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Corporate Environmental Responsibility & Long-Term Firm Value in Manufacturing Firms

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ABSTRACT*: Manufacturing firms face increasing scrutiny from environmentalists due to the harmful effects of waste and by-products on the environment. In response, firms are encouraged to implement Corporate Environmental Responsibility (CER) to mitigate the environmental impact of their operations. Effective implementation of CER can help firms sustain long-term firm value, ultimately supporting their long-term performance competitiveness. The methodology used is a descriptive, qualitative approach based on academic journals. Recent studies find that government involvement in firms' CER can boost firms' long-term firm value, which makes the firms look more credible among their competitors. The implication of positive long-term firm value is increasing trust from stakeholders.*

Keywords*: corporate environmental responsibility, customer trust, government involvement, long-term firm value, manufacturing firms*

I. INTRODUCTION

1.1 Background of the Problem

Corporate Environmental Responsibility (CER) reflects a company's commitment to maintaining and sustaining the well-being of the environment while conducting its daily operations. This responsibility is important because environmental conditions directly affect surrounding communities, who are key stakeholders influenced by corporate actions.

At the same time, long-term firm values refer to the characteristics, norms, and values upheld by organizations over extended periods, which guide their strategic policies and decision-making. These values thus influence brand awareness, brand equity, and public perception of the firm.

Kenton (2025) explains that manufacturing is the process of converting raw materials into finished products through the use of tools, machinery, chemical processing, and human labor. Real-world examples include the automobile, clothing and apparel industries, and food and beverage industries. This research paper evaluates three aspects: CER, long-term firm value, and manufacturing firms, by analyzing how manufacturing firms implement CER practices to improve their long-term firm value. Addressing these questions is essential to understand how environmental responsibility can be strategically integrated into corporate governance and operations.

1.2 Research Problem and Objectives

This study seeks to explore two central issues: first, to identify the key aspects of Corporate Environmental Responsibility; and second, to examine how the implementation of CER affects the long-term firm value of manufacturing companies. By investigating these issues, the research aims to provide a clearer clarification of the relationship between environmental responsibility and sustainable corporate performance.

Previous studies have emphasized the role of environmental sustainability in corporate governance. The United Nations' Sustainable Development Goals highlight the global importance of clean energy, climate action, and responsible production, which directly relate to CER. Scholars such as Kim et al. (2015) and Yu et al. (2024) further argue that legal traditions and government involvement shape firms' CER commitments, while El Ghoul et al. (2018) demonstrate that higher CER scores reduce equity costs and enhance firm value. These insights provide the theoretical basis for examining how CER influences long-term firm value in manufacturing firms.

Meanwhile, long-term firm value is greatly impacted by the leadership in the firm. Zheng et al. (2019) states that a CEO with high self-regarding values will hinder innovation as they focus on personal well-being and job security. Such leaders tend to avoid risky R&D and focus on short-term gains. Alternatively, a CEO that performs other-regarding values who foster stakeholder cooperation and future-oriented strategies enhance innovation. Meanwhile, a study done by Roshan and Niti Nandini Chatnani (2023) showed that firms with excess net working capital tend to deteriorate their firm value, while firms with negative net working capital will benefit from improved performance. This indicates that leadership is an important factor that affects the long-term firm value, which can be supported by positive environmental sustainability.

1.3 Scope and Limitations

The analysis is conducted through case studies of manufacturing firms, drawing on peer-reviewed academic journals and reliable online sources. However, the focus is limited to examining CER practices within manufacturing industries and their impact on firm value, rather than extending to other sectors.

1.4 Significance of the Study

The study contributes to understanding of how manufacturing firms integrate CER into their operations and how such practices influence organizational sustainability. The findings are expected to provide insights for both academics and practitioners on the strategic role of CER in enhancing long-term firm value.

1.5 Research Benefits

The analysis will enhance understanding of the strategies used by manufacturing firms to integrate CER into their regular operations. It also provides insight into the impact of CER implementation on an organization's long-term firm value.

II. RESEARCH METHODOLOGY

2.1 Research Design

This study adopts a descriptive qualitative research design. The purpose of this design is to provide an in-depth understanding of how Corporate Environmental Responsibility (CER) is implemented in manufacturing firms and how it influences long-term firm value. Rather than testing hypotheses through statistical models, the research emphasizes interpretation and synthesis of existing knowledge, drawing on theoretical perspectives and empirical case studies to build a comprehensive narrative.

2.2 Data Sources and Selection Criteria

The data for this study are obtained exclusively from secondary sources. These include peer-reviewed academic journals, scholarly books, and reputable institutional publications such as reports from international organizations, such as United Nations, OECD, and World Bank. Case studies of manufacturing firms are selected based on their relevance to CER practices and availability of documented evidence in academic literature. Sources are chosen according to three criteria: credibility, relevance, and recency. Credibility means peer-reviewed journals and publications from reputable universities are important. Relevance means materials must directly address CEER, whereas Recency indicates that the source must be published within the last ten years to ensure its relevance with contemporary issues.

2.3 Data Collection Procedures

A systematic literature review approach is employed. Keywords such as "Corporate Environmental Responsibility," “long-term firm value,” “manufacturing firms,” “customer trust,” and “government involvement” are used to search academic databases including Scopus and Google Scholar. Relevant articles are screened by title, abstract, and full text to ensure alignment with the research objectives. Case studies are extracted from published research that provides detailed accounts of CER implementation in manufacturing contexts.

2.4 Data Analysis Procedures

The collected data are analyzed using qualitative analysis. This involves categorizing information into themes such as CER practices, stakeholder involvement, government regulations, and impacts on firm value. Comparative analysis is conducted across different case studies to identify patterns, similarities, and differences in CER implementation. The findings are then synthesized to conclude the relationship between CER and long-term firm value in manufacturing firms.

III. RESULTS AND DISCUSSION

3.1 Findings and Discussion

The analysis of case studies and literature reveals that Corporate Environmental Responsibility (CER) has a complex relationship with firm performance and long-term value. On one hand, CER implementation can initially reduce operational efficiency and profitability, as firms must allocate resources to comply with environmental standards and invest in cleaner technologies. For example, Nordin et al. (2014) highlight that organizations often perceive environmental initiatives as costly and disruptive to production. However, this short-term reduction in performance is counterbalanced by long-term benefits, particularly in terms of reputation, stakeholder trust, and reduced regulatory risks. This finding directly addresses the first research question by showing that CER encompasses both environmental compliance and strategic investment in sustainability (Hu et al., 2022).

In relation to long-term firm value, the evidence suggests that proactive CER strategies enhance brand equity and customer loyalty. Patagonia's decision to eliminate harmful PFAS chemicals from its products demonstrates how firms can innovate to align environmental responsibility with consumer expectations (O'Rourke and Strand, 2017). This case illustrates that CER practices not only mitigate reputational risks but also strengthen long-term value by fostering consumer trust and industry-wide change. The analysis therefore supports the second research question, showing that CER implementation positively influences long-term firm value when integrated into innovation and stakeholder engagement.

The findings also highlight that firms must negotiate the negative impacts of production by adopting adaptive strategies. Examples such as H&M's pledge to use recycled materials and Levi's water-efficient production methods show that manufacturing firms can reduce environmental harm while maintaining competitiveness (Cai & Choi, 2020).

Kimberly-Clark's recycling initiatives further demonstrate how CER can directly improve consumer perception, reinforcing the link between environmental responsibility and firm value. These cases confirm that CER is not limited to compliance but extends to creative solutions that balance environmental and economic goals.

Conversely, failure to maintain CER standards can severely damage long-term firm value. The Volkswagen emissions scandal illustrates how neglecting environmental responsibility undermines credibility, resulting in financial losses and erosion of customer trust. This case underscores the importance of aligning CER practices with actual operations, as discrepancies between brand claims and conduct can destroy stakeholder confidence.

Overall, the findings indicate that CER is a multidimensional construct involving compliance, innovation, and stakeholder engagement. While CER may impose short-term costs, it ultimately enhances long-term firm value by strengthening reputation, reducing risks, and fostering sustainable growth. The discussion aligns with existing theories on stakeholder-centered governance and sustainability, while also extending them by showing how manufacturing firms adapt CER practices to diverse regulatory and cultural contexts. Thus, the study demonstrates that CER is not merely an ethical obligation but a strategic necessity for sustaining firm value in the manufacturing sector.

IV. RECOMMENDATION

Through this literature review, it is found that government involvement plays an important role in supporting firms doing CER, as it requires additional financial support to execute. Firms with good CER scores tend to have good leadership in their management that influences their positive long-term firm value, which is beneficial for the firm's competitiveness. Firms are encouraged to adopt up-to-date technologies that enable more environmentally-friendly operations, minimizing harm to both society and the environment. Implementing this strategy requires firms to allocate dedicated budgets and regularly conduct feasibility studies to ensure alignment between regulatory requirements set by government or global conventions and the resources owned by the firm. By having an established and credible CER, stakeholders perceive the firm as a responsible entity committed to environment sustainability, hence they will voluntarily support the firm's existence. This positive perception encourages stakeholder support while enhancing the firm's long-term value. Moreover, the firm can engage in social audits to know the circumstances around the firm and the impact of the firm's activity to the society. Gao and Zhang (2006) explains that social auditing is an indicator to find out the performance of involved stakeholders in achieving corporate sustainability. This aligns with the purpose of corporate environmental responsibility in gaining long-term firm value, focusing on the interactions among the people, communities, and the environment. Through social audits, some sensitive issues such as ethical performance and its impact to the society, environment, and the sustainability of the organization can also be analyzed to set new regulations and modifications of the organization.

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