

# Premises of the Green Business Strategies

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## **Abstract**

*Reducing the anthropogenic pressure on environment is a key priority of the contemporary society that recognizes the urgency of improving the overall environmental performance of economic activities. Progress in this direction greatly depends on enabling synergies between profit making and environmental performance. This situation is captured by the concept of green businesses. The theoretical framework that supports the great potential in this direction is at some extent confirmed by the actual dynamic of green businesses, but this is not resulted yet in a meaningful change in relation with the needs of environmental protection. This is pointing on the need of better understanding the premises that ensure a faster transformation. Based on several case studies there are evaluated some of these premises.*

**Keywords:** *green business, sustainable development, competitiveness, financial performance.*

**JEL classification:** M14, Q56

## **1. Introduction**

Improving our relation with the natural environment is recognized as a must for several decades. This resulted in the development of a complex institutional framework aiming to correct economic interactions in the pursuit of a harmonious relation between profit making and the capacity of the natural environment of providing both resources that feed the production processes and healthy conditions for humans and ecosystems.

As an outcome of this novel framework of action, but also of an increasing awareness on the behalf of the general public regarding the importance and also of the urgency of the environmental protection, businesses are more and more attentive

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regarding this issue. Fact is in the last ten years or so it could be stated that the business environment is greening. Such statement is extendedly supported by the results of major reports regarding major trends and also the corporate behaviour of the most successful companies.

In the meanwhile, global environmental reports and the periodical assessments performed by international organizations involved in sustainability governance (UNEP, 2012; MEA, 2005 ) continues to conclude that the state of the ecosphere is well behind the one corresponding to a healthy ecosystem. This indicates the need to further question which and how strong the premises of green business strategies are in order to identify ways of increasing the path of change toward sustainable development.

Green business strategies are very popular nowadays, being adopted for a variety of reasons. These include, but are not limited to differentiation, cost saving, accessing new markets, attracting human resources, access to financial resources, avoiding liabilities etc. For each of these goals the business strategy could result in either success or failure. Acknowledging the factor that makes the difference for the outcome of the business strategy is key information for improving our understanding on how businesses could be incentivised toward acting in a more sustainable way with respect to the natural environment. In this respect a closer look is given for three of the premises: improved reputation bringing a range of benefits for the company, competitiveness and better financial performance.

## 2. Greening the reputation – advantages and risks

Building the market strategy of a business on its environmental performance for either process or product – green business strategy – became a common approach of many successful companies. One of the expected outcomes is an improved reputation that will benefit the company by gaining more consumers or customers, facilitating access to financial resources, reducing the frequency and impact of governmental inspections, preventing liabilities, improving the motivation of employees and others.

**Table 1. Examples of green-washing**

<b>Company</b>	<b>Campaign</b>	<b>Explanation</b>
<b>British Petroleum (BP)</b>	„Beyond petroleum”	The campaign aim was to emphasize company efforts to reduce pollution in its operations and to foster the use of renewable energy. Investments made in tar sand exploitation and off-shore drilling told a different story. The Horizon Deep-water accident in Mexico Gulf, the second largest oil spill ever, further fuelled the miss-trust regarding the greening efforts of the company.

<b>Company</b>	<b>Campaign</b>	<b>Explanation</b>
<b>Exxon Mobile</b>	Commitment to renewable energy	In the past years, the company intensely advertised its commitment toward renewable energy. Meanwhile the company financially supported organizations that deny climate change (Heartland Institute, the Heritage Foundation, the George C Marshall Institute, American Enterprise Institute).
<b>Malaysian Palm Oil Council</b>	“Sustainably Produced Since 1917”	Palm oil is produced by replacing rainforest with plantations. This resulted in a major pressure on biodiversity, threatening the survival of many species.

Source: Webecoist

Nonetheless, not all green marketing results in such improvements. Then such strategies are failing the company is facing green-washing. This means that the company is accused that instead of making real improvements for its environmental footprint it only makes statements about it. Table 1 present a selection of the most obvious green-washing issues documented for major globally acting companies. (table 1).

The risk of green-washing is a powerful factor that makes companies to resist either for improving environmental performance or communicating this improvement extensively. Fact is many companies are already reluctant of harnessing the benefits of their greening efforts by a more intense communication (Walker and Wan, 2012).

### **3. Improving competitiveness by green business strategies**

Greening businesses is a demand that cannot be ignored. Even if there are still important differences from one country to another regarding the rigorousness of legislation, globalization and intensification of civic actions creates a pressure that is large enough to persuade enterprises for seeking solutions that improve the environmental performance of their activities.

Within the diamond model of competitiveness, greening reveals as a successful business strategy for all forces. The strongest force that drives greening is rivalry, where greening acts as a tool of differentiation. The weakest force is represented by consumers, because there is a significant difference between their statement regarding the purchase of green goods or services and their actual consumption behaviour. Nonetheless for consumers it is expected a higher exigency regarding the environmental characteristics of their purchase (Radulescu et al., 2015).

Responding to this requirement is becoming mainstream in businesses (KPMG, 2013). The benefits of greening could be harnessed by efficiency improvement, since any avoided pollution could be considered also as an avoided loss. Further, the full range of benefits depends on communication that opens up a number of opportunities for value added: new markets, more serious suppliers, hardworking employees, societal impact, and governmental support.

#### 4. Financial performance of green businesses

The theoretical basis for the connection between environmental and financial performance is represented by the social impact hypothesis. According to this, by addressing the needs of stakeholders, including their need for a safe natural environment, will lead to better financial performance. Failing to address such needs creates worries that increase the risks company are exposed to.

The improvement of environmental performance will result eventually in a higher financial performance. Evidence of this connection is crucial for fostering companies in their effort of improving environmental performance. Nonetheless, such evidence is not always easy to find. For instance, reducing emission of pollutants by using a number of filters will not increase the incomes, but on the contrary will generate costs. The cost avoided by compliance with environmental regulation is in fact the form of benefits that could be harnessed by such measures.

Scientific inquiries as well as business consultancy find numerous ways to demonstrate that the connection between environmental performance and business success exists. One of the evidence in this respect is explained by the concept of eco-efficiency. This is calculated as a ratio between the economic output and the environmental effect measured either as emission of pollutant or consumption of raw material, energy or water. Maximizing eco-efficiency will result in enhanced incomes by reducing the specific costs due to lower consumption of inputs (Bran and Hincu, 2009).

Nonetheless, thorough empirical studies provide mixed evidence regarding the positive relation between environmental and financial performance (Blazovich et al., 2013; Salzmann et al., 2005). Thus, being green has no significant influence on the financial performance. This should be also interpreted as a lack of negative influence, meaning that green businesses are not less performing than others.

Considering that green businesses are established for activities with positive environmental outcomes there was gathered evidence from a number of studies that highlight the economic performance of such activities. These are presented in table 2.

**Table 2 Economic performance of green businesses**

<b>Green business</b>	<b>Location</b>	<b>Economic performance</b>	<b>Reference</b>
Ecotourism	Peru, Amazon rainforest	Producer surplus (profit + fixed costs): 1158 USD/ha	Kirkby et al. (2010)
	Developing countries	Revenue: 210x10 <sup>12</sup> USD	
	Costa Rica	Revenue: 1138 x 10 <sup>6</sup> USD	Dasenbrock (2002)
	Ecuador, Amazon rainforest	Cash flow per village: 15-50 x 10 <sup>3</sup> USD	Wunder (1999)
	Canada	Average gross margin: 17.6%	Patterson (2007)

Green business	Location	Economic performance	Reference
Organic farming	USA	Sales: 31.5 x 10 <sup>9</sup> USD	Cafariello (2013)
	14 countries, 129 studies	Organic farming is more profitable than conventional farming	Crowder and Reganold (2015); Defra (2010)
	USA	Operating profit margin: 37.5%	SARE (2005)
Pollution control	Romania	Pre-tax profit margin: -39 – 33%	Circa and Almasan (2014)
Waste management		Pre-tax profit margin: -27 – 37%	
Green energy		Pre-tax profit margin: -91 – 34%	
Solar power	World	Operating margin: 8-18%	Shahan (2011)
Forestry	USA	Net profit margin: 14.5%	Horton (2015)
Green building	USA	Market size: 85 x 10 <sup>9</sup> USD	Statista (2011)

Source: references

The evidence regarding the financial performance of the so called green businesses prove to be also mixed. First of all, it should be noticed that the indicator that is used to capture this performance is not a single one. That makes an overall conclusion difficult to derive. Further, many studies are providing a range that is, in some cases, very wide, making almost impossible a general statement regarding the profitability of green businesses. Nonetheless, it could be assumed that green businesses are present and that their size is large enough for being accepted as a trend.

## 5. Conclusions

Examining the premises that support green business strategies is important toward understanding how the economic landscapes transforms with respect to the requirements of sustainable development. Out of the many premises that support the rationale of a green business strategy we examined reputation, competitiveness, and financial performance. Each of these premises provides a solid reasoning for business administration for integrating the changes needed for improving the overall environmental performance of the company. Nonetheless, the motivation might weaken within real market conditions. Green-washing, reluctant consumers, and delayed, small or even lack of associated financial performance were identified as barriers that prevent a faster change of businesses in becoming meaningful agent for sustainable development.

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