



The link of environmental and economic performance: Drivers and limitations of sustainability integration



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ABSTRACT

Combining stakeholder, resource based and institutional theories suggests that stakeholder demands affect the environmental and social activities of firms, which in turn influence various performance aspects. This paper tests if stakeholder demands are related to the integration of management activities within the firm, and if such integration is positively associated with economic and environmental performance dimensions, where especially for the latter empirical evidence is scarce and inconsistent. To address this gap, data from the manufacturing sector is used for analysing how stakeholder types associate with sustainability integration and economic and environmental performance. The analysis reveals better fit for a moderated structural equation model than a model with direct links between economic and environmental performance and shows that environmental performance is decoupled from integration. These findings suggest that resource based reasoning could be self-limiting in jointly improving environmental and economic performance.

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1. Introduction

Organisational analysis has increasingly focused on corporate sustainability management in recent years (Lindgreen, Swaen, & Johnston, 2009; Scherer & Palazzo, 2011). In the field of environmental management, the “pays-to-be-green” debate has attracted considerable attention (Ambec & Lanoie, 2008; McGuire, Sundgren, & Schneeweis, 1988; Orlitzky, Schmidt, & Rynes, 2003) and corporate social responsibility has similarly become a major issue for firms (Graafland, van de Ven, & Stoffele, 2003; Jamali, 2008; Kolk & Pinkse, 2006; Smith, 2003) as have business ethics in the context of the current financial crisis. Notions of “green-/bluewashing” are juxtaposed with theories proposing the development of competitively useful capabilities that also benefit the environment and society, especially as concerns multinational corporations (Clarke, 2001; Marcus & Anderson, 2006). The paper contributes to this debate by empirically testing theories about how firms can simultaneously improve environmental and economic performance. In doing so it provides generalizable insights that help managers to design well-informed sustainable strategies and contributes to a more encompassing model. It also helps academics to focus future research and addresses calls for more comprehensive theories of sustainability management (Starik & Kanashiro, 2013).

The importance of the manufacturing sector and its products has often been emphasized (Jackson, 1996). The negative impacts of the

sector have increased due to continuing globalisation and multinational firms in particular often face demands from stakeholders to reduce environmental impact (Banerjee, 2002).

If stakeholder demands affect firms' conduct, they should also relate to their economic performance, at least according the structure-conduct-performance paradigm (Berman & Wicks, 1999; McWilliams, Siegel, & Wright, 2006). At the same time, given that organisational actions cover a wide spectrum from lobbying activities to the implementation of environmental management systems and environmental technologies, a positive relationship between activities aimed at corporate sustainability and environmental performance (i.e., reduced environmental impacts and by analogy also social performance) seems a less certain outcome of stakeholder demands towards firms. This prompts questions about how firms can sustain, in parallel to their business interests, their efforts to protect public goods in the long term.

Specific gaps in the literature that emerge from these considerations and which the paper addresses are whether integration of sustainability with other areas of firm action benefits economic performance and environmental performance. Especially for the latter, empirical evidence is scarce (Florida & Davidson, 2001; Hertin, Berkhout, Wagner, & Tyteca, 2008; Potoski & Prakash, 2005; Thornton, Kagan, & Gunningham, 2003) and this could be a major impediment to maintaining current and developing further corporate sustainability efforts in private firms.

Three theories are frequently invoked in framing the response of firms to stakeholder demands to reduce their environmental impact: stakeholder theory, institutional theory and the (natural) resource based view. These can inform the link between stakeholder demands and a firm's environmental activities. Furthermore in combination,

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these theories lead to a more general model that helps to explain how stakeholder demands can lead to the integration of environmental activities into the wider functions of organisations and to changes in economic and environmental performance.

The next two sections first introduce relevant theories that have motivated the structural model and then develop hypotheses. This is followed by a section on data and methodology and the results section. The final section draws conclusions and offers a discussion of them.

1.1. Literature review

Stakeholder demands, organisational activity and performance outcomes can be linked through different theoretical mechanisms (Davis, 2006; Jones, Felps, & Bigley, 2007) with one important base theory for this analysis being stakeholder theory which asserts that stakeholder demands are an important motivating factor for the environmental and societal activities of firms (Freeman, Harrison, Wicks, Parmar, & DeColle, 2013; Henriques & Sadosky, 1999; Johnstone, 2007). Various studies have explored this relationship (Delmas & Toffel, 2008; Kassinis & Vafeas, 2006; Rueda-Manzanares, Aragon-Correa, & Sharma, 2008) and stakeholder theory can help to classify demands more systematically, for example, as originating either from within the firm or beyond it in the value chain or the public domain (Clarkson, 1995; Doh & Guay, 2006; Donaldson & Preston, 1995; Frooman, 1999).

As a second important conceptual base, institutional theory predicts the adoption of firm specific activities as a consequence of demands by stakeholders that represent the institutional context of a firm (DiMaggio & Powell, 1983; Etzion, 2007; Meyer & Rowan, 1977; Oliver, 1991). Increasingly, such firm-external demands relate to the way firms deal with the natural environment and social issues and as a result firms address such demands more (Bansal & Clelland, 2004; Hoffman, 1999; Hoffman & Ventresca, 1999; Rothenberg, 2007). Thus, in the context of institutional theory, environmental activities and corporate sustainability management generally are often seen as ceremonial activities which build on asymmetric information and are aimed at addressing stakeholder concerns, with or without changes in the actual performance of firms (Hoffman, 2005; Husted & Allen, 2006; Marquis, Zhang, & Zhou, 2011; McWilliams et al., 2006).

A third important theory that has gained increasing prominence in recent years for corporate sustainability is the (natural) resource based view (Aragon-Correa & Sharma, 2003; Barney, 1991; Hart, 1995; Hart & Dowell, 2011; Menguc & Ozanne, 2005; Wernerfelt, 1984) which provides scholars with yet another perspective linking stakeholders, activities and performance. It relays to the context of environmental and social sustainability the idea that “resources are firm-specific assets that are difficult if not impossible to imitate. [...] Such assets are difficult to transfer among firms because of transaction costs, and because the assets may contain tacit knowledge” (Teece, Pisano, & Schuen, 1997, p. 516). More specifically, Hart (1995) and Aragon-Correa and Sharma (2003) developed three interrelated strategies for improving the environmental performance of firms which to enable sustained competitive advantage.

The three theories presented above jointly provide an overarching theoretical framework that links stakeholder demands, firm behaviour and environmental as well as economic outcomes in a structure-conduct-performance notion (Oliver, 1997), as is graphically displayed in the following Fig. 1.

This relates to a longstanding debate on the social issues in the literature on management and organisations and the natural environment, namely the empirical “pays-to-be-green” literature, which in turn connects to the strategic management literature in general. Margolis and Walsh (2001, 2003), Orlitzky et al. (2003) and Ambec and Lanoie (2008) as well as Molina-Azorín, Claver-Cortés, López-Gamero, and Tarí (2009a, 2009b), Horváthová (2012) and Dixon-Fowler, Slater, Johnson, Ellstrand, and Romi (2013) provide recent reviews and meta-studies summarising the empirical work on the relationship of

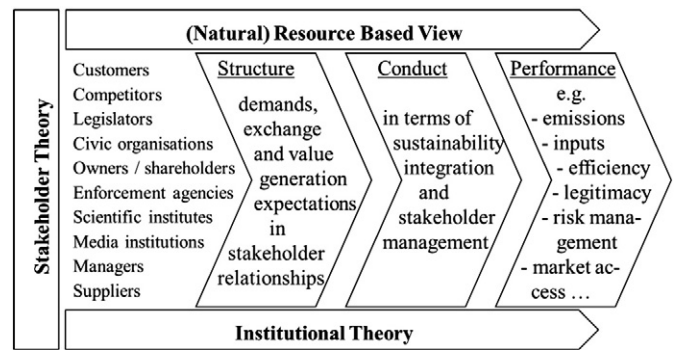


Fig. 1. Graphical representation of the theoretical framework.

environmental and social performance to economic performance. These reveal considerable variation across individual studies, ranging from negative to non-significant to moderately (or even strongly) positive relationships and similar findings apply to social performance. Orlitzky (2011) further finds that institutional logics have a systematic effect on the average relationship across different management sub-disciplines.

These studies suggest that combining both the aforementioned theories might generate a comprehensive structural model linking stakeholder demands (i.e. firm-exogenous structures), conduct (e.g., in terms of environmental or social management activities such as stakeholder integration) and performance (environmental and economic) that provides a sound basis for empirical analysis. Specifically, Judge and Douglas (1998) show that integration of environmental issues relates positively to performance, suggesting integration is a capability. Integration is at the same time determined by demands arising from outside the firm – as reflected by the different stakeholder domains – and this suggests it is an indispensable mediator variable between stakeholder demands and performance dimensions in light of empirically observed heterogeneity of performance across firms. Given that integration across corporate functions and the integration of sustainability with administrative (e.g. health and safety, abbreviated H&S in the following), engineering (e.g. quality) and entrepreneurial (i.e. corporate strategy) aspects of the firm have been identified as crucial elements of a proactive environmental strategy, it can be understood as a capability (Aragon-Correa & Sharma, 2003; Hart, 1995).

Sustainability integration understood this way ensures the alignment of environmental with other strategic objectives to ensure that activities or projects are not in conflict or that at least conflicts are minimized. Based on this it is operationalized by three indicators assessing the degree to which environmental management is integrated with quality management, H&S aspects, and corporate strategy. Given the theoretical considerations above and the arguments made in the literature about stages of corporate sustainability strategies (Benn & Probert, 2006; Hart, 1995; Hunt & Auster, 1990; Matias & Coelho, 2002; Rahimi, 1995; Sharma & Vredenburg, 1998) this is considered suitable to model integration as a continuous variable. Furthermore, given the link between integration and proactivity, the relationship with stakeholder demands in the structural model can be assumed to be the same as in Murillo-Luna, Garcés-Ayerbe, and Rivera-Torres (2008).

The role of integration in managing for stakeholders in order to improve value creation and transfer is directly addressed with a novel integration construct in this research that also captures the simultaneous influence of stakeholders. Firms that manage for stakeholders by allocating more resources to meet expectations and requirements of stakeholders develop fair and just relationships (Bosse, Phillips, & Harrison, 2009; Freeman et al., 2013). According to the resource-based logic, with such relationships stakeholders are willing to share more and qualitatively better information which in turn enables the firm to increase revenues and profits, be more innovative and better able to

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