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Green Business Strategy and Export Performance: An Examination of Boundary Conditions from an Emerging Economy

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Green Business Strategy and Export Performance: An Examination of Boundary Conditions from an Emerging Economy

Abstract

Purpose: Building upon the insights of the resource-based view and contingency theory, this study investigates the boundary conditions of green business strategy on the export financial performance of firms from an emerging economy.

Design/methodology/approach: A quantitative study was conducted to test our conceptual model. In total, 224 questionnaires were collected from exporting manufacturing companies and were analyzed using full information maximum likelihood.

Findings: The results of the study demonstrate that green business strategy has a strong and positive relationship with export financial performance. Also, environmental orientation and cost leadership play a significant and positive moderating role in this relationship. However, green product differentiation is complementary with green business strategy only when a cost-leadership strategy is also maintained.

Practical implications: The study has practical implications since it identifies green business strategy as an important lever for emerging export managers. More specifically, they have to be aware of the challenges when they operate outside the cost leadership boundaries and should actively seek to develop the environmental orientation of employees and managers.

Originality/value: This study reveals the relationship between green business strategy and export success for emerging country exporters that are understudied and face unique challenges. In particular, we explore the contingency factors that strengthen or weaken the relationship and provide additional insight to the question: "when does it pay to be green?" for exporters from emerging economies.

Keywords: green; export performance; resources; product positioning; contingency theory; resource-based view

1. Introduction

The growing global concern about environmental issues (Albino *et al.,* 2009; Banerjee, 2002), has resulted in an increased pressure on firms and heightened levels of scrutiny from various stakeholders (Chabowski, Mena and Gonzalez-Padron, 2011). In response, companies have begun to incorporate environmental issues in their strategic planning (Aragon-Correa and Sharma, 2003; Buysse and Verbeke, 2003). Nonetheless, extensive research has been conducted in order to address the question: "does it pay to be green?" (see reviews, e.g., Ambec and Lanoie, 2008; Etzion, 2007; Orlitzky *et al.* 2003; Sharma and Starik, 2002). On one hand, there are arguments that addressing environmental concerns imposes additional costs and decreases firm profitability (e.g., Clarkson *et al.,* 2011; Hahn *et al.,* 2014; Li *et al.,* 2017). On the other, several scholars support that by being environmentally-friendly, a firm does not only save costs in terms of energy and water management, but also enjoys higher levels of sales and financial performance (e.g., Dangelico and Pontrandolfo, 2015; Hart and Dowell, 2011; Leonidou *et al.,* 2017).

Although findings in the pertinent literature remain inconsistent, a large body of research supports that incorporating a green approach in key business strategies boosts company performance (e.g., Fraj *et al.,* 2011). Further, there is evidence that the deployment of a green strategy also increases performance within an international business context (Martín-Tapia *et al.,* 2010; Tatoglu *et al.,* 2014). However, Leonidou *et al.* (2017) stress the need to examine the complementary role of firm resources and positioning strategies, such as cost leadership and product differentiation, when implementing green business strategy. Such an examination is of great importance for exporters from emerging markets who are typically perceived as low-cost producers rather than green product differentiators (Aulakh *et al.,* 2000). Further, they are based in markets that are often less sensitive about environmental issues thus making it more challenging for them to develop an internal environmental orientation or acquire the appropriate human resources (Li *et al.,* 2010; Yin and Zhang, 2012).

The resource-based view argues that specific firm resources and capabilities, which are difficult to imitate, valuable, rare and not substitutable, enhance firm performance (Barney, 1986; Wernerfelt, 1984). Further, while the exporting literature also underlines the importance of organizational resources and capabilities in attaining a favorable financial position in export markets (e.g., Leonidou *et al.,* 2010; Morgan *et al.,* 2004; Zou *et al.,* 2003), companies that integrate green issues into their strategies, are likely to possess superior resources and

capabilities (Christmann, 2004; Sharma and Vredenburg, 1998). However, a number of scholars in the context of environmental strategies have emphasized the contingent and complementary role of unique resources and capabilities in enhancing financial performance (King and Lenox, 2001; Wagner, 2007). Therefore, green business strategy necessitates the development of idiosyncratic capabilities that are not easily mimicked by other firms, but their impact on performance may depend on specific circumstances (Aragon-Correa and Sharma, 2003; Hart, 1995; Russo and Fouts, 1997). Given the crucial role of taking a contingency perspective when examining the green strategy-performance link (e.g., Dixon-Fowler *et al.,* 2013; Wagner, 2007), there is also the need to extend our understanding by examining the boundary conditions of implementing a green business strategy and address the question: "when does it pay to be green?" in an international context.

While environmental concerns have been rising throughout the world, most of the extant green strategy research has focused on domestic settings neglecting the importance of international contexts (Zeriti *et al.,* 2014). Therefore, research investigating the effect of green strategies on export performance remains scant (e.g., Leonidou *et al.,* 2013; Leonidou *et al.,* 2017). Yet as firms from emerging countries seek to enter into other markets in order to support their growth, they face increased demands to adopt environmentally friendly strategies and to adhere to more rigid regulations than those in their home country. This demonstrates the idiosyncrasies of emerging economies where environmental conservation is still at an embryonic stage and they lack adequate talented staff (Child and Tsai, 2005; Hoskisson *et al.,* 2000; Tatoglu *et al.,* 2014).

The present study seeks to contribute in a number of ways. First, there is a limited number of empirical studies that examine how green strategies impact export performance-related outcomes especially for emerging company firms. Second, to provide useful insights with regards to the effect and conditions of green business strategies on export performance for firms from emerging economies, where deficiencies in environmental knowledge and orientation remain a challenge (Chan, 2010; Hsu *et al.,* 2016). In addition, companies from emerging countries widely adopt cost-based strategies by virtue of the prominence of pricing as a factor influencing customers' purchasing decisions (Acquaah, 2005). However, when companies from emerging countries internationalize, they face the challenge of producing quality products and at the same time offering lower prices (Acquaah *et al.,* 2008). Therefore, a third contribution of this paper is the examination of the paradoxical situation where emerging country firms need to deploy green strategies are expected to be cost leaders while demand for

green differentiated products increases. Overall, examining the boundary conditions faced by emerging market firms will expand our understanding of green business strategies on export performance.

2. Theoretical Framework and Hypotheses

The resource-based view (RBV) describes the corporation as a bundle of strategic resources that are diversely distributed among firms in the market to achieve sustainable competitive advantage (Barney, 1991). Firm resources are comprised of assets, capabilities and attributes managed with an intent to execute strategies that increase firm effectiveness and efficiency (Daft, 1983). Hart (1995) extends this perspective and emphasizes on the importance of developing new resources and competencies that lead companies to engage in environmentally friendly operations. Hence, the resource-based view indicates that firms need to possess the necessary resources and capabilities in order to improve their export competitiveness based on green strategies (Chen *et al.,* 2016; Sarkis *et al.,* 2010), which has led to a great deal of interest by both scholars and executives (Leonidou and Leonidou, 2011; Leonidou *et al.,* 2013).

However, contingency theory argues that no single strategy is appropriate for all firms and situations and one needs to consider the organizational structure and specific context or circumstances in which firms operate (Antonietti and Marzucchi, 2014; Lages and Montgomery, 2004). The reason is that strategic decisions account for the contingent factors present at the time of the decision and the effectiveness of the strategy-performance link relies upon properly matching strategy and boundary conditions (Hultman *et al.,* 2009; Katsikeas *et al.,* 2006). Therefore, we employ contingency theory in order to improve our understanding of deploying green strategy in international markets with conditions such as key internal resources (Chen *et al.,* 2016; Kozlenkova *et al.,* 2014; Rueda-Manzanares *et al.,* 2008; Sarkis *et al.,* 2010) and strategic product positioning (green product differentiation and cost leadership). Figure 1 illustrates our conceptual model and hypotheses (i.e., H_1-H_5) that we develop in the following sections.

>>>>>>> insert Figure 1 about here <<<<<<<<

2.1. Green Business Strategy and Export Financial Performance

Green business strategy refers to the tendency to integrate environmental issues in business strategy, across sub-business functions such as manufacturing, supply chain, finance, human

resources and marketing in international markets (Banerjee, 2002). A wealth of research demonstrates that in a domestic context, environmentally friendly firm activities generate financial gains (Baker and Sinkula, 2005) and result in better business performance (e.g., Aragon-Correa *et al.,* 2008; Menguc and Ozanne, 2005; Klassen and McLaughlin, 1996; Russo and Fouts, 1997; Yang *et al.,* 2011). The reason is that such activities: (a) reduce the amount of waste and save money through cost efficiencies in production areas (e.g., Peng and Lin, 2008); (b) meet the environmental demands of different stakeholders (i.e., society, non-governmental organizations, governments) (e.g., Fraj-Andres *et al.,* 2009); (c) gain a reputational advantage over competitors and increase the number of markets a company may enter (e.g., Miles and Covin, 2000).

Likewise, a few scholars elaborate on the vitality of implementing green strategies in achieving higher levels of international market performance (Chan, 2010). When a business extends beyond its national boundaries, the requirement for greening its strategy is more pronounced (Leonidou *et al.,* 2017). As a result of the increased regulatory pressure and public concern, companies respond by adopting sustainable paradigms that aim in protecting the natural environment (Buysse and Verbeke, 2003; Varadarajan, 2014; Zeriti *et al.,* 2014). Therefore, environmentally conscious customers put pressure on companies from emerging markets to reduce the environmental impact of their operations via re-designing their processes and obtaining environmental management certifications, such as the ISO14001 (Hsu *et al.,* 2013).

Nonetheless, some studies argue that not all firms should pursue environmental strategies due to the additional associated expenses that may have an unfavorable effect on their financial performance (e.g., Clarkson *et al.,* 2011; Jacobs *et al.,* 2010). While firms from emerging economies are influenced by their reduced local institutional constraints, the implementation of environmental strategies is also dependent on their own strategic actions (Child and Tsai, 2005). Therefore, companies need to meet the demands of stakeholders' in order to enhance their competitive position (Garces-Ayerbe *et al.,* 2012; Rueda-Manzanares *et al.,* 2008). As a result, green strategies become crucial in reducing natural resource use and achieving superior performance (e.g., Albertini, 2013; Chang, 2011; Dangelico and Pontrandolfo, 2015; Hart and Dowell, 2011). Overall, there is considerable support for the premise that green-oriented companies enhance their sales and profitability in international markets (e.g., Fraj *et al.,* 2011; Leonidou *et al.,* 2013; Martin-Tapia *et al.,* 2009). Thus, we hypothesize the following:

H_1: There is a positive relationship between green business strategy and export financial performance.

2.2. Moderating Effects of Green Business Strategy-Performance Link

2.2.1. The Moderating Role of Environmental Orientation

Environmental orientation refers to the extent to which managers and employees recognize the crucial importance of environmental matters facing firms (Banerjee, 2002). Menguc and Ozanne (2005) have emphasized the importance of environmental orientation as a unique internal organizational resource in implementing environmental management activities; it directly influences the consequences of company decisions and facilitates the adoption of environmental practices. Furthermore, various studies argue that the adoption of green business strategies within an organization depends on how company managers and employees perceive them as opportunities or threats (Dahlmann *et al.,* 2008; Gonzalez-Benito and Gonzalez-Benito, 2010; Park and Ghauri, 2015). In case internal managers and employees interpret environmental matters as opportunities for improving company image, enhancing production efficiency and cost savings, and receiving tax reduction advantages, they become eager to trigger and initiate the deployment of proactive environmental strategies that attract foreign customers who are more environmentally sensitive (Park and Ghauri, 2015). However, if managers see environmental matters as threats requiring huge investments in financial resources and time, they will be reluctant to allocate resources and implement green business strategies (Gonzalez-Benito and Gonzalez-Benito, 2010).

Several scholars have supported the importance of internal resources in achieving better environmental performance (Garay and Font, 2012). In this sense, corporations tend to obtain essential resources and build the necessary capabilities for meeting the environmental expectations of their stakeholders by adopting green business strategies in international markets (Sarkis *et al.,* 2010). Further, given the exponential growth of environmental concerns in many parts of the world, companies from emerging economies are pressed to adopt more environmentally friendly strategies (Betts *et al.,* 2015). Therefore, companies from emerging markets, are required to initiate employee skill development programs, with an aim to enhance their environmental orientation at all levels of management within the organization (Zhu *et al.,* 2008). Further, several scholars have stressed the paramount importance of employee environmental orientation in achieving export success (e.g., Aaby and Slater, 1989; Cavusgil and Zou, 1994). Also, Chan and Ma (2016) elaborate the substantial role of environmental

orientation in conducting proactive environmental strategies, which have a positive influence on SME export performance. Hence, we hypothesize the following:

> *H_2:* The relationship between the level of green business strategy and export financial performance is stronger the greater the degree of employee environmental orientation.

2.2.2. The Moderating Role of Green Human Resource Assets

The appropriate human resources are essential for a company's environmentally related strategies (Daily and Huang, 2001), since they actively participate in decision making and the development of processes and policies (Mishra and Suar, 2010). A number of studies emphasize that the experience, knowledge and comprehension abilities of a company's workforce are important constraints in the implementation of environmentally friendly strategies (Barney, 1991; Lee 2009; Weerawardena and Mort, 2006). Effective implementation and success in green business strategy highly relies on assigning qualified employees with higher levels of competence and knowledge (Jabbour *et al.,* 2013; Hart, 1995; Ramus and Steger, 2000). Thus, the allocation of talented individuals who are specialized in environmental management, plays a substantial role in adopting green strategies (Sarkis *et al.,* 2010).

However, hiring environmentally-oriented staff is very costly and may create an economic burden on companies (Hahn *et al.,* 2014; Walley and Whitehead, 1994), especially for firms operating from emerging countries where environmental institutional voids and lack of environmentally conscious personnel are major challenges (Child and Tsai, 2005; Tatoglu *et al.,* 2014). Nonetheless, despite the existence of inconsistencies in the pertinent literature (Gonzalez-Benito and Gonzalez-Benito, 2005), human resources are regarded as one of the crucial internal resources in enhancing company profitability (Russo and Fouts, 1997) and export performance (e.g., Aaby and Slater, 1989; Madsen, 1987). Hence, we hypothesize the following:

> *H_3:* The relationship between the level of green business strategy and export financial performance is stronger the greater the degree of green human resources assets.

2.2.3. The Moderating Role of Green Product Differentiation

Building on the RBV paradigm there is widespread acknowledgement that strategic positioning enables companies to outperform their rivals (Porter, 1985). Therefore, a wide variety of benefits are derived when companies adopt a green product differentiation positioning

increasing their reputation in the eyes of foreign customers (Eiadat *et al.,* 2008; Miles and Covin, 2000; Siegel, 2009). Further, meeting the environmental preferences of their customers (Menon and Menon, 1997), leads to more satisfied and loyal customers (Fraj *et al.,* 2011), reduces negative publicity, enhances safety characteristics (Porter van der Linde, 1995), and promotes product quality (Hartmann and Apaolaza, 2006). In addition, the use of biodegradable and reusable materials makes the product unique in the sight of customers (Shrivastava, 1995; Polonsky and Rosenberger, 2001; Orsato, 2006), as is the possession of environmental product certification (Leonidou *et al.,* 2017).

It is important to note that green business strategy enables firms to meet foreign legal and regulatory requirements and primarily deal with the incorporation of processes that reduce the environmental footprint of the organization (Chen, 2008; Gonzalez-Benito and Gonzalez-Benito, 2005). However, as Orsato (2006) notes, green product differentiation is distinct from applying a green business strategy in organizational processes; the former explicitly positions the product itself as more environmentally friendly, while the later refers to the processes that produce the products. For example, a chemicals company may apply all the necessary green business strategies requiring strict environmental processes during production, but the product itself might not necessarily be environmentally friendly. In this sense, Tatoglu *et al.* (2019) have revealed that exporting firms in emerging countries should be more inclined to adopt a product differentiation positioning.

Overall, there is conflicting evidence in the pertinent literature whether green differentiation consistently provides benefits to companies in foreign markets. On one hand, some researchers advocate that differentiation as a strategic option is not a useful tool due to its high investment requirements, high adaptation costs and low potential revenues when the level of eco-standards is higher in foreign markets in comparison with the domestic market; this is the case for firms based in emerging markets and targeting their exports to developed countries (Gurau and Ranchod, 2005). While, some scholars indicate that firms from emerging markets may have several disadvantages in pursuing a differentiation positioning (Spanos *et al.,* 2004), Li and Li (2008) demonstrate that product differentiation enhances the financial performance of firms from emerging countries. However, others support that differentiation positioning allows companies to charge a premium price for their "green" products, provides them with a chance to open up new markets and segments, increases their pricing power and enhances their sales revenue and profit margins (Delmas and Grant, 2008; Hills and Jones, 2010; Porter van der Linde, 1995). Moreover, environmentally friendly companies with the

adoption of differentiation positioning can strengthen their customer satisfaction, heighten the repeat purchases of their existent customers, and broaden their customer portfolio in international markets (Martin-Tapia *et al.,* 2009; Zou *et al.,* 2003). Thus, we hypothesize the following:

> *H_4:* The relationship between the level of green business strategy and export financial performance is stronger the greater the degree of green product differentiation.

2.2.4. The Moderating Role of Cost Leadership

An exporting company may also employ a low-cost positioning while implementing green business strategies in foreign markets, which is consistent with the argument that any environmental costs imposed on companies can be offset by increased cost savings derived from the more efficient use of natural resources (e.g., Christmann, 2000; Fuller and Ottman, 2004; Klassen and McLaughlin, 1996). Numerous opportunities stem from the adoption of a low-cost positioning such as: (1) the emergence of economies of scale; (2) the collaboration with other members of the value chain (i.e., suppliers, distributors etc.) with the intent of decreasing costs; (3) the elimination of inefficient processes by redesigning production systems; (4) encouraging resource productivity with an aim of decreasing total costs, and (5) simplifying product design/packaging and overall offering more economical products enhancing product value (Menon and Menon, 1997; Miles and Covin, 2000; Olson, 2008; Porter van der Linde, 1995).

Companies employing a low-cost positioning, as is typically the case for companies from emerging countries, have a chance to reinforce their operational and financial efficiencies, while pursuing environmental initiatives (Porter, 1991). More specifically, Aulakh et al. (2000) find that firms from emerging markets improve their export performance when they possess cost-based leadership. Companies able to lower product prices, can not only retain their existing customers, but also attract more customers from foreign markets (Miles and Covin, 2000). Moreover, Orsato (2006) notes when combining a low-cost positioning with green organizational processes firms achieve an overall "eco-efficiency" strategy. Further, several scholars indicate that low-cost positioning provides companies with the support for both market and financial performance in terms of boosting their export sales and profits (e.g., Leonidou *et al.,* 2011; Leonidou *et al.,* 2017; Murray *et al.,* 2011). Therefore, we hypothesize the following:

H_5: The relationship between the level of green business strategy and export financial performance is stronger the greater the degree of cost leadership.

3. Research Methodology

3.1. Research Context

The present study was conducted in Turkey, one of the top 10 emerging economies (Garten, 1997) that has a similar institutional environment with other emerging markets (Cavusgil *et al.,* 2002). Turkish economic growth highly relies on the exports of manufactured goods where more than 50% follow a direct exporting model (TSI, 2016). The European Union constitutes the most important market for Turkey; Turkey's exports to Europe reached 84.1 billion US dollars in 2018, in comparison with 14.5 billion dollars in 2000 (TEA, 2019). Further, environmental practices have gained an increased emphasis (Tatoglu *et al.*, 2019), with the number of firms adopting ISO14001 certifications rising from 91 in 2000 to 2001 in 2017 (ISO, 2018). Therefore, data collected from Turkish exporters serve as a good source for benchmarking and enriches the accumulated knowledge on companies from emerging countries.

3.2. Sample and Data Collection

We used a cross-sectional sample of 1000 exporting manufacturing companies, which were randomly selected from the Turkish Exporters' Assembly. Firstly, we contacted each company by telephone in order to explain the purpose of the study, identify key knowledgeable personnel working within the company (i.e., general manager, export manager, marketing manager, quality manager or corporate communications manager), and explore their willingness to participate in the study. Of these, 124 companies were out of coverage, since some of them operate solely on preparing exporting documentation or operate as intermediary agents. Another 152 refused to participate in the study for various reasons such as lack of time, and company procedures, while 90 companies did not find the questionnaire applicable. Secondly, the questionnaire was sent to 634 key informants from exporting manufacturing companies via e-mail. Thirdly, two weeks after the initial e-mail, follow-up calls were made, and the questionnaire was resent with a reminder note. In addition, personal company visits were made to encourage participation. Overall, a final total of 252 questionnaires were collected with 224 usable responses, due to the considerable amount of missing values and inconsistencies among the answers, demonstrating an effective response rate of 39.7%.

3.3. Measures

Respondents were asked to focus on their major export product-market venture when replying to the questionnaire in order to obtain variation in the data (e.g., Theodosiou and Katsikeas, 2013). The questionnaire was designed in English, translated into Turkish and then back-translated. In order to ensure face validity, the questionnaire was reviewed by three academic researchers in marketing and international business and the pilot tested by using a two-phase process to assure that its content is clearly understood by respondents. After making a few adjustments, the revised questionnaire was pretested with 10 exporting manufacturing companies, using a sample of 45 exporting manufacturing companies that were excluded from the main survey, and signifying no particular problem for further study.

Furthermore, the operationalization of constructs was derived from established scales which demonstrate reliability values higher than 0.70 as a criterion in the pertinent literature (Nunnally and Bernstein, 1994) (Table I). All questionnaire items consisted of a seven-point Likert scale, that varied from strongly disagree (1) to strongly agree (7). The measure of internal environmental orientation was derived from Park and Ghauri (2015), consisting of four items, while green human resources assets were derived from Navarro-Garcia *et al.* (2016). With respect to green business strategy, the seven-item scale of Banerjee *et al.* (2003) was utilized, while for product positioning, (i.e. green product differentiation and cost leadership) and export financial performance the scales were identified from the work of Leonidou *et al.* (2017).

4. Analysis and Results

4.1. Measurement Model

Prior to testing our hypotheses as described by our conceptual model (Figure 1), we validated the scales and conducted the required exploratory and confirmatory factor analysis. Overall, the fit of the confirmatory factor analysis is good (χ^2/df =400.1/241=1.66, CFI=0.976, TLI=0.970 and RMSEA=0.055), all item loadings are significant at the 0.01 level, the average variance extracted (AVE) values are higher than 0.5, and composite reliabilities (CR) are higher than 0.7 (Table I), indicating acceptable reliability and convergent validity (Fornell and Larcker, 1981). Further, discriminant validity is demonstrated since the square roots of AVE were greater than the corresponding row and column values (Table II).

>>>>>>>>>>>>>>>> Insert Table I about here <<<<<<<<<<<<<<<<

4.2. Common method bias

Since information was collected by the same source and was self-reported data, common method variance tests were conducted (Podsakoff *et al.,* 2003). Application of the Harman's single-factor test indicated that common method variance is not a problem in this study; based on a principal components analysis the first factor explained 23.9% of the variance and therefore no construct accounts for a majority of the total variance. Further, a confirmatory factor analysis was performed with all manifested items loading on a single latent factor producing a poor fit (χ^2/df =3844.1/275=13.98, CFI=0.462, TLI=0.414 and RMSEA=0.243). In addition, the correlations between constructs (Table II) are clearly lower that 0.90 providing additional support that this study does not suffer from common method variance bias problems (Pavlou *et al.,* 2007). Multicollinearity was also examined using the variance inflation factor (VIF). The highest VIF value was 2.76 which is below the commonly acceptable threshold of 3.3 and provides additional support that this study does not suffer from common method variance (Kock, 2015).

>>>>>>>>>>>>>>>> Insert Table II about here <<<<<<<<<<<<<<<<<

4.3. Hypotheses testing

In order to deal with missing values for some of our variables, we employ a full information maximum likelihood (FIML) method for testing our hypotheses. FIML is an effective method for delivering efficient estimates, but most importantly, it is very efficient when it comes to attenuating the issue of list-wise deletion bias, which can be rather complex to treat when employing alternative methods of analysis (Enders, 2001). Our results indicate (Table III – model 1) that green business strategy does have a positive and significant relationship (β=0.31, $p<0.01$) with export financial performance (H_1). Further, the hypothesized moderating effect of internal environmental orientation (ENVO) on green business strategy (H_2) is found to be significant (β=0.11, $p<0.05$) (Table III – model 2). However, the hypothesized moderating effect of green human resources (GHUMR) on green business strategy (H_2) is found to be insignificant (β=-0.11, n.s.) and its direct effect negative and significant (β=-0.24, $p<0.01$). This does indicate that contrary to our hypothesis, the assignment of green human resources is an expensive matter that does reduce the profitability of our sample companies.

We find green product differentiation to moderate green business strategy (β=-0.22, p<0.01), but contrary to our hypothesis (H_3), it has a negative effect on financial performance (Table III – model 3). This finding indicates that green differentiation is an expensive proposition for our Turkish exporters as it does reduce profitability. Finally, as hypothesized (H_4), we find green business strategy and cost-leadership to be complementary (β=-0.20, p<0.05). Given these findings, we proceeded with testing the 3-way interaction of green business strategy with cost-leadership and green product differentiation (Table III – model 4). This test indicates that when companies from our sample pursue a green business strategy and combine it with both a green product differentiation and cost leadership, they are successful in achieving higher levels of financial performance. Overall, the robustness of our model is demonstrated with the inclusion of all independent variables in a single model with the significance of the aforementioned results maintained (Table III – model 5). Among our control variables, the number of exporting countries significantly improves export financial performance, while company age demonstrates a negative effect on financial export performance.

>>>>>>>>>>>>>>> Insert Table III about here <<<<<<<<<<<<<<<<

Overall, our results indicate that green business strategy does indeed facilitate higher levels of export financial performance. On one hand, internal environmental orientation and cost leadership are both complementary with green business strategy. On the other, while a green product differentiation negatively moderates green business strategy, green product differentiation that maintains a cost leadership does have a positive complementary effect.

6. Discussion and Conclusion

This study contributes to the growing literature about green business strategy and is stimulated by the question: "when does it pay to be green?" More specifically, it draws upon the insights of both the resource-based view and contingency theory and enhances our understanding of green business strategy's impact on exporting performance when pursued by companies from emerging countries.

First, we find that firms from emerging countries, and more specifically Turkey, when they adopt a green business strategy and reduce their environmental footprint (Child and Tsai, 2005; Sarkis *et al.,* 2011; Zhu and Sarkis, 2004) benefit from higher levels of export financial performance. This is also congruent with the results of previous empirical studies conducted

mainly among domestic manufacturing companies (e.g., Fraj *et al.,* 2011; Martín-Tapia *et al.,* 2010). Given the implementation challenges of green business strategies for firms from emerging economies, we confirm that addressing environmental concerns in highly competitive international markets does indeed contribute to improved financial performance (Leonidou *et al.,* 2012; Leonidou *et al.,* 2017; Sarkis *et al.,* 2011). However, the main contributions of the present study deal with the circumstances that influence the effectiveness of green business strategy on export financial performance.

Second, the examination of our first set of hypotheses dealing with key internal resources, reveals that employee and manager environmental orientation of our export companies is complementary to their green business strategies for achieving higher levels of export performance. This is attributed to the significant role environmental orientation plays on the green business strategy-performance link, since managers and employees play a decisive role in initiating and implementing environmentally friendly activities within a company (Sarkis *et al.,* 2010; Gonzalez-Benito and Gonzalez-Benito, 2010; Park and Ghauri, 2015). On the other hand, green human resource assets do not demonstrate a significant moderating role on the link between green business strategy and export financial performance. Given the negative direct effect of green human resource on export financial performance, our results indicate the presence of additional costs imposed by the allocation of personnel on environmental activities (Hahn *et al.,* 2014; Walley and Whitehead, 1994). Such an allocation appears to be even harder for firms from emerging economies, which are characterized by weaker enforcing mechanisms that makes hiring skilled labor force more expensive and difficult (Latukha, 2015).

Third, we find that a cost-leadership position for companies from emerging markets enhances the effect of green business strategies on export profitability (e.g., Carmona-Moreno *et al.,* 2004; Orsato, 2006; Aragon-Correa *et al.,* 2008). In this sense, these companies draw from their natural advantage of enjoying lower production costs (Aulakh *et al.,* 2000). However, we find green product differentiation to negatively moderate the relationship between green business strategy and export financial performance. This could be partially accredited to the requirement of higher R&D and advertising expenditures for product differentiation (Porter, 1985). Further, several scholars have emphasized that consumers in developed markets have negative perceptions for products made in emerging markets and associate them with lower prices and quality (e.g., Cordell, 1993). Hence, it makes it difficult

to develop a unique image and charge premium prices for their green differentiated products due to their poor-quality reputation in international markets (Aulakh *et al.,* 2000). Moreover, intense competitiveness and dynamism nature of foreign markets, create an essential challenge and additional costs for firms from emerging markets in order to offer differentiated products and overcome the liability of foreignness (Barnard, 2010; Gaur, Kumar, and Sarathy, 2011; Panibratov, 2015).

Fourth, our empirical evidence extends beyond our hypotheses and demonstrates that exporting firms from emerging markets can indeed achieve success in their green product differentiation when pursuing a green business strategy. In fact, they can achieve superior financial performance in international markets when they simultaneously apply green product differentiation and maintain cost leadership which is consistent with other studies (e.g., Hitt *et al.*, 1997; Karnani, 1984; Spanos *et al.,* 2004). In this context, the two different product positioning approaches are not mutually exclusive, but in fact are complementary (Hill, 1988); the seemingly paradoxical combination of cost-leadership and differentiation appears as a winning strategy. However, previous studies suggest that exporting firms from emerging countries do not benefit when implementing both cost leadership and differentiation (e.g., Aulakh *et al.*, 2000). Further, our finding supports that emerging-market firms are catching-up and their capabilities have improved over the last two decades (Lamin and Livanis, 2013). This is reflected by their increased adoption of green business strategies and their ability to differentiate but under cost-leadership conditions. In our context, when offering green differentiated products in conjunction with a green business strategy may reduce their margins unless they do this while maintaining a cost leadership.

6.1. Theoretical and Managerial Implications

The contribution of this research to the literature is five-fold. First, it improves our understanding of firms from emerging markets, which are characterized by weak infrastructures and institutions. Second, we investigate the effect of green business strategies on financial performance within export context. Third, we reveal conditions that affect the influence of green business strategy on export financial performance. Fourth, we demonstrate the need for the simultaneous integration of green product differentiation and cost leadership in order to more effectively manage green business strategy. Finally, this study indicates the instrumental role of environmental orientation on the green business strategy-performance link.

Overall, internal resources and product positioning play a significant role on the effect of green business strategy on export financial performance.

In terms of implications for practitioners, this study suggests how they should anticipate achieving payback advantages from their green business strategy in their international operations. First, managers should observe the vital place of green business strategies in enhancing their export profit performance by the help of product positioning (i.e., green product differentiation and cost leadership) in international markets. However, managers need to recognize that the effect of environmental operations is further enhanced by the right set of resources (e.g., environmental orientation, green product differentiation, and cost leadership product positioning). In particular, firms from emerging markets should implement both green product differentiation and cost leadership at the same time, with an aim of achieving superior performance. Moreover, it is crucial for managers to increase the environmental awareness of their employees and managers, which enhances environmental orientation within the organization. Lastly, exporters in emerging markets have no alternative option but to internalize green matters in achieving long run success in foreign markets, since host markets, especially developed markets, are often more conscious regarding the unfavorable impact on nature and compliance with green standards.

6.2. Limitations and Future Research Directions

Like all empirical studies, this study faces certain limitations. For example, this study was conducted with exporting manufacturing companies from a single country. Furthermore, the relationship between variables were established with the help of a cross-sectional design, which constitutes a limitation from a causality perspective. Moreover, a multi-industry context prevents gaining any industry-specific characteristics that could provide interesting insights into the relationship between green business strategy and export financial performance. However, adopting a multi-industry setting also allows researchers to make some generalizations across industries (Schmalensee, 1989). Further, the effect of human resource allocation for the development of green business strategy takes time. Therefore, while we find a negative impact on short term financial performance, a longitudinal study would shed more light about the long-term effects and the possible improvement in competitive position that we do not examine.

Overall, this research enlightens key issues associated with green management in an emerging market within the context of exporting, which can stimulate future research. It is

crucial to replicate this research in other countries from a wider range of environmental settings and conduct comparative studies that may allow us to gain more insights into green business strategies. Further, need to more closely examine the role of export market characteristics with regards to their environmental public concern and rigidity of environmental regulations. Another future research area could investigate the dyadic links between exporters and importers with respect to green issues within international business settings. Also, future research could differentiate between reactive green business strategies (i.e., regulatory driven) and proactive green business strategies (i.e., voluntarily driven). More research is certainly required for exploring the effect of other potential boundary factors (e.g., market orientation and stakeholder pressures) and control variables (e.g., environmental uncertainty and competitive intensity).

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Figure 1. Conceptual Model

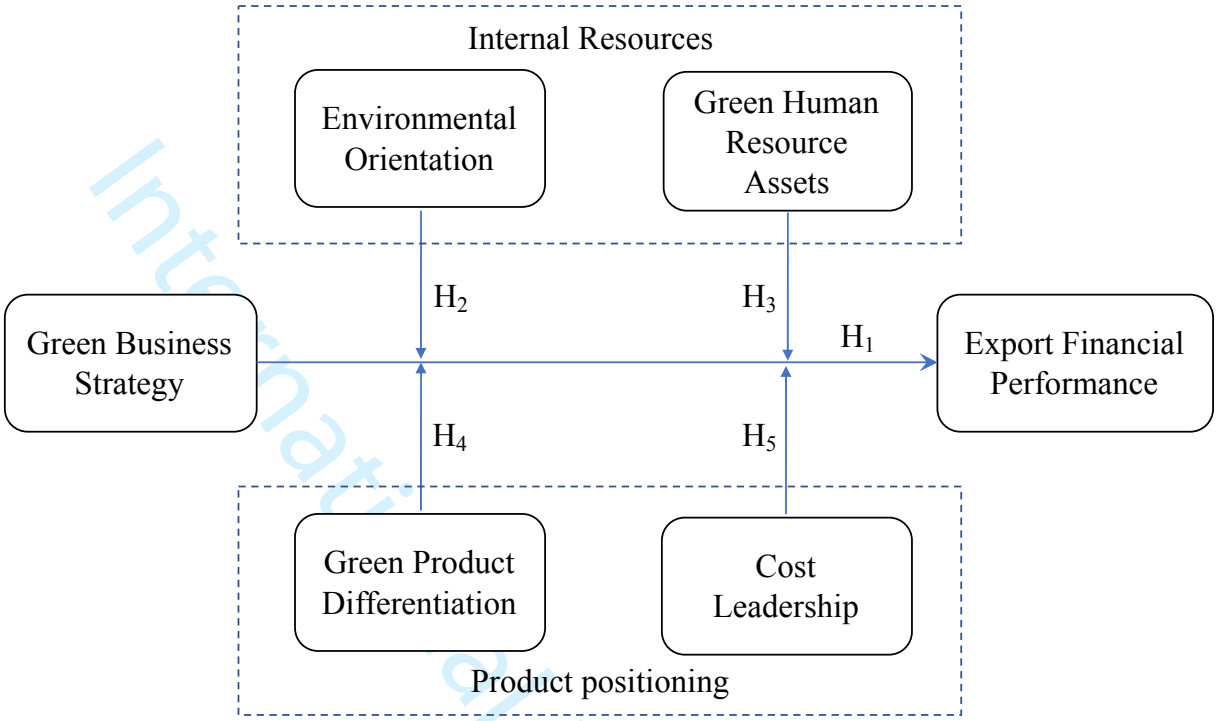

Table I. Measurement model

Construct and item wording	Standardized Loading
Please indicate to what extent you agree with the following statements while exporting your products to your major export country. (1=Strongly Disagree, 7= Strongly Agree)	
Green Business Strategy (CR = 0.97, AVE = 0.80)	
Our firm has integrated environmental issues into our strategic planning process	0.91
In our firm, quality includes reducing the environmental impact of products and processes	0.91
At our firm we make every effort to link environmental objectives with our other corporate goals	0.90
Our firm is engaged in developing products and processes that minimize environmental impact	0.93
Environmental protection is the driving force behind our firm's strategies	0.86
Environmental issues are always considered when we develop new products	0.87
Our firm develops products and processes that minimize environmental impact	0.88
Environmental Orientation (CR = 0.95, AVE = 0.83)	
Our managers and employees perceive environmental issues as an important mechanism potentially contributing to the creation of corporate value	0.92
Our managers and employees perceive that environmental issues enhance competitive advantage, and eventually improve the economic value of the firm	0.85
Our managers and employees believe firms need to contribute to environmental matters	0.95
Our managers and employees believe being environmentally responsible is the most important thing a firm should do	0.91
Green Human Resource Assets (CR = 0.98, AVE = 0.96)	
We allocate/have/assign high number of managers concerning with environmental activities	0.98
We allocate/have/assign high number of employees concerning with environmental activities	0.98
Green Product Differentiation (CR = 0.97, AVE = 0.89)	
We offer innovative, ecological goods in the foreign market	0.95
We offer environmentally friendly products of superior quality in the foreign market	0.94
We offer innovations in our ecological products in the foreign market	0.97
We offer ecological products with distinctive characteristics in the foreign market	0.92
Cost Leadership (CR = 0.93, AVE = 0.87)	
We offer the lowest cost for exports in our industry in the foreign market	0.93
In the foreign market that we operate, we offer the lowest prices	0.93
Export Financial Performance (CR = 0.97, AVE = 0.85)	
Our company's export profits is better than that of its major competitors	0.90
Our company's export sales is better than that of its major competitors	0.91
Our company's export sales intensity is better than that of its major competitors	0.92
Our company's return on export profits is better than that of its major competitors.	0.94
Our company's return on export-related investment is better than that of its major competitors	0.93
Our company's return on export-related capital is better than that of its major competitors	0.93

Notes: CR, composite reliability. AVE, average variance extracted

Table II. Correlation table and descriptive statistics

		1	2	3	4	5	6	7	8	9	10
1	Export Financial Performance	*0.92*									
2	Green Business Strategy	0.40	*0.89*								
3	Green Product Differentiation	0.36	0.64	*0.94*							
4	Cost Leadership	0.34	0.47	0.61	*0.93*						
5	Environmental Orientation	0.31	0.67	0.46	0.37	*0.91*					
6	Green Human Resource Assets	0.16	0.63	0.41	0.28	0.61	*0.98*				
7	Company age	0.05	0.15	0.01	0.09	0.16	0.16	-			
8	International experience	0.09	0.19	0.12	0.10	0.06	0.17	0.75	-		
9	No of employees	0.04	0.05	0.04	0.02	0.06	0.01	0.34	0.41	-	
10	No of exporting countries	0.13	0.05	0.05	0.07	-0.05	0.06	0.45	0.37	0.22	-
	Mean	5.71	5.87	5.40	4.70	5.88	5.75	33.3	21.6	2967	38.2
	Std. Dev.	1.17	1.23	1.53	1.63	1.19	1.70	22.1	13.5	19531	33.8

Table III. Full Information Maximum Likelihood estimates predicting export financial performance

	Model 1	Model 2	Model 3	Model 4	Model 5
	Unstandardized/Standardized				
GBS (H1)	0.31/0.32* (3.35)	0.31/0.33* (3.42)	0.28/0.30* (3.00)	0.22/0.23* (2.22)	0.21/0.22* (2.17)
GDIFF	-0.00/-0.00 (-0.04)	-0.00/-0.00 (-0.00)	-0.03/-0.03 (-0.36)	-0.03/-0.03 (-0.39)	-0.03/0.03 (-0.38)
COSTL	0.17/0.18* (2.39)	0.15/0.16* (2.17)	0.16/0.16* (2.28)	0.11/0.09 (1.45)	0.08/0.09 (1.13)
ENVO	0.19/0.20* (2.37)	0.24/0.25* (2.75)	0.16/0.17* (2.04)	0.16/0.17* (2.05)	0.24/0.25* (2.77)
GHUMR	-0.20/-0.21* (-2.62)	-0.24/-0.25* (-2.88)	-0.20/-0.21* (-2.74)	-0.19/-0.20* (-2.66)	-0.20/-0.21* (-2.47)
GBS x ENVO (H2)		0.11/0.18* (1.68)			0.12/0.21* (1.95)
GBS x GHUMR (H3)		-0.11/-0.16 (-1.46)			-0.05/-0.08 (-0.69)
GBS x GDIFF (H4)			-0.22/-0.34* (-3.03)	-0.14/-0.14* (-1.76)	-0.17/-0.26* (-2.02)
GBS x COSTL (H5)			0.20/0.25* (2.36)	0.23/0.30* (2.58)	0.23/0.29* (2.55)
GDIFF x COSTL				0.02/-0.03 (0.29)	0.02/0.02 (0.23)
GBS x GDIFF x COSTL				0.10/0.28* (2.32)	0.10/0.28* (2.35)
Company age+	-0.28/-0.19* (-1.91)	-0.30/-0.20* (-2.03)	-0.27/-0.18* (-1.86)	-0.21/-0.14 (-1.45)	-0.22/-0.15 (-1.54)
International experience+	0.22/0.14 (1.51)	0.22/0.14 (1.48)	0.24/0.15* (1.66)	0.19/0.13 (1.34)	0.19/0.12 (1.33)
No of employees+	-0.07/-0.11 (-1.58)	-0.06/-0.10 (-1.41)	-0.09/-0.13* (-1.93)	-0.09/-0.14* (-2.03)	-0.08/-0.12* (-1.82)
No of exporting countries+	0.24/0.27* (4.00)	0.22/0.26* (3.78)	0.23/0.26* (2.73)	0.22/0.25* (3.79)	0.20/0.23* (3.48)
Constant	0.01/0.01 (0.02)	0.07/0.07 (0.20)	0.09/0.10 (0.29)	0.05/0.05 (0.15)	0.06/0.07 (0.19)
R-squared	0.285	0.294	0.314	0.328	0.342
Observations	224	224	224	224	224

Notes: t-test in parenthesis. * $p<0.05$, one-tailed tests. + LOG transformed. GBS = Green Business Strategy, GDIFF = Green Product Differentiation, COSTL = Cost Leadership, ENVO = Environmental Orientation, GHUMR = Green Human Resource Assets.