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Sustainability and differentiation: Understanding materiality from the context of Indian firms☆☆☆

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ABSTRACT

Managers do not see all environmental sustainability practices as equally important. Thus, this study seeks to integrate the natural resource based view (NRBV) and materiality perspective to explore environmental sustainability practices that firms in India deem material. The findings resulting from text mining using centering resonance analysis (CRA) reveal that Indian firms see prevailing industry practices such as reverse logistics, product recycling, and/or improving supplier environmental performance as immaterial. Instead, these firms focus on water, energy, resource efficiency, supplier integration, and, to some extent, improving work conditions at supplier sites. Thus, the focus of Indian firms regarding these issues is different from their global counterparts.

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1. Introduction

"At Motorola, we look at the whole picture when it comes to the environment. This means mak(ing) every product greener, from the moment it's made, ... to the end of its life."

Bill Olson, Director - Sustainability and Stewardship (Motorola Corporate Responsibility website, 2010).

Sustainability announcements frequently dominate media attention. Focusing on the use of resources that minimize or negate environmental impact and enable conservation for future generations, firms are increasingly adopting sustainability initiatives (WCED, 1987). Firms, as

consumers of resources, emphasize their role as drivers of a sustainable society (Ekins, 1993). Strategies that incorporate environmental challenges into strategic management can overcome mismatches between needs and resources (Hart, 1995).

Literature on aspects of sustainability such as green supply chain management (GSCM) examines strategies addressing issues pertaining to the environmental consequences of a firm's operations (Ko, Hwang, & Kim, 2013; Sarkis, Zhu, & Lai, 2011). GSCM comprises facets such as purchasing and procurement, and sustainable supply chain (Sarkis et al., 2011). Research examines sustainability via lenses such as complexity and institutional theory, resource based view (RBV), resource dependency, social network, and transaction cost economics (Sarkis et al., 2011). Supply chain management has a significant locational aspect, and salient institutional factors in GSCM practice are rooted here. GSCM theory examines practices in many sectors (Wu, Ding, & Chen, 2012) and countries (Lai & Wong, 2012) and scholars explore the antecedents of GSCM practice (Hsu, Lee, & Chao, 2013). However, researchers notably assign equal importance to individual GSCM practices. Even in the broader realm of sustainability, the focus is on understanding antecedents and consequences.

Lately, interest in the materiality is accelerating (Etzion & Ferraro, 2010). Materiality, which refers to financial and sustainability reportage, relates to specific aspects of performance that are relevant for different stakeholders. Therefore, business executives consider sustainability practices as unequally important for all stakeholders, and

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tend to focus on specific practices to influence stakeholder perceptions. For example:

“For the purposes of this sustainability report, we consider material information to be that which is of greatest interest to, and which has the potential to affect the perception of those stakeholders who wish to make informed decisions and judgments about the Company’s commitment to environmental, social and economic progress.” (Etzion & Ferraro, 2010, p. 1103; Ford Motor Company, 2005, p. 9).

As sustainability includes GSCM practices, materiality is applicable to such practices too. Neglecting materiality in GSCM research is surprising because materiality could be salient in firm adoption of specific practices. In addition to institutional pressure—which appears in previous research—firms could adopt specific practices building on their own differential analyses and—to some extent—predetermine the success of these practices. Thus, this study explores GSCM practices that firms consider material in an emerging economy, specifically India.

According to prior research, the GSCM integrates environmental concerns into supply chain management practices such as procurement, environmental management and reverse logistics (Günther & Scheibe, 2006; Sharfman, Shaft, & Anex, 2009). The study explores NRBV and research on sustainable operations as lenses to determine GSCM practices. Then, the study explores specific practices that firms consider material in an emerging economy. The study presents two key research questions:

- RQ1: Do firms in emerging economies consider all GSCM practices equally material?
RQ2: Which are the most material GSCM practices?

This study constitutes an attempt to address materiality under GSCM. This research departs from prior studies by deliberating on GSCM practices considered material rather than assigning equal importance to all. This empirical analysis suggests that firms in emerging economies do not give equal importance to these practices. Therefore, these practices provide support for theoretical lenses such as the paradox lens, which emphasizes challenges for firms in managing multiple sustainability practices.

Whereas research focusing on environmental sustainability, often focuses upon emissions or outcomes such as toxic waste (Albertini, 2013), the findings of the present study show that practices focusing on outcome-based measures such as emissions are not the most important GSCM practices in India. Instead, this study shows that an outcome focus is not necessarily valid in every context and thus underpins sustainability practices’ contextualization. Indeed, these foci may not be as relevant for emerging economies, leading to some new implications and ramifications for GSCM.

Theoretical lenses such as NRBV and sustainability portfolio relate to the positive economic consequences of sustainability activities. This study indicates that firms may ‘predetermine’ the importance of sustainability practices before adoption. This supposition raises a potential endogeneity issue in the empirical examination of the business value of sustainability.

Methodologically, this study demonstrates that mining unstructured data using novel techniques can help develop different perspectives and insights into sustainability.

Section 1 builds on the theoretical lenses under study. Section 2 discusses materiality, which forms the theoretical basis for analysis. Section 3 deals with the method. Section 4 concludes with discussion, limitations, and recommendations for future research.

2. Background

This study intersects two research streams: sustainability portfolio and NRBV and materiality of various sustainability practices.

2.1. Sustainability portfolio

The growing interest in sustainability owes to climate-change concerns (Hart & Dowell, 2011). Hart (1997) conceptualizes the sustainability portfolio under four dimensions: pollution prevention, product stewardship, clean technology, and sustainability vision. Whereas the classification of these practices is clear, the dimension in which firms actually engage may depend upon firms’ sustainability focus.

Hart later proposes that NRBV argues the business value of sustainability. NRBV extends RBV in that sustainability practices are resources that competitors cannot easily imitate or acquire because of institutional or capability constraints (Hart & Dowell, 2011). Thus, adopting sustainability may help firms acquire and maintain competitive advantage.

Whereas Hart’s (1997) sustainability portfolio classifies sustainability practices, the NRBV enables examination of the impact of sustainability holistically on the dimensions of organizational performance, as well as the effects of specific dimensions of the portfolio on measures of firm performance.

2.2. GSCM

GSCM research focuses on aspects such as organizational complexity (Vachon & Klassen, 2006), institutional arrangements (Kassolis, 2007), information flow (Erlandsson & Tillman, 2009), eco-design of products and services (Shang, Lu, & Li, 2010), and supply chain relationships (Seyfang, 2006). Research focuses on GSCM antecedents and consequences, theoretically using lenses such as institutional theory, RBV, and resource dependency theory. Lately, research focuses on the salience of network characteristics in GSCM. Despite some adjustment, these research lenses focus on examining the significance of different practices in detail. Whereas research (Montabon, Sroufe, & Narasimhan, 2007), uses canonical correlation to understand specific sustainable practices that impact performance, such performance lies at the center of many studies on sustainability-organizational performance linkage (Albertini, 2013; Sarkis et al., 2011). This study diverts from this idea and focuses instead upon sustainability practices.

Whereas the NRBV and the sustainability portfolio list sustainability practices, the GSCM literature focuses on factors that influence those practices adoption and diffusion. These factors include pollution prevention and product stewardship (PS). Hart (1995, 1997) and Hart and Dowell (2011) list PS practices, whereas research in operations management (Montabon et al., 2007) uses the list of firm operational practices to reduce operational environmental impact. This research draws on these studies to arrive at PS practices, namely, waste reduction, product recycling, and reuse, remanufacturing, designing products with lower lifecycle costs and lower environmental impact, take-back programs, and proactive strategies to gain access to locational resources and consumers.

A sustainability vision provides a roadmap of sustainability initiatives, signals a firm’s commitment to specific initiatives, and points to that firm’s strategy. A comprehensive vision demonstrates commitment to sustainability.

This research builds on these frameworks. GSCM comprises recycling, proactive waste reduction, remanufacturing, substituting harmful with environment-friendly raw materials and packaging; energy conservation; selecting suppliers according to environmental dimensions, environmental standards, and audits for suppliers; products’ life cycle analyses, eco-efficient design, and environmental vision. All pertain to a firm’s internal operations and their interface(s) with suppliers and consumers.

3. Materiality concept

Financial reporting uses materiality, and sustainability reporting increasingly applies materiality. In financial reporting, materiality differentiates the important from the trivial (Heitzman, Wasley, & Zimmerman,

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