The financial contributions of environmentally friendly products: An empirical investigation

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A multitude of prior studies examined whether eco-friendly product has any impact on financial performance and reported mixed findings (Dangelico, 2016). Drawing on instrumental stakeholder theory (IST) (Jones, Harrison, & Felps, 2018) and resource dependence theory (RDT) (Cuervo-Cazurra, Mudambi, & Pedersen, 2019), this study develops a conceptual framework incorporating an important intervening mechanism (financial constraint) to study the nexus between eco-friendly product and firm performance. Further, the conceptual model of the study encompasses one strategically significant internal boundary condition, namely, corporate brand equity. The sample period of this study is from 2000 to 2019. Data were collected from Eikon, Interbrand and Compustat database. Having collected data from the afore-mentioned sources, all data were merged to arrive at the final dataset. The final dataset consisted of 63 firms involving 63 x 20 years firm/year observations. Since this study developed a system of equations, 3SLS is particularly useful for measuring multiple equations simultaneously (Shankar & Bayus, 2003). This study documents that eco-friendly product impacts the degree of financial constraint (access to finance) of a firm which, in turn, affects firm profitability as measured by return on equity (ROE). That is, financial constraint mediates the nexus between eco-friendly product and firm performance. Second, this study documents that the relationship between eco-friendly product and financial constraint is moderated by the level of corporate brand equity. Third, this research shows that eco-friendly product is both a predictor and consequence of financial performance. That is, there exists a virtuous circle between eco-friendly product and firm performance. The results are robust to alternative measures of key variables of the study as well as different model estimation method. The findings of this study have significant managerial implications. This study shows that managers should adopt and incorporate *environmentalism* in formulation and execution of firm strategies. More specifically, managers should endeavor to build and enhance firm capability for innovation and introduction of eco-friendly products and services as such capability engenders significant financial benefits. This study demonstrates that eco-friendly product positively affects firm performance. That is, firms use eco-friendly product as an *instrument* for performance enhancement. Second, this research documents that eco-friendly product also acts as an enabler to heighten the focal firm's *power* over various resource-controlling external entities for procurement of financial resources. That is to say, this research shows

that eco-friendly product facilitates financial resource procurement which enables the focal firm to execute gainful investment projects which, in turn, affects firm performance. In sum, financial constraint mediates the nexus between eco-friendly product and firm performance. Third, this research shows that the benefit of eco-friendly product is further augmented when the focal firm's corporate brand equity is high. Firms with strong corporate brand benefit more from eco-friendly product in the form of lower financial constraint. That is, corporate brand equity plays a complimentary role in the nexus between eco-friendly product and financial constraint. Fourth, this study demonstrates that there is a *virtuous circle* between eco-friendly product and firm performance.

Key words: Green product, brand equity, firm performance

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