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Antecedents of green supplier championing and greenwashing: An empirical study on leadership and ethical incentives

Constantin Blome [a, *], Kai Foerstl [b], Martin C. Schleper [c]

[a] University of Sussex, BMEc, Jubilee 302, Falmer, BN1 9SL, UK
[b] German Graduate School of Management and Law (GGS), Chair of Supply Chain Management and Logistics, Bildungscampus 2, Heilbronn, 74076, Germany
[c] Nottingham University Business School, International Centre for Corporate Social Responsibility (ICCSR), Jubilee Campus, Wollaton Road, Nottingham, NG8 1BB, UK

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ABSTRACT

Buying firms are increasingly confronted with compliance scandals in their upstream supply chain, for which they are held accountable by their stakeholders. Purely symbolic practices, typically referred to as greenwashing, as well as substantive practices, such as green supplier championing, are thus receiving widespread attention in business practices and academia alike. In this study, we reveal the impact of two opposing leadership dimensions following the concepts of ethical and transactional leadership as antecedents for green supplier championing and greenwashing. We particularly address whether these antecedents have a complementary or a counterproductive effect on green supplier championing and greenwashing. Furthermore, we investigate the complementary impact of incentives and the two leadership styles on achieving sustainability behavior. The resulting model is tested using a path analysis based on a data set of 118 firms located in Germany. We find support for the positive impact of ethical leadership on green supplier championing but also a non-significant negative impact on greenwashing. Greenwashing is significantly impacted by leadership styles reflecting obedience to authority, and further moderated by ethical incentives. Interestingly, ethical incentives do not moderate the impact of ethical leadership on green supplier championing. Finally, we discuss implications for theory and business practice.

1. Introduction

Non-compliance with ethical and sustainability standards is still a common problem in global supply chains, although it has the potential to damage the reputation of focal firms, which in turn can negatively affect the economic performance of these firms (Reuter et al., 2010). Poignant examples include the 2010 oil spill at BP's "Deepwater Horizon" on the Gulf Coast. During that accident, 3 million barrels of oil spewed into the Gulf and caused massive destruction of plant and wildlife habitats and in turn negatively affected many people living in surrounding coastal areas (Borney, 2016). Overall, this ecological catastrophe incurred BP a charge of more than 60 billion USD for restauration, penalties, and recovery of damages (Borney, 2016). Therefore, to counteract such potentially devastating occurrences, firms often develop and implement measures like codes of conduct and sustainability guidelines for own sourcing personnel as well as suppliers (Kaptein, 2004; Schleper and Busse, 2013).

Unfortunately, these initiatives have often been criticized as being ineffective and rather as being a form of *window-dressing* and *greenwashing* (Jiang, 2009a) that serves only as symbolic measure (McDonnell and King, 2013; Okhmatovskiy and David, 2012). Hitherto, greenwashing has mainly been defined as misleading consumers regarding the green (often in a broader sense sustainable) performance of a firm or the environmental (sustainable) benefits of a certain practice, product, or service (Delmas and Burbano, 2011; Laufer, 2003; Lyon and Montgomery, 2015; Parguel et al., 2011). According to the renowned advertising agency Ogilvy and Mather, greenwashing practices have significantly increased in the last decades and take on "epidemic proportions" nowadays (Hsu, 2011). Some scholars suppose the increased regulative and normative pressure for green accounting

* Corresponding author.
E-mail address: constantin.blome@uclouvain.be (C. Blome).

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and transparency to be an important driver of these developments (Bromley and Powell, 2012).

Only recently, the world biggest car manufacturer Volkswagen serves as one of the most intrusive and telling examples of greenwashing (Preston, 2015). When Volkswagen was caught systematically cheating in emission tests in the US and Europe in 2015, the president of Clean Air Watch commented: "Volkswagen made a point in selling these cars that they're clean. It's too bad that their technology wasn't as good as their ads" (Plungis, 2015). And at the same time Volkswagen claimed to work in an environmentally friendly fashion as illustrative statements in their 2014 sustainability report pretend (e.g., "We intend to put our creative powers to good use for the benefit of people and the environment" (Volkswagen, 2015, p. 14)).

To consequently prevent sustainability concerns in upstream supply chains, firms must implement convincing substantial measures that actually impact supplier conduct (Marquis et al., 2016). Most buying firms strive to continuously improve the sustainability performance within their supply base through proactive supplier management (Blome et al., 2014; Paulraj et al., 2014; Schoenherr et al., 2014). Consequently, many firms have begun to focus on sourcing from so called green or sustainable champions, which play a crucial role in disseminating sustainability practices in the upstream supply chain, as focal firms do not have direct access and control over the suppliers of their direct suppliers (Gallear et al., 2015; Wilhelm et al., 2016). Green supplier championing should thus be considered as a substantial means to proactively manage the upstream supply base and to disseminate green and responsible business practices further upstream in the supply chain (Roth et al., 2008). However, though we find evidence of environmental championing and best practices in the field of supplier management, there is still a lack of empirical literature assessing the actual antecedents and drivers of green supplier championing.

Most importantly, green supplier championing and greenwashing might even co-exist and be triggered by the very same antecedents (e.g., incentives). For instance, besides its at that point latent cheating, Volkswagen was named best in class in 2015 by the prestigious Dow Jones Sustainability Indices (Hepler, 2015). Another prominent example is Walmart. On the one hand, Walmart claims to be a leader in sustainability practices (e.g., responsible sourcing practices, sourcing audits), and on the other hand, Walmart was awarded the "Greenwasher of the year 2014" title by Green Life given its extensive carbon footprint of the sourcing and distribution network. Thus, we investigate the co-existence of substantive (i.e., supplier championing) and symbolic practices (i.e., greenwashing) simultaneously in this study.

Scholarly knowledge about firm-level antecedents of these substantive and symbolic practices in sustainable supply chain management is still at an early stage, particularly when considering potential interaction of antecedents. As decisions on green supplier championing and greenwashing are ethical choices we turn our attention to antecedents that are most important to affecting ethical choices, the organizational culture (e.g., Huhtala et al., 2013; Treviño et al., 1999). In situations in which employees face ethically dilemmas, particularly two dimensions of organizational culture have been shown to have the strongest effects on ethical decision making in organizations: the leadership style and the incentive schemes (e.g., Chen, 2010; Delmas and Burbano, 2011; Ims et al., 2014; Kulshreshtha, 2005; Treviño and Brown, 2004; Tullberg, 2009; Weaver et al., 1999a). In her numerous studies (e.g., Treviño et al., 1998, 1999, 2003) Treviño finds support for the proposition that "most people need to be led when it comes to ethics" (Treviño and Brown, 2004, p. 71). Ethical leadership is hence an important antecedent for ethical behavior in organizations (see Brown and Treviño, 2006 for an overview), although the effect of leadership styles on the implementation of CSR and sustainability in organizations calls for further research (Eisenbeiss, 2012; Waldman and Siegel, 2008). However, besides ethical leadership, formalized organizational contexts might play an important role in ethical decision making. As many individuals focus on extrinsic motivational factors in guiding their behavior, we assume incentives to be a moderator in our study. Treviño and Brown (2004, p. 79) even suggest that "the reward system may be the single most important way to deliver a message about what behaviors are expected". This is in line with prior research that also found a positive relationship between falsely adjusted organizational incentive schemes and unethical behavior (e.g., Carson, 2003; Chen, 2010; Harris and Bromiley, 2007; Ims et al., 2014).

Also, from a practitioners' perspective, leadership and incentives constitute factors which the top management of firms can influence, thus allowing firms to effectively alter their practices instantly. Hence, this focus might help managers to understand how to transcend a mere compliance focus within their sustainable supplier management practices towards more proactive measures. Although the case is not yet cleared up due to lacking informants and further information sources, many experts suppose Volkswagen's corporate leadership and incentive schemes to be likely reasons for the scandal (Armour, 2016). So far, studies investigating leadership styles and incentives in the sustainable supply chain area are limited to notable exceptions. Goebel et al. (2012) investigated the extent to which firm-level antecedents – such as incentives, codes of conduct, ethical leadership, and expected obedience to authority – drive the implementation of sustainable and social-supplier selection practices.

By setting up a path analytic model we aim to answer the following research questions: 1. How do leadership styles (obedience to authority and ethical leadership) and incentives impact green supplier championing and greenwashing? 2. How do leadership styles and incentives interact in the pursuit of green supplier championing and greenwashing? In answering these questions we particularly contribute to the field by identifying how green supplier championing can be promoted without a simultaneous incentivizing of greenwashing activities. Furthermore, our results highlight complementarity and counterproductive effects in obedience to authority and ethical leadership styles that managers should be aware of when promoting sustainable orientation in supplier management practices.

The remainder of this article is structured as follows: In the subsequent section, hypotheses are developed and the overall framework is introduced. The third section describes the data collection and data analysis process. We then present the results of the measurement model and hypotheses tests regarding the path analytical model, followed by the discussion of theoretical and practical interpretations of our findings. The article concludes with a summary of the key findings, limitations, and suggestions for future research.

2. Literature background and hypothesis development

2.1. Leadership styles

Hambrick and Mason (1984) propose that organizations are a reflection of their leaders. Previous literature suggests that strategic choices of employees and organizational outcomes are partially predicted by managerial characteristics and leadership styles (Brown et al., 2005; Brown and Mitchell, 2010; Fehr et al., 2015). The values of top executives are particularly important from two perspectives: On the one hand, such personnel have the necessary status to influence individual and organizational actions, and on the other hand, many employees are actively orienting themselves in