

Chapter 3

Premium Price for Environmentally Friendly Products in the Malaysian Market

Jeen Wei Ong
Multimedia University, Malaysia

Marianne Shing Mei Too
Multimedia University, Malaysia

Choon Yih Goh
Multimedia University, Malaysia

Gerald Guan Gan Goh
Multimedia University, Malaysia

Lee Pheng Goh
Multimedia University, Malaysia

ABSTRACT

This chapter aims to identify the percentage of premium and absolute price that consumers are willing to pay for environmentally friendly products. The approach of existing studies in asking the percentage of the price premium that consumers are willing to pay for environmentally friendly products could lead to the risk of a socially desirable response, making the research conclude a biased finding. To verify this argument, this chapter compares the percentage of price premium that the respondents claimed to be willing to pay with the absolute price that the respondents were willing to pay for the environmentally friendly products. The findings of the study show that the respondents were willing to pay a higher price for both daily usage and durable environmentally friendly products. As such, the findings reveal that the respondents could have over-claimed the percentage of premium price that they are willing to pay for environmentally friendly products.

INTRODUCTION

In the past 30 years, there has been a steady rise in the world's economic growth as evidenced by a six-fold increase in the world's gross domestic product (GDP), which has also seen a rise in global

life expectancy by 6 years. This has contributed to an increase in consumer consumption levels worldwide (World Economic Forum, 2012, p. 8). The problem of increased consumption levels and utilisation has led to various environmental issues and problems, such as environmental pollu-

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tion, greenhouse effect, non-renewable resources depletion and desertification (Ramlogan, 1997).

The rapid degradation of the environment has resulted in many countries moving towards the adoption of more conservative and sustainable approaches in development, including Malaysia (Tan & Lau, 2010). A sustainable future for the Earth and the future generations would therefore depend on the success of the long-term conservation initiatives that specifically address those issues affecting the natural environment (Lingán, Cornforth & Pollard, 2012). The awareness concerning the need for a rethink as to how we deal with environmental issues began as early as in the 1980s with the setting up of the Commission on the Environment and Development by the United Nations (Earth Summit, 2012). This commission, which was also known as the Brundtland Commission, published the *Our Common Future* report that basically became the foundation and framework for the Agenda 21 and Rio Declaration on Environment and Development (Earth Summit, 2012). In essence, the underlying need that has been identified in all these initiatives over the years is sustainable development, one that the *Brundtland Report* (1987) defines as meeting “the needs of the present generation without compromising the ability of future generations to meet their own needs”.

The Malaysian Government has invested significant resources to increase the awareness of environmental issues among Malaysians (Economic Planning Unit, 2010). While the Government has been committed to reducing the greenhouse effect, the pressure has been transferred to the manufacturers to adopt a more environmentally-friendly or green operation approach. Businesses, on the other hand, might be keen to switch to a more environmentally-friendly approach as a result of finding a competitive edge or as part of its corporate social responsibility initiative besides

complying with regulatory pressures. Businesses are said to be concerned about the environmental effects of their managerial decisions (Feldman 1990; Kirkpatrick, 1990; Bohn, 1991; Wainman, 1991). Over the years, this concern for the need of businesses to be green in their operations has become more of a necessity rather than an option in order to meet the growing demands of the various sectors of the public (Onsrud and Simon, 2013; do Paco, Raposo & Filho, 2009). Consumers these days are becoming more discerning in their choices and the green segment of consumers has grown to be a sizable force, one that businesses can no longer afford to ignore (do Paco, Raposo & Filho, 2009).

With economic growth and technological advancement, there has been a significant increase in the consumption of household items, which has led to an array of environmental issues (Grunert 1993; Caeiro, Ramos, & Huisinigh, 2012). As such, consumer awareness of environmental issues is important in creating a sustainable environment for all. Studies have found that the general awareness of the public towards environmental issues has increased and they are taking measures to mitigate the degradation of the environment (Grunert, 1993; Caeiro, Ramos & Huisinigh, 2012). According to Bonini and Oppenheim (2008), 54% of the 7,751 citizens that they surveyed in Brazil, Canada, China, France, Germany, India, the UK and USA care about the environment and want to mitigate climate change.

In addition, studies have shown that consumers are willing to buy environmentally-friendly products and pay a premium price (Bang et al., 2000; Laroche et al., 2001; Yusoff, 2004; Tsen et al., 2006; Bonini & Oppenheim, 2008; Hamzaoui-Essoussi & Linton, 2010). A premium price is defined as the price that is above the fair price paid by consumers derived from the higher value of the product (Vlosky et al., 1999). Green products

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