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The effects of environmental focus and program timing on green marketing performance and the moderating role of resource commitment

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ABSTRACT

Should firms adopt sustainable marketing policy and develop green products? Most popular press says yes, but industry remains slow to act upon such initiatives. Drawing upon recent research in the *Industrial Marketing Management* Sustainability Special Issue, this research investigates the impact of green initiatives on firm performance and how the related commitment of resources impacts the effectiveness of those initiatives. The goal of this paper is to explore the effectiveness of green marketing on firm performance, in terms of financial performance, market performance, and service quality. Further, resource commitment is examined as a possible boundary condition of these relationships. Using multi-source data, the findings suggest that the commitment of proper resources is critical to the success of any green initiative. This study also supports the notion that being the first firm in an industry to initiate a green program provides few tangible benefits. More importantly, even firms with an environmental focus neglect to realize superior performance unless the specific strategy is matched with consistent support from top management.

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1. Introduction

As global markets continue to evolve, the pillars of sustainability (i.e., environment, economy and social justice) have become increasingly part of marketing decision-making (Huang & Rust, 2011). Developing marketing strategy around the issues of environment and economy has given rise to a focus on the importance of green marketing. As practical evidence, green marketing, which includes "the efforts by organizations to produce, promote, package, and reclaim products in a manner that is sensitive or responsive to ecological concerns,"[5] has received attention in both the popular press (e.g., Brenhouse, 2010; Ottoman, 2008; Van Buskirk, 2010; Welch, 2008), and academic literature (e.g., Baker & Sinkula, 2005; Cleveland, Kalamas, & Laroche, 2005; Harris & Crane, 2002; Peattie & Crane, 2005; Peattie & Peattie, 2009). Green marketing and related strategy (policy and product development) have become so important that *BusinessWeek* publishes an online monthly newsletter on "green business"[6] and academic calls for research in this area are notable (Chan, He, & Wang, 2012). Sheng, Zhou, and Li (2011) note that adjustments in marketing strategy will follow consumer-led *mindful consumption*, and evidence is growing that green business is here to stay (Ottoman, 2009) yet industry only creeps toward the adoption of a more sustainable imperative. Why?

Much of our understanding of green marketing comes from a consumer perspective (Gurau & Ranchhold, 2005; Hartman, Ibáñez, & Sainz, 2005; Kinnear, Taylor, & Ahmed, 1974; Peattie & Crane, 2005) or a political perspective (Menon & Menon, 1997; Rivera-Camino, 2007). This leaves very limited firm level knowledge of how firm-level "greening" actually impacts strategic viability. Extant research has led to an emerging understanding of how and why consumers are motivated to adopt/purchase green products, incorporate green practices into their lifestyles, and desire green products from companies (Luo & Bhattacharya, 2009; Sheng et al., 2011). While a behavioral approach is important to marketing's demand-side understanding of green strategy, an important question remains: what impact does firm-level green marketing strategy (i.e., the adoption of green operating policies and the merchandising and sale of green products) have on firm performance?

The current study develops a basic understanding of how company "greening" really affects firm performance and further build this

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5 http://www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=G.

6 http://www.businessweek.com/green_business/newsletter/index.html.

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budding research stream from a supply-side perspective. Specifically, we explore the effectiveness of green marketing, in terms of green marketing program timing and environmental strategic focus, on firm performance. Three types of firm performance are investigated: financial performance, market performance, and service quality. Furthermore, we examine resource commitment as a boundary condition in the green marketing and firm performance relationship.

2. Conceptualization

The genesis of the study of industry-level green marketing strategy has its roots in the investigation of corporate environmentalism and firm performance (Sheng et al., 2011). Numerous calls for research over the last few years indicate that our understanding of the subject remains slow going. As early as 1994, Drumwright (1994) noted the need for the exploration of the antecedents and consequences of industry-level socially responsible behavior. Banerjee, Iyer, and Kashyap (2003) initiated a discussion of the impact of corporate environmentalism on performance outcomes, including profitability, market share, and customer loyalty. In the current study, we further this discussion by investigating several strategic policy and product consequences of adopting green initiatives as marketing strategy (see Sharma, Iyer, Mehrotra, & Krishnan, 2010).

2.1. Contribution/gaps in the literature

Previous research indicates that strategies that influence consumer pro-social thought and firm corporate social responsibility may provide a source of competitive advantage for firms (Ellen, Webb, & Mohr, 2006). Somewhat contradictory research shows that while enviropreneurial marketing policies have a positive impact on new product success, it does not contribute to a firm's competitive advantage (Baker & Sinkula, 2005). Our goal is to explore this contradiction and determine if green resources, defined as any resource that reduces the firm's negative environmental impact, actually provide a competitive advantage for firms. As such, we take a firm level perspective on green marketing that incorporates both policy- and product-based aspects. Additionally, recent research shows that green policy announcements may have no effect or a negative effect on a firm's stock price (Mathur & Mathus, 2000). Even within the green marketing strategy literature, a gap exists in the basic understanding of how company greening actually impacts firm performance. We extend this research and investigate the impact of a firm's green policies on its financial performance, market performance, and service quality. Incorporating these three distinct types of firm performance into the study adds a deeper understanding of how green marketing affects various aspects of the firm and its performance. All three performance measures are from the managerial perspective, as the data is perceptual in nature. In this study, financial performance is denoted as the managerial evaluation of their firm's financial success within their industry, including current and expected ROI, relative to the competition. Market performance is the managerial perception of their firm's ability to achieve market share, sales growth, and customer retention relative to the competition. Service quality is the managerial perception of the service that their firm delivers to its customers relative to the competition (Morgan & Piercy, 1998).

Rounding out the study, we go beyond the broad question of whether adopting green policies and innovating into green product markets impact firm performance; we also examine the conditions under which this company "greening" actually leads to a competitive advantage for firms. Because all firms can easily adopt superficial green policies, they are not enough by themselves to help firms gain a competitive advantage in the marketplace. Simply put, adopting corporate green policies puts a firm in a state of competitive parity; therefore, we investigate whether resource commitment allow firms to best utilize these tools in order to gain a competitive advantage.

The purpose of this study is to determine what impact the adoption of green policies and sale of green products has on firm performance. We draw from Resource Advantage Theory and Resource Based View of the Firm to suggest the following: the timing of the adoption of green policies and products and the degree to which firms integrate the environment into their strategic focus will impact the firm's financial performance, market performance, and service quality. In addition, these relationships will be impacted by the amount of resources the firm commits to these environmental initiatives (Mariadoss, Tansuhaj, & Mouri, 2011).

2.2. A brief review of the literature

Green marketing strategy, especially as it relates to a firm's use of resources, has been the subject of considerable research across disciplines. Hart (1995) introduced the Natural Resource Based View of the firm to guide this emergent stream, but as evidenced from recent special issues in top journals, the need still exists to better understand the intersection of the environment and the corporation (Etzion, 2007). Green marketing strategy has several closely related constructs and one challenge facing scholars has been properly defining the term. The underlying idea is that the adoption of environmentally friendly strategies or the creation of environmentally friendly initiatives should increase that firm's performance (Chan, He, Chan, & Wang, 2012).

Enviropreneurial marketing is one such related construct. Menon and Menon (1997) define it as "the process for formulating and implementing entrepreneurial and environmentally beneficial marketing activities with the goal of creating revenue by providing exchanges that satisfy a firm's economic and social performance objectives" (p. 54). Basically, this posits that when companies engage in some activity that benefits the environment or addresses environmental concerns, customers may reward the company through loyalty and increased patronage, which should increase financial performance (Menon & Menon, 1997). Baker and Sinkula (2005) show that while enviropreneurial marketing does not lead directly to a bigger share of the market, it does have a positive impact on new product success, which translates to an increased market share.

A similar term is Banerjee's (2002) corporate environmentalism, defined as the degree to which firms "integrate environmental concerns into their decision making" (p. 177). Again, the outcome for the firm is an increase in overall performance measures, but the success of the initiative is driven by the commitment of top management to the environmental causes (Banerjee et al., 2003). This research began to emphasize the embodiment of environmentalism by employees, managers, and executives with the intent of building a green corporate culture that would be visible to the consumer (Chan, He, Chan, et al., 2012).

It is important to note that green strategies are not always implemented to increase profitability. Shareholders realize that, at least initially, these strategies may involve a trade-off, but usually they lead to efficiencies, which makes long-term financial sense. Taken together, these perspectives suggest that when firms adopt green marketing strategies, they should reap the benefit of superior performance. However, we posit that that performance may be contingent on support from management, program timing, and resource commitment.

2.3. Theoretical background

As is appropriate in much of the work in marketing strategy, Hunt (2011) recently made an ever-stronger case for the grounding of sustainability and green policy research in "resource centered" perspectives. As such, we ground our study in Resource Advantage Theory and the Resource Based View of the firm. Resource Advantage Theory (R-A) (Hunt & Morgan, 1996) holds that firms must be market-oriented in order to remain competitive in the marketplace and achieve superior performance. From a similar grounding, the Resource Based View of the firm (RBV) posits that resources are responsible for superior performance by