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Corporate environmental commitment and financial performance: Moderating effects of marketing and operations capabilities

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A R T I C L E I N F O

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A B S T R A C T

Previous studies linking corporate environmental initiatives with financial performance primarily have focused on main effects and generated inconsistent findings, offering an incomplete understanding of this relationship and potential contingency factors. This study examines whether marketing and operations capabilities enhance the financial effects of corporate environmental commitment (CEC). Analyses of a large panel data sample reveal that CEC can improve both near-term profitability and forward-looking value for firms with strong marketing capability. In contrast, operations capability only moderates the impact of CEC on firm value. In addition, this study reveals a bidirectional relationship between CEC and firm performance and finds that a firm's slack resource (short-term profitability) and marketing capability serve as antecedents of CEC. These findings suggest unique implications for marketing managers, chief executives, investors, and policy makers.

1. Introduction

Companies can no longer develop their strategies based on assumptions of inexhaustible natural resources (Kotler, 2011). Ignorance of environmental imperatives can lead to severe consequences such as tarnished brand reputation, hefty fines, and litigation costs. Advocates of sustainable corporate practices are found among non-equity stakeholders and investors alike. However, not every corporate executive is entirely convinced that the benefits of corporate environmental commitment (hereafter, "CEC") exceed its costs (e.g., Bansal, 2002). This management mentality is a common obstacle for the integration between sustainability and company activities (e.g., BSR/GlobeScan, 2013, p. 26).

Despite the importance of CEC–firm performance relationship, the current literature reveals limited and inconsistent results. Some studies suggest that environmental initiatives enhance firms' financial performance (e.g., Dowell, Hart, & Yeung, 2000; Russo & Fouts, 1997), whereas other studies find that the impact of sustainability emphases on firms' performance is either neutral (e.g., Gilley, Worrell, Davidson, & El-Jelly, 2000; Jayachandran, Kalaignanam, & Eilert, 2013) or negative (e.g., Cordeiro & Sarkis, 1997; López, Garcia, & Rodriguez, 2007). Such mixed findings suggest that this relationship could be contingent and motivate us to explore important moderators that have been ignored within the existing literature. Using a large sample of panel secondary data on S&P 500 companies over five years, we find that firms' functional capabilities (i.e., marketing and operations capabilities) moderate the relationship between CEC and financial performance and that such moderating effects are asymmetric with regard to short- versus long-term outcomes. In addition, we examine the recursive relationship between CEC and firm performance, demonstrating how firms' financial gains (or losses) and functional capabilities drive CEC in the next period.

2. Literature review

Previous studies on corporate pro-environmental behaviors have focused on how firms attempt to address ecological problems in their business operations (e.g., Bansal & Clelland, 2004; Dangelico, Pujari, & Pontrandolfo, 2017; Jayachandran et al., 2013). In line with this literature, we define CEC as the extent to which a company integrates ecological issues into its business strategy to reduce the harmful effects of its business-related activities on the natural environment. The extant research has generated mixed results regarding the impact of CEC on firm performance (see Table 1), which may be attributed to two main causes. First, CEC can generate differential effects on firm performance when the relative timing of benefits is taken into consideration. An integration between CEC and business strategy often requires firms to make a substantial short- and long-term investment (Brammer &

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Table 1
Examples of CEC and firm performance studies.

CEC-FP relationship	Study	Operationalization		Selected findings
		CEC	Firm performance	
Positive	Clarkson, Li, Richardson, & Vasvari, 2011	Inverse of toxics release (relative score, within industry and year)	ROA (relative score)	Positive association between environmental protection and subsequent financial performances
	Dowell et al., 2000	Use data from IRRC to determine the degree to which a company adheres to environmental standard	Tobin's Q	Positive association between adoption of strict global environmental standard and firm value
	Klassen & McLaughlin, 1996	Announcements of strong (positive events) or weak (negative events) corporate environmental performance	Stock returns	Positive association between stock returns and positive environmental performance
	Russo & Fouts, 1997	Inverse of environmental scores rated by Franklin Research & Development Corp.	ROA	Positive association between CEC and firm performance
	Zhu & Sarkis, 2004	Firms' internal environmental management, external green supply chain management, investment recovery (e.g., scrap and used materials sale), and eco-design	Operational financial performance	Positive connection between environmental initiatives and operational financial performance
Mixed or neutral	Gilley et al., 2000	Announcements regarding corporate environmental initiatives; product vs. process-driven announcements	Stock returns	Corporate environmental initiatives have no overall effect on financial performance. Product-driven environmental initiatives generate more positive returns.
	Jayachandran et al., 2013	Use KLD data to measure the degree to which a firm attempts to avoid environmental pollution (strength) or violates environmental norms (weakness)	Tobin's Q	The impact of environmental outcomes on firm performance is neutral.
	King & Lenox, 2002	Waste prevention and onsite waste treatment derived from total toxic waste produced by firms	ROA and Tobin's Q	Only waste prevention improves firm performance.
	Klassen & Whybark, 1999	Construct pollution prevention and control indices using data from plant managers' perception of resources (capital, operation, and managerial) allocated across different environmental technology	Manufacturing plant performance relative to competitors	Positive association between pollution prevention and performance (cost, speed, flexibility, and on time delivery). Moderate negative association between pollution control and performance (cost, speed, and flexibility).
	Leonidou, Katsikeas, & Morgan, 2013	Green marketing mix programs (4Ps) that reflect, encourage, and/or emphasize environmental responsibility	ROA; product-market performance (sales volume & growth, market share	Green pricing and promotion programs have positive impact on ROA but no impact on product-market performance. Green product and distribution programs have no significant effects on ROA but positive effects on product-market performance.
Negative	Cordeiro & Sarkis, 1997	Environmental proactivisim (i.e., differences of a company's total waste generated and total release divided by sales)	Forecasted earnings per share	Environmental proactivism negatively affects firm performance.
	López et al., 2007	Whether a firm included in DJSI (1) vs. DJGI (0)	Growth of pre-tax profits	Negative association between sustainability and firm performance