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# **Environmental Concerns in Capital Budgeting: Impact on Firms Performance**

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**“Environmental Concerns in Capital Budgeting: Impact on Firms Performance”**

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## **1.0 Introduction**

Product manufacturing often has negative effects on the environment. Pollution, waste disposal, recycling, insurance, and public relations associated with these effects have become a focus in the 21<sup>st</sup> century. Within the last two decades, the concern for these environmental effects has grown. Companies and upper management are held financially responsible for negative environmental impacts. This new financial responsibility must be incorporated into the traditional capital budgeting process. There are four stages in traditional capital budgeting process, and presents considerations that management must make in the budgeting process.

1. Awareness
2. Identification
3. Selection
4. Monitoring

### **1.0.1 Awareness**

During the awareness stage of capital budgeting, management must develop an understanding for the environment as a variable in the planning process. Decision makers must evaluate if there is risk of environmental impact. They must also consider how the potential impact can affect corporate goals and objectives.

### **1.0.2 Identification**

During the process of identifying feasible projects that support management's plans, environmental considerations must be made. There are several environmental laws that may have an impact on corporate decisions. Considerations must be made from not only an economics

perspective, but a public relations view as well. These economic and public acceptance considerations should be viewed as long-term dynamic factors.

### 1.0.3 Selection

Discounted Cash Flow techniques are currently used.

Net Present Value method is widely practiced. It requires estimates of:

- 1) Economic life
- 2) Cash flows
- 3) Discount rate.

*Economic Life* – In traditional capital budgeting, the economic life of a project is estimated. In today's reality, environmental costs that surpass the projects life need to be considered. A prime example is “clean-up costs” well after a project is complete. Useful life of projects should be expanded to adapt to this consideration.

*Cash Flows* – Cash flows are also affected by environmental issues. They alter direct costs, indirect costs, and also could have hidden costs and contingent liability costs. Direct costs can be hard to price. Indirect costs arise from monitoring, treating, and waste disposal. Hidden costs can originate from compliance with regulations. Contingent liability costs are very difficult to estimate and require companies to anticipate environmental risk. Unfortunately, experience and common sense may provide the best estimates of projected cash flows.

*Discount Rate* – The traditional NPV method of capital budgeting uses cost of capital or weighted average cost of capital as the discount rate. To incorporate environmental risk, this discount rate should be increased; the higher the risk, the higher the adjustment. This increase compensates for environmental risk by lowering the net present value of a project.

#### **1.0.4 Monitoring**

Once a project is selected and initiated, the work doesn't end. Its performance and changing costs should be analyzed continuously. Assessments should be made on a scheduled basis due to ever changing laws, technology, and economics. This step is important in evaluating the economic and environmental justification of continuing a project.

### **1.1 Research Background**

Increasing degradation of the environment is one of the major threats to human survival in the long term. Industrial enterprises are to a large extent of this decline, and we must accept concessions to achieve the so-called "sustainable development". Literature reveals that there are a number of practices and initiatives that can be implemented by the company to minimize the impact on the environment. This debate about the competitive effects of the adoption of environmental management practices volunteer have to pay, that is, on the outcome of "the most competitive and environmental proactive(Cordeiro, J.J, & Sarkis, 1997). Against the traditional view, in recent years, a number of papers and says that there are competitive opportunities associated with environmental management). However, in supporting the pilot it is still rare and sometimes contradictory.

The aim of this paper is to empirically study the relationship between environmental dynamics and analysis of business results. However, our approach has some distinctive features that can help you



understand this complex relationship:(Cormier D. & B., 2005)Most of the previous research of existing environmental measures used proactively in environmental performance. This is a role that can best be achieved through the environmental performance of different types of environmental practices and that these practices do not have the same impact on business performance. Therefore it is necessary to separate the different environmental standards and strategies that companies publish a study, and therefore the environment to proactively measure by the degree of implementation of various environmental practices(C.C & F.Maliana, 2003). There are a small number of researchers; this approach has been adopted, so there is still no agreement on a set of environmental practices tends to be carried out together. That is, there is no generally accepted classification of the dimensions of the implementation of environmental management practices.(Miles & Covin, 2000) Because of this, in this work is the first to explore these dimensions and analyze its relationship with business performance at a later date. - As there may be different environmental patterns, each of which can lead to improvements in various performance. Literature has been studied separately and various measures of performance and this may be an explanation for the conflicting results reached. I have been eating business performance, for example, and measures of financial performance, and some based on accounting data and the other on the basis of market value, operating performance or workmanship standards, or more specifically the cost of performance metrics. For this reason, we decided to combine different measures of the performance of the company, which helps to shed light on the competitive effects of a separate environmental management.

## **1.1 Problem Statement**

To measure the impact of capital budgeting decisions on firm's performance while incorporating environmental concerns.

## **1.2 Research Objective**

- To measure the impact of capital budgeting decisions on firm's performance
- To observe the capital budgeting decisions which are environmentally friendly taken by firms to increase the revenues.

## **1.3 Scope of Study**

With the capital budgeting decisions of the firms comes environmental concerns and how will the firm perform. The questions arises that, are the revenues increasing, returns on investment, shareholder value, improve employee retention, increase customer satisfaction, and reduce risk associated with environmental factors.

The manufacturing companies are the main reasons behind the increase in environmental concerns, so the scope of my research would be the manufacturing companies like cement manufacturing, textile, sports, fertilizers and many more.

## 2. Literature Review

This work is rooted in the idea that there is a relationship between environmental performance and work proactively. Instead, it is assumed that this ratio depends on the one hand, and a set of practices that showed this proactively, and secondly, the type of work, a performance.

### 2.1 Environmental Management Practices:

Environmental compliance of companies has become an important variable in the most competitive scenarios today. This has led researchers to distinguish between extreme positions: the interaction of the environment, typical of companies that implement only minimal changes required to comply with environmental regulations and proactively own companies voluntarily take steps to reduce the impact on the environment (Klassen & McLaughlin, 1996). In general, there are two categories of values can be distinguished according to the way the gauge of proactive interaction: one-dimensional and multidimensional studies.

Conceptual works (Cormier D. & B., 2005) and the gradual establishment of a series of stages from the interaction with the highest proactively given by a linear path and that companies continue to develop its commitment to the environment natural environment. In other words, it is linked to another step towards proactively with the increased use of voluntary environmental management practices, but said little about whether or not to focus on specific groups of voluntary practices raises a number of proactive environmental strategies. This behavior has been recorded in a one-dimensional experimental work Sharma and Vredenburg, Enrique and Sadorsky and Buysse and Verbeek. Start all these studies from the list of environmental practices and note that the implementation of each and every one of them can be reduced to a single factor or that companies

with high levels of implementation of practices tend to show higher levels of implementation of the entire set of practices (Karagozoglu & Lindell, 2000). Because of this, and the last two documents also identify several gradual steps along the path of a one-dimensional interaction proactively.

Other researchers have adopted a multi-dimensional and units of view, that is, consider that any one linear sequence of stages proactively towards the road and the diversity of current practices for environmental management leads to different aspects of the pre-emptive strategy. (Gonzalez-Benito & Gonzalez-Benito, 2005) Roles such as Vastag, Azzone and Klasen and Angell proposed environmental management strategies dimensional ratings. Bansal and Roth identify the different motives that lead to superior environmental proactive and consider the motivation pays each running a separate portfolio of environmental practices. These studies indicate that the environment proactively does not necessarily mean any implementation on a wide range of environmental management practice; instead, can be shown in different ways by different groups of practices (Murty, Kumar, & Paul, 2006).

This multi-dimensional in the implementation of environmental practices by experimentally recording Aragon-Correa, who identifies three orthogonal dimensions after the submission of the implementation of a range of environmental management practices measures to analyze the main ingredient. Klasen and Whybark consider three factors that determine the orientation of environmental management of the organization, each characterized by a particular set of practices. And confirmatory factor analysis shows the fit of the data in this multi-dimensional framework.

All these documents reveal that there are different types of proactive initiatives and practices, and it may not always be reduced to one dimension. In addition, there is no conclusive evidence on

how a voluntary set of environmental practices in dimensions and these dimensions are. This logic leads us to believe that the end of proactive environmental management task (Klassen & McLaughlin, 1996)

- (1) To take into account a number of the largest potential environmental practices, and
- (2) An exploratory approach of previous research adoption does not allow us to form a pre-application dimension.

With these assumptions, the initial objective of this research to build a complete and comprehensive list of environmental management practices by reviewing the literature. This process has shown that some environmental practices tend to be carried out at the institutional level and regulation, which affects the entire company, is focused primarily on strategic planning and organizational structure(Sharma & Vredenburg, 1998).

Other practices have more features and functionality, processes and production function plays a key role in environmental issues. Several studies have highlighted the critical importance of this function in environmental management, which reveal that 5 numerous environmental practices should be applied in the areas of operations and function and requires the involvement of executives. Other practices mentioned in writings that are related to the marketing function, which aims to communicate the progress made by the company in the interest of environmental management owners.

These observations prompted us to distinguish, with only descriptive purposes, including "planning and regulatory practices," "operating practices" and "communication practices, can also be understood as a functional approach to the list of practices(Miles & Covin, 2000).

## **2.2 Planning and Organizational Practices:**

These practices indicate the extent to which the company has identified environmental policy, has established procedures for establishing environmental objectives, for the selection and implementation of environmental practices, and evaluate the results of these practices or environmental responsibilities assigned (Enrique.M & Sadorsky.K.L, 2005). It considers such practices by Enrique and Sadorsky to determine the characteristics of environmental commitment, in what could be considered the focus is primarily on environmental planning. This group also includes charging practices in information, education factor of Aragon, Korea, and considered the systems analysis and planning dimension. All these practices in any way reflect the extent to which the development of environmental management system (EMS) and its application.

## **2.3 Operational Practices:**

These are practices that involve changes in the system of production and business operations, and can be classified into two groups: the practices related to products and practices relevant to the process, that is, the practices related to the "what" and "how". This distinction has been made product and process proved relevant in the study of the effects of environmental initiatives (Shih & Chen, 2006).

And focus product-related practices on the design and development of environmentally friendly products. It should not consist only in the replacement of pollutants and other hazardous materials green building materials, or the reduction of the consumption of resources, but should also think about the long-term vision and an integrated value chain. That is, it should reflect the commitment

to the product, even after the sale(Cordeiro, J.J, & Sarkis, 1997). In this sense, is a "design for disassembly" As one of the major issues of and environmental technology extends this idea to talk about the design for reuse, recycling and remanufacturing, disassembly or removal. Practices designed related operations aimed at the development and implementation of methods and manufacturing processes and operating so as to reduce the impact on the environment.

Some of them affect the internal processes and include practices of each of the treatment and control, such as the installation of emission filter systems or waste separation and preparation, along with practices to prevent such acquisition of clean technologies(Sarkis.J, 2006). And the use of renewable energy resources, or meditation environmental standards for the production, her old and practices designed to limit and control the negative effects of the emissions and waste generated at once, while the latest practices aimed at reducing resource consumption and waste generation.

Some other practices affecting the operations relating to foreign operations and activities of the supply and distribution of influence and in general the company's interactions with other elements of the value chain(T.D. & G.R., 2000). Buy organic products, and the inclusion of environmental performance criteria in the process of selecting suppliers, shipments unification, and the use of scalable containers for reuse or recycling and methods of cleaner transportation systems, and the establishment and recovery recycling, are some of these practices. Technology issues, and Sarkis(Sarkis.J, 2006) extends this idea to talk about the design for reuse, recycling and remanufacturing, disassembly or removal. The aim of practices relating to operations in developing and implementing methods and manufacturing processes and operating so as to reduce the impact on the environment.

Some of them include affect internal processes and practices both treatment and control, such as the installation of emission filters or waste separation and preparation systems, along with the prevention of such acquisition of clean technologies, use of renewable energy resources, or meditation environmental standards for production planning practices.

The aim of the old practices to reduce and control the negative effects of the emissions and waste generated at once, while the latest practices aimed at reducing resource consumption and waste generation. Some other practices affecting the operations relating to foreign operations, and activities of the supply and distribution of influence and, in general, and the company's interactions with other elements of the value chain. Buy organic products, and the inclusion of environmental performance criteria in the process of selecting suppliers, shipments unification, and the use of scalable containers for reuse or recycling and methods of cleaner transportation systems, and the establishment and recovery recycling, are some of these practices.

## **2.4 Signature-Quality Performance and Management Ratio**

Often appears implementation of TPM in companies that can reduce costs and increase the levels of differentiation. In this regard, Deming says that the high quality means lower costs and increase productivity, which in turn gives the company a larger share in the market and the levels of competitiveness(C.C & F.Maliana, 2003). I suggested this idea that GCT impacts performance, as shown in the literature. When it comes to studying this link and studies tend to focus on total quality management and ISO 9001 for quality management variable analysis (so you can find examples of works that measured quality with respect to the registration of companies winning the award)(Link & Naveh, 2008). As for the studies that examined the relationship between ACT and



performance, it is necessary to distinguish between those measure as building one, and the rest, they use a number of different dimensions (seen TQM most commonly used as a set of dimensions, for example, the leadership and management of human resources and customer focus, and management suppliers, planning, process management and continuous improvement- and authors often applied visualize these elements measures).

These studies have found that ACT has positive effects on the company's performance. According to some of these actions, the success of TQM depends primarily on soft aspects (Owolabi, 2006). For example, Powell shows that the success of the quality management depends primarily on the Executive's commitment to, and to enable the staff and the organization open. Samson and Terziovski determine statistically significant differences between organizational performance and leadership, and people management and direct clients positive relationships. Dow and others. It found that three of the nine factors in quality management have the presence of a significant positive relationship with corporate performance. These three critical factors in question are soft commitment to work, and the common vision and orientation towards the client.. We conclude that a culture of quality have an impact on business performance and individual factors found to contribute more in this article is customer orientation (G., 2000). However, other researchers have shown that some companies do not achieve this purpose, and that may be because of the motivation for the implementation of total quality management (eg external or institutional) the reasons for, and implementation ineffective or lack of management support, among other reasons.

Similarly, in terms of studies devoted to the effects of the ISO 9000 certification in performance, we found that the effects of ISO 9001 are not very clear (Link & Naveh, 2008) There are some studies which provide for ISO 9000 certified companies do not outperform those without this certificate, while others argue that this rule may actually be a slight impact on some financial

variables. A third group of studies that the ISO 9000 certification was able to experience the best of internal operations of the company and to achieve a better bottom line through increased profitability, as well as stronger exports. Therefore, the approved companies outperform them financially is adopted, which means that the ISO 9000 certificate is linked to an improvement in financial performance(Link & Naveh, 2008). And it attributed this improvement in the overall performance greatly to improve internal business processes.

However, other authors have reached conflicting results. For example, I noticed Costa Martinez and Martinez-Laurenti that ISO 9000 certification has a negative impact on business results, especially in terms of revenue and return on assets. It is clear from this review that the debate about the positive and negative implications for the management of quality, which will be held in the literature(Enrique.M & Sadorsky.K.L, 2005). The results indicate that the studies can provide conflicting results. However, the vast majority of studies show positive results, and therefore, it can be said, for the effective implementation of total quality management systems and ISO 9000 can improve program performance. In studying the effects of quality management in the performance of companies, this group of studies and measuring the performance of the company as the quality of performance, such as financial performance, or both(Link & Naveh, 2008).

With respect to the quality of performance, measured cognitively, in many cases, measurements used often refer to the following: the results of quality management; customer satisfaction. Defects rate, Cost of quality; quality of the product, On-time delivery; productivity; and the results of people (eg employee morale). Regarding its financial results, including this variable: revenue growth and Profitability(C.C & F.Maliana, 2003).Net sales revenueand net income from the assets.

In addition, the authors use objective criteria, perceptual and all of the measures sometimes even some combined (Buysse & Verbeke, 2003). This shows that financial performance can be measured from the primary or secondary data or from sources, which in turn indicates that the quality of performance acts as an intermediary between quality and financial performance management. These studies focused on industrial companies in the service sector, sectors and positive effects on performance appear and there are differences between sectors (Cormier D. & B., 2005). Therefore, companies can manufacture and services depend successfully quality management to the quality of performance levels did not differ significantly between these two industries.

In the services sector, showing a concern for the quality of product and quality of any service and this could have an impact on performance (C.C & F.Maliana, 2003). Now any are better positioned to compete in the international destinations mode, so grew to international competition, not only between destinations, but also between the accommodation establishments, which must be added that tourists are increasingly more demanding and not only on the price focus. In this scenario, the hotel competitiveness is all about improving performance through better quality service and the pursuit of excellence.

Increased competition and high quality made become a major factor for hospitality companies. Therefore, it can affect the quality of performance in the hotel industry in two ways complementary. It can cause (a) the effects of the Interior during the operations, and (b) external shocks through the market. Interior effects linked to the performance of the internal functioning of organizations (for example, increase productivity, improve efficiency and reduce costs and waste) (Miles & Covin, 2000). Thus, we can improve the quality levels of competitiveness and profitability of any through the consolidation of operations, and waste reduction, and service more

effective and less errors. Instead, external influences linked to the performance of the effects of quality in customer satisfaction and demand (for example, increase sales and market share, and the preservation of tourism and attract new tourists relationships, and achieve the highest tourist standard levels of satisfaction and enhance the image)(C.C & F.Maliana, 2003). Thus, it can be said that the commitment of ACT could affect the business performance in the hotel sector.

## **2.5 Media Relations Performance Static Environment Management**

Makiya is a growing number of forums and discussions of environmental responsibility (CSR), which is the side that should not be approached only from the standpoint of social responsibility towards the environment, but also of economic performance or success perspective. If the environmental management improved hotel performance levels, it could become a key factor and a source of competitive advantage(G., 2000). Effects resulting from the implementation of an effective system of environmental management in the performance of the hotel can be very diverse, but can be divided into two groups: direct and indirect.

Linked to the direct effects of internal management of the manufacturing industry, while indirectly improve their performance as a result of increased competitiveness of the destination where the establishment With regard to the direct effects of the performance of environmental management, and the distinction between benefits cost competitive differentiation provide a useful framework for analyzing these effects(Cordeiro, J.J, & Sarkis, 1997). Pollution prevention can allow the company to provide cost control, and input and energy consumption, as well as the re-use of materials through recycling.(Buysse & Verbeke, 2003) Therefore, the primary purpose of eco-efficiency is to produce goods and provide more profitable while reducing the severity of the

impact and environmental resources, and reduce the density of materials and energy. To prevent pollution can help companies to reach a win-win situation in which both the company and the environment and take advantage of them. This idea reflects known as "Porter hypothesis" approach, but this positive outlook coexists with a more traditional approach, which assumes that the improvement of the environmental impact of the company leads to a decrease in profitability.

It is suggested that compliance with environmental regulations mean having to incur significant costs, and reduce their ability to compete. Moreover, this traditional view responds to allegations supporters "Porter hypothesis," saying that despite the use of some simple preventive measures can achieve cost savings easily, may involve more ambitious other costs of prevention measures that exceed the savings that can be derived from them.

Environmental Management also encourages discrimination between products within any sector(Klassen & McLaughlin, 1996). For example, to reduce potential contamination levels increase the demand for environmentally sensitive consumers, since the environmental characteristics of the products that could become the new competitive argument appreciated by those customers "green" any and can buy the best green reputation(Cormier D. & B., 2005).

Tourists have become increasingly demanding about the product, thus forcing hoteliers to adapt to new tastes and preferences, including greater respect for the environment stand out. WTO states that "the perception of the guests on the quality of accommodation services affected by factors such as the state of the environment, and the levels of pollution, noise pollution, and thus achieve individual improvement is not enough to improve the quality of tourism, it must also adapt to environmental factors to the expectations of the customers(T.D. & G.R., 2000)."

Therefore, if the any of effective management of the environment the application, it is likely that the guests promote awareness of environmental quality, both in the hotel and tourism product as a whole, and provides a healthy place and get badges discrimination, on behalf of '-labels environment. In terms of indirect effects, and many studies have concluded that the environmental management improves the competitiveness of the destination. The tourism industry is largely dependent on the environment. Therefore, if the destination has been adequately addressed, and the preservation of resources that attract tourists over time, and thus parties can continue to distinguish them from each other, thereby increasing their competitiveness and to them those any. So, keep on hand in case of a good and necessary to ensure the safety of the future of tourism companies operating in it. Decision-making choice of hotel on two levels, particularly in the field of tourism holiday. First, the destination competing with others, and secondly, once you choose a destination of tourists, any in the struggle in order to become the first choice for tourists. It would be advisable for any to work towards the implementation of sustainable tourism policy that can maintain their destinations, and thus the first competitive level.

This is necessary because the growing social concern on the environmental situation in the emerging between tourist motives. Issues related to the environment began to affect the motivation and holiday accommodation, and that tourists demanding some evidence of environmental concern by any. In addition, when it appears Any greater concern for environmental management, but also improve the quality of life of the population on the one hand, and thus improve the community's willingness to accept the existing initiatives on tourism. This is especially true in rural areas where the development of tourism activities within the population who are not accustomed to the presence of tourists importance. The fact that all sub-sectors of tourism, including any, and follow-up and high-quality hand through environmental management can lead to an increase in the value

of the product, and an increase in the number of tourists from the sectors most respected frequent visits half-conscious, and more, all of which will bring more of revenue for any in the destination.

## **2.6 The Integration of Quality Management and Environmental Management**

These business practices being adopted increasingly by companies often are interlinked. In fact, environmental management and parallel progress hit with total quality management. As is the case with quality, long-term goal of environmental management is moving towards a proactive and preventive approach, the integration of environmental considerations into product design issues, and decisions related to technology, the entire manufacturing process, and customer service. Moreover, the purpose of ACT "zero defects" is very similar to the purpose of "Do not waste" of existing systems for environmental management. Total quality management focus on waste in as much as it applies to address deficiencies, environmental management, paying more attention to pollution emissions, solid and hazardous waste form. Because the two systems share a similar approach, it makes sense to use many of the tools for total quality management, methods and practices in the implementation of environmental management system. Therefore, because of these and other parallel and also to the fact that research on the side of ACT is the more sophisticated of the environmental management side, are required to derive significant benefits from the application of what has been learned about the ACT environmental issues. Therefore, some organizations have decided to integrate management systems.

## **3.0 Research Methodology**

### **3.1 Research Design**

The research will be based upon quantitative design.

The researcher will examine the behaviour of different environmental decisions through asking questions with the help of survey and document analysis, and will try to find out the basic idea of authorized professionals regarding the impact of environmental policies effecting firms performance.

#### **3.1.1 Research Philosophy**

The idea of the research, used in this research, is positivism. Positivism belongs to epistemology which can be specified as philosophy of knowing, whereas methodology is an approach to knowing. As a philosophy positivism adheres to the view that only “factual” knowledge gained through observation (the senses), including measurement, is trustworthy. In this research philosophy, positive information is gathered from observable experiences and financial statements then it will be analysed by examining the hypothesis.

#### **3.1.2 Research Approach**

Quantitative-Deductive research approach is use in this research. There are numerous stages in this research approach. According to the (Saunders, Lewis, & Thornhill, Research Methods for Business Students, 2009), they list down five stages of the deductive research approach. First, is the construction of a theory, second is the formulation of a hypothesis, third is the testing of a hypothesis, fourth is the evaluation of a theory, and in the last, the modification, if necessary, of the theory in the lights of the results.



### 3.1.3 Research Strategy

There are five major categories of the research strategy. The research strategy for this research is that the surveys will be conducted and document analysis of the firms in the manufacturing sector of Pakistan will be done which includes cement, fertilizers, chemical and sports industries.

### 3.1.4 Research Choice

There are three types of research choices, which are mono, multi and mixed method.

### 3.1.5 Research Time Horizon

(Saunders, Lewis, & Thornhill, Research Methods for Business Students, 2009) Clarify that there are two sorts of time horizons, which are Longitudinal and Cross sectional. Time skyline of this exploration study is **Cross Sectional**. How in the long run the capital budgeting decisions have been successful for incorporating environmental concerns.

### 3.1.6 Research Technique

The research technique of this exploration study is logical. This exploration procedure is talked about in, it embodies on eight stages (Saunders, Lewis, & Thornhill, Research Methods for Business Students, 2009). Ventures of this examination procedure are figuring the subject of the exploration, speculation, applied definition, operational definition, and gathering of information, dissecting, testing, and conclusion.

### 3.1.7 Research Procedure

The research procedure of this research study is as follow:

- Background of the study
- Literature review of the study

- Formulation of the hypothesis
- Gathering the data from questionnaires
- Analysing and interpretation of the data
- Conclusion and recommendations of the study

### **3.2.1 Statement of the Problem**

The problem statement of this research study is that how the capital budgeting decisions affect the performance of the firms keeping in mind about the environment i.e. manufacturing firms in terms of profitability, government policies, monetary policies, environmental policies, capital budgeting

### **3.2.2 Research Objectives**

The objectives of this research study are:

- To observe the capital budgeting decisions which are environmentally friendly taken by firms to increase the profits
- To measure the impact of Environmental Factors Affecting the Firm Performance

### **3.2.3 Research Questions**

The research questions of this research study are as follows:

Research question # 1:

Are the firms environmental decisions are expected to have positive influence on its performance?

Research Question # 2:

Does the management efforts are expected to have a positive impact on firms performance ?

Research Question #3:

Does Stakeholder's pressure to alter their current strategy and adopt environmental business practices is expected to have a positive influence on firm's performance?

### 3.2.4 Research Variables

There is basically one independent and one dependent variable of my research and they are as below:

- Independent Variable: **Environmental Concerns**

Environmental Concerns have four sub-variables

- 1) Management Environmental Efforts
- 2) Stakeholder's Pressure
- 3) Impact of Environmental Strategies
- 4) Management Awareness

- Dependent Variable: **Firm's Performance**

### 3.2.5 Hypothesis

H1: A firms environmental decisions are expected to have positive influence on its performance, which includes two main hypotheses as follows.

H1a: Management effort is expected to have a positive impact on firms performance.

H1b: Stakeholder's pressure to alter its current strategy and adopt environmental business practices is expected to have a positive influence on firms performance.

### **3.3.1 Population and Target Population**

The population of this research study is the manufacturing companies of Pakistan. The target population is all the public limited companies of Pakistan, which are listed in the Karachi stock exchange working in manufacturing businesses.

### **3.3.2 Sample Size**

(Saunders, Lewis, & Thornhill, 2009) Discuss in their study that sample size is the total number of observations used, which is used by the researcher, to draw the conclusion about the given population. The sample size of this research study is hundred public limited companies of Pakistan. This sample size is selected according to the sample size table. It has mentioned in the sample size table that if you have the population size of more than 200,000 with a confidence level of 95% For the purpose of data collection, the researcher is going to analyse the behaviour of shareholders, from questionnaires (Advisors, 2006).

### **3.3.3 Method of Sampling Selected and its Justification**

According to the, (Saunders, Lewis, & Thornhill, Research Methods for Business Students, 2009) Sampling methods are of two types, which are probability and non-probability. Random sampling technique is used in this research study, which is a part of probability sampling. In this sampling method, researcher can select those elements for the study, which are easily accessible

## **4.0 Findings**

After conducting the survey from the given sample size and collecting the data from the manufacturing sector of Pakistan which are the public limited companies following results were generated

## 4.1 Basic Findings

Most of the respondents were Non MBA Masters with some MBAs and very PhD's, most of them are working in the companies for more than 10 years and aged among 40 – 48 years.

Majority of the firms have the sale revenue of 100-500 Million Rupees and some firms revenues grossed to 500 million. When they were asked are we in a period of climatic change so a positive response was gathered with only 9% saying No while others were saying yes and maybe which is a good indication that firms are concerned towards environmental concerns. When asked about any change in financial strategies to adopt environmentally responsible business practices so a positive response was not found regarding environmental concerns and companies have not changed their strategies or they plan to change it in future .

## 4.2 Results

**Descriptive Statistics**

	Mean	Std. Deviation
FirmPerformance	2.6125	1.30717
MgtAwareness	3.5125	1.22209
MgtEnvEffit	1.9625	1.13007
StakeHolPre	2.3500	1.03239
impctofenvironmentalstrategies	11.2875	5.19053

In the table above are the mean and standard deviation of Dependent and Independent Variables

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.801	.537		5.215	.000		
	MgtAwareness	-.839	.397	-.785	-2.115	.038	.083	12.048
	MgtEnvEffrt	.005	.337	.005	.016	.988	.135	7.415
	StakeHolPre	-.438	.544	-.346	-.806	.423	.062	16.134
	impctofenvironmentalstrategies	.335	.126	1.329	2.660	.010	.046	21.866

a. Dependent Variable: FirmPerformance

## Significance

Significance is found to be positive when it is less than 0.05

- 1) Management Awareness has positive significance
- 2) Management Environmental Efforts does not have a positive significance
- 3) Stakeholders Pressure does not have a positive significance
- 4) Impact of Environmental Strategies have a positive influence on the Firms Performance.

## 5.0 Conclusion

In the rapid industrialization era where life is becoming simple and easier for all the human beings on the other hand it is suffocating for the Global Climate. The independent variable Environmental Concerns is found to have a direct impact on the performance of the firms as the pressure from Media, Government policies, Investors and employees is forcing the firms to adopt environmental friendly business activities which is resulting in the increased revenue for the firms. Those firms who have not adopted any environmental friendly business practices, and plans to make any capital budgeting decisions in the future will surely result positively in the form of increased revenues, more customers and successfully achieving the vision of the company.