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Green Marketing Capability: A Missing Link in Environmental Quest

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Abstract

Academic and practitioner literature shows that all firms do not achieve similar outcomes in formulating and pursuing green marketing strategy. Hence, what makes some firms more successful than others is of crucial importance. Green marketing capability (GMC) is one of the important factors that can explain the performance difference. This study develops a theoretical framework to explain (1) what constitutes GMC, (2) how firms differ in the way they approach GMC, (3) what is the ideal GMC configuration to achieve the best possible green performance. We propose that firms can be classified into three groups based on how they approach GMC: opportunity seekers that excel in both sensing and execution capabilities and act as green market prospectors; conservative compliants that lag in both these aspects and act as green market defenders; and critical adopters that lay medium emphasis on green market sensing and execution activities and maintain a balanced “wait and see” approach.

Keywords: capability, environmental performance, green marketing, marketing strategy.

1. Introduction

Regulatory forces, stakeholder demands, and business needs have made adoption of green marketing strategies and practices an integral component of firms' long-term initiatives (Leonidou and Leonidou, 2011; Leonidou, Katsikeas and Morgan, 2013). Despite a substantial body of research that explores how green marketing have positive influence on firm performance (e.g. Fraj-Andres, Salinas and Valejo, 2009; Sadovnikova and Pujari, 2017), empirical evidence suggests that not all firms can enjoy the benefits of taking a proactive green marketing initiative. Firms such as Unilever with sustainable living brands like Dove and Lifebuoy, GE with "Ecoimagination" range of products, and Toyota with their hybrid car models have achieved considerable revenue growth by focusing on green marketing and broader sustainability agenda. However, recent industry reports show that firms such as Adidas although ranked the 5th on the World's most sustainable organization has a much lower return on assets than firms such as Novartis that ranked the 98th (Corporate Knight, 2016¹ and Forbes, 2016²). Existing research often fails to explain this discrepancy or provide directions on why some firms can attain considerable green marketing performance results despite focusing little on the green marketing agenda whereas some firms fail to capitalize on their substantial green marketing investments. Therefore, it is critical to explore what makes some firms more capable than others in adopting green marketing initiatives?

Based on the premise of marketing capability, defined as the processes by which a firm acquires new resources and transforms existing resources to generate products and services of value to market, this study proposes the conceptualization of "green marketing capability (GMC)", that describes the process by which a firm can acquire and transform new and existing resources to create products and services that meet environmental needs of the business. We argue that one of the missing links in literature to understand why some firms are better than others in adopting green marketing practices and reap its benefits is their ability to adopt GMC. Although there is a significant body of research that explores how green marketing concepts and constructs such as enviropreneurial marketing (Menon and Menon, 1997), corporate environmentalism

¹ <http://www.corporateknights.com/magazines/2016-global-100-issue/>

² <https://www.forbes.com/sites/kathryndill/2016/01/22/the-worlds-most-sustainable-companies-2016/#6833c1712380>

(Banerjee, Iyer and Kashyap, 2003), green marketing mix (Leonidou et al, 2013), green strategies (Cronin et al, 2011) and green partnership (Sadonikova and Pujari, 2017) adopted by firms can influence their performance, but conceptualization and configuration of GMC is rather limited.

It is important to delve into this issue for the following reasons. First, past literature has often explored how a firm can develop its marketing capability to influence business performance using resource-based view (RBV) and dynamic capability (DC) theories (e.g. Bruni and Verona, 2009; Morgan, 2012). Such studies argue that firms achieve performance differential in a competitive environment with an idiosyncratic bundle of resources, capabilities to transform the resources into value propositions, and the way they adapt resource-capability framework over time according to the changes in the environment. However, research is sparse on how firms can learn, adapt and enhance their approach in a dynamic environment when the objective is to deliver products and services that meet environmental needs. Hence, conceptualization and what constitutes GMC using RBV and DC frameworks is under-examined. Although, literature suggests that proactive green firms have idiosyncratic characteristics such as top management commitment towards the environment, managerial sensitivity towards environmental issues or pursuing green innovation strategies, however, such capabilities are often internally focused, shop floor orientated and are not always visible to external stakeholders (Chabowski et al, 2011). On the contrary, GMC being marketing orientated and targeted towards customers and external stakeholders are likely to have a significant influence on how a firm build on its marketing assets, namely customer satisfaction and brand equity.

Second, extant studies mostly explore classification of firms towards green initiatives based on their environmental commitment (such as leaders vs. laggards, proactive vs. reactive, embracers vs. cautious adopters) (Haaneas et al., 2011; Herremans et al, 2008); type of environmental strategies adopted (like firms focusing on green innovation, greening the organization or forming green alliances) (Cronin et al, 2011); or the drivers towards adopting green initiatives (external like governmental regulations or internal like top management commitment) (Banerjee, 2002). However, research is limited on the empirical classification of firms based on their GMC approach. It is important to find this classification as some firms are better than others in how they approach green marketing and there might be an ideal GMC configuration to achieve the superior competitive advantage.

Third, despite a substantial volume of research that establishes the performance impact of adopting green marketing initiatives, there is a discrepancy in the findings. Research suggests that the effectiveness of adopting green marketing initiatives might be contingent on the nature of resources in hand, how firms deploy them, adapt the resource-capability mix in a dynamic environment, and their overall green marketing strategy (Morgan, 2012). Practitioner literature also suggests that being green does not always equate to achieving better financial returns. Hence, there is a need to explore how firms belonging to different GMC classifications might benefit on performance.

Literature Review

2.1 Why we need green marketing capability (GMC)?

Prior research makes valuable contribution to understanding conceptualization, underlying constructs, and frameworks of green marketing initiatives adopted by firms (see Chabowski et al, 2011, Cronin et al, 2011 for a detailed review on green and sustainability issues in marketing). Green marketing is conceptualized as the practices, policies, and procedures that firms need to adopt in order to offer products and services that accomplish the strategic and financial goals without compromising the environmental responsibilities (Leonidou et al, 2013).

The literature recommends several paradigms to understand green marketing. For instance, Menon and Menon (1997) propose enviropreneurial marketing that combines entrepreneurial and environmental initiatives adopted by firms in their marketing strategy to achieve economic and social performance objectives. They suggest that firms can be classified into three groups (strategic, quasi-strategic and tactical) based on the hierarchical level where marketing is integrated with environmental strategies (at the top management, functional or at the shop floor levels), and the focal area of business where firms like to make an impact (macro, micro or transaction focused). Baker and Sinkula (2005) extend this proposition by suggesting that firms adopt enviropreneurial marketing in three ways. For some firms' "environment is an opportunity". Such firms adopt a proactive environmental stance to achieve competitive differentiation advantage. On the other hand, some firms adopt "environment as commitment" approach. Such firms take a calculated and measured approach towards making environmental investments. Baker and Sinkula (2005) classify the third category as firms that

believe “environment as righteousness”. Such firms consider environmental initiative as a duty, responsibility and to comply with government directives. Environmental management literature in other disciplines apart from marketing also propose why firms differ in their approach towards green issues. For instance, Montabon, Sroufe and Narasimhan (2007) posit that firms follow three types of environmental management practices: “strategic” that involves adopting environment in the long-term strategic planning activities; “tactical” that involves working with stakeholders like customers and supply partners and engaging them with product/process design and development; and “operational” that involves shop-floor oriented activities with a primary motive of cost reduction. Firms are also classified as environmental leaders with high levels of environmental commitment from senior managers aiming to achieve environmental performance versus environmental laggards whose primary objective is to meet environmental compliance (Herremans et al, 2008). In addition, strategic management literature in the non-green context also theorize why firms adopt different stance towards developing their product-market strategy. For example, using strategic orientation as the basis, firms are often classified into three groups in their capability development approach. Prospectors who continuously seek to locate and exploit new market opportunities, defenders attempt to stick to their stable market configurations, whereas analyzers are somewhere in between (Miles and Snow, 1978). Hence, there are ample frameworks in literature focusing on strategic classification of firms, particularly on how they approach green initiatives. However, often such frameworks are internally focused and emphasize on firms’ orientations and commitments towards the environment.

Green marketing is also conceptualized and structured based on paradigms where firms engage with external stakeholders and focus on strategies on how to embed environmental initiatives within marketing activities. For example, Leonidou et al (2013) using the classical marketing mix approach propose that firms need to invest in four aspects: green product, green pricing, green distribution and green promotion to achieve payback benefits to their green marketing programs. Cronin et al (2011) using a combination of internal functions and external stakeholder engagement approach posit that firms can develop its green marketing strategies in three ways: green innovation that involves developing goods/ services that meet the needs of environmentally conscious consumers; greening the organization that consists of having green champions within the organization; and greening the process by integrating with supply chain partners and forming green

alliances. Sadovnikova and Pujari (2017) suggest that inter-firm strategic partnerships on green issues are key to achieve both environmental and economic objectives. They find that high-performance firms are better in combining marketing capability with environmental objectives when they create green strategic partnerships with other firms. Table 1 summarizes representative research with the findings in this area.

Hence, even being a widely researched area, there is no consensus or uniformity on what are the various facets of green marketing, how firms can integrate marketing with environmental activities both internally as well as with external stakeholders, or what capabilities are needed to plan for and execute green marketing initiatives. In fact, Chabowski et al (2011) in their review study on sustainability issues in marketing suggest that future research needs to investigate what capabilities (both internally and externally focused) do firms need to create a marketplace advantage. This paper attempts to fill this important research gap.

Table 1: Review of literature on Green Marketing

Authors	Focus of study	Key insights into GM initiatives	Ability to understand current/future market considered	Ability to translate such understanding into actions considered
Baker and Sinkula (2005)	Environmental marketing (EM) and change in market share	Firms can be classified into three groups based on EM strategies: (i) environment as opportunity, (ii) environment as commitment, (iii) environment as righteousness	Yes	Yes
Chabowski, Mena, and Gonzalez-Padron (2011)	Review on sustainability issues and marketing research	Sustainability studies can be of three types based on: (i) emphasis (social or environmental) (ii) focus (internal or external) (iii) intent (discretionary, ethical and legal)	No	No
Cronin, Smith, Gleim, Ramirez and Martinez (2011)	A framework of green marketing strategies (GMS)	Firms can develop GMS in three ways: green innovation, greening of an organization, and green alliances	Yes	Yes
Fraj-Andres, Martinez-Salinas, and Matute-Vallejo (2009)	Environmental orientation, environmental marketing and performance relationship through multi-industry study	Propose a multidimensional view of environmental orientation (to what degree firms have internalized need for caring the environment) and marketing (how such environmental values influence marketing mix strategy).	Yes	Yes
Leonidou, Katsikeas and Morgan (2012)	The influence of top management risk aversion on green marketing programs and performance	Green marketing mix program (product, price, promotion and distribution) positively improve firms' performance	No	Yes

Menon and Menon (1997)	Confluence of social goals, corporate orientation and marketing strategies: Enviropreneurial marketing (EPM)	EPM strategy is the process for formulating and implementing entrepreneurial and environmental marketing activities and firms can be classified into three groups based on their EPM approach: (i) strategic, (ii) quasi-strategic and (iii) tactical	Yes	No
Sadovnikova and Pujari (2017)	The effect of green partnership (through marketing and technology capabilities) on firm value	Environmentally responsible firms lose out on announcing green partnerships whereas less responsible firms gain	No	Yes
This study	Classification of firms based on GMC and how that influence green performance	Firms can be classified into three groups based on their GMC initiatives: (i) opportunity seekers (ii) critical adopters (iii) conservative compliants.	Yes	Yes

2.2 *Green marketing capability (GMC) and its conceptual domains*

Literature often suggests capability, defined as the process by which firms identify, acquire, and transform resources into value propositions is key to achieve competitive advantage and improve performance (Amit and Shoemaker, 1993). Based on this proposition, we broadly define GMC as the marketing actions, processes and initiatives that a firm need in order to identify, acquire and transform resources into value propositions meeting the environmental needs of the business.

Organizational capabilities and their role in firm performance are widely studied using two theoretical foundations: resource-based view and dynamic capabilities theory. According to these, firms that possess resources that are rare, non-substitutable and have capabilities to identify, acquire and transform such resources based on the dynamic changes in the environment are likely to have better business performance (Day, 2011). Such theories suggest that successful firms need to have two important characteristics: the ability to understand the requirements of the current and future markets, and the ability to translate such requirements into appropriate actions through proper resource acquisitions and deployments.

Such two-pronged approach to understanding what makes successful firms distinct is widely used in marketing strategy literature. For instance, one stream of literature using dynamic capability theory as the backdrop, suggests that firms that are better in marketing strategy creativity and marketing strategy

implementation tend to have superior business performance (Andrew and Smith, 1996; Slater, Hult and Olson, 2010). Marketing strategy creativity involves how firms can plan and explore the environment to make their offer distinct from others in the market, whereas marketing strategy implementation is associated with the ability of firms to execute the strategic objectives through appropriate marketing actions. Another stream of literature prescribe that success of firms depends on how competent they are to “explore the market” that involves capability on creativity, innovation, and experimentation; and “exploit the market” which corresponds to the activities carried out to implement learnings from exploration phase (March, 1991; Vorhies, Orr and Busch, 2010). Ambidexterity of organizations that involves both “exploiting the present and exploring the future” is widely researched as well (Slater et al, 2010). Morgan (2012) posits a conceptual framework on how marketing capabilities can influence firm performance by identifying four sub-constructs: architectural and dynamic marketing capabilities that broadly corresponds to the planning and learning activities that go on within an organization; and specialized and cross-functional marketing capabilities that largely reflects the activities that firms do to implement such plans with stakeholders. In line with this, this study posits that GMC has two key conceptual domains: green market sensing and green market execution.

Green market sensing is the process that a firm follows to explore the changes in the environment, gather knowledge, identify the resources and competencies it needs in order to reconfigure its offering to fulfil the role of marketing in meeting the environmental needs of a business. It is one of the fundamental principles of dynamic capability theory where a firm need to sense environmental changes, and plan how to respond to those changes by altering resource configurations (Teece, 2009). Such market sensing abilities make firms to learn about current trends in green marketing activities, predict the future and help in resource allocation strategies (Vorhies and Morgan, 2005). Firms with strong green market sensing ability explore the current regulatory frameworks that governs the environmental footprints related to their offering, predict the future trends on how the industry needs to respond to such regulations, proactively innovates to make their products/ processes greener, and lead environmental responses (Varadarajan 2017). For example, in 2005, GE sensed that the industry norm regarding using clean energy, reducing harmful emissions would change and they launched “Ecoimagination” range of products much ahead of competition earning them a distinct head start in the green race.

On the other hand, *green market execution* is the process that a firm follows to implement all the strategic environmental goals it has planned for its stakeholders by using marketing activities. Vorhies and Morgan (2005) explain this as marketing implementation where marketing strategy is transformed into necessary resource deployments. It is of prime importance as effective execution of planned marketing strategy is key to success (Morgan, Katsikeas and Vorhies, 2012). Such market execution abilities follow the premise of resource-based view that hinges on the application and utilization of resources rather than mere possession of it. For instance, Adidas has implemented 100% sustainable raw material policies to manufacture its product ranges by working with the suppliers and complete recycling strategies by educating its customers through marketing activities.

2.3 Green marketing capability (GMC): constructs within its conceptual domains

Green market sensing: Literature has conceptualized market sensing using numerous overlapping constructs. For example, Morgan (2012) proposes two constructs: architectural marketing capability that includes all *planning* related activities to achieve strategic marketing goals; and dynamic marketing capability that encompasses market *learning* which explains firm's ability to learn about its customers, competitors and the market place to understand current situations and predict future changes. Slater and Narver (1995) posit that firms can have a better sense of the market and its customers by developing the capability of market orientation that involves learning about the changes in customer needs and planning to address it through improved value proposition. Strategic marketing literature suggests that firms formulate their business strategy in two stages: planning where firms follow rational and analytical processes to formulate goals and learning through information acquisition, processing and dissemination (Mintzberg 1973; Slater et al, 2006). Based on such arguments, this study proposes that green market sensing is composed of two sub-constructs- *green market planning* that involves formulating marketing activities to achieve environmental goals and *green market learning* that includes marketing activities to understand emerging environmental regulations and respond proactively by innovative propositions.

Green market execution: Literature suggests various strategies that firms adopt to implement its marketing goals. For instance, Morgan (2012) argues that marketing strategy implementation requires two sets of

capabilities: marketing program alignment that involves action oriented tactics to translate strategic content into decision making through innovative *marketing mix program*; and resource deployment using a *cross-functional orientation* as marketing activities often overlap with other organizational functions. In the green context, Leonidou et al (2013) suggest that firms can achieve its green marketing objectives by implementing a 4P program: green product that involves developing eco-friendly products; green pricing that includes economic and environmental costs of production; green distribution that relates to developing an environment friendly supply and distribution chain; and green promotions that involves communicating with stakeholders in greener ways. A firm can implement its green strategy program using a three-pronged approach: green innovation where the firm develops new innovative green products/ services; greening the organization where the firm focuses on greening the process associated with the production of products/ services; and forming green alliances where the firm can choose to develop partnership with multiple stakeholders (such as customers, suppliers) to achieve its green objectives (Cronin et al, 2010). To summarize, all such execution efforts often require innovative marketing mix design and cross-functional coordination. Based on such argument, this study proposes that green market execution has two sub-constructs: *green marketing mix program* that involves implementing marketing goals of the organization towards environmental causes using product, price, promotion and place strategies; and *green market cross-functional orientation* that involves integration of marketing capabilities across disciplines and coordinate with stakeholders to achieve environmental goals of the organization. Table 2 provides the summary of this argument.

Table 2: Review of literature on the GMC domains and constructs

Authors	Focus of the study	GM sensing		GM execution		Analysis of Configuration Model
		GM planning	GM learning	GM mix program	GM cross-functional orientation	
Cronin, Smith, Gleim, Ramirez and Martinez (2011)	GM strategy and stakeholder relationship	-	GM learning on environment and market offerings	Green Innovation on product/ services	Green alliances	No
Leonidou, Katsikeas and Morgan (2012)	Green marketing program and performance	-	-	Green marketing mix	-	No

Morgan (2012)	Marketing resources, capabilities and performance (non-green context)	Architectural capability	Dynamic capability	Specialized marketing capability	Cross-functional capability	No
Morgan, Katsikeas and Vorhies (2012)	Export marketing capabilities and performance relationship (non-green context)	Architectural capability	Marketing learning	Specialized marketing capability	Marketing capability integration	No
Morgan, Vorhies and Mason (2009)	Market orientation, capabilities and firm performance (non-green context)	Responsiveness to market intelligence	Market intelligence generation	Marketing mix program	Marketing implementation	No
Varadarajan (2017)	A framework of sustainable innovation	-	Sustainable innovation orientation	Sustainable product innovation	-	No
Vorhies and Morgan (2005)	Marketing capabilities and competitive advantage (non-green context)	Marketing planning	Market information management	Marketing mix program	No	No
This study	Green marketing capabilities (GMC) and the configuration of strategies	GM planning	GM learning	GM mix program	GM Cross-functional orientation	Yes

2. GMC clusters

The authors conducted an extensive empirical study based on three data sources from multiple industries: managerial interviews, large-scale industry survey and publicly available financial data on environmental initiatives and performance and identified that firms can be classified into three clusters: opportunity seekers that excel in both sensing and execution capabilities and act as green market prospectors; conservative compliants that lag in both these aspects and act as green market defenders; and critical adopters that lay medium emphasis on green market sensing and execution activities and maintain a balanced “wait and see” approach (please see Nath and Siepong, Journal of Cleaner Production, 2022). Below are some key findings and their implications.

2.1 *Comparison of GMC clusters with other typologies in the literature*

It is also important to explore how our proposed GMC clusters compare with other typologies used in strategic management literature, research that explores corporate environmental sustainability in areas other than marketing, and particularly with studies that focus on green marketing issues. We draw three conclusions. First, despite using a different set of clustering variables (GM planning, learning, marketing mix and cross-functional orientation), this study finds that the proposed three cluster GMC configuration has high consistency with previous classifications proposed in the literature. Second, although GMC has two distinct phases (sensing that involves market exploration and execution that involves market exploitation), we find that firms classified as opportunity seekers are much superior in both aspects to firms in the conservative compliant group. This is consistent with literature that delves into green market strategy formulation. Third, there is a distinct difference in performance between the GMC clusters providing a clear indication how firms can develop their GMC configuration. This is again consistent with literature that explores the linkage between cluster membership and firm performance. Below we explain such findings in detail.

Firms in the first cluster (opportunity seekers) lead others in the way they embrace green issues in their overall marketing strategy. They are proactive in exploring potential needs of consumers, regulators and other stakeholders and implement them in their product-market design strategy with an objective of achieving and maintaining sustainable competitive advantage. This cluster represents prospectors (Miles and Snow, 1978), firms that perceive environment as an opportunity (Baker and Sinkula, 2005), adopt a strategic entrepreneurial marketing strategy (Menon and Menon, 1997), strategic environmental marketing practice (Montabon et al, 2007) and are classified as environmental leaders or embracers (Haanaes, et al, 2011; Herremans et al, 2008). Our findings also show that opportunity seekers are much better in both aspects of GMC (sensing and execution). This follows literature that shows firms adopting a strategic, long-term approach can both sense, plan, innovate and execute necessary product-market changes (e.g. Sadovnikova and Pujari, 2017). On the contrary, firms in the third cluster (conservative compliants) are reluctant to adopt sustainability as a central theme in their marketing strategy with a clear short-term objective of cost-saving and compliance with regulations. Our results show that such firms have significantly lower performance as compared to others. This is consistent with the low-performance potential argument for defenders (Miles and

Snow, 1978), firms that perceive environment as righteousness with sole objective of compliance (Baker and Sinkula, 2005), tactical enviropreneurial marketing strategy (Menon and Menon, 1997), operational environmental management practices (Montabon et al, 2007), and are classified as environmental laggards or cautious adopters (Haanaes, et al, 2011; Herremans et al, 2008). Firms in the second cluster (critical adopters) lie somewhere in between of making a balancing act. Hence, the three cluster typology based on GMC configuration and its linkage to performance is consistent with literature both in green marketing and across other management disciplines. Table 3 depicts synergy between the findings of this study and extant typologies from literature.

Table 3: Comparison of GMC clusters with classifications based on literature

Comparison with classifications from selected past studies	Opportunity seekers (<i>proactive GMC embracers</i>)	Critical adopters (<i>Balanced GMC adopters</i>)	Conservative compliants (<i>reactive GMC laggards</i>)
Miles and Snow (1978)	Prospectors- continuously seek and exploit new opportunities	Analyzer- cautiously follow prospector while maintaining the current portfolio	Defender- content with a stable market
Baker and Sinkula (2005)	Firms that perceive environment as an opportunity	Firms that perceive environment as a commitment	Firms that perceive environment as righteousness with compliance as sole objective
Montabon et al (2007)	Firms that follow strategic environmental management practices	Firms that follow tactical environmental management practices	Firms that follow operational environmental management practices
Herremans et al (2008)	Environmental leaders	-	Environmental laggards
Haanaes et al (2011)	Environmental embracers	Environmental cautious adopters	-

2.2 *Research and practice implications*

This study contributes to academic research and provide directions to practitioners on implementing green marketing strategies in their organisations. For researchers, it establishes the missing link in environmental quest: GMC. It extends prior research in green marketing by proposing the conceptualization of GMC and its components. Past research has often explored green marketing using firm idiosyncratic characteristics like top management commitment, environmental orientation or organizational citizenship behavior that are internally

focused (e.g. Banerjee et al, 2003; Chabowski et al, 2011); or green marketing practices such as green marketing mix, green strategic partnerships or green marketing strategies that are externally focused determinants (e.g. Cronin et al, 2010; Sadovnikova and Pujari, 2017). However, research is limited that explores the combination of capabilities firms need to sense, scan and plan for the changes in the external market that might influence their future product-market strategy and proactively adopt, innovate and implement such changes within the internal domain of the organization. This study addresses this research gap by conceptualizing GMC as two distinct constructs: GMC sensing consisting of GM learning and GM planning; and GMC execution comprising of GM mix and GM cross-functional orientation. In doing so, it extends the use of RBV and DC frameworks in the green context.

For practitioners and policy-makers, this research identifies that a firm can improve its green marketing initiatives by having a better sensing of the market to learn and plan for any future market requirement changes, and executing such strategies with improved green marketing mix program and better cross-functional coordination within the organization and with external stakeholders. Our proposed GMC clusters gives a benchmarking opportunity to firms on how they can improve their green marketing initiatives.

This study proposes GMC as a way to achieve competitive advantage and proposes firms can achieve their environmental objectives through their ability to understand current and future trends in the green market, and implement such trends in the green product-market decisions.

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