pressure upon environmental proactiveness of the firm in the context of Indonesia's hotel industry.

Finally, this study has found a strong and positive relationship between environmental proactiveness and firm performance. It indicates that a firm which proactively implements green strategies as a proxy of its environmental responsibility will boost its firm performance. This causal model adequately represents the observed relationships. The parameter of interest is valued at 0.65 ($\beta = 0.65$). This result leads to accept Hypothesis 4, as it confirms the existence of a strong and positive effect of environmental proactiveness on the firm performance.

From a practitioner's perspective, this study has three practical implications for managers in the Indonesia's hotel industry. First, there are at least five groups

of stakeholders that should be managed wisely by the operating hotels, while each of the group has certain inquiries regarding the environmental sustainability issues. Indonesian hotels should place greater emphasis on developing trust between the hotel and its key stakeholders. This requires persistent effort from managers and also employees in building a good communication and relationships with the customers and other key stakeholders. The aim is to gain greater access to competitive resources and information, increase positive behaviour, and strengthen the relationship with stakeholder, leading managers are suggested to be more focused on the green business campaign. It can be accomplished through seminars, staff orientation initiatives, and/or employee booklets in order to communicate firm's commitment on sustainable development. Frontline managers are required to implement such strategies and must fully understand the processes required to better manage key stakeholders. It is frontline managers who implement strategy.

The results of this study also indicate that the higher the pressure from stakeholder, the higher the degree of dynamic managerial capabilities required to build, integrate, and reconfigure organisational resources and competences to achieve congruence to changing environmental conditions. It shows the significant role of leading managers in tackling the inquiries from those stakeholder groups that will impact on the strategies. Those firm level decisions are the result of managerial human capital, social capital,

and the relevance of managers' subjectivity perceptions in defining sustained superior performance. Planned training and development strategies, clarity of career advancement, competitive reward strategies, are among the options in managing human capital within the service sectors such as hotel industry.

Third, the results of this study show a strong positive effect of environmental proactiveness on firm performance. What is new in Indonesia is the relatedness of the two constructs. This study found at least 14 aspects of proactiveness strategies regarding environmental friendly business movement that could enhance firm performance. Operating hotels shall experience positive firm performance towards environmental proactiveness through strategic investment on the use of environmental friendly products, both in public services and every guest rooms, including a green campaign brochure or notification to pursue visiting guests to reduce the use of electricity, saving the water, or reduce water pollutions that came from washing detergent by reusing bath towel. From the operational aspect, it will also reduce money spent in those areas. The operating hotels are also suggested to implement high quality control management systems such as water and sanitation systems, waste management systems, and the use of safe and eco-friendly electricity-based equipment. This study shows that the higher the environmental proactiveness of the hotel, the higher the likelihood to achieve positive firm performance.

Finally, from the findings of the study, implications regarding policy

implementation can be drawn. First, there should be a consistency in law and regulations in order to protect the natural resources between the local government and central government of Indonesia. It is recommended the local and central government develop environmental sustainability-based policies as a guidance in the implementations of their sustainable development. There has to be requirements regarding control management system to contain negative impact of business operations in the hotel industry. This will have an impact on water and sanitation management, and waste management systems including electrical equipment wastes that might harm the environment.

Local and central government are also suggested to develop a mandatory requirement for all the operating hotels to develop periodic report regarding their business environmental sustainability plans and implementations, including the environmental sustainability audit in order to evaluate the consistency of their programmes. The government shall strengthen the control management through the use of information system to facilitate the hotels to update their current information regarding waste management system, natural resource purifying policies, or achievement of business environmental sustainability certifications. Additionally, local and central government are must strictly regulate the number of hotels operating in one area, including the requirement on the distance between one hotel to another, especially in major cities where the supply of new

hotels are on the increase. The higher the number of hotels, the higher the potential risk of environmental and natural resource damages.

Study Limitation and Future Research Direction

This study has limitations. Only 127 responses were received, and only 102 could be included in the testing stage for various reasons, such as incomplete filling, especially on the part of the firm's performance, which indicated doubts and concerns that confidential information would be exposed. Further, there is a response with patterned answers; thus, the research team decided not to include it for further tests. Incomplete demographic data is another limitation. As this study is only focused on the hotel industry in Indonesia, generalising the findings to other countries, particularly those in Asia, will require further investigation.

This study also did not examine the conceptual model on different ownership patterns (e.g. SOEs and non-SOEs). Further research should look at the differences on ownership and their impact upon stakeholder management practices. Issues regarding cultural diversity in Indonesia's hotel industry is also interesting and should be explored, considering the large number of cities, local areas, and local cultures as the contextual background for the operating hotels. Finally, future research shall elaborate control variables in the model, such as market share, profitability,

years of operation, and physical location to enrich the analysis.

The addition of measurement variables, which are possible antecedent factors affecting dynamic managerial capabilities, should be considered especially in relation to managing pressure from different social groups. The effect of environmental proactiveness as organizational responses and firm financial performance should be tested for their reliability and patterns of relevance in different contexts. It also shall be cross-industrial and tested to determine the heterogeneity and generalisation capabilities of the models. The results of this study ought to be interpreted carefully, considering the different types of environmental response that cannot apply to all possible specific cases (Hunt & Auster, 1990). In addition to the type of business, potential environmental problems, size of the organisation, the organisational structure, it is also important to consider the organisational and local-national culture.

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