



To Study the Perceived Impact of Green Marketing Initiatives of Companies on their Financial Performance

NIKITA AGARWAL

Assistant Professor, College of Vocational Studies, D.U.
Delhi (India)

Abstract:

In the current economic scenario where industrialisation plays a major role in the economic development of a nation, initiatives such as Green Marketing are necessary to protect the environment from the harmful effects of industrialisation. The companies that are engaged in manufacturing & selling goods, or providing services are one of the major sources of pollution in the environment and are causing depletion of natural resources by their excessive use. Thus, it is their ethical and moral duty to take steps towards protecting the environment for future generations. Green marketing is one such initiative. However, until now not many companies have adopted such activities rigorously. This paper is an attempt to analyse if adopting green marketing activities result in any change in financial performance of the companies on the basis of which they could be motivated to take such initiatives with reference to companies situated in Indore.

Keywords: Cost, Financial Performance, Green Marketing, Profit, Turnover

1. Introduction

A topic that the media, politicians, organisations and general public have been talking about during the past decade is the environmental friendliness or so called “Green Marketing”. Consumers began to espouse concern for the environment. In fact, through a survey carried out in America, Gutfield (1991) found that eight out of ten consumers were claiming to be environmentalists (cited in Grove, Fisk, Pickett & Kangun, 1996). According to Mainieri and Barnett, 1997, as cited in Juwaheer, 2005, the environment has faced massive destructive changes: diminution of natural resources, damage to the ozone layer, and loss of agricultural land. In the recent years, due to the massive amount of environmental pollution caused by firms in the world, people have become more aware of the environmental issues. Therefore, due to the attention of the society, many organisations have started to accept their environmental responsibility (Chen, 2010). Similarly, Kangun et al., 1991 as cited in Martin & Simintiras, 1995 argued that firms were trying to respond to the rising environmental concern of consumers by selling green products. Consequently, many organisations started to promote themselves as green companies, that is, they began to produce and market goods or services in a way which minimises damage to the environment.

Customers often link **green marketing** with terms such as recyclable, refillable, ozone friendly and environmentally friendly (Polonsky, 1994 and Li, 2008). Whilst these terms are green marketing claims, in general, green marketing is a much broader concept. Green marketing is applicable to consumer goods, industrial goods and as well as services. Theoretically speaking, green marketing is about designing, developing and delivering products that are eco friendly which cause less as possible harm to the environment and its stakeholders (Chitra, 2007).

The American Marketing Association (AMA) has defined green marketing as the marketing of products that are not harmful to the natural environment (Anonymous, 2011).

Similarly, Pride and Ferrell (1993) notified that the term “green marketing” portrays an organisation’s efforts at designing, promoting, pricing and distributing goods that will not cause damage to the environment (cited in Grove et al, 1996).

Later, Polonsky (1994) proposed a definition of green marketing which has a broader focus than those of other investigators and it also includes all main elements of other definitions. His definition is as follows: “Green or Environmental Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment”.

The term Environmental Marketing (popularly known as Green Marketing) came into prominence in the late 1980s and early 1990s. It began in Europe when specific products were identified as being harmful to the earth’s atmosphere. As a consequence, new “green” products were introduced that were less damaging to the environment. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. The proceedings of this workshop resulted in one of the first books on green marketing entitled "Ecological Marketing".

According to the Joel makeover (a writer, speaker and strategist on clean technology and green marketing), green marketing faces a lot of challenges because of lack of standards and public consensus to what constitutes "Green".

The green marketing has evolved over a period of time. According to Peattie (2001), the evolution of green marketing has three phases:

- The first phase was known as "Ecological" green marketing, and during this period all marketing activities were concerned to help environment problems and provide remedies for environmental problems.
- The second phase was "Environmental" green marketing and the focus shifted on clean technology that involved designing of innovative new products, which take care of pollution and waste issues.
- The third phase was "Sustainable" green marketing. It came into prominence in the late 1990s and early 2000. This was the result of the term sustainable development which is defined as "meeting the needs of the present without compromising the ability of future generations to meet their own needs”.

2. Components of Green Marketing

Green Marketing Management is the process of planning and executing the *marketing mix* to facilitate consumption, production, distribution, promotion, packaging and product reclamation in a manner that is sensitive or responsive to ecological concerns. The four basic elements of marketing mix that is product, price, place, promotion also form the basis of green marketing mix. The 4 Green P’s of Green Marketing Mix are:

Green Product: A product that is ecologically friendly is referred to as a Green Product. These are such products that not save water, energy and money but also reduce harmful effects on the environment. The marketer's role in product management includes providing product designers with market-driven trends and customer requests for green product attributes such as energy saving, organic, green chemicals, local sourcing, etc. The manufacturing of a green product might incorporate a modified input or raw material that is environmental friendly or other modified characteristics such as production process or packaging of the product in a form that is safer for the environment.

Green Price: Green pricing takes into consideration the people, planet and profit in a way that takes care of the health of employees and communities and ensures efficient productivity. Value can be added to it by changing its appearance, functionality and through customization, etc. The green price is determined carefully after analysing the desired benefits and relative costs of a product. The green

price assimilates the green value that the product is offering to the consumers who are environment conscious. It includes a certain amount of premium that the firms charge for delivering environmental value to the customers.

Green Place: The choice of where and when to make a product available has a significant impact on the customers being attracted. Very few customers go out of their way to buy green products merely for the sake of it. Marketers looking to successfully introduce new green products should, in most cases, position them broadly in the market place so they are not just appealing to a small green niche market. The location must also be consistent with the image which a company wants to project. The location must differentiate a company from its competitors. This can be achieved by in-store promotions and visually appealing displays or using recycled materials to emphasize the environmental and other benefits.

Green Promotion: Green promotion involves configuring the tools of promotion, such as advertising, marketing materials, signage, white papers, web sites, videos and presentations by keeping people, planet and profits in mind. Toyota is trying to push gas/electric hybrid technology into much of its product line. It is also making the single largest R&D investment in the every-elusive hydrogen car and promoting itself as the first eco-friendly car company. Green marketer can attract customers on the basis of performance, money savings, health and convenience, or just plain environmental friendliness, so as to target a wide range of green consumers.

3. Literature Review

Green marketing term appeared at the end of the 1980's. This concept has been defined by many researchers such as Stanton and Futrell (1987), Mintu and Lozanda (1993) and Polonsky (1994), (cited in Ghosh, 2010) in a broad sense it is the marketing activities which facilitate exchanges to satisfy consumer needs and wants by minimizing the impact of these activities on the physical environment.

The study by Sudhanshu Joshi et al(2008) identified the Examples of Corporates Initiatives towards green branding in Banking. India's largest private bank ICICI asks its customers to sign up for paperless bank statements and the bank plants a tree for each complying customer. In Brazil Unilever and WalMart have built sustainable houses within stores made from recycled products and showing how to make everyday living more eco friendly.

According to Kotler and Keller (2009) integrated marketing can be defined as "mixing and matching" marketing activities to maximize their individual and collective efforts. The most basic classification of marketing that is the McCarty Classification also called marketing mix is composed of four elements (the 4P): product, price, promotion and place (Kotler and Keller, 2009).

Dutta, B. (2009, January) in his article on Green Marketing titled Sustainable Green Marketing the New Imperative published in Marketing Mastermind states that Green Marketing involves developing good quality products which can meet consumer needs and wants by focusing on the quality, performance, pricing and convenience in an environment-friendly way.

Unruh, G. And Ettenson, R. (2010) in their research article titled, Growing Green: Three smart paths to developing sustainable products. Published in Harvard Business Review, is for executives who believe that developing green products make sense for their organization and need to determine the best path forward.

Chandrasekaran(2010) examined that Indian companies are going green in line with many of their Western counterparts who are building environmental sustainability into their business practices. The

companies like Walmart, Bajaj Auto, CISCO, Wipro, PepsiCo's and MRF have adopted green supply chain initiatives into their marketing system.

In view of Chang, 2011, the price of eco-friendly products are more expensive than the conventional ones and others view it not due to the healthy part of the products. The benefits of the products make some of the consumers go extra to pay more for the products. They believe that it will preserve the deterioration of the earth so spending or bearing extra cost is worthy of the cause.

The study by Moloy Ghoshal (2011) examined that green marketing was still in infancy. In the perception of marketing scholars, green marketing refers to eco-level and market segmentation and the role of structural factors and economic incentives in influencing consumer behaviour. The green marketers must understand to satisfy two objectives: improved environmental quality and customer satisfaction.

4. Objectives

- To study the impact of Green Marketing initiatives of the companies on their financial performance.
- To find out major factors of green marketing that would encourage more companies to take up such initiatives.

Ho₁: There is no association of green marketing activities of companies on their financial performances.

5. Research Methodology

The population concerning the present study is all the companies belonging to different industries in the region of Indore. Since there are a large number of companies in and nearby Indore it was not possible to collect data from the entire population due to lack of time. Thus, the method of convenience sampling had been used and a sample size of 30 companies had been taken for this research. To obtain the relevant information primary data has been gathered by way of questionnaire. Survey of employees had been used to collect Primary Data. Since the employees have knowledge about the activities and their respective impacts on the firm, the data collected through survey would be used for analysis. Different employees working at different levels in different organisations were considered for carrying out research. The sample includes workers, employees of different departments, heads of the departments & the top level management. After collecting all the data the process of analysis began. To summarize and rearrange the data statistical procedure was performed during the data analysis stage. The data was analyzed based on variance, average and cumulative average of the data obtained on likert scale.

6. Green Marketing & Financial Performance

The present study was conducted to derive a relationship between the green marketing activities of companies and their financial performance. The objective was to identify if there was any impact of the green marketing initiatives of companies on their financial performance. In general there are various dimensions of measuring the financial performance of a company.

Financial Performance: The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time is termed as financial performance of companies. It gives an outcome regarding workings and performance of a company during a specific period. It relates to the earning capacity and utilization of available resources. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall

financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. In short, the firm itself as well as various interested groups such as managers, shareholders, creditors, tax authorities, and others.

Through our study we tried to analyse:

- **Change in Turnover** of a company due to its green marketing activities. Through our study we tried to find out whether the company's sales have been affected by its green marketing initiatives or not? The two possibilities that could have arisen were that there had been significant or little change in the sales of a company or the sales were not affected by the green marketing initiatives of companies. For instance, the "organic" industry, for example, which specializes in the sale of organically based foods, health and nutritional products, and other green lifestyle items, saw its sales boom in the 1990s, from \$1 billion in 1991 to \$3.3 billion in 1996. The change could be the result of any component of green marketing that is either the mix of all 4 Ps of marketing or any of the P's of marketing.
- Another aspect of financial performance is **change in profitability** of the company due to its green marketing activities. In the current study we have tried to analyse whether the green marketing initiatives of companies have had any impact on its profitability. By focussing on efforts to reduce inputs and maximize the productivity of outputs, the firm has tremendous opportunity to raise profitability. For instance, if the firm adopts the policy of green packaging such as reusable packaging or lowering the amount of fiber in packaging, the firm can reduce warehouse, distribution and transportation costs and thereby enhance their profits.
- Another criterion for analysing the financial performance is by way of **ascertaining the costs** being incurred by the firm. The cost could be both manufacturing as well as operating costs of the firm. For instance Mercer Color began using vegetable based inks in 1990. Overtime, the firm experienced a 25% reduction in ink costs as well as a more than 50 % reduction in press washing costs.

Though financial analysis of an organization is carried out through the financial statements of the companies, however in our study we have tried to derive this information with the help of primary data collected since we are trying to ascertain the perceived impact of green marketing of companies on their financial performance.

Thus, from the above it is clear that in order to ascertain the impact of green marketing on financial performance of companies we took three variables: change in turnover, change in operating cost and change in profitability. To ascertain the impact of green marketing on these variables we asked the respondents whether there is going to be an increase, decrease or no change in the above mentioned variables. They were asked to give points to each on a likert scale on the basis of their understanding and knowledge. The following three tables are the valuation of the above mentioned variables on the basis of the points given to them on the likert scale.

Table 1: Summary of valuation of points given to each on likert scale (count=30)

| Perceived impact of green marketing activities on turnover of a company | Sum | Average | Variance |
|---|-----|---------|----------|
| Increase | 117 | 3.9 | 0.162 |
| Decrease | 62 | 2.06 | 0.340 |
| No change | 58 | 1.93 | 0.340 |

On the basis of above table, the average of increase in turnover as a result of green marketing activities is 3.9 on a 1 to 5 agreement scale, thus it can be said that the respondents **agree** to it. Similarly, the

average of decrease in turnover as a result of green marketing is 2.06 on a 1 to 5 agreement scale, thus it can be clearly said that the respondents **disagree** to it and the average of no change in turnover comes out to be 1.93 which states that, the respondents **strongly disagree** to it.

Table 2: Summary of valuation of points given to each on likert scale (count=30)

| Perceived impact of green marketing activities on operating cost of a company | Sum | Average | Variance |
|---|-----|---------|----------|
| Increase | 137 | 4.57 | 0.323 |
| Decrease | 55 | 1.83 | 0.282 |
| No change | 53 | 1.76 | 0.322 |

On the basis of above table, the average of increase in operating cost as a result of green marketing activities is 4.57 on a 1 to 5 agreement scale, thus it can be said that the respondents **strongly agree** to it. The average of decrease in operating cost as a result of green marketing is 1.83 on a 1 to 5 agreement scale, thus it can be clearly said that the respondents **strongly disagree** to it and similarly, the average of no change in operating cost comes out to be 1.76 which again states that, the respondents **strongly disagree** to it.

Table 3: Summary of valuation of points given to each on likert scale (count=30)

| Perceived impact of green marketing activities on profitability of a company | Sum | Average | Variance |
|--|-----|---------|----------|
| Increase | 98 | 3.27 | 0.409 |
| Decrease | 73 | 2.43 | 0.323 |
| No change | 77 | 2.56 | 0.530 |

On the basis of above analysis, we can say that the respondents were undecided or unclear about the impact of green marketing activities on the profitability of a company. The average of each of the above expected change in profitability as a result of green marketing comes to be around 3 on a 1 to 5 agreement scale. Thus, it can be said the respondents were **neutral or undecided** about the impact on profitability.

The analysis of the impact on overall financial performance of a company as a result of its green marketing initiatives can be done on the basis of the highest scores given by the respondents to the above variables. According to above tables, it is clear that the highest scores are given to increase in turnover, increase in operating cost and increase in profitability of a company. Thus, the **cumulative average of the following 3.9, 4.57, 3.27 scores shall be 3.91 on a 1 to 5 agreement scale** which states that the respondents **fairly agree** there is going to be an increase or a positive impact on the financial performance of a company as a result of its green marketing initiatives. Thereby accepting the alternate hypothesis that it is likely there is an association between green marketing activities of companies and their financial performances.

7. Limitations of the study

Concerning the data collection and analysis, we realized that our data was likely too small to obtain more relevant data that generated a lack of reliability. Since the number of companies we chose to collect data from was too small in number it will not be right to draw the same conclusion for the entire population. Due to lack of time and resources it was not possible to collect data from a larger sample. Also, in our study we did not differentiate between any category of company or industry, however there are possibilities that the results may vary from industry to industry. Another limitation of the study is that we have also derived some data and facts from secondary sources such as books and academic journals which might suffer from bias or incorrectness.

8. Conclusion

It is evident from the above findings and discussions that there is a positive relation between the green marketing activities of companies and their financial performance on the basis of the perception of the respondents. Even though there is rising awareness for environment amongst the public, yet there are very few companies who have taken serious initiatives in this regard. Finding of another studies have brought to notice that "People in developing countries like India too have high concern for greener environment and have an overall positive attitude towards green marketing". "Their preferences are shifting from grey products to green products and their awareness for environmental concern is high". "In future more and more consumers will prefer green products and they also feel that in future, the companies having green image will be preferred over the others" (Saxena, R. and Khandelwal, P 2009). Thus, it will be beneficial for more and more companies to adopt green marketing practises in order to reap the benefits of change in the preferences of companies. However, there are not few but many obstacles in the adoption of rigorous green practises by companies. Government as well as the research and development departments of various nations needs to bring innovative ideas and technologies to make green activities easier and less costly to adopt.

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