

# Are Institutional Pressures Influencing on Sustainable Business Performance in the RMG Industries of Bangladesh?

Marjea Jannat Mohua<sup>1</sup>, Wan Fadzilah Wan Yusoff<sup>1</sup>

<sup>1</sup>Putra Business School, Selangor, Malaysia

\*Corresponding Author e-mail: [PBS19104100@grad.putrabs.edu.my](mailto:PBS19104100@grad.putrabs.edu.my)

## ABSTRACT

With intensifying the global climate change phenomena throughout of the world as well as escalating of surroundings demands firm's operational performance is being evaluated in the context of holistic approach inclusion of economic, environmental and social proportions currently. From the prior 20<sup>th</sup> century, eye catching change has been observed in business strategy towards sustainable perceptions-the materialization of sustainability has become intrinsic part of the companies. However, after investigating the prior literature it has come to the contemplation that readymade garment (RMG) industries as one of the major responsible sector for the environmental deterioration from manufacturing industries. Considering these affairs as burning issues, this study will expand the level of understanding about the influence of institutional pressures on sustainable business performance in the context of RMG industries of Bangladesh in the shed of institutional theory. This paper will also contend to bring a novelty about sustainability phenomena that how to face a dilemma situation between massive industrialization and go green concept by handling the pressures consistent with sustainable development goal (SDG). Most importantly during the pandemic of COVID 19, it is been observed that the organizations having high ESG ratings lower the cost of debt and equity where sustainability actions can assist to revamp economic performance while advancing public cooperation for economic growth.

**Keywords**— Sustainable business performance, Institutional Theory, Institutional Pressures, Readymade garment industries (RMG) of Bangladesh.

## I. INTRODUCTION

Formerly, Primitive business intentions was only to emphasize on the consumer amusement as well as economic expansion through innovation and finance. [25]. However, the perception of business philosophy can be detrimental for the environment and earth as these two conceptions are not “business of businesses”. Henceforth, a substitute planning is inevitable for the organizations to defend the world [24]. Following to the ongoing trend where consciousness for “Green” has been considerably escalating over time. [14]. Though the concept is not new as the application is still in debatable situation. Globally being second apparel exporter among all over the world, readymade garment (RMG) sector is the remarkable contributor in Bangladesh GDP which is almost 10% [26; 2]. In addition, RMG sector eventually contributing to the economic growth of the country to acquire both short- and long-term objectives as the more RMG sector expands undoubtedly leads to more economic development. (Islam, 2020). Although, the country is experiencing the roaring growth in the RMG industries with profitable economy and employment, some controversies have been discovered due to land degradation, industrialization, social deterioration, environmental contamination and so on are the root of this advancement. As this industry have already established a

productive statue in the context of workforce, poverty eradication and economic development thus the existence with sustainable development is concurrent issue [17]. In this situation, they are blaming for the violation of worker priority, unhygienic working environment, precarious building structure, workers health safety, environmental degradation etc. [1]. Therefore, sustainable procedure is the essential issue for business organizations currently especially in RMG industries where deficiency in the sustainable business policy can lead to a complicated phenomenon to the international audience. However, the perception of sustainable performance not only related with the virtuous commitment to the prosperity of society but also escalating and harmonizing the opportunities for next generations as well as for the environment [10]. As a response to the institutional pressures ([6]), organizations are now trying to adopt competitive strategy that how to create a proper harmonization among financial aspects with environmental and social contexts through the lens of institutional theory. In order to survive in the competitive business environment, business organizations are now being compelled to respond with the rising concerns in a pressures form connecting with sustainable performance [5].

***The main research question is that “What are the institutional pressures affecting on sustainable performance in the context of RMG industries of Bangladesh?”***

## II. LITERATURE REVIEW:

### A. Institutional Theory

From the beginning, institutional theory is extensively implemented to illustrate organizational presence inclusion of environment friendly manners, organizational ecological acknowledgement behavior and environmental practices. [4; 27,28]. Therefore, DiMaggio and Powell (1983) identified that institutional pressures assault firms to be adjusted with the beliefs, norms and routines. If the organization deny to accommodate with the institutional and external surroundings, it can be segregated. [22]. Therefore, organizations must be adaptable with three visionary pressures known as coercive, mimetic and normative pressures [6; 22]. In the context of environmental proceedings, Coercive pressure strived by the government legislation, standards from strong authority create an enforce to the firm by utilizing environmental rules and regulations which are mandatory or provocations. Additionally, Coercive pressures are exerted by powerful governments and partners which provide a force for organizations to follow by using various environmental standards and regulations [6, 19; 11]. Mimetic pressures relates with the independent replica in environmental dynamism or copying the best practices from other organization. Furthermore, Mimetic pressure involves voluntary imitation when firms face uncertainty environment [12]. Lastly, normative pressure basically derive from norms, beliefs, culture and standards in a certain environmental phenomena ([6]). Especially the pressure of normative carried by professional organizations, industrial bodies, regulatory agencies and social actors to accelerate the performance [21].

### B. Nexus between Institutional Pressures and Sustainable Performance:

For lessening the influence of environmental degradation, organizations need to change their business strategy with the mechanism of sustainability stimulated by institutional pressures [7; 18]. Institutional pressures inclusion of authoritative bodies or government (coercive pressure), copy the good practice (mimetic pressure), norms from professional organizations (normative pressure) critically analyzed by [3; 29]. In this context, [9] examined the institutional pressures with sustainability issues in organizational practices by using the three mechanisms. Furthermore, [8] analyzed that among three institutional pressures in the manufacturing industry, normative pressure is the dominant one over coercive and mimetic pressure as well as if the pressures are not accounted it can result reaction with the negative outcome. However, [20] found that coercive pressure is the primary source of sustainability reporting followed by mimetic and normative pressures through the lens of institutional theory. While studying in vietnamese industries [13] analyzed that

mimetic pressure is not as much significant in evaluating performance efficiency. In a nut shell, the state of the art literatures provided mixed evidence lead to further investigation to test empirically between the implied variables utilizing the theory.

### C. Conceptual framework

To develop a novel framework about sustainability issues, environment should be on the first preminence followed by society and economy respectively to save the nation as well as earth [15]. Henceforth, this study has grabbed the perceptions of prior literature to expand [13; 8] representing the sustainable performance emphasizing on RMG industries stimulate from institutional theoretical approach. (Conceptual framework is articulated in the Appendix section)

## III. HYPOTHESES DEVELOPMENT

Generally, when the organizations face coercive pressure from government or regulatory bodies, firms have to adaptable with the novel strategy by skipping only economic benefits thus it influences on the sustainable business performance. Accordingly, the following hypotheses can be developed-

***H1: Coercive pressures have a significant impact on sustainable business performance in the RMG industries of Bangladesh***

Therefore, mimetic pressures happen when organization comprehend the perceived benefits of other industries and try to acquire the same profitability. ([6]). Considering all the relevant issues connected with the dimensions of sustainability (social, economic and environment), firms are trying to imitate the prosperous competitors. Thus it is hypothesized that-

***H2: Mimetic pressures have significant impact on sustainable business performance in the RMG industries of Bangladesh***

Due to the normative pressures in the organizations, by industry associations, media, culture, professional competence, sustainability performance is escalating. As it be hypothesized-

***H3: Higher the normative pressures can lead to higher the sustainable performance in RMG industries of Bangladesh***

#### IV. METHODOLOGY, SIGNIFICANCE AND LIMITATIONS OF THE STUDY

For this proposed study, methodology has been utilized by reviewing systematic literatures based on prior studies connecting with research question. Initially, a series of steps has been followed for the research:

- a) Determination of sources of information;
- b) Selection of significant articles;
- c) Identification of key issues articles related with problem statement.

Above steps pursued by scrutinizing from numerous databases for instance Web of Science, Scopus, Emerald, Science Direct, Academic Search, and Wiley on institutional pressures connected with sustainable performance to acquire the research objectives. However, the perception of sustainable performance have been examined from prior several years literatures related with manufacturing industries focused on RMG industries. Therefore, factors influencing on sustainable performance have been investigated from several literatures based on numerous theoretical conceptions. Finally, Identified and selected the finalised literatures based on institutional pressures influencing on sustainable performance.

Theoretically, present study will provide a vigorous structure in the literature of sustainability also will fulfill the theoretical gaps elected from the prior studies. In managerial context, this research will provide an unequivocal mechanism to managers that how to create a right balance on social and environmental dimensions with economic performance in the industry by facing challenges from institutional pressures while policy maker will be beneficial to establish tactical methods to implement sustainable performance based on sustainable development goal.

This research explores the conceptual overview regarding the effects of institutional pressures (coercive, mimetic, and normative) on sustainable performance of the RMG industries of Bangladesh. Hence, this study is not empirically examined which can be considered as further directions in any different settings of the industry. Furthermore, this research has been conceptualized only from the institutional theoretical point of view whereby combining more theories comparing with the same industries or other industries can be conducted in future in order to acquire valuable insights about sustainable performance. To implement and expand the sustainable business performance in the organization, the role of management control systems is significant thus this research did not utilize any mediating variable can be assumed for further research in the context of performance of accounting. Finally, the perception of this study is comparatively novel conception hence the support of literature review is insignificant level in the context of developing countries especially in Bangladesh.

#### V. CONCLUSIONS

The ultimate purpose of this research is to create a link between institutional pressures and sustainable performance through the lens of institutional theory. There are three main conclusions can be drawn. Firstly, institutional theory provides a foundation that how to face the environmental and social challenges from different sources to maintain the sustainable performance. Secondly, this research is an indication that companies should develop the dimensions of sustainability as more research should be portrayed in the academic sector too. To simplify the process of institutional pressure, this study has conferred a conceptual framework that how firms grasp the three mechanism of institutional pressures by following a diversifying strategy that are influencing on sustainable performance in the RMG industries of Bangladesh.

#### REFERENCES

- [1]. Akter, R. Business Sustainability in Bangladesh: An Analysis of Economic Sustainability in Ready-made Garments Industries. *Journal of Management and Sustainability*, 6(1), 149. <https://doi.org/10.5539/jms.v6n1p149> 2016
- [2]. BGMEA. Trade information. 2019 Retrieved August 13, 2019, from [http://www.bgmea.com.bd/home/pages/ Trade Information](http://www.bgmea.com.bd/home/pages/Trade%20Information)
- [3]. Bansal, P.. Evolving sustainably: A longitudinal study of corporate sustainable development. *Strategic Management Journal*, 26(3), 197–218. 2005
- [4]. Colwell, S. R., & Joshi, A. W. Corporate ecological responsiveness: Antecedent effects of institutional pressure and top management commitment and their impact on organizational performance. *Business Strategy and the Environment*, 22, 73–91. 2013 <https://doi.org/10.1002/bse.732>
- [5]. Chu, S.; Yang, H.; Lee, M.; Park, S. The impact of institutional pressures on green supply chain management and firm performance: Top management roles and social capital. *Sustainability* 2017, 9, 764. [CrossRef]
- [6]. DiMaggio, P., & Powell, W. W. The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review*, 48, 147–160. <https://doi.org/10.2307/2095101>. 1983
- [7]. Epstein, M. J., & Buhovac, A. .. Making sustainability work: Best practices in managing and measuring corporate social, environmental, and economic impacts. Sheffield: Greenleaf. 2014
- [8]. Fotios Misopoulos et al; -Addressing Organizational Pressures as Drivers towards Sustainability in Manufacturing Projects and Project Management Methodologies; *Sustainability* 2018, 10, 2098; doi:10.3390/su10062098. 2018
- [9]. Herold, M. H.. Demystifying the link between institutional theory and stakeholder theory in sustainability reporting. *Economics, Management and Sustainability*, 3(2), 6-19. 2018 doi:10.14254/jems.2018.3-2.1
- [10]. Kibert, C. J.. "Sustainable construction: green building design and delivery. 2012." *Green Building Design and Delivery*. 2012. John Wiley and Sons.
- [11]. Li, Y.. Environmental innovation practices and performance: Moderating effect of resource commitment. *Journal of Cleaner Production*, 66, 450–458. 2014. <https://doi.org/10.1016/j.jclepro.2013.11.044>
- [12]. Liang, H., Saraf, N., Hu, Q., & Xue, Y.. Assimilation of enterprise systems: The effect of institutional pressures and the mediating role of top management. *MIS Quarterly*, 31, 59–87. 2007. <https://doi.org/10.2307/25148781>
- [13]. Le, T. T., Nguyen, T. M. A., & Phan, T. T. H.. Environmental management accounting and performance efficiency in the Vietnamese construction material industry-a managerial implication for sustainable development. *Sustainability (Switzerland)*, 11(19). <https://doi.org/10.3390/su11195152>. 2019

- [14]. Medley, P.. Environmental accounting - what does it mean to professional accountants? *Accounting, Auditing & Accountability Journal*, 10(4), 594–600. <https://doi.org/10.1108/09513579710180833>. 1997
- [15]. Markman, G. D., & Krause, D. Theory building surrounding sustainable supply chain management: Assessing what we know, exploring where to go. *Journal of supply chain management*, 52(2), 3–10. 2016
- [16]. Md. Saiful Islam, 2020; World Bank. World development indicators. 2019. Retrieved January 01, 2019, from <https://databank.worldbank.org/data/source/world-development-indicators#>.
- [17]. Md Abdus SALAM & Kalayanee SENASU. DEVELOPMENT OF THE SUSTAINABILITY INDEX FOR THE READY-MADE GARMENTS SECTOR IN BANGLADESH; ISSN 1648-0627 / eISSN 1822-4202 2019. <http://btp.press.vgtu.lt> 2019 20: 329–341.
- [18]. Porter, M. E., & Kramer, M. R.. Strategy and society: The link between competitive advantages and corporate social responsibility. 2006. *Harvard Business Review*, 84(12), 78–92
- [19]. Roxas, B., & Coetzer, A. Institutional environment, managerial attitudes and environmental sustainability orientation of small firms. *Journal of Business Ethics*, 111, 461–476. 2012. <https://doi.org/10.1007/s10551-012-1211-z>
- [20]. Ruslaina Yusoff, Haslinda Yusoff, Shariful Amran Abd Rahman & FaizahDarus. Investigating Sustainability Reporting from the Lens of Stakeholder Pressures and Isomorphism, *Journal of Asia-Pacific Business*, 2019..DOI: 10.1080/10599231.2019.1684170
- [21]. Scott, W. R. Institutional theory: Contributing to a theoretical research program. *Great minds in management: The process of theory Development*, 37, 460–484. 2005.
- [22]. Teo, H. H., Wei, K. K., & Benbasat, I.. Predicting intention to adopt interorganizational linkages: An institutional perspective. *MIS Quarterly*, 27, 19–49. 2003 <https://doi.org/10.2307/30036518>.
- [23]. Thi Tam Le et al., - Environmental Management Accounting and Performance Efficiency in the Vietnamese Construction Material Industry—A Managerial Implication for Sustainable Development; *Sustainability* 2019, 11, 5152; doi:10.3390/su11195152
- [24]. Welford, R. & Gouldson, A.. *Environmental Management and Business Strategy*. London, UK: Pitman 1993
- [25]. Welford, R.. *Corporate Environmental Management 3: Towards Sustainable Development*. NY, USA: Earthscan: 2013
- [26]. World Bank. World development indicators. 2019. Retrieved January 01, 2019, from <https://databank.worldbank.org/data/source/world-development-indicators#>.
- [27]. Wang, S., Li, J., & Zhao, D.. Institutional pressures and environmental management practices: The moderating effects of environmental commitment and resource availability. *Business Strategy and the Environment*, 27, 52–69. 2018 <https://doi.org/10.1002/bse.1983>
- [28]. Wei, Q., Burritt, R., & Jin, C.. The potential for environmental management accounting development in China. *Journal of Accounting and Organizational Change*, 11, 406–428. 2015
- [29]. Wijethilake, C, Munir, R., & Appuhamy, R.. Strategic responses to institutional pressures for sustainability: The use of management control systems, *Accounting, Auditing & Accountability Journal*, 38(8), 1677–1710. (2017)

## APPENDIX

[Referred in (conceptual framework) section]

