



The relationship between environmental management systems and financial performance with emphasis on market factors

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Introduction

The relationship between environmental management systems (EMSs) and financial performance has received a high degree of attention in research literature and the results are still contradictory. Most of the findings have shown that environmental performance improves financial performance while others have suggested that the relationship is neutral or even negative. We believe EMSs enhance financial performance due to improved corporate image, quality green products, and reduced internal cost through eco-friendly new technologies. In this study, we suggest that market factors need to be taken into consideration when examining the EMSs-financial performance relationship, because the opportunities and constraints of adopting EMSs are greatly determined by market conditions. We focus on two market contingencies [switching cost (SC) and competitive intensity (CI)] along with variables market turbulence (MT) and firm innovativeness (FI), manifesting the nature of firms' relationships with their customers and competitors respectively. Based on Resource-based view, SC and CI may be the most important market contingencies influencing firms' adoption and implementation of EMSs, and their abilities to profit from such management systems. In this study, we address two important questions: 1) How SC and CI play contingency roles to moderate the relationship

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between EMSs and financial performance; 2) How SC, CI, MT and FI jointly moderate the relationship between EMSs and financial performance. The purpose of this study is to examine whether and how the performance effects of EMSs depend on SC, CI, MT, FI and/or their combination.

Hypotheses

Research hypotheses are developed as follows:

H1: *There is a positive relationship between EMSs and financial performance.*

H2: *SC, CI, MT and FI moderate the relationship between EMSs and financial performance.*

Methods

The data required for the research were gathered through a questionnaire distributed between chief executive officer (CEO), chief financial officer (CFO), marketing and purchasing managers of Semnan's manufacturing firms.

The questionnaire consists of six sections. 218 questionnaires were distributed and finally 150 questionnaires were collected. After collecting the questionnaires, regression analysis was used to test the research hypotheses.

Results and Discussion

Findings in this study reveal that there is a positive relationship between EMSs and financial performance. After entering the moderator variables, four models were obtained. Regarding the criterion of adjusted R squared, the third model was selected as the optimal model. This means that only the switching cost and competitive intensity have the moderating effects on the relationship between EMSs and financial performance. Finally, the moderating effect of the switching cost is positive (direct) and the moderating effect of the competitive intensity is negative (reverse). Thus, this study underpins the important role of market conditions in influencing the performance effect of EMSs. Market conditions such as SC and CI also influence the relationship between EMSs and financial performance jointly. Overall, this study signals the important role of market conditions and calls for further attention to market conditions as potential moderators when investigating the relationship between EMSs and financial performance.

Finally, managers should adapt their firms' degree of EMSs implementation to fit with changing market conditions and to take advantage of the opportunities created by these conditions in order to achieve superior performance.

Keywords: *Environmental Management Systems, Financial Performance, Switching Cost, Competitive Intensity, Manufacturing Companies.*