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Impact of Environmental Orientation on Proactive and Reactive Environmental Strategies: Mediating Role of Business Environmental Commitment

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Abstract: Although they are significant contributors to environmental concerns, emerging economies provide a very different context concerning corporate environmental behavior. The study investigates the impact of environmental orientation and business environmental commitment on proactive and reactive environmental strategies by firms in an emerging economy. Based on stakeholder perspective, organizational legitimacy concept, and natural-resource-based view, we have proposed a model where business environmental commitment is presented as an explanatory mechanism for the relationship of internal and external environmental orientation and proactive and reactive environmental strategies. A convenient sampling method was used for data collection from 152 SMEs operating in three industrial cities of Pakistan. Structural equation modeling (SEM) was used as an analysis technique. Results revealed that internal environmental orientation has a more profound impact on proactive stance than the impact of external environmental orientation on reactive environmental strategies. Similarly, the business environmental commitment was also identified as an important mediating force. Our results draw important implications for theory and practice.

Keywords: environmental orientation; business environment commitment; proactive environmental strategies; reactive environmental strategies; emerging economies

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1. Introduction

No doubt, emerging economies face many economic, social, and environmental issues that can have negative implications for their overall development. Addressing environmental issues and challenges may help these emerging economies transcend integrated and inclusive growth [1]. The vulnerability of emerging economies, including Pakistan, to climate conditions requires emergency measures to mitigate these effects [2]. The manufacturing firms from the majority of these countries are less likely to devote funds available for their CSR activities to finance natural environment activities [3]. According to Ahmad et al. [2], the reasons can be the lack of environmental legislation or the more recent attention of stakeholders to environmental programs by firms. It has also been identified that firms from developing countries focus more on community-related activities than environmental issues. Environmental-related issues receive low prioritization by managers from these economies, who have to decide for CSR activities' funds' allocation.

The environmental programs result from pressures from different stakeholder groups or firms that are genuinely concerned about the environment or see this as an opportunity [4]. The firms have to overcome many barriers to implement environmental-friendly practices [5] from technology that can be very expensive and would not bring immediate

benefits [6] to top management prioritization of environmental issues, especially when they are not central to the corporate identity [5]. Organizational responses to environmental concerns are important but also complex phenomena. The adoption of environmental strategy results from different stakeholder groups and market entities [7,8].

The firms' environmental behavior is context-specific, yet which issues are considered significant and the manner of response appears to vary significantly between developed and developing countries [9,10]. Ali, Frynas, and Mahmood [11], in their meta-analysis study of 76 research articles on CSR from developed and developing countries, found a significant difference in the determinants of CSR and stated that "in contrast to developed countries, firms in developing countries perceive little pressure from the public for CSR disclosure, which suggests that the public in developing countries is less informed about social and environmental issues" (p. 289). Even when considering only developed countries, we can find differences in managers' perceptions from the USA and Nordic regarding corporate environmental behavior [12]. Similarly, a recent study by Gerged, Bedderwela, and Cowton [13] of five GCC countries regarding environmental activities disclosures found the importance of country-level factors and have recommended more rigorous analysis for country-level explanations due to their difference in legal traditions, religion or culture, and societal pressures.

The role of business environmental commitment in a firm's performance and competitiveness is a recurring theme in the environmental management field [14]. However, for many organizations, the benefits of environmental projects are still unclear and uncertain because, in the majority of the cases, decisions are made on purely economic intuitions [14]. Some organizations are more proactive in implementing environmentalism than others. What are the drivers that enhance the environmental performance of firms, and the role of business environmental commitment in this process needs supplementary examination [15,16]. According to Liu et al. [16], business environmental commitment can help firms improve their sustainable performance, but its antecedents and outcomes are still unclear and need further investigation. With the current investigation, we are trying to fill the above-identified gap in the literature by proposing the antecedents and outcomes of business environmental commitment in an emerging economy.

The environmental orientation, which results from internal or external pressures, successfully develops environmental consciousness in firms. The environmentally conscious firms with higher levels of environmental commitment are likely to be environmentally proactive. However, prior studies have investigated the factors influencing environmental orientation [17–19] and the influence of firms' environmental orientation on their strategic practices, including, e.g., corporate level and business level strategies [20], or its impact on the supplier's green activities [21]. However, little research was conducted to understand how this orientation would influence business environmental commitment and proactive and reactive environmental strategies by firms from developing economies. Drawing upon the natural-resource-based view (NRBV) [22–24], this study introduces business environmental commitment as an explanatory mechanism and a mediational entity to connect environmental orientation and environmental strategies.

The aim of the current investigation is also to explore the proposed relationships in a developing country context. It has also been observed that less attention has been directed toward examining corporate social responsibility (CSR) generally and environmentalism, particularly in emerging and developing markets contexts [25]. Pakistan, one of the emerging markets, presents a different country-level context; the firms here are far behind implementing pro-environmental strategies than other developing countries in the region and Western developed nations [17]. Hence, it is essential to reflect on the proactive and reactive environmental strategies in developing country contexts to understand better the environmental behavior of firms operating in these countries. With the current research, we have tried to assess the impact of environmental orientation on proactive and reactive environmental strategies while taking environmental commitment as an explanatory mechanism and present an exploratory analysis of the relationships between

environmental orientation, commitment, and environmental strategies in an emerging economy of Pakistan.

2. Theoretical Framework

2.1. Stakeholder Influence, Organizational Legitimacy, and Natural-Resource-Based View

Legitimacy theory and stakeholder theory consider organizations as an open system placed in a broader social system and can impact and are impacted by different groups within that social system [26]. Organizational legitimacy is the generalized perception of desired or appropriate action by an organization while staying within the framework of values, norms, and beliefs of a society [27]. Legitimacy theory focuses on the "social contract," the basis for society's expectations by society in general. In comparison, stakeholder theory talks about particular groups, called stakeholder groups, in society. These groups have different views about the organization and its operations. Hence, organizations have to maintain different social contracts with these groups according to the expectations of each stakeholder group [26,28]. According to Legitimacy theorists, organizations try their best to legitimize their business to ensure their survival in any society by ensuring that their functioning is within the norms and social expectations of the society in which they operate. Environmental performance and disclosers are some of the strategies used by firms as part of the legitimization process. However, stakeholder theory is more associated with the link of stakeholders and the organization, and accountability is more frequently relates to stakeholder theory [29].

The natural-resource-based view (NRBV) provides the theoretical basis for the significant variability in firms environmental activities operating in a similar institutional environment [22–24]. NRBV view identifies that any firm's competitive advantage depends upon its interaction with its natural environment. Firms can generate competitive advantage based on skills and capabilities that support sustainable development [30,31]. A firm's environmental orientation and its commitment to sustainable development are natural-resource-based capabilities. Similarly, how a firm responds to environmental issues can lead to firm-specific capabilities and competitive advantage [31]. Based on NRBV, it is proposed that a firm's environmental commitment can develop unique environmental capabilities. These capabilities will result in not only a competitive advantage but also a pro-environmental response from the firm. Hence, business environmental commitment is an important factor explaining how internal and external orientation is linked with the strategic environmental response.

Internal environmental orientation is the society's expectations in general concerning the natural environment from an organization. These expectations make organizations develop values and standards related to the environment. They either formally make these values and standards as mission statements, policies, or part of procedures or explicitly express them in corporate culture through norms and behaviors of employees [18]. To be legitimate in society, organizations follow society's expectations [26,28]. Using the legitimacy theory, we propose that organizations develop internal environmental orientation that affects their business environment commitment and environmental strategies.

Similarly, when it comes to the implicit response of organizations to stakeholders' environmental concerns, it is the external environmental orientation of an organization [18]. External environmental orientation is developed in response to stakeholders' environmental concerns. It relies on managers' perceptions of the silence of instrumental stakeholders and the pressing environmental issues that merit a response. Hence, based on the stakeholder theory, we propose that external environmental orientation affects the business environment commitment and environmental strategies.

There is no doubt that stakeholders play an important role in defining the expectations from organizations in society [32]. We need to bring in the emerging economies context here. The role of different stakeholder groups in emerging and developing markets is still at its infancy stage. The recent literature findings identified that not all critical stakeholder groups influence firms' environmental strategies from emerging markets [17,33].

Studies from emerging economies, including India [34], Korea [35], and Pakistan [17,36], have highlighted the regulatory bodies as the most influential stakeholder group that influence environmentalism in these economies. Hence, in the current study, for external environmental orientation, we have focused on regulatory stakeholders. Based on the stakeholder perspective, legitimacy theory, and natural-resource-based view, we propose the framework presented in Figure 1.

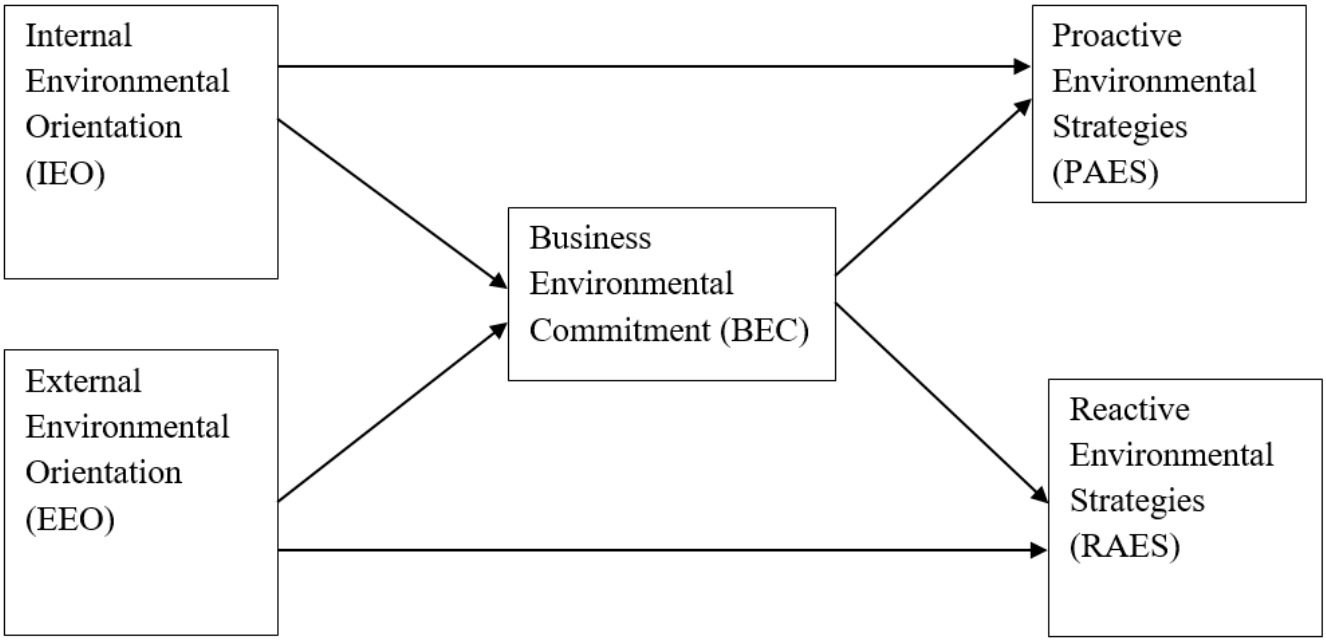

Figure 1. Proposed Theoretical Framework.

2.2. Literature Review and Hypotheses Development

2.2.1. Environmental Orientation and Environmental Commitment

Environmental orientation reflects the extent to which employees recognize the legitimacy of environmental issues and the impact that the firm has on those issues [37]. It is an essential part of the strategic disposition of any organization that translates into business operations and how operating in an environmentally sustainable way is perceived by different members of the organization [21,38]. Banerjee et al. [18] identified two major dimensions of environmental orientation. Internal environmental orientation refers to the environmentally related values and standards held by organizations. This orientation can be formally codified in mission statements, policies, and procedures, but it may also be informally expressed in corporate cultures through employee norms and behaviors. Moreover, the external environmental orientation reflects the need to respond to stakeholders with environmental concerns. This orientation relies on managers' perceptions of the silence of instrumental stakeholders and the pressing environmental issues that merit a response.

The prior literature on environmental management supports a positive association between environmental orientation and environmentalism as part of corporate culture, decision making, and operations [39]. Chan and Ma [21] also identified the positive impact of environmental orientation on suppliers' green activities. Similarly, Gabler et al. [40], based on a resource-based perspective, revealed that a firm's environmental orientation has implications for ecofriendly offerings by that firm.

According to Henriques and Sadorsky [41], "what a company is actually doing or has done with reference to environmental issues can describe its commitment to the natural environment". (p. 88). Environmental commitment practices ranged from having a formal environmental plan to a dedicated board or committee looking after the environmental is-

sues. Drivers of environmental commitment can be identified on the continuum of internal to external drivers. The environmental orientation is one of the drivers of environmental commitment by firms as it can prompt the organizational leaders to take pro-environmental initiatives. When environmentalism is part of corporate identity, environmental commitment becomes a moral obligation. The prior literature has identified moral obligation as a driver of environmental policy by organizations [42]. Business commitment to the natural environment is fostered by internally driven legitimacy-based activities and externally based pollution prevention strategies [31,43]. Thus we have included business environmental commitment as a construct that attempts to bridge the two dimensions of environmental orientation (i.e., internal orientation and external orientation) and the strategic response of organizations. Hence we propose the following:

Hypothesis 1a (H1a). *External Environmental Orientation has an impact on business environmental commitment.*

Hypothesis 1b (H1b). *Internal Environmental Orientation has an impact on business environmental commitment.*

2.2.2. Environmental Orientation and Environmental Strategies

Baah et al. [32] identified proactive environmental strategies resulting from organizational stakeholders' pressures and reactive environmental strategies due to pressures from regulatory stakeholders. Suppose the organizations face higher levels of pressure from organizational stakeholders. In that case, there are more chances to meet the legislations and further consider techniques to improve environmental performance [44], hence resulting in a proactive environmental strategic response from them. However, reactive environmental strategies are the result of pressures of litigation and sanctions.

Proactive environmental strategies not only satisfy the environmental regulations (e.g., waste and pollution reduction, efficient production and energy consumption, etc.) but also create awareness and develop collaborative relationships with environmental stakeholders and players to protect the environment. At the same time, the reactive stance is the one that only focuses on fulfilling the environmental practices specified in legislation. Strategic orientation is the specific understanding, perception, motivation, or desire of managers that dictate the strategic disposition of the organization [20,45]. Similarly, the environmental orientation of managers will influence the environmental strategies of their firms. According to Chan [20], "firms with a strong environmental orientation will be more likely to engage in an environmental strategy than those firms that do not adopt such a strategy" (p. 82).

The internal environmental orientation is translated as a pro-environmental culture of a firm that shapes the employees' behavior and beliefs and expectations [46]. This shared vision and unified direction act as a resource and motivates employees to engage in pro-environmental activities [47]. Pro-environmental organizational culture is one of the reasons why firms go beyond regulatory legislation and follow proactive environmental strategies [48]. Internal environmental orientation is related to a pro-environmental corporate culture that facilitates policies and procedures that help protect the natural environment. Internally environmentally-oriented firms focus on developing and implementing corporate policies and procedures for environmental sustainability [49,50]. The corporate policies and procedures regarding environment protection are proactive as they result from pro-environmental corporate culture and are internally initiated. Based on the above discussion, we propose the following hypothesis.

Hypothesis 2a (H2a). *Internal Environmental Orientation has an impact on proactive environmental strategies.*

Institutional theory suggests that pressure from different institutional forces plays a critical role and acts as a guiding force for the strategic response of firms and managers who

need to respond to the environmental demands of different stakeholder groups [18]. The external environmental orientation, which results from pressures from external stakeholders, including the regulatory stakeholders, puts pressure on managers to follow a reactive environmental stance. Here we would like to bring the emerging economies context into the picture, as prior studies conducted in emerging and developing countries [17,35,51] have identified regulatory bodies as the most significant stakeholder influencing the corporate strategies while media, NGO's and customers remained inconsequential stakeholders.

External environmental orientation is related to how a firm is engaged and committed to satisfying external stakeholders' concerns and demands. It is also associated with assessing the consequences of the response of the organization to the issues and concerns raised by environmental stakeholders [51]. The reactive environmental stance is focused on compliance with environmental regulations in the form of end of pipe strategies [23]. The firms try to comply with the regulations with limited resource allocation to environmental issues [52]. The response of a firm due to pressures from external stakeholders is in the form of reactive environmental practices. We believe that external environmental orientation in developing countries is majorly developed based on pressures from regulatory bodies. Hence, based on the above discussion, we propose the following:

Hypothesis 2b (H2b). *External Environmental Orientation has an impact on reactive environmental strategies.*

2.2.3. Business Environmental Commitment and Environmental Strategies

A recurring theme in the literature concerning the relationship between business and the natural environment is the business's commitment to preserving the natural environment. On the one hand, such commitment is perceived as a prerequisite to gaining corporate support for strategies related to an organization's environmental activities. Within this dynamic, the role of management is to generate an organizational vision of corporate environmental responsibility. On the other hand, the desired consequence of that vision is an organizational climate within which employees become imbued with the vision itself and commit themselves to it [53–55]. Therefore, commitment is used to denote both a process and a resultant through which organizational members display environmental concerns.

The vision or values of an organization have significant strategic power in terms of shaping any organizational direction [56,57]. Not only can these values guide corporate culture, they often drive changes in the culture as well [58]. Entrepreneurial activities can serve to bring about this shift in values and culture. Entrepreneurship and intrapreneurship can be the mechanisms by which environmental responsibilities are championed within the organization [59]. This may result in the firm becoming an environmental leader and may provide an international competitive advantage [60,61]. The commitment to the environment can become an important driving force for organizations to develop pro-environmental strategies. Hence based on the above discussion, the following hypotheses are proposed:

Hypothesis 3a (H3a). *Business environmental commitment has a positive impact on proactive environmental strategies.*

Hypothesis 3b (H3b). *Business environmental commitment has a positive impact on reactive environmental strategies.*

2.2.4. Business Environmental Commitment as Mediator

According to Polonsky and Zeffane [62], the environmental commitment of a business has several characteristics that can create differentiation across organizations. These characteristics include (1) formal environmental policies and their implementation; (2) the structural manifestation board representation and involvement of stakeholders in corporate governance issues; (3) the environmental audits focusing on how business assess its impact

on the environment; (4) the environmental considerations in performance evaluation; and (5) the adoption of environmental considerations as a fundamental basis for financial decisions [62]. Business environmental commitment cannot be solely associated with a firm's response to ethical or environmental concerns. Instead, it is the environmental actions of firms in environmental policies and their implementations, or generally speaking, their environmental commitment is resultant of pressures from both internal and external environment [14].

The internal environmental orientation, environmental standards, and values are significant internal pressure sources for an organization to be environmentally responsive. Similarly, the external environmental orientation, the response of an organization to the environmental issues and concerns of stakeholders are the source of external pressure on a firm to develop pro-environmental strategies. In the form of pressures from the internal and external environment of an organization, both internal and external environmental orientation can affect business environmental commitment. Similarly, a firm's strategic orientation can also have implications regarding its response toward environmental issues and concerns. Innovative firms with high levels of R&D activities manage environmental issues more proactively compare to less innovative firms [14,22]. NRBV identifies business environmental commitment as an important capability of a firm that can help in generating competitive advantage by identifying appropriate responses to environmental issues and concerns due to internal or external pressures. Based on NRBR and the above discussion, it is proposed that business environmental commitment is the center of the nexus of the proposed model and acts as an important mediating factor in the relationship of environmental orientation and environmental strategies. Hence, the following hypotheses are proposed:

Hypothesis 4a (H4a). *Business environmental commitment mediates the relationship of internal environmental orientation and proactive environmental strategies.*

Hypothesis 4b (H4b). *Business environmental commitment mediates the relationship of external environmental orientation and reactive environmental strategies.*

3. Methodology

3.1. Data Collection

Nonprobability convenience sampling technique was used to collect data. We have reached out to small and medium-sized enterprises (SME's) operating in Sialkot, Gujrat, and Gujranwala, three industrial cities of Pakistan, also known as the golden triangle. These cities are known for their SMEs. We have used the chamber of commerce listing from these cities. Due to the lack of a well-established culture of organizational research in Pakistan, we have used creative methods to generate responses. CEO/MD, heads of department, and their staff were contacted directly by visiting the offices, and the purpose of the visit was explained. To reduce the time-based response bias, the respondents were requested to complete the questionnaire either during the visit or, in many cases, the questionnaire was left with the respondent. It was collected after 3–4 days. To improve the response rate, we have used reminder calls before the follow-up visit. We would consider an organization as a nonrespondent if there was no response despite two follow-up visits. We have taken one response from each organization. A total of 500 questionnaires were distributed, out of which 186 were returned. Due to missing values, 34 responses were excluded from the analysis. The final sample size used for data analysis was 152. The process we followed generated a response rate of 30%. The sample profile suggests that the firms represent a wide range of industries.

3.2. Measures

3.2.1. Environmental Orientation

For measuring environmental orientation, we have adapted a scale developed by Banerjee [37]. Each dimension of environmental orientation was measured using four items. External Environmental Orientation sample items are "Our firm has a clear policy statement urging environmental awareness in every area of operation" and "Preserving the environment is a central corporate value in our firm". Similarly, for internal environmental orientation, the sample items are "Environmental preservation is vital to our firm's survival" and "Regulatory bodies expect our firm to preserve the environment". Chan [20], while using samples from China Foreign Enterprise, reported the Cronbach's Alpha of 0.75 (EEO) and 0.78 (IEO).

3.2.2. Business Environmental Commitment

A four item scale adopted from Gadenne et al. [63] and Schaper [64] was used to measure the environmental commitment of firms. The sample items are "In this organization, we are willing to take actions to protect the environment even if the sales of our products suffer" and "In this organization, we are willing to take actions to protect the environment even if our profit decreases". We have used five-point Likert scales ranging from "strongly disagree" to "strongly agree". Liu et al. (2014), while using the scale for Chinese manufacturing firms, reported a good level of internal consistency with the Alpha value of 0.91.

3.2.3. Proactive and Reactive Strategies

To measure environmental strategies, we have adopted a scale developed by Amores-Salvado et al. [65] while considering the classification of environmental strategies based on the prior literature [66–69]. Proactive Environmental Strategies was measured with four items. The sample items are "Development of new technologies aimed at reducing the amount of energy and materials consumed per unit of output" and "Development of new technologies aimed at preventing pollution at the source". Similarly, reactive environmental strategies were measured by using four items scales. The sample items are "Initiatives aimed at restoring the environmental damage caused by the firm's activities" and "Initiatives aimed at compensating third parties for the damage caused by environmental degradation". All these items were measured on 5 points, "Strongly Disagree" to "Strongly Agree". Amores-Salvado et al. [65] reported Cronbach Alpha of 0.88 and 0.82 for proactive and reactive environmental strategies, respectively.

4. Data Analysis

Data were analyzed using the SEM technique. We have used a two-step approach for structural equation modeling where we have first analyzed the factor proposed in the model by confirmatory factor analysis. After the confirmatory factor analysis, we have tested the hypotheses using structural equation modeling. We have used maximum likelihood and bootstrap approach with 5000 bootstrap and 95% CI for SEM.

4.1. Common Method Variance and Non-Response Bias

As the data was collected in a cross-sectional sampling design, there are chances of common method variance [70]. To rule out the common method variance issue, Herman's one-factor analysis was conducted. All observed variables were loaded in the principal component factor analysis. Five factors with an eigenvalue greater than one were extracted, and the first factor accounted for 44% variance within the acceptable range. Hence there was no issue of common method variance. Similarly, nonresponse bias was checked through paired sample t-test by comparing early 25 and late 25 responses for each construct. All construct except proactive environmental strategies showed no significant difference between early and late replies.

4.2. Factor Analysis

Exploratory and confirmatory factor analysis was used for scale validation. We have used SPSS for conducting the exploratory factor analysis. Kaiser–Meyer–Olkin parameters and Bartlett's sphericity test justify the application of the exploratory factor analysis technique. We have applied the principal component analysis technique using varimax rotation that resulted in five distinct factors. The factor loading of each item ranged from 0.66–0.99. All items were loaded in their underline variables, and the total explained variance for each factor was also greater than 70%.

In the next step, we applied Confirmatory Factor Analysis. Confirmatory Factor Analysis, also known as measurement model analysis, was conducted using AMOS 16. Items were considered for deletion from analysis based on the following three criteria, which Joreskog and Sorbom [71] identified.

1. Having a t-value less than 2.50;
2. Having factor loadings less than 0.5;
3. Having R^2 less than 0.5.

All observed factors had t-values greater than 2.50, factor loading more than 0.5, and regression weights greater than 0.5. Hence, all items were retained for further analysis. Results of confirmatory factor analysis are presented in Table 1.

Table 1. Results of Confirmatory Factor Analysis.

Construct/Variable	Factor Loadings	Alpha	CR	AVE
Internal Environmental Orientation		0.84	0.85	0.58
IEO1	0.705			
IEO2	0.746			
IEO3	0.807			
IEO4	0.781			
External Environmental Orientation		0.87	0.87	0.63
EEO1	0.771			
EEO2	0.792			
EEO3	0.781			
EEO4	0.824			
Business Environmental Commitment		0.92	0.93	0.78
BEC1	0.792			
BEC2	0.992			
BEC3	0.965			
BEC4	0.726			
Proactive Environmental Strategies		0.80	0.80	0.51
PAES1	0.662			
PAES2	0.790			
PAES3	0.725			
PAES4	0.664			
Reactive Environmental Strategies		0.89	0.89	0.68
RAES1	0.806			
RAES2	0.836			
RAES3	0.866			
RAES4	0.797			

Goodness of fit Indices. χ^2 = 220; d.f. = 160; χ^2/d.f. = 1.37; $p < 0.001$; CFI = 0.97; GFI = 0.87; AGFI = 0.84; RMR = 0.06; RMSEA = 0.05.

4.3. Reliability and Validity Analysis

The output of the final CFA model was used for the calculation of the reliability and validity of proposed measures. For reliability of measures, we have used Cronbach's Alpha and Composite Reliability values. It was concluded that Corobatch's Alpha (ranged

between 0.80–0.92) and Composite Reliability (ranged between 0.80–0.93) values were above the acceptable cut-off value of 0.7 (Nunnally and Bernstein, 1994). Similarly, we have used AVE, convergent, and discriminant validity values to assess the validity of the proposed constructs. All factors were loaded into their respective latent constructs with factor loadings greater than 0.65, providing evidence of convergent validity. Similarly, the values of AVE were also greater than the cut-off value of 0.50. Results are shown in Table 1.

For discriminant validity, we have used Fornell and Larcker's [72] criteria. It was found that the shared variance was less than the AVE for all variables present in the model. See Table 2. Based on the reliability and validity analysis, it was concluded that the proposed constructs have acceptable reliability and validity.

Table 2. Descriptive statistics and Correlations.

	Variable	No of Items	Mean	s.d.	1	2	3	4	5
1	IEO	4	2.73	0.92	0.58				
2	EEO	4	2.52	0.86	0.55 * (0.30)	0.63			
3	BEC	4	2.40	1.04	0.52 * (0.27)	0.49 * (0.24)	0.78		
4	PAES	4	2.43	0.73	0.49 * (0.24)	0.55 * (0.30)	0.60 * (0.36)	0.51	
5	RAES	4	2.45	0.88	0.43 * (0.18)	0.46 * (0.21)	0.58 * (0.34)	0.56 * (0.32)	0.68

IEO: Internal Environmental Orientation; EEO: External Environmental Orientation; BEC: Business Environmental Commitment; PAES: Proactive Environmental Strategies; RAES: Reactive Environmental Strategies; Shared variance in parenthesis; AVE in diagonal; * $p < 0.01$; s.d.: Standard deviation.

4.4. Hypotheses Testing

All proposed observed variables successfully loaded into their latent constructs. Hence, we have retained all observed variables for our structural model. For structural equation modeling, we have used the maximum likelihood method. All proposed hypotheses were accepted. Results are presented in Table 3.

Table 3. Structural Model and Path Analysis.

Causal Path	Un-Standardized Coefficient	t-Value	Hypotheses	Supported
IEO => BEC	0.462 *	3.12	H1a	Yes
BEC => PAES	0.314 *	4.30		
IEO => PAES	0.398 *	3.99	H2a	Yes
EEO => BEC	0.293 **	2.28	H1b	Yes
BEC => RAES	0.389 *	4.99		
EEO => RAES	0.308 *	3.42	H2b	Yes

Goodness of fit Indices. $\chi^2 = 243$; d.f. = 163; χ^2/d.f. = 1.49; $p < 0.000$; CFI = 0.96; GFI = 0.87; AGFI = 0.83; RMR = 0.07; RMSEA = 0.057. IEO: Internal Environmental Orientation; EEO: External Environmental Orientation; BEC: Business Environmental Commitment; PAES: Proactive Environmental Strategies; RAES: Reactive Environmental Strategies. * $p < 0.01$, ** $p < 0.05$.

4.5. Mediation Analysis

To assess the proposed partial mediation of business environmental commitment and calculation of direct and indirect effects of IEO and EEO on proactive and reactive environmental strategies, we have used the bootstrapping approach in AMOS 16 to calculate direct and indirect effects. We have used the maximum likelihood method with 5000 bootstrap and biased corrected confidence intervals at 95% level. Both direct and indirect effects of IEO and EEO on PAES and RAES were significant, and there is no zero in the upper and lower bound of 95% confidence interval; hence, we found support for partial mediation. The results are given in Table 4.

Table 4. Mediation Analysis (Direct and Indirect effects.)

Causal Path	Standardized Coefficient	*p*-Value	95% LBCI	95% UBCI
Direct Effects				
IEO => BEC	0.366	0.007	0.102	0.623
EC => PAES	0.612	0.001	0.217	0.612
IEO => PAES	0.417	0.001	0.221	0.608
EEO =>BEC	0.255	0.050	0.013	0.524
EC => RAES	0.446	0.000	0.265	0.620
EEO =>RAES	0.307	0.002	0.122	0.489
Indirect Effects				
IEO => BEC => PAES	0.153	0.003	0.059	0.286
EEO => BEC => RAES	0.114	0.045	0.002	0.272

Goodness of fit Indices. $\chi^2 = 243$; d.f. = 163; χ^2/d.f. = 1.49; $p < 0.000$; CFI = 0.96; GFI = 0.87; AGFI = 0.83; RMR = 0.07; RMSEA = 0.057. IEO: Internal Environmental Orientation; EEO: External Environmental Orientation; BEC: Business Environmental Commitment; PAES: Proactive Environmental Strategies; RAES: Reactive Environmental Strategies.

5. Discussion

In the current investigation, we have proposed and analyzed the impact of internal environmental orientation on proactive environmental strategies and external environmental orientation on reactive environmental strategies. We have also investigated the role of firms' environmental commitment as an explanatory factor in the above relationships. The first important finding that we can draw from the results is the significant direct effect of IEO on proactive environmental strategies. This result is consistent with the previous findings of Chan [20] and Banerjee et al. [18], who have reported the significant impact of IEO on corporate environmental strategies. Similarly, our results have also identified the significant direct effects of EEO on reactive environmental strategies. This result is consistent with Chan's [20] results; however, it is different from Banerjee et al. [18].

Second, both EEO and IEO positively influence RAES and PAES, respectively. This empirical finding also supports the natural-resource-based view proposition [31], according to which incorporation of environmental concerns into the strategic planning process is fundamental for superior environmental performance. When compared, IEO exerts a relatively stronger influence on PAES ($\beta = 0.40$) compared to the influence of EEO on RAES ($\beta = 0.31$). This means corporate culture and internal orientation have a more profound impact on proactive stance than the pressures from external stakeholders (regulatory bodies in developing countries) on reactive environmental strategies. In the light of these results, one may think that organizations are more actively following proactive environmental strategies than reactive strategies. However, the evidence does not necessarily imply this because we have not comparatively analyzed firms' reactive and proactive strategic dispositions.

Third, the hypothesized mediating effect of business environmental commitment (BEC)) The relationships between environmental orientation (IEO, EEO) and proactive and reactive environmental strategies (PAES, RAES) are supported. Specifically, the results show that BEC partially mediates the proposed relations. In this study, we have tried to identify the functional mechanism of environmental strategies in an emerging economy while focusing on internal orientation (due to internal stakeholders) and external orientation (due to external stakeholders), and firms' proactive and reactive environmental stance. We need to bring the emerging market context here to better understand the results according to which internal environmental orientation impacts proactive environmental strategies and external environmental orientation impacts reactive environmental strategies. Although the data in the current study were collected from SME's operating in Pakistan, the findings can apply to other emerging economies. The main reason is that environmental commitment is the explanatory mechanism for explaining the relationship between environmental orientation and environmental strategies, which is valid for firms operating in other emerging economies. The significant indirect effects of internal and external orientation through business environment commitment identifies the importance of a firm's environmental commitment in explaining its environmental stance.

5.1. Theoretical and Practical Implications

The first theoretical implication is related to the legitimacy theory that highlights the importance of societal expectations from organizations [26]. Our study highlights that the internal environmental orientation, which is the outcome of organizational legitimacy, is significantly related to the proactive environmental stance of an organization from an emerging economy. Organizations are required to maintain legitimacy in the eyes of stakeholders, and they have to meet the expectations of the society in which they are operating. There is no doubt that pro-environmental response by organizations is the outcome of a "matter of social obligation" [73] (p. 363). The findings of the current study generalized the organizational legitimacy theory from an emerging market perspective. Our finding supports that the internal environmental orientation has a significant direct and indirect effect through business environmental commitment on proactive environmental strategies.

Similarly, the second key theoretical implication is related to the stakeholder perspective. The stakeholder perspective is linked with the external environmental orientation when organizations segregate the environmental concerns of the stakeholder groups according to their instrumentality. This finding highlights that external environmental orientation, mainly driven by regulatory forces, results in a reactive environmental stance by firms from an emerging economy. With these findings, we have not only identified the importance of IEO for proactive response and EEO for a reactive response from firms; we have also generalized stakeholder perspective in an emerging economy, the Pakistan context. As another theoretical implication, business environment commitment has shown to be an important explanatory mechanism for transmitting the direct and indirect impact of EEO and IEO on reactive and proactive environmental strategies, respectively. The firms that are already overcommitted to some specific bundle of resources are usually unable to acquire new capabilities and resources. However, they need to acquire new resources and capabilities due to changes in the external environment [43]. One way to respond to these changes is through demands imposed by the natural environment. According to Hart [31], "one of the most important drivers of new resources and capability development for firms will be the constraints and challenges posed by the natural (biophysical) environment" (p. 989). Therefore, we may propose that business environment commitment acts as a resource for adopting environmental strategies by firms operating in developing countries like Pakistan.

Our findings also suggest that both internal and external environmental orientation first improve firms' business environmental commitment, motivating the firms to develop pro-environmental strategies. The reason is that environmental orientation encourages firms to pay more attention to issues related to the natural environment [18]. This is also consistent with the ethical component of business environmental commitment where "the ethics for protecting the environment normally represents a long-term perspective or commitment of organizational resources for the future of human society". [16] (p. 198). Similarly, our findings also support the natural-resource-based view [31], according to which incorporation of environmental concerns into the strategic planning process is critical for superior environmental performance and role of business environmental commitment is fundamental in exploring the link between environmental orientation and pro-environmental strategies. This research emphasizes the importance of the natural-resource-based view proposition in an emerging economy context.

Our investigation has few implications for practice. Given the importance of external environmental orientation (driven by regulatory stakeholders) as a driving force of reactive strategies, the governments in emerging markets like Pakistan should strengthen the environmental regulations and enforcement. Because most emerging economies lack environmental knowledge and required expertise [20,48,74], the governments from these countries can involve environmentally reputable multinationals for policy development [20]. The current investigation results should remind the managers in a practical term, the importance of business environment commitment and the role of organizational culture in shifting the reactive environmental stance into proactive environmental strategies. Similarly, like many

emerging economies, Pakistan's regulatory framework is still evolving. Managers need to keep track of the changes in the regulatory requirements and develop regular internal and external communication channels [20].

5.2. Limitations and Future Directions

The confinement of the current investigation to the SME's operating in the industrial cities of Pakistan may restrict the generalization of results to those enterprises operating in the less developed parts of the country. Similarly, caution must be taken while generalizing the result to government-owned and service delivery firms. Future studies can verify the results while considering government-owned or service enterprises. Secondly, although we have seen many studies in the business area of research that have widely used a cross-sectional data collection approach, it might have hindered the causal relationships proposed in the study. Hence, longitudinal data collection methods are recommended for future investigations. Another limitation of our study is that data were collected through self-reported measures which might produce common method variance [70]. We have used Herman's single factor analysis to rule out common method variance issues. However, future studies can use longitudinal sampling design and collect data regarding different variables at different time (T1 and T2) to limit common method variance.

6. Conclusions

The current investigation results tend to suggest the positive role of both internal and external environmental orientation for the pro-environmental strategic response of firms operating in an emerging economy. The internal environmental orientation is associated with a proactive environmental stance, and pressures in the form of external environmental orientation result in reactive environmental strategies as the business commitment to the natural environment is fostered by internal and external environmental orientation [31,43]. The findings also support business environmental commitment as a construct that bridges the two dimensions of organizations' environmental orientation and strategic response and acts as an explanatory mechanism. To conclude, our investigation makes an important contribution to the literature by generalizing the legitimacy, stakeholder, and natural-resource-based perspective and exploring the proposed model in an emerging economy context. We have identified why some firms from an emerging economy develop proactive environmental strategies while others opt for a reactive environmental stance.

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