

# Green Marketing Orientation towards Competitive Advantage and Marketing Performance of Non-Food SMEs in Java

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## Abstract

The importance of sustainability and environmentally friendly activities has led the awareness of green marketing practice. The application of green marketing not only intended for better the environment but also as a competitive advantage towards better marketing performance especially for SMEs which have a very limited capability compared to large companies. This research analyses the green marketing application of non-food SMEs in Java, Indonesia using Green Marketing Orientation (GMO) from Strategic Green Marketing Orientation (SGMO) and Tactical Green Marketing Orientation (TGMO) dimensions. Data was collected from 53 SMEs from various sectors such as home living, clothing, souvenirs and accessories, personal care and beauty, sports and health, automotive, hobbies and collections using 5-point Likert scale questionnaire. The result shows that while Strategic Green Marketing Orientation has a positive impact towards competitive advantage and marketing performance, Tactical Green Marketing Orientation does not show the same impact. Findings also reveal the mediating role of competitive advantage for Strategic Marketing Orientation towards SMEs marketing performance.

**Keyword:** Green Marketing orientation, Strategic Green Marketing Orientation, Tactical Green Marketing Orientation, Competitive Advantage, Marketing Performance, SMEs, Indonesia

## 1. Introduction

Environmental issues have attracted a lot of attention worldwide. Resource and environmental management have become one of the priorities applied to all human activities including marketing. To fulfil this need of environmentally-friendly trends, companies are competing to offer products with eco-friendly labels and greener product. Therefore, it is really important for marketers to understand the concept of green marketing so that they can survive in this changing market condition. Green marketing is a holistic management process that is responsible for identifying, anticipating, and satisfying the requirements of customers and society in a profitable and sustainable way (Peattie, 1995). Sustainable in this context also refers to activities that is safe for the environment, it does not mean that the activity does not produce any waste, but that the amount of waste is not hazardous. This concept encompasses all activities related to product modification, changes in production process, packaging material changes, as well as modifying the advertisement. The product that is marketed must also be an environmentally-friendly products.

Previous studies have shown that green product and green process innovation have a positive relationship with the creation of competitive advantage (Leonidou *et al.*, 2015). This competitive advantage is obtained by the implementation of strategic green marketing initiatives through cost reduction and innovative practices (Delmas *et al.*, 2011; Menguc *et al.*, 2010). Green marketing has conceptually become a significant approach for companies to survive the shifting in market preference whilst maintain a competitive advantage in the competition. By adopting the green marketing phenomenon, companies can improve their marketing performance in order to maintain or even improve their market position (Shankar *et al.*, 2009).

Although society has been more educated about the importance of sustainable resource and eco-friendly product, the implementation of green marketing still encountered many obstacles. Research by Lee (2008), remarked that the companies which initially produced green products were not successful in their ventures.

Limited availability, limited functionality, limited features, and high price were found to be the major reasons for the failure (Grant, 2007). Consequently, green marketing fails to achieve its potential for improving the quality of life for consumers, nor benefits the ecosystem (Polonsky, 2011).

There are absence of a clear approach that can operationalized all the organizational facets that are necessary to become a green marketing-oriented company (Papadas *et al.*, 2017). This is also supported previously by scholars such as Chamorro *et al.* (2009) and Leonidou & Leonidou (2011), which summarized the development of research related to green marketing topic. Though, if green marketing is done properly and correctly, the application of green marketing will bring benefits either by providing competitive advantage in the form of innovation, increasing sales, increasing customer satisfaction, maximizing profits, or by long-term cost savings, and reducing the undesirable risk (Banerjee, 2002; Lash & Wellington, 2011).

Previous green marketing research (Chahal *et al.*, 2014) proposed the concept of Green Marketing Orientation (GMO) which is a combination of social marketing, relationship marketing, and marketing orientation in green approach context. Furthermore, Papadas *et al.* (2017) conceptualized GMO as an comprehensive analysis of green marketing practices with three dimensions: Strategic Green Marketing Orientation (SGMO), Tactical Green Marketing Orientation (TGMO), and Internal Green Marketing Orientation (IGMO). The first dimension, Strategic Green Marketing Orientation refers to long-term top management actions and policies that specifically focus on company's environmental strategy, proactive environmental strategy, and external environmental stakeholders. To conclude, SGMO is a long-term action that focuses on company's environmental strategy and is a preventive measure rather than a reduction. The second dimension, Tactical Green Marketing Orientation refers to short-term action that transform the traditional marketing mix to a greener one. TGMO focuses more on product-related decisions to reduce the environmental footprint, reduction of negative environmental impact of the firms marketing communication, greener supply chain, sustainable packaging, and consumer education. The third dimension, Internal Green Marketing Orientation refers to internal organization activities that pollinate environmental values across the organization to embed a wider corporate green culture. In general, IGMO reflects the level of assimilation of corporate environmental values by all internal stakeholders. This include employee training to promote environmental awareness and environmental leadership activities. To summarise, the approach of GMO is that such activities should be considered as tactical, short-term activities based on the nature of their decisions. This clarification helps in better understanding the functionality of a green marketing strategy and the separation of strategic, tactical, and internal green marketing activities.

This concept expected to bridge the relationship between green marketing and company performance by providing guidelines to better measure and strategically implement green marketing for companies that is suitable, in effective and efficient way possible. GMO can also be used as a prevention of green washing, which is a situation where a company claims that the product they offer are environmentally friendly products, when in reality it is not (Pillai & Patil, 2012).

Previous studies have tried to understand more about this GMO concept both in its application to large companies and small medium enterprise (SMEs). However, the result showed that SMEs gave a different response towards green marketing compared to large companies. Nonetheless, further research is needed to better understand the impact of green marketing orientation in SMEs because the lack of empirical study in this phenomenon (Amegbe *et al.*, 2017). In addition, in terms of resources, funds, and capabilities, SMEs have a very limited capability compared to large companies (Mishra *et al.*, 2019).

Based on data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia website, the growth of Indonesian SMEs and Large Enterprises in 2015 to 2019 shows the dominance of SMEs with a whopping 99% total units with 2% to 4% growth each year. It can be concluded that SMEs play a significant role in Indonesian economy. Thus, it is really important to understand the implication of green marketing towards SMEs performance so that a better strategy and approach will help them thrive in increasingly competitive market.

The purpose of this study is to analyse the application of green marketing on SMEs in Java, Indonesia, especially the non-food sector through Green Marketing Orientation, Strategic Green Marketing Orientation and Tactical Green Marketing Orientation dimensions.

## **2. Literature Review and Hypothesis Development**

### **2.1 Green Marketing Orientation**

Green Marketing Orientation is a holistic concept that combines social marketing element with relationship marketing and environmental orientation (Chahal *et al.*, 2014). This means that before companies implement GMOs to their activities, they need to have environmental value as their guide line in order to properly construct green marketing strategies (e.g., strategic green marketing initiatives, green marketing mix implementation, green dialogue). Papadas *et al.* (2017) conceptualized GMO with three dimensions: Strategic Green Marketing Orientation (SGMO), Tactical Green Marketing Orientation (TGMO), and Internal Green Marketing Orientation (IGMO). Each dimension contains practical implementations that will help companies to set a better approach specifically for long-term, short-term, and internal action.

### **2.2 Strategic Green Marketing Orientation and Tactical Green Marketing Orientation as Competitive Advantage**

Strategic Green Marketing Orientation refers to long-term top management actions and policies that specifically focus on company's environmental strategy, proactive environmental strategy, and external environmental stakeholders (Papadas *et al.*, 2017). SGMO is a long-term action that focuses on company's environmental strategy and is a preventive measure rather than a reductive action. Viewed from corporate environmental strategy, SGMO is categorized as a proactive environmental strategies that focuses on initiatives, innovation, and investment in pollution prevention to move beyond the minimum expectation of external stakeholder demands (Aragon & Sharma, 2003; Fraj *et al.*, 2015). Thus, SGMO can be defined as the extend to which an organization integrates environmental interest in their strategic marketing decisions.

Tactical Green Marketing Orientation refers to short-term action that transform the traditional marketing mix to a greener one. TGMO focuses more on product-related decisions to reduce the environmental footprint, reduction of negative environmental impact of the firms marketing communication, greener supply chain, sustainable packaging, and consumer education (Papadas *et al.*, 2017). TGMO is categorized as a reactive environmental strategies that focuses on short-term action where gradual adjustment and reduction is done towards real long-term transformation that driven by environmental regulations (Aragon, 1998). Thus, TGMO can be defined as the degree to which an organization embodies environmental values in its tactical marketing decisions.

Green marketing involves proactive activities that result in a more rational company resource management (Menon & Menon, 1997). In TGMO implementation, the design and manufacture of environmentally friendly product require the use of recycled materials and effective production. In addition, SGMO long-term approach, such as green production and green distribution investment contributes to a long-term cost reduction. Companies can apply a cleaner transportation for distribution system and cleaner alternative energy source that uses less unsustainable fossil fuel (Polonsky, 2011). A reverse logistic system also enables companies to gain a competitive advantage in distribution process.

Previous studies proved that proactive environmental strategy allows companies to gain competitive advantages. Chen *et al.*, (2006), Leonidou *et al.* (2015), dan Papadas *et al.* (2019) found that green products and green process positively correlated to greater competitive advantages since they bring rare, unique, and complex characteristics that help companies stand out among their competitors. Competitive advantage is driven by environmental performance resulting from innovation as well as from adopting a strategic environmental management model is green marketing orientation from SGMO and TGMO dimensions. We thus hypothesize that:

**H1:** Strategic Green Marketing Orientation has a positive effect on competitive advantage

**H2:** Tactical Green Marketing Orientation has a positive effect on competitive advantage

### **2.3 Competitive Advantage towards Marketing Performance**

Competitive advantage means that a company gains more advantage than its competitors in term of cost, technology, brand, management, etc. (Barney, 1991).competitive advantage of a company refers to factors that enable them to produce better goods or services in terms of quality and price compared to its competitors (Porter, 1996). These factors also include cost advantages where more efficient organizational operations that use lower energy consumption and implementation of recycling programs reduce the cost

(Miles & Covin, 2000). In the long term, cost advantage can be generated from the achievement of economic scale when the acceptance of green products becomes greater (Kotler, 2011; Menon & Menon, 1997).

The basic task of strategic management is to build and maintain a company's competitive advantage in order to exceed the average business outcome (Ceglinski, 2016b). Therefore, misconception about how development of competitive advantage is the same thing as company success often misleading. Competitive advantage is obtained when companies develop and acquire certain attributes that enable them to outperform their competitors. It implies that competitive advantage is gained when a company gains greater profitability than other market competitors or when the company outperforms its competitors in terms of market share, product quality and technology advancement. It can be inferred that a company must identify its own competencies that can be in the form of unique value that cannot imitated or duplicated by its competitors (Fahlefi & Indriani, 2020).

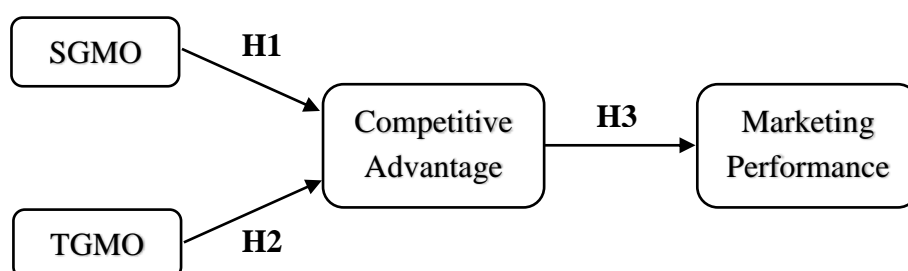
Competitive advantage being discussed in this study also relates to green competitive advantage gained from the implementation of green marketing orientation. Prior studies have analysed factors that strongly generate green competitive advantages. Zameer *et al.* (2020) stated that green brand image affects the process in gaining green competitive advantage. Green production process is believed to generate greater advantages than traditional production processes due to several factors including pressure or expectations from customers and government regulations, and green creativity of entrepreneurs. In this study, green production and green creativity were also found to have direct positive influence on competitive advantage.

Marketing performance is one of the most important elements for company performance evaluation, since it reflects the growth of its marketing activities as an outcome (Clark, 2000). It also acts as a measure to the success of a product or in other words as a variable to calculate the marketing success of a company (Gonzales & Gonzalez, 2005). A number of studies have discussed the relationship between competitive advantage and marketing performance in large scale and small scale businesses, including SMEs (Ceglinski, 2016a; Pablos., 2006; Majeed, 2011; Miles & Covin, 2000; Nuryakin, 2018; Yasa *et al.*, 2020). Hypothesis on competitive advantage dominates the theory of sustainable superior performance. The positive correlation between core competencies and strategic advantage is the main driving factor for achieving superior performance (Nuryakin, 2018).

Green products and green orientation approach as previously described will bring greater competitive advantage and differentiation that allow companies to gain new market opportunities (Chen, 2008). Green marketing elevates the reputation of a company as it shapes positive perceptions of the company's ethical behaviour among stakeholders. Whilst, reputation is a crucial factor that determines company-customer relationship and company-supplier relationship (Miles & Covin, 2000). Companies that possess special competencies and resources that meet the current demands while at the same time meeting market's expectations will gain greater market advantage. Greater market advantage will result in better commercial brand image output, higher consumer satisfaction and consumer loyalty. In addition, it also covers up negative reputation and strengthens consumers' perceived product quality which eventually leads to greater marketing performance (Hartmann & Apaolaza, 2006; Menon & Menon, 1997). Therefore, this following hypothesis was developed:

**H3:** Competitive advantage has a positive effect on marketing performance

**Figure 1 Conceptual Framework**



### 3. Research Methodology

Data was collected from 53 SMEs in Java from non-food sector. Multi item scale with a 5-point Likert scale (1= strongly agree to 5= strongly disagree) were used to assess all construct. We used item indicators based on Chang (2011); Fraj *et al.* (2011); Papadas *et al.* (2017) with modification. SmartPLS software was used for data analysis. Partial Least Square (PLS-SEM) model was used and found suitable for this study because the use of latent variables and PLS-SEM works efficiently with small sample size and complex models. In addition, the assumption of data distribution in PLS-SEM is relatively more flexible compare to CB-SEM.

**Table 1. Measurement Instrument**

Constructs	Item
Strategic Green Marketing Orientation	<ul style="list-style-type: none"> <li>We consider environmental aspects in the selection/ manufacture of our products</li> <li>We conduct market research to detect green needs in the market</li> <li>We engage in dialogue with our stakeholders about environmental aspect of our organization</li> <li>Among other target markets, we also target to environmentally-conscious consumers</li> <li>We are aware of the environmental urgency that happens</li> </ul>
Tactical Green Marketing Orientation	<ul style="list-style-type: none"> <li>We use eco-friendly components for our product packaging</li> <li>We use recycled or recyclable materials in our products</li> <li>We use e-commerce as the main platform for sales</li> <li>We use digital communication methods as the main media for promotion</li> <li>We apply a paperless policy in our procurement where possible</li> </ul>
Competitive Advantage	<ul style="list-style-type: none"> <li>We offer better product quality than competitors</li> <li>We have better research and development capabilities compared to competitors</li> <li>We have better profitability compared to competitors</li> <li>We have a better corporate image compared to competitors</li> <li>We have better managerial capabilities compared to competitors</li> </ul>
Marketing Performance	<ul style="list-style-type: none"> <li>We are able to meet market expectations</li> <li>We have successful product launched and well received product</li> <li>We have a good brand image and company image</li> <li>We have loyal customers</li> <li>Our customers are satisfied with our products</li> </ul>

### 4. Result and Discussion

First, we gathered 53 responses that are useable for the analysis. We then grouped respondents by year of establishment and business sector to categorise the heterogeneous distribution of data (table 2 and table 3).

**Table 2 Sample's Demographic by Date of Establishment**

Year	Total Unit
1989	1
1997	1
2002	1
2004	1
2006	2
2009	1
2010	2
2011	4
2013	1
2014	4
2015	1
2016	1
2017	4
2018	6
2019	8

2020	9
2021	6

**Table 3 Sample's Demographic by Sector**

Sectors	Total Unit
Home Living	11
Clothing	13
Souvenir & Accessories	16
Personal Care & Beauty	7
Sports & Health	2
Automotive	2
Hobbies & Collection	2

#### 4.1 Measurement Model

A construct validity was conducted to measure the validity of the instrument used in the questionnaire. The higher the validity ( $>0.7$ ), the more precisely the measuring instrument hits the target (Ghozali, 2008). To assess the initial validity measures, loading factor of all the construct was tested (table 4) and found that three out of five item indicators of TGMO was not valid. Therefore, we remove TGMO3, TGMO4, and TGMO5 from our measurement. Other than that, all construct item was valid. Construct validity and reliability were also established as indicated in table 5. Reliability was measured based on Average Variance Extracted (AVE) ( $>0.7$ ), Composite Reliability (CR) ( $>0.7$ ), and Cronbach's Alpha ( $>0.7$ ) (Bagozzi & Yi, 1988; Sholihin & Ratmono, 2013). As for discriminant validity satisfactory (table 6), the diagonal elements should be significantly greater than off-diagonal elements in the corresponding columns and rows (Ghozali, 2014).

**Table 4 Loading Factor**

Indicators	CA	MP	SGMO	TGMO
CA1	0.771			
CA2	0.846			
CA3	0.893			
CA4	0.903			
CA5	0.847			
MP1		0.938		
MP2		0.864		
MP3		0.940		
MP4		0.919		
MP5		0.932		
SGMO1			0.979	
SGMO2			0.968	
SGMO3			0.960	
SGMO5			0.874	
SMGO4			0.972	
TGMO1				0.914
TGMO2				0.929
TGMO3				0.498
TGMO4				0.589
TGMO5				0.503

**Table 5 Measurement Model**

Constructs	Average Variance Extracted (AVE)	Composite Reliability	Cronbach's Alpha
CA	0.728	0.930	0.906

MP	0.844	0.964	0.954
SGMO	0.905	0.979	0.974
TGMO	0.913	0.954	0.906

**Table 6 Discriminant Validity**

Constructs	CA	MP	SGMO	TGMO
CA	$\sqrt{AVE_{CA}} = 0.853$			
MP	0.742	$\sqrt{AVE_{MP}} = 0.919$		
SGMO	0.340	0.278	$\sqrt{AVE_{SGMO}} = 0.951$	
TGMO	0.180	0.170	0.818	$\sqrt{AVE_{TGMO}} = 0.955$

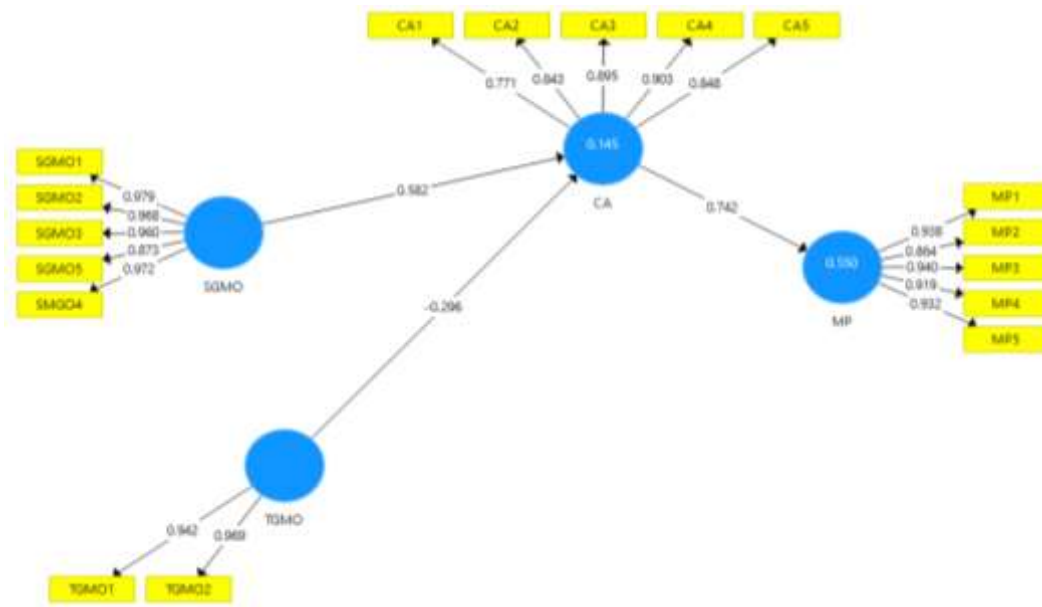
## 4.2 Structural Model

The assessment of structural model includes inner relation testing, bootstrapping, coefficient of determination (R-Square), and indirect effect for mediation effect. Table 7 shows the bootstrapping result which indicate a significant positive impact if the P-Value  $< 0.05$ . the P-Values of SGMO to CA is  $0.007 < 0.05$ , which means that SGMO has a significant effect on CA, hence hypothesis 1 is accepted. This result is aligned with Amegbe *et al.* (2017), Papadas *et al.* (2017), Papadas *et al.* (2019). Table 8. Indicates the effect of SGMO and TGMO to CA is 14.5%. The value of coefficient determination indicates the extent to which the independent variable contributes to the variation of the dependent variable. For primary data processing, R-Square value of 0.2 or 20% is considered to be quite decent. From this result, it can be concluded that marketing strategy that considers environmental aspects in the manufacturing and product development will produce a better product that are more in line with market expectation and needs than competitors. Marketing strategy done with market research means that SMEs have better research and development capabilities to detect green needs. Building green communication will give SMEs a good corporate image. Marketing strategy that targeted both ordinary consumers and environmentally conscious consumers allows wider markets to be targeted and so company's profits will increase. In fact, environmentally friendly have an aesthetic appearance that is the current trend in market these days, a clean, simple, and natural looks (Blijlevens *et al.*, 2009; Poon, 2017).

The bootstrapping result of hypothesis 2 shows that the P-Value of TGMO to CA is  $0.195 > 0.05$ , this indicates that TGMO has no significant effect on CA, hence hypothesis 2 is rejected. This result does not match with previous studies by Mishra *et al.* (2019) dan Papadas *et al.* (2017) where TGMO shows a significant effect in competitive advantage therefore also impact the company performance. Table 4 indicates that from five item indicators of TGMO, only TGMO1 and TGMO2 are valid. It can be concluded that the use of recycled or ecological component for both raw materials or packaging material result in better product quality which indicates a good research and development capacity of the SMEs, hence a better corporate image and profitability. Meanwhile, the usage of e-commerce, digital communication, and paperless policies do not affect the competitive advantage of SMEs. This result may be caused by insignificant marketing performance outcome. SMEs that operate traditionally still produce green product with competitive advantage.

The P-Value of CA to MP is  $0.000 < 0.05$ , which means that CA has a significant effect on MP, hence hypothesis 3 is accepted. This result aligned with Ceglinski (2016a), Pablos (2006), Majeed (2011), Miles & Covin (2000), Nuryakin (2018), dan Yasa *et al.* (2020) where competitive advantage does have a significant effect in marketing performance. Table 8. Indicates the effect of CA to MP is 55%. It can be concluded that even in green marketing context, green competitive advantage has a significant effect on company performance, especially marketing performance. SMEs with good research and development capabilities will produce green product that meet the market expectation. A good quality green product will satisfy and gain a loyal customer. the better the company's image, the better the brand image will be. SMEs with good managerial skill supported by good product quality will result in a successful product launch.

**Figure 2 Structural Model**



**Table 7**  
**Hypothesis Testing**

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
CA -> MP	0.742	0.739	0.083	8.894	0
SGMO -> CA	0.582	0.564	0.215	2.703	0.007
TGMO -> CA	-0.296	-0.274	0.228	1.297	0.195
SGMO -> MP	-0.011	0.003	0.151	0.075	0.94
TGMO -> MP	0.048	0.029	0.159	0.301	0.763

**Table 8**  
**Coefficient of Determination (R-Square)**

Constructs	R Square
CA	0.145
MP	0.550

**Table 9**  
**Indirect Effect**

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
SGMO -> CA -> MP	0.432	0.416	0.165	2.610	0.009
TGMO -> CA -> MP	-0.220	-0.199	0.166	1.321	0.187

Table 7 shows that there is no significant effect between SGMO to MP (P-Values 0,94 >0,05) and TGMO to MP (P-Values 0,763 >0,05). On the other hand, SGMO shows a significant and positive impact towards MP through CA. this result aligned with previous study (Amegbe *et al.* (2017); Papadas *et al.* (2017); Papadas *et al.* (2019). Meanwhile, CA does not perform as mediator for TGMO and MP. This result does not align with previous study (Mishra *et al.*, 2019; Papadas *et al.*, 2017). This can already be seen from the negative impact of TGMO towards CA. in contrast to Mishra et al. (2019) where for SMEs in India it is SGMO that has no significant effect on MP while TGMO has a significant effect on MP even though India and Indonesia are both developing countries. This might be caused by the rapid technological growth in India but is not supported by adequate environmental awareness either from government policies or from society. While in



Indonesia itself, technological growth is not as good as India, but the environmental awareness is more acknowledge. Indonesian government policies also supported a better sustainable industry activity. However, further research that is needed to confirm.

## Conclusion

This paper tried to understand the impact of Green Marketing Orientation application to SMEs performance in Indonesia. The research findings established that SGMO does have a positive significant effect on SMEs performance through competitive advantage as mediation variable. Nonetheless, TGMO does not have the same effect towards SMEs performance. Our result suggested that digitalization does not give any advantage towards SMEs performance. This finding needs to be further analysed and tested with specific sectors of SMEs to better understand the cause of such incongruity.

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