

Chapter 6

Eco-Labels and the Supply Chain: A Consumer-Oriented Perspective on Supply Activities

Rikki Smith

University of Auckland, New Zealand

Lincoln C. Wood

University of Otago, New Zealand & Curtin University, Australia

ABSTRACT

This chapter seeks to explore the concept of eco-labels as a method used by firms to promote products with high levels of sustainability performance. The authors examine what this means to the firms involved in terms of implementation and impact on profit. However, they also examine what can happen when a firm fails to live up to the required standards, whether these standards are above required performance or even the minimum mandated performance. The authors use the case of the automotive sector to demonstrate several categories of failure and provide a concluding remark with several pathways forward for future research in this topic.

INTRODUCTION

In an era where more consumers are becoming increasingly concerned about the environment, businesses are finding ways to communicate their environmental performance to both consumers and other firms. Commonly, this is done through advertising, where a firm makes ‘green’ claims about their business, but is also

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frequently done through the more credible means of gaining environmental certification, such as eco-labels. This has been a popular area of research for many scholars, with topics of interest being whether eco-labels increase demand for products (Sammer & Wüstenhagen, 2006; Testa, Iraldo, Vaccari, & Ferrari, 2015), whether they generate price premiums (Blomquist, Bartolino, & Waldo, 2015; Carlson & Palmer, 2016), the motivations behind adopting voluntary environmental standards (Prajogo, 2011; Prajogo, Tang, & Lai, 2012), and their connection to sustainable supply chain management (Darnall, Jolley, & Handfield, 2008; Iles, 2007).

However, much of this literature focuses on how firms can ‘do good,’ and the benefits they receive from doing so, rather than explicitly discussing how to ‘avoid bad’ (Lin-Hi & Müller, 2013). As such, this study is more interested in investigating the implications of firm’s failing to meet the green claims and environmental standards that they set for themselves and communicate to others. Thus, discussions around greenwashing (e.g., Delmas & Burbano, 2011), and the symbolic adoption of eco-certification (Aravind & Christmann, 2011; Christmann & Taylor, 2006), are of relevance. Along with voluntary standards, environmental regulatory standards can also be failed, and in doing so, firms bring attention to their bad environmental performance, as all firms are assumed to comply with such standards. For example, Volkswagen (VW) was found to be using illegal means to hide the fact that their vehicles did not meet emission levels required by the Clean Air Act; this resulted in significant negative media coverage for VW (Nunes & Park, 2016).

This chapter aims to investigate the failures of firms to reach advertised standards. While eco-labels and high standards can provide a commercial benefit to the company, allowing them to charge higher prices and, presumably, earn higher profits, it will be more difficult to design and supply products that meet these standards. Therefore, the additional investments may be a problem for firms if there is a demonstrated failure of the product to reach the required standards. Also, this failure may not be caused by one company in the supply chain, but may be based on failures further along the supply chain (e.g., by an errant supplier). To investigate the topic, the chapter first focuses on what eco-labels are and why they are attractive to firms. We document the differences in how firms may implement these eco-labels and standards and look at the benefits to the firms. We also examine the issue of failure, with a particular focus on greenwashing and mislabelling products. Finally, we present a set of illustrative cases from the automotive sector, focusing on how they have frequently failed to meet standards, and using this to highlight some of the costs and problems associated with the failure. While we do not present this in a supply chain context, in the concluding remarks we explain why we believe these are important factors for firms to consider when sourcing products.

The rest of this chapter is structured as follows. First, we provide a background to the problem and provide an overview of eco-labels and voluntary certification

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