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Environmental rankings and financial performance: An analysis of firms in the US food and beverage supply chain

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ABSTRACT

This research examined the financial–environmental performance of firms in the US food and beverage supply chain. Findings suggest that firms can be classified into four distinct environmental–financial categories: those that excel on environmental initiatives and perform well financially; those that perform poorly on both initiatives; those that perform admirably financially but poorly on environmental initiatives and; those that perform admirably on environmental initiatives but poorly financially. Overall, firms with higher environmental rankings tended to perform better financially than those ranked lower.

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1. Introduction

1.1. The need for green suppliers and environmentally responsible logistics

Academic and corporate awareness of environmental or green practices in the hospitality industry has increased in recent years. In fact, adoption and implementation of such initiatives have become an integral strategic component and central tenet of several hospitality organizations. Factors motivating firms to embrace this bourgeoning trend include: organizational values, whereby firms and their leaders seek to embrace the green concept and provide leadership in this area (Maignan, Hillebrand, & McAlister, 2002); reactive adoptions to assuage threats of transaction costs associated with, brand equity protection, and competitive repositioning (Spar & Mure, 2003); the ability to leverage marketing, publicity, and innovation (Maignan et al., 2002) and; globalization, regulation and sustainable development (Panapanaan, 2003). In essence, green practice adoptions have been driven largely by societal and competitive pressures in conjunction with changing consumer demand.

Today, hospitality, tourism, academic and professional literature is replete with articles addressing adoption and implementation of green practices. To date, the majority of researches on this issue have focused on the lodging sector since this sector is generally considered as the nucleus of the industry (Kasim & Ismail, 2012). Existing hospitality researches have also focused primarily on end users and customers in other sectors including: the restaurant sector (Namkung & Jang, 2013; Wang, Chen, Lee, & Tsai, 2013); cruise line sector (Veronneau & Roy, 2009) and; travel sector (Schwartz, Tapper, & Font, 2008). While there is inherent focus on, and research addressing adoption and challenges faced by the industry in adhering to genuine green practices, as well as consumer reactions and perceptions of green practices in the industry's sectors, there is a paucity of research addressing a key stakeholder segment, suppliers to the industry. Suppliers to the industry have been largely ignored despite the fact that it has been argued that one of the challenges faced by green practicing hospitality firms is the inadequacy and inconsistency of green products from suppliers (Kasim & Ismail, 2012). Relatedly, firms adopting green practices face risks of public criticism of engaging in green washing if their supply chain is not perceived as adhering to generally acceptable green principles. Consequently, green practicing firms are becoming more diligent in ensuring that entities along their supply chain are actively engaged in green practices. Furthermore, beyond the unethical practice of engaging in green washing, stakeholder criticism of actual or perceived green practice deficiencies can prove to be detrimental for firms in regard to profitability and market share. In addition, it is difficult or impossible for firms to advertise or boast green claims if components or elements within their supply chain do not adhere to generally accepted green principles. As such, green practicing firms are increasingly encouraged to conduct business with green suppliers who adhere to the principles

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of environmentally responsible logistics (ERL), or simply, green or sustainable logistics.

1.2. Embracing sustainability via evolving theoretical perspectives

In recent years, firms, especially those embracing environmental initiatives have shifted from the traditional economic theory and have embraced the modern stakeholder-driven economic perspective. The traditional economic theory postulates that companies should aspire to satisfy marginal, legislated and mandatory environmental standards and should not be inclined to expend resources, financial or otherwise on activities that are not easily quantifiable such as spending on environmental or green initiatives (McClain, 1978). Hence, this perspective suggests that voluntary adoption of environmental initiatives can create barriers to profitability since resources are diverted from easily quantifiable investments to those that are often difficult to measure, and sometimes, do not generate immediate, tangible and discernable economic benefits (Walley & Whitehead, 1994). As noted, in recent years however, the traditional economic viewpoint has been challenged, and has slowly been substituted by the modern stakeholder-driven economic perspective which proposes that firms should embrace and implement environmental initiatives as integral strategic components. In conjunction, the traditional economic view of "minimal compliance" has been challenged, and has slowly been replaced by a new proposition that it "pays to be green", suggesting that firms applying well executed environmental or sustainable initiatives derive long term economic benefits from such efforts (Clarkson, Yi, Richardson, & Vasvari, 2011).

The stakeholder-driven economic perspective proposes that firms should embrace environmental initiatives since they generate economic benefits derived from attainment of competitive advantages (Porter & Van der Linde, 1995; Salop & Scheffman, 1987) through generation of "green goodwill" (Dhaliwal, Li, Tsang, & Yang, 2011). This new approach has gained support in recent years, driven in part by society's increased awareness of the negative environmental externalities generated by the production and consumption of goods and services. This awareness has underscored the need for firms to rethink their corporate strategies and management processes and incorporate green or environmental initiatives as integral strategic components. In the context of the hospitality and tourism industry, green or environmental initiatives are business strategies designed to ameliorate, mitigate and/or eliminate the negative environmental externalities associated with the production and consumption of hospitality and tourism goods and services (Jackson, 2010; Jackson, 2013).

1.3. The simultaneous and synergetic environmental and financial performance debate

Like most industries, the hospitality and tourism industry has responded to societal trends and has become more aware of its role and responsibilities to society (Kasim & Ismail, 2012), and several firms within the industry have invested in green or environmental responsible initiatives. This is despite the fact that currently, there appears to be a lack of consensus about the simultaneous and symbiotic performance relationship between firms' environmental initiatives and financial outcomes. Instead, there has been active debate among scholars regarding this relationship. While some researchers have reported positive linkages (Allouche & Laroche, 2005; Berman, Wicks, & Jones, 1999; De Bakker & Den Hond, 2005; Jackson & Hua, 2009; Johnson & Greening, 1999; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003; Preston & O'Bannon, 1997; Raihi-Belkaoui, 1992; Roman, Hayibor, & Agle, 1999; Turban & Greening, 1997; Waddock & Greaves, 1997; Wu, 2006), others have reported findings to the contrary (Bromiley & Marcus, 1989; Davidson & Worrell, 1990). Further, others have found no connotation between firms' environmental initiatives and their financial performance (Allouche & Laroche, 2005; Freedman & Jaggi, 1982).

1.4. Rationale

Hospitality studies attempting to assess firms' environmental and financial performance have generally attempted to ascertain the bi-directional relationship between both issues. These studies have typically utilized stock market or accounting data in conjunction with retrospective quantitative environmental data to ascertain this relationship. Hence, such studies have sought to ascertain whether or not firms' market or financial performance is correlated with environmental performance. Missing from the body of existing research are studies that attempt to ascertain the relationship between hospitality food and beverage supply firms' level of environmental performance as indicated by their green rankings or green scores and their financial performance. Given the importance of the food and beverage industry to the hospitality and tourism industry as a whole, combined with the maturing subject of corporate adoption of environmental initiatives, there is a need for research to provide a clear understanding of this relationship along the food and beverage supply chain. Furthermore, given the growing importance of ERL, it is imperative that studies are conducted to examine the financial–environmental performance of firms along the food and beverage supply chain. This is especially important given the food and beverage industry's exposure to risk of criticism if their green initiatives are not all-encompassing and include all components along the supply chain. In addition, it is important that such studies are conducted given the nascent stakeholder interest in voluntary non-financial disclosures (such as firms' performance on environmental initiatives). Hence, the growing importance of both financial and non-financial disclosures in the decision making processes of stakeholders, suggests that it is important that firms' performance on both constructs are assessed and presented in a manner that can be easily understood and interpreted by prudent stakeholders.

Accordingly, it is important to find answers to questions such as; do food and beverage supply firms with higher green or environmental scores perform better financially than those with lower scores?; can food and beverage supply firms simultaneously pursue green initiatives while achieving superior financial returns?; given the nascent stakeholder interest in firms simultaneous sustainability and financial performance, can we categorize firms based on performance on such initiatives and present outcomes of such analysis graphically, in a non-esoteric manner, and easy for stakeholders to interpret and understand? To this end, the purpose of this research is to empirically examine the relationship between food and beverage supply firms' green performance and financial performance. To accomplish this objective, the study utilizes a multidimensional scaling technique, a methodology that succinctly summarizes data about associations between a fixed set of objects to reveal relationships between them. The technique presents visual outputs which are useful for interpretative purposes. It should be noted that for the purpose of this research, the terms green and environmental performance are used interchangeably.

2. Literature review

2.1. Green supply chain management and the US food and beverage supply chain

For firms, a supply chain is generally defined as a series of interconnected stakeholders that include suppliers, customers, logistics providers that work in a synergistic relationship to deliver value packages of goods and services to the end customer (Simchi-Levi, Kaminsky, & Simchi-Levi, 2007). Green supply chain therefore can be defined as a strategy that the results in minimum environmental impacts. This strategy encompasses best practices that reduce or eliminate carbon emissions across the entire supply chain, from product and services

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