



The role of contingency factors on the relationship between sustainability practices and organizational performance

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ARTICLE INFO

Article history:

Received 4 October 2016

Received in revised form

14 September 2017

Accepted 17 September 2017

Available online 18 September 2017

Keywords:

Sustainability practices

Contingency factors

Exploitation

Exploration

Organizational performance

ABSTRACT

This study intends to clarify the understanding of the role of the contingency factors (i.e. long-term orientation, competitiveness and uncertainty) in the relation between sustainability practices (sustainability exploitation and sustainability exploration) and organizational performance. Using empirical data based on a large-scale survey among European organizations, this paper utilizes the regression analysis to gain insight into the relationship between sustainability practices and organizational performance. In general, the results support the contingency view of the relationship between sustainability practices and performance rather than relying upon “universal” view of sustainability practices. Particularly, the results show that in moderate environmental contexts (moderate competitiveness and uncertainty) sustainability exploitation practices seem to be a predominant predictor of organizational performance. Further, it appears that sustainability exploration practices are the most important predictor of innovation performance, especially when organizations are faced with high levels of competitiveness, uncertainty and long-term orientation. In contrast, sustainability exploitation practices seem to dominate in explaining the effects on quality performance. In this regard, we can argue that organizations with similar characteristics (capabilities, performance, and activity) may develop different and customised approaches for managing the interface between business and natural environment.

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1. Introduction

Numerous studies have addressed the principles of sustainable development and the need for organizations to pursue sustainability business strategies (e.g. Bansal, 2005). Prior studies have widely discussed the relevant issues concerning the integration of sustainability aspects into organizations' systems (Lozano, 2012). It is argued that organizations should proactively integrate sustainability aspects into strategy to enhance corporate sustainability performance in terms of the environmental, economic, and social perspectives (Wijethilake, 2017). Accordingly, several voluntary tools, approaches, and initiatives have been developed for organizations to address these sustainability aspects and issues. In this regard, prior studies have addressed the issue of the fit between an organization and sustainability-related practices, which can be articulated in many different forms (De Jong and van der Meer, 2015).

However, as argued by Lozano (2012), there is a need to further clarify and explain how the sustainability initiatives address the different elements of the organization's system and how they contribute to the following perspectives of sustainability: economic, environmental, social, and time. However, a review of the current literature suggests that there is a substantial challenge in applying principles of sustainable development at the corporate level, especially in terms of translating and integrating the normative sustainability concepts into day-to-day business practices (Scherrer et al., 2007). As proposed by Engert et al. (2016), the integration of corporate sustainability into strategic management and consequently into day-to-day business is dependent upon several issues (e.g. internal and external drivers, supporting and hindering factors, etc.). Moreover, in spite of a generally expressed high level of relevance of sustainable development, the implementation of corporate sustainability practices diverges substantially (Hahn and Scheermesser, 2006). It could be argued that one of the key challenges for organizations is to ensure the success of a business model while simultaneously combining economic value with environmental and social benefits (Rosca et al., 2017; Witjes and Lozano, 2016).

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Prior studies have devoted an immense effort in defining the corporate sustainability (e.g. [Lozano, 2008](#); [Amini and Bienstock, 2014](#)). Yet there is still a debate on how to define and measure corporate sustainability practices ([Montiel and Delgado-Ceballos, 2014](#)). Accordingly, this paper draws on the work of [Maletić et al. \(2014\)](#) who conceptualized the sustainability exploitation (SEI) and sustainability exploration (SER) practices. Whereas SEI practices are focused on efficient deployment of current sustainability practices, SER practices reflect the development of new concepts and capabilities usually related to the sustainability-related innovation ([Maletić et al., 2014](#)).

It is proposed in this paper that research on exploration and exploitation may be of help in understanding how organizations may face business model innovation ([Markides, 2013](#)). By applying the exploitation and exploration perspectives to the business model context one might understand how and under which circumstances (e.g. environmental contingencies) organizations can gain competitive advantage. Literature ([Gobbo and Olsson, 2010](#)) appears to agree that exploration practices have the essential characteristics that facilitate value creation. In contrast, exploitation practices are essential to capture this value creation.

Following the contingency paradigm one might raise the question whether the deployment of the management practices is context dependent (i.e. influenced by the internal and external contingency factors) ([Sousa and Voss, 2001](#)). Even though there is a wide range of approaches concerning the concept of corporate sustainability, there is also a lack of clarity on how to best implement corporate sustainability practices and initiatives ([Daily and Huang, 2001](#)). To address this gap, since there is an enormous diversity in organizations and taking into account the fact that one can identify different types of approaches to corporate sustainability ([Hahn and Scheermesser, 2006](#)), we suggest that the use of contingency theory would offer a new and useful perspective on the implementation of sustainability practices. Contingency theory suggests that organizations achieve effectiveness by aligning the characteristics of the organization to contingencies that reflect the situation of the organization ([Donaldson, 2001](#)).

The application of contingency theory to sustainability can reveal several factors that might influence the implementation and configuration of sustainability oriented practices. However, empirical studies that would examine the role of contingency factors in the relationship between sustainability practices and organizational performance are rather scarce. The existing literature, although scarce, clearly points to the possibility of sustainability practices being context dependent ([Campbell, 2007](#); [Maletić et al., 2014](#)). In order to address this research gap, this study intends to examine the role of internal contingency factors (long term orientation and proactiveness) as well as external contingency factors (uncertainty (dynamism) and competitiveness) in the relationship between sustainability practices and organizational performance.

Prior studies have extensively investigated the link between sustainability practices and organizational performance with the aim to justify the economic rationale for sustainability endeavour ([Schaltegger and Wagner, 2006](#)). Many authors have approached this issue by discussing the business case for corporate sustainability ([Dyllick and Hockerts, 2002](#)). As such, this link has become almost a non-trivial issue and was widely discussed amongst management theorists as well as among business executives. Increasingly, researchers have acknowledged that integration of sustainability aspects into business can lead to better performance results ([Wagner, 2010](#); [Chang and Kuo, 2008](#)). Yet, what seems to be missing in the literature is a critical view and empirical evidence regarding the role of the contextual/contingency factors in the relationship between sustainability practices and organizational performance.

The rest of the paper is arranged as follows. Section 2 lays the foundation for the paper by identifying the relevant literature and by developing the research hypotheses. Section 3 describes empirical data and measurement instruments. Section 4 presents the data analysis and results. Sections 5 and 6 conclude the paper with a discussion of theoretical and practical implications as well as limitations and possible future research.

2. Theoretical framework and hypothesis development

2.1. Sustainability exploration and sustainability exploitation

Defining the notions of sustainability exploitation (SEI) and sustainability exploration (SER) first requires specifying the common precepts underlying exploitation and exploration. The need for both exploration and exploitation is well accepted and recognised in the literature on ambidexterity (e.g. [March 1991](#); [He and Wong, 2004](#); [Jansen et al., 2006](#)). Literature on organizational learning recognizes fundamental distinction between two types of organizational behaviour – exploitation and exploration ([March, 1991](#)).

It can be argued that the tension between exploitation and exploration also exists in corporate sustainability. SEI practices stress the need for organizations to continuously pursue incremental improvements ([Stone, 2006](#)). The latter can lead to improvements in material and energy efficiency and subsequently to lower costs. Given the complexity of the corporate sustainability, one should highlight the necessity for organizations to identify stakeholders' wants and expectations ([Rocha et al., 2007](#)), to integrate these needs into the products/services and process characteristics, and to develop suitable sustainability performance measurement systems ([Searcy, 2011](#)) in order to measure the results as the basis for improvement.

Additionally, organizations need to develop innovative approaches to sustainability to be able to contribute to the sustainable business management ([Van Kleef and Roome, 2007](#)). Recently, literature brought to the forefront the notion of sustainability-related innovation (e.g. [Lopez-Valeiras et al., 2015](#)) and its link with organizational performance ([Maletić et al., 2016a,b](#)). Drawing upon previous literature (e.g. [Maletić et al., 2014](#); [Klewitz and Hansen, 2014](#)), this paper suggests that SER can be characterized from the perspective of the process innovation (e.g. green process engineering), product innovation (e.g. new attributes or functions) as well as sustainability oriented learning (e.g. developing capabilities and competence for sustainability-related innovation).

2.2. Contingency approach

It appears that there is not only disagreement concerning the definition of corporate sustainability, but also an ambiguity regarding the implementation of corporate sustainability practices ([Epstein and Rejc-Buhovac, 2010](#)). However, there is an enormous diversity in organizations as well as different types of approaches to corporate sustainability can be identified ([Hahn and Scheermesser, 2006](#)). In this regard, we suggest that there is a need to adopt a contingency theory to broaden the understanding of the sustainability practices implementation. Accordingly, we can argue that the implementation of sustainability practices can vary significantly depending on different circumstances that organization are faced. One can recognise several factors that might influence the implementation and configuration of sustainability practices. Recently, [Pryshlakivsky and Searcy \(2015\)](#) have drawn upon contingency theory to develop and present the heuristic model for establishing trade-offs in corporate sustainability performance measurement systems. Accordingly, authors have emphasised the

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