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The Impact of Green Strategy on Organisations' Relational Capital

Christina Arfara*, Irene Samanta

University of West Attica, Greece

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ABSTRACT

The present study aims to explore the relationship between Green Strategy and Relational Capital. In doing so, it also investigates how green policies influence relational capital. The literature review refers to the significance of relational capital and its impact on strategic goals: organisational performance, organisational innovation and the social capital of the organisation. Examining the variables, green strategy and relational capital has also highlighted the factors that are influenced by green policies, including strengthening the negotiation capacity of the organisation, reinforcing knowledge diffusion and the development of a new corporate identity. Green practices that aim to improve the external conditions of the organisation are common characteristics and lead us to the following agents: Customers - Suppliers - Alliances - Corporate Reputation. Consequently, the categorisation of green practices refers to the relational capital's components. The impact of green practices on relational capital is therefore indirectly proven due to the strong relationship between the factors and the components.

Keywords: *Green Strategy, Intellectual-Relational Capital, Negotiation Capacity, Knowledge Diffusion, Corporate Identity*

Introduction

The business environment is characterised by the potential for various correlations to develop, and the degree of importance of certain factors is constantly redefined. As a consequence of this dynamic, concepts such as green strategy, environmental sustainability and relational capital have been taken into account as they emerge as key success factors of the organisation (Clarkson, Li, Richardson, & Vasvari, 2011; Siegel, 2009).

Green management believes that humanity coexists with nature and has a responsibility to protect the environment. Consequently, businesses can grow for as long as nature allows them to (Guener, 2017). Based on this principle, we try to analyse and illustrate the balances developed between the concepts mentioned above in order to ensure

*Corresponding author. Email address: christinearfara@gmail.com

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that the sustainability of the organisation is in full harmony with the principle of respect for the natural environment. By exploring how these concepts are interrelated, we decode the mechanisms that have been put in place and so can better understand the relationship between green strategy and relational capital as we study how the intermediary forces developed by green strategy influence its components.

The present study is developed in four parts. The first part refers to the concept of green strategy, the models developed and the characteristics of green policies, followed by the presentation of the forces of green policies developed by the organisation: Negotiation Capacity - Knowledge Diffusion - Corporate Identity, and their importance. The third part briefly describes the concept of relational capital. In the last part, we explore the relationship between the forces that are being developed with the conditions of the external environment of the organisation.

Theoretical background

Green strategy

The scientific community has strongly criticised traditional management methods as they focus on the social, political and economic environment, disregarding the natural environment and taking into account only the economic risk without considering its effects on the natural environment, purporting the view that man is superior to the natural environment. Society is aware of the new reality, places great emphasis on the environmental footprint of companies. In some cases, compliance with new environmental conditions is imposed by various social/activist groups. In addition, the emergence of environmental movements and the legislative protection of the natural environment has made it compulsory for businesses to comply with environmental conditions, which was initially seen as an additional cost to running the business and possibly reducing profitability. However, green management is gaining ground, and the gradual recognition of green management has led organisations to integrate corporate strategic green principles, which focus on how environmental “issues” can be viewed not only as opponent allies but also as corporate ones leading the organisation to prosperity and ensure her viability by acting proactively.

According to Banerjee (2002), as cited by Garzella and Fiorentino (2014), environmental strategies are essentially a broad recognition by the organisation of the legitimacy and importance of the biophysical environment since it incorporates environmental issues into its strategic planning. Following this, Lee and Rhee (2007) and Sharma and Enriques (2005) consider that environmental values must be rooted and held by relevant authorities.

The adoption of green practices and values aims to improve the quality of life for both consumers and employees as it applies to different levels of management, operation and production of products/services and forms part of a long-term strategy. Green strategies should not be considered separate and operate autonomously, and rather they must interact with other programmes, including corporate social responsibility programmes. Olson (2008) argues that green strategies encourage the creation of a culture that promotes awareness and action as they reinforce behaviours that staff already know and want to adopt on the one hand and on the other to implement training programmes and

actions for those who do not incorporate new values. Adopting green practices facilitates decision-making and initiatives that have a positive footprint on the environment not only strictly within the organisation but also on the way they think and act in their everyday life, for example when it comes to purchasing a product, the final choice depends on the impact it has on energy consumption.

There are two different approaches in the related literature. The first focuses on the socio-institutional perspective of businesses and argues that organisations are turning to green management either to prevent/reduce environmental responsibilities and the costs of complying with the legal framework (Khanna & Anton, 2002) or for ethical, social reasons (Marcus, 2009). The second one places particular emphasis on the organisation's resources and more specifically argues that businesses need to make decisions about managing their resources in order to achieve environmental goals and gain competitive advantages (Clarkson et al., 2011).

Banerjee (2001) developed an environmental strategy model that is based on four (4) pillars and focuses on personnel management (training programs, appropriate communication policies, rewards for employees proposing environmental actions or new ideas), construction (management of waste, rational use of resources, product recycling, selection of suppliers according to environmental standards), corporate governance (investment in research, environmental control and measurement of activities, integrating environmental issues into the values and vision of the organisation) and marketing (reducing the environmental footprint of products/services, implementing educational programs to help consumers gain environmental awareness, highlighting the efforts made in a strategic environmental exercise).

Montabon, Sroufe, and Narasimhan (2007) focused on

- Strategic level (integrating long-term environmental objectives into strategy, clear environmental messages and careful planning of relevant processes/policies, environmental awareness training programmes and actions in general);
- operational level (recycling of waste, reduction of energy consumption through renewable energy sources, packaging materials from recycled materials), incentives and rewards for environmental action development initiatives; and finally
- performance level (external audit and environmental assessment, certification of the organisation for adopting environmentally friendly practices, innovation in the design of new products that possess less or no environmental impact).

According to Guener (2017), the green strategy refers to the integration of environmental sustainability and environmental risks into the organisational culture and decision-making process, which is not the result of external pressures and compliance but stems from genuine corporate responsibility across all levels of administration.

Guener (2017) categorised the characteristics of the green management approach, as illustrated below:

- Long-term goals ensure the viability of organisational green management and are oriented towards the natural environment and its protection
- Green management's top priority is to prevent negative impacts on the natural environment
- The operations of the company follow the modern environmental requirements of stakeholders. Environmental issues are a business priority and embedded in corporate culture.

Similarly, Loknath and Azeem (2017) recorded nine (9) categories of attributes encountered in businesses that have adopted green practices:

- Immediately reducing their environmental footprint and the improvement of their brand name.
- Reducing the exposure of consumers to environmentally friendly products.
- Strengthening recycling policies.
- Saving energy.
- Proceeding with the rational management of resources.
- Implementation of environmental management and control systems.
- Not simply following the requirements of the law but going much further and constantly updating and researching such initiatives.
- Persuading stakeholders to incorporate environmental objectives into their strategy.
- Investing in the development of green management models and products/services.

After analysing the current literature, the subsequent relationships were highlighted:

Green strategy and profitability

Researchers who studied this association documented a positive relationship between green practices and organisation performance. In more detail, environmentally conscious businesses reported higher profits than non-sensitised ones, and the improved indicators they present are not only limited to their financial performance but correlate with an increased market value and intangible assets of other companies, thus acquiring significant profits and making them more competitive. Organisations aim to strengthen their market position, and this is achieved through their diversification, i.e. through the adoption of green practices, which enhance the constant alertness to market needs, the development of new products and the effective communication of the whole venture (Cordeiro & Sarkis, 2001; Gilley et al., 2000; Klassen & McLaughlin, 1996; Link & Naveh, 2006; Ngniatedema & Li, 2014; Schaltegger & Synnestvedt, 2002; Shortt, 2012; Wu & Wu, 2014).

Green strategy and innovation

Soewarno, Tjahjadi, & Fithrianti (2018) highlighted the important and positive relationship between green strategy and green innovation as they argue that the first step to capturing green innovative processes/products/services is green strategy planning. This strategy aims to increase the environmental responsibility of the organisation, reducing its environmental burden, using alternative energy sources; this is not only implemented in the construction sector but is even involved in the provision of services such as logistics, including 3PL (Bask et al., 2018; Centobelli, Cerchione, & Esposito, 2017; Chu, Wang, & Lai, 2019; Lieb, & Lieb, 2010). Shu et al. (2016) differentiated and examined how green practices influence product innovation; specifically, they documented the impact of green practices on radically innovative products, i.e. those that reflect significant technological achievements and create added value for the customer and not through a gradual innovation. Adopting green practices forces companies to revise and either redesign their existing internal functions or design new ones, thereby facilitating the flow of information, ideas and, of course, the implementation of new ideas. Moreover, Diaz-Garcia et al. (2015), in their literature review, refer to mid- and macro-level driving forces, and in particular, concluded that technologies related to green innovation present another kind of

complexity and require development. Strong synergies with external actors promote product/service innovation and enhance knowledge exchange through the development of networks (middle level), further emphasising technology education organisation, i.e. its ability to absorb new knowledge and recognise the value and importance of new information/knowledge (macro-level).

Green strategy and new orientation

Finally, the literature review has highlighted the relationship between green strategy and business orientation as designing and implementing a green strategy cannot prosper without these routes. For this reason, managers need to build a strong identity so that the society in which they operate recognises and accepts the organisation as its survival depends on the legitimacy of society. The stronger the legitimacy is, the more constructive and loyal the support from society becomes. Subsequently, creating a strong identity reflects both management and the way the organisation wants to be treated by its stakeholders, investors, consumers and of course, its human resources. Acquiring green identity enhances and encourages green innovation efforts and green activities and strengthens the organisation's relationships with environmental groups as they share common values and with society as a whole (DeCastro, Saez, & Lopez, 2004; Soewarno et al., 2018; Song, Ren, & Yu., 2019).

Green strategy's forces

After a thorough insight into the concepts mentioned above, we can argue that the green strategy of the organisation develops three forces through the tripartite Performance – Innovation - Orientation and is illustrated as follows:

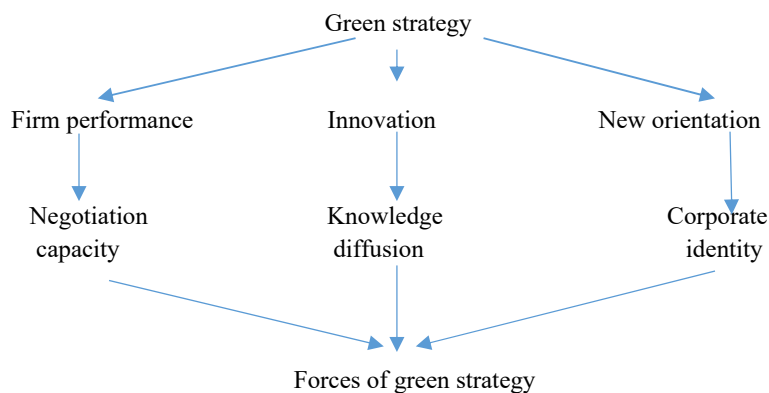


Figure 1: Forces of green strategy

In more detail, the differentiation of the organisation through the adoption of green practices is positively related to the profitability of the organisation both in financial terms as it increases its revenues by conquering new markets and in market value, as well as in non-financial terms because it places great emphasis on market research, the development of new products considered to be innovative and placing high on consumer preferences, thus gaining an edge over competitors. This is followed by the attraction of more valued customers, suppliers and partners who want strategic alliances. In other words, enhancing the position of the organisation gives the business itself a leading role in the

conversations/negotiations it is attempting, greatly improving its negotiation capacity (Schaltegger & Synnestvedt 2002; Wu and Wu, 2014).

Concerning the second force, and based on the preceding discussion, we can argue that innovation is the next step in improved efficiency. This is because the importance that the organisation gives to market research and research and development leads to the development of new products/services on the one hand and the adoption of environmentally friendly processes on the other. Therefore, managers are constantly on the lookout for achievements through specific eco-technological channels in order to identify the best fit for the organisation through comparisons. Collaborations between the organisation and suppliers are constantly sought and evaluated and both wish to develop not just synergies but synergies at a higher point where knowledge sharing, rational management of resources and the willingness of stakeholders to share and absorb new knowledge (Chen & Lu, 2016; Karakaya, Hidalgo, & Nuur, 2014; Walton, Handfield, & Melnyk, 1998).

Finally, the third force that is being developed is related to corporate identity. For the two previous forces to successfully retain their power, managers need to cultivate the appropriate corporate culture and acquire a specific identity. In other words, they must identify those characteristics of the organisation that are basic, representative, lasting and those that come to the minds of consumers and stakeholders (Soewarno et al., 2018; Božac & Tanković, 2015; DeCastro et al., 2004).

According to Song et al. (2019), the development of green identity is the intermediary between green corporate social responsibility and product success because green identity will lead to the desired social legitimacy of the organisation and contribute to the acquisition of a green competitive advantage.

Intellectual capital

The concept of intellectual capital both bridges and explains the difference between the book value of the business and its commercial value as it is a key factor in creating value for the organisation itself, its shareholders and society. It is the perfect combination of the intangible elements of an organisation, which will lead us to acquire new knowledge and to value creation. Although these elements are intangible, they can still be identified, categorised, measured and controlled. An initial categorisation refers to the external structure that includes the clientele, suppliers, shareholders and reputation of the organisation, the internal structure of the organisation at large, as well as its processes, information systems, research and development, and corporate culture in general, and finally the individual skills of the staff, namely the employees' educational level, know-how, values and attitudes.

The three accepted models developed and supported by subsequent researchers are by Sveiby (1997) - Intangible Assets Monitor (IAM), Kaplan (1992) - Balanced Scorecard methodology and, finally, Edvinsson & Malone (1997) - Skandia Navigator (Marti, 2007).

The relevant literature deals with both the same terms and sometimes with different, three-dimensional intellectual capital: *Humans*, which comprises all the human resources at all hierarchical levels and relates to their abilities at both the individual and collective levels. This depends on their degree of motivation, their culture, their education and,

finally, their personal development. The second element, *the system*, deals with the know-how of the organisation and its processes/patents. The third element, *the market*, includes the labour market, money, knowledge and relationships with customers and suppliers and the strategic alliances it develops. Based on these concepts, the conditions that have prevailed concerning the dimensions of Intellectual Capital are human capital, structural/organisational capital and relational capital (Marti, 2007).

The present study takes into account one dimension of intellectual capital, that of relational capital and therefore refers to the factors involved in the concept of relational capital.

Relational capital

Relational capital relates to the organisation's relationships with agents outside its context and is not limited to customer relationships or suppliers but instead extends to the reputation of the organisation and the value of its brand.

Initially, researchers referred only to the relationships of the organisation with customers (Bontis, 1996; Edvinsson & Malone, 1997) but other dimensions such as strategic alliances, partnerships, business reputation and supply chains were soon added and examined; these have even been studied in light of environmental sensitivity (Athanasopoulou, 2009; Bontis, 1999; Brooking, 1996; Chang and Fong, 2010; Chen, 2010; Chen, 2008; DeCastro et al., 2004; Singh, 2015; Sveiby, 1997; Syahchari et al., 2016; Wu, Cheng, Chen, & Hong, 2016; Yadiati et al., 2019). For a better understanding of relational capital, the environmental factors that the organisation interacts with, according to the research mentioned above, are presented below:

Customers: Customers are part of the day-to-day life of the organisation as they are the final recipients of the products/services and studying this relationship such as the structure, composition, behaviour, channels of communication and processes must be a dynamic procedure that is constantly monitored and improved. In this context, by combining environmental concerns and consumer sensitivities, this relationship is of particular research interest, and the literature refers to green trust and green satisfaction, which are positively correlated with green commitment, degree of environmental concern and future environmental concern to purchase environmentally friendly products.

Suppliers - supply chain: The supply chain is an integral part of doing business and a key factor in customer satisfaction. Effective supply chain management and supplier relationships enhance customer service as they can obtain the right product/service, in the right quantity, at the right time and in the right place; of course, there is also support after-sales. Moreover, beneficial agreements reduce operating costs as they achieve better financial terms and thus improve the financial ratios (financial liquidity ratio, and profit margin). In the literature, we meet the terms of a green supply chain and a sustainable supply chain. The majority of sustainable supply chain studies focus on the environmental factor, and according to the literature review (Singh, 2015), these two concepts overlap and are therefore considered and studied as a single concept. Organisations are adapting to new requirements/trends, and the shift towards environmental protection meets the standards of society. The financial viability of the business ceases to be the sole strategic objective as effective environmental management assumes a strategic position.

Strategic alliances: Organisations recognise the importance of strategic alliances as they strengthen their position in business, encourage knowledge sharing and communication channels, enhance learning, enrich organisational environment through the adoption of new best practices and are based on trust, dedication, communication and transparency. Consequently, the relationship between relational capital and strategic alliances is inextricable as the parties mutually benefit from strengthening their external environment and facilitate their efficient management, the acquisition of new resources, improved organisational profitability, increased innovation, and of course leads to the acquisition and maintenance of competitive advantage. For this reason, contemporary organisations pay particular attention to the networks they have developed in the business environment and manage them as an asset.

Reputation: The dominant environmental trend has influenced consumers and changed their profile of how they choose products/services as they switch to eco-friendly products. As green marketing is a modern and indispensable trend leading organisations to enter new markets, gain significant market share and create a strong green image that will be part of the green brand value. The surveys carried out and discussed previously identify the positive correlation between the green reputation of the company, its green value with a key mediating role being green confidence and green satisfaction. The literature's organisational reputation is also connected with economic and environmental performance as the former gives particular impetus to the organisation as it becomes valuable in consumers' perception and is difficult to copy as long as it satisfies the ever-increasing demands of the consumer (Armitage, Murugan, & Kato., 2011; Clemens-Groome, 2000; Mallawaarachchi & De Silva, 2017; Newell, MacFarlane, & Walker., 2014; Oyedokun, Jones, & Dunse, 2015; Rashid, Spreckelmeyer, & Angrisano, 2012).

Exploring the relationship between green strategy and relational capital

Based on the relevant literature review and the combination of the concepts mentioned above, the conceptual frame developed is as follows:

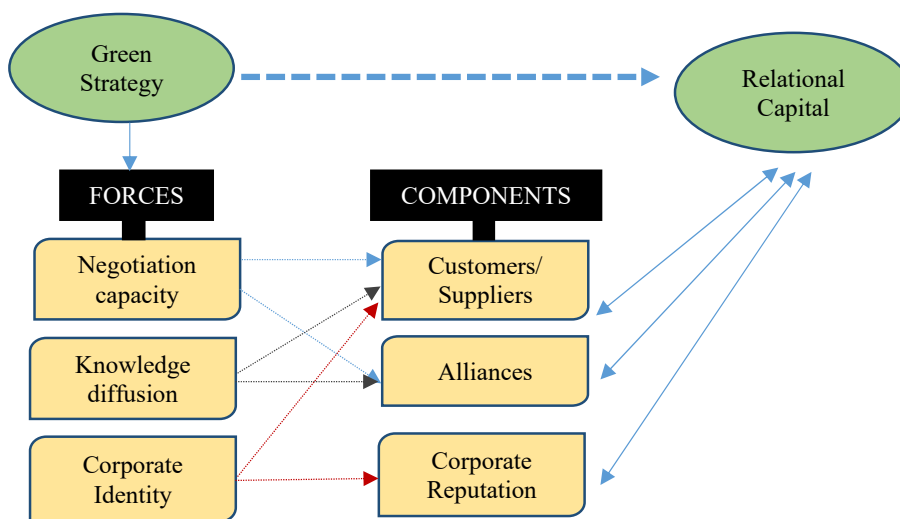


Figure 2: Conceptual frame Organisation's Relational Capital through Negotiation Capacity – Knowledge Diffusion – Corporate Identity

Negotiation capacity & suppliers

The improved position of the organisation in the business world has an advantage compared to the other businesses and makes it more attractive and reliable. Adopting green strategies is just the tip of the iceberg; the remaining unseen features are those that make up its heart and strengths. An organisation that improves its efficiency means that all its operations, the processes it has designed, the knowledge and management of the internal and external environment are fully coordinated. Any problems that the organisation may have can be addressed at once since appropriate mechanisms have been developed. Consequently, by starting a negotiation, members know and recognise their strengths. On the one hand, therefore, we have one member who stands confidently and is self-assured about what she or he is going to contribute. On the other hand, the other member understands the important benefits that such an agreement will have and how these can play a decisive role in the process of their business development; some factors can, as a result, be eliminated so as not to destabilise the foundations of a potential deal (Gómez et al., 2006; Inkpen & Beamish, 1997).

Negotiation capacity & alliances

The role of the agency's bargaining power when seeking strategic alliances in the business world is also vital. Its strengthened position in terms of resources, knowledge and culture gives it an edge and thus the ability to select strategic allies with the same characteristics as it seeks alliances that can give it access to new knowledge, markets and resources (Inkpen & Beamish, 1997; Peleckis, 2014; Reynolds, Simintiras, & Vlachou., 2003).

Knowledge diffusion & customers –suppliers

Organisations that choose to incorporate green values into their strategy go a step further and prove it by investing and funding research and development departments. Innovation, however, requires the facilitation of the flow of information and ideas about the internal environment and participation in networks centred around the exchange of views, knowledge, concerns, and problem-solving in the external environment. Enhancing business innovation and developing environmentally friendly products/services, on the one hand, and reducing consumer exposure to environmentally friendly products/services on the other leads to a win-win situation as they both benefit from the strengthened organisation and as consumers, they evolve as they enjoy innovative products that satisfy their needs and protect their health. Besides, given the organisation's close relationship with suppliers and the rational management of the resources the company is aiming for, it is inevitable that this relationship will not be affected and that the criteria for co-operation, not limited to financial criteria, will be redefined. Organisations that are driven by ethical/social motives and have chosen green management systems pay particular attention to the suppliers with whom they have chosen to cooperate because they feel that their 'obligation' does not end within the organisation but instead expands to the external environment. As mentioned previously, a green organisation improves its profitability, strengthens its position in the business, gains strength and attracts more and more suppliers who want to work with it. However, by setting green conditions, suppliers, in an effort to reach an agreement/co-operation, are 'obliged' to adopt these green systems, keep up with developments and keep up to date on this issue in order to not only satisfy its

terms of agreement but also be able to provide additional green services. In essence, we are talking about knowledge dissemination because to enable suppliers to respond to new data they are adopting the latest technological breakthroughs and are constantly looking for their evolution and so are only limited to financial criteria (Bask et al., 2018; Centobelli et al., 2017; Chu et al., 2019; Lieb, & Lieb, 2010; Shu et al., 2016).

Knowledge diffusion & alliances

Knowledge diffusion relates to both technology and organisational knowledge. In technology, the culture of innovation that an organisation cultivates is often not enough to develop new products as it may not have the necessary resources or additional knowledge to produce end products. In this case, the company is gearing up for new alliances to gain access to new information that it will turn into knowledge through the learning process. On the other hand, in order to have successful co-operation, the parties need to know their working methods, their processes, their decision-making mechanisms, and one of the key prerequisites for successful alliances is to build a climate of trust so that staff can share and exchange information and knowledge. Businesses look for alliances and strive to succeed in order to gain lasting competitive advantages. Alliance building works well for parties as organisations improve significantly at both the organisational and technological levels and mature faster based on their experience (Díaz-García et al., 2015; Gómez et al., 2006; Gulati & Higgins, 2003; Koka & Prescott., 2002).

Corporate identity & customers–suppliers

In their transition from traditional management to green, organisations place great importance not only on developing green products/services but also on adopting new values and attitudes. Innovative green products meet the needs of consumers who are environmentally aware and whose main criterion for purchasing products/services is its degree of environmental impact and its image for the business itself. It is, therefore, the development of a green identity and the commitment of the organisation to its core principles that will positively influence consumer behaviour since the consumer audience selects the organisation's products/services and it is this public that adheres to the organisation. In terms of suppliers, a strong green identity and resulting reputation attract valuable suppliers leading to effective supply chain management and supplier relationship management.

Corporate identity & corporate reputation

Organisations adopt practices aimed at building a strong identity and reinforcing its reputation. Enterprises are choosing to keep up with the current trend and strive to reduce their environmental footprint by adopting environmental management and control systems, applying green management models and vigilance for new best practices. The organisation's commitment to new values and the proper communication of its operation reinforce the organisation's corporate reputation, which is the vehicle for entering new markets and attracting new customers/consumers (DeCastro et al., 2004; Ngniatedema & Li, 2014).

Conclusion

The analysis of the concepts of green strategy and relational capital from different perspective documents the importance of the relationship between green management and relational capital components. Based on the existing literature and approaching the concepts as mentioned above from a different viewpoint has led us to highlight three forces that are developed by the adoption of green policies: Negotiation Capacity - Knowledge Diffusion - Corporate Identity, and to identify how these forces influence the external environment of the organisation. Specifically, we examined the relationship between Negotiation Capacity and the crucial role it plays in successfully discovering strategic alliances and suppliers. The organisation's improved position facilitates the selection of allies and allows it to set terms in partnerships that enable the achievement of its strategic goals. The relationship of knowledge diffusion with customers/suppliers and strategic alliances was then explored. Organisations that invest in R&D create a win-win situation for the consumers as they develop innovative, environmentally friendly products/services/processes that meet the needs of environmentally conscious consumers. Furthermore, organisations, in the context of green policies, are redefining the supplier selection criteria and the suppliers themselves in order to ensure continual co-operation, the adoption of green systems in their supply chain and the constant search for new green best practices.

Besides, the acquired knowledge of the organisation makes it an attractive partner in the search for new alliances and developing a green corporate identity leads to loyal consumers. The organisation's commitment to green values will also boost its green reputation, which will also be a vehicle to entering new markets and increasing its market share. Accordingly, what is examined is the strong relationship between the forces of green strategy and the components of relational capital and the importance of this relationship is indirectly proven.

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Conflict of Interests

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