The Role Of The Business Sector In Promoting A "Greener" Future

Milena Ristovska, University "Ss Cyril and Methodius", Republic of Macedonia

ABSTRACT

The problem with environmental degradation has been one of the main issues both social and political in recent times. Major reasons for the environmental pollution that companies produce are mainly contributed to the market inefficiency which calls for an immediate action in this field. Nowadays the environmental revolution is gaining a greater intensity and there has been a significant change in how companies do business. And, as the demands placed upon industry to improve its environmental performance are likely to grow even further, not only is it ethical for a company to improve its environmental performance rather, it is sound business practice. Entrepreneurs and administrators are increasingly putting efforts in the incorporation of the environmental variable in their strategic planning, aiming at the more rational use of natural resources. As ecologically responsive organisations, companies are increasingly adopting a set of corporate initiatives aimed at mitigating a firm's impact on the natural environment, the initiatives that reduce the firm's "ecological footprints". The initiatives could include changes to the firm's products, processes, and policies, such as reducing energy consumption and waste generation, using ecologically sustainable resources, and implementing an environmental management system. Overall, an environmental management system which embeds the concept of sustainable development into the processes of production and supply of goods and services is efficiently and effectively implemented and functioning if there are different mechanisms that efficiently and effectively combine the technological process, economic and business growth and sustainability. Such a system that is integrated into the organisation's global management system, strongly contributes to its competitiveness and corporate and brand image.

Keywords: sustainable development, environmental protection, environmental management system.

BUSINESS AND THE ENVIRONMENT - DEFECTS OF THE MARKET ECONOMY

The relationship of organisations and their business operations with the natural environment and the high environmental price of industrial activities have become increasingly evident over the years. Among the multitude of the environmental threats business organisations cause are: air pollution, solid waste disposal, ozone layer depletion, toxic waste accumulation and disposal, deforestation, wetlands destruction and climate modification. A company's impact on the environment can vary enormously according to corporate size and market power, the nature of the product or technology used, the organization of the business and the philosophy of the management.

Clearly decisions about production methods, investment and the type of products to be sold have direct implications for the environment and are guided by market forces and the profit motive. The continuous pressure to cut costs in a competitive market encourages companies to externalize costs as much as possible. Unless restricted by law, companies will seek to maximize their use of the natural environment as a "sink" for waste materials and they have a strong incentive to externalize some costs by exploiting the "free" services of the natural environment. Thus pollution is an inevitable by-product of an economic system in which companies seek to maximize profits and the free market dictates that companies seek to minimize costs in order to maximize profits regardless of any environmental damage that might be caused. Market failure of this kind is very common and results from the need to stay commercially competitive in the short term.

The inherent defects of the market economy that allow commercial interests to take precedence over environmental considerations could be summarized in the following key points:

(1) Competitive markets compel companies to cut costs to stay in business even when this damages the environment, e.g. through pollution. Indeed, there is an incentive to pollute, because it is cheaper to discharge waste materials in the local environment than to invest in pollution abatement. Externalization of costs helps company to boost its profits.

(2) As market prices reflect private (costs and benefits), business decisions are based on faulty and inadequate assessments. By ignoring environmental costs, market prices provide the wrong signals for resource management, leading to an overuse of the environment.

(3) Short-term profitability rather than long term sustainability is the motivating force behind private enterprise. The pressure of shareholders and financial institutions for rising dividends reinforces this philosophy of "short-termism".

(4) The ethos of economic growth has created a materialistic culture and a society preoccupied with economic progress. Business has a vested interest in promoting this approach of conducting business, thus commercializing more and more of our everyday life. Moreover, this "growth ethic" dictates the path of research and technology, tending to focus on productivity and ignoring the question of sustainability.[1]

The fundamental argument, in this respect, is that the market economy creates a dynamism of ever increasing production and thus ignores any limits to economic growth. So, the main dilemma that policy makers face is how to reconcile the profit motive with conservation so that companies and their customers take full responsibility for environmental costs. Stricter environmental legislation and financial incentives (e.g. tax concessions) could persuade more companies to go green, and there is already evidence of companies anticipating such changes. But, without a fundamental change in corporate culture which forges a new, ecological approach to business management, progress in conserving the environment will be tentative and contradictory. Organisations need to closely examine the ecosystems that they have impacted and do their part to keep the natural worldwide web in balance. The environment should be perceived as a stakeholder and its protection viewed as a core value for any business.

PRESSURE FOR A "GREENER" BUSINESS ENVIRONMENT

An increasing number of "green" companies reflect both a change in traditional corporate behaviour and the emergence of new "green" sectors like energy conservation and the recycling of waste. This represents a slow evolution in response to environmental legislation and shifts in consumer demand that can be traced back at least 20 years in most industrialized countries. The initial impetus came from government which now acknowledges that business must take responsibility for damage caused to the environment. Official recognition of the "polluter pays principle" is a good example of this. Moreover, the "push" of government has in some cases been overtaken by the "pull" of the market, as more and more consumers seek to purchase green products. Corporate inertia, however, still remains a major obstacle as many companies are reluctant to change production methods or marketing strategy.

Nevertheless, the push from government in the form of higher environmental standards is forcing more companies to invest in new products and technologies to satisfy stricter environmental regulations. Better pollution control, waste management and new product design are good examples of this. While legislation forces companies to change, few companies go beyond satisfying the minimum requirements because of the costs involved. This is when the pull of the market can become a decisive factor and help to reinforce new laws on environmental protection. The rise of the "green" consumer marks a shift in the pattern of consumer purchasing, away from products that are considered to be damaging to the environment and towards products that are sustainable. Thus market forces, in the form of a growing demand for "green" products and technologies provides new commercial opportunities and represents a powerful incentive to create a greener business climate.

The underlying pressures for a "greener" economy come not only from the government and customs, but also from the "green" investor and environmental pressure groups. Although each group has a particular interest in

[1] Roarty, Michael, 'Greening Business in a Market Economy', *European Business Review, Volume 97, Number 5, 1997,* p. 246.

environmental protection, membership of these groups overlap considerably and coalesce into what is called the "green movement" which has a strong influence in both politics and business.

DEFINING "GREENNESS"

A precondition of "greenness" is a corporate philosophy which explicitly incorporates environmental criteria in management decision making. The corporate strategy will include environmental as well as financial objectives, and indicate how these objectives will be monitored and achieved. Apart from developing "green" products and positioning itself directly in emerging "green" markets, a "green" audit should become a regular and indispensable part of corporate life. Ultimately, a "green" company must be sustainable in every respect and thus environmental protection becomes a guiding principle, even if this is at the expense of profit. The following criteria can be used to determine how "green" a company has become:

- *Product criterion:* a company making products which are environmentally friendly e.g. durable, non-polluting, made from recycled materials.
- *Technology criterion:* a company using production/ assembly methods that minimize environmental damage, e.g. minimizing waste and pollution, conserving energy.
- *Business ethics criterion:* a corporate philosophy that embraces environmental values, made effective by an environmental policy with specific objectives, e.g. procurement policy to buy components/services from other "green" companies. Although all three criteria are important, the essential characteristic of a "green" company is the last one. Corporate values must change so that environmental protection becomes an integral part of the corporate strategy. Green products and technology will tend to follow if companies adopt environmental criteria when taking decisions.[2]

Selling "green" products or using "green" technologies is not sufficient by itself as it may simply reflect commercial expediency or legal requirements. The truly "green" company goes beyond the dictates of the market or the law and embraces environmental values. In this respect, companies can be either "reactive" or "proactive" in their management of environmental problems. The reactive or defensive company is still wedded to the old system, only changing production techniques or processes if obliged to by law. Such compliance with environmental legislation is regarded as a burden, an additional cost which will reduce profits unless the cost can be recouped from the customer. The threat of legal sanctions is the motivating force for change and this negative attitude is still prevalent, especially among smaller companies where profit margins are tight. By contrast, the proactive company treats environmental issues in a positive way, regarding new environmental obligations as an opportunity to increase sales of "green" products where markets are beginning to grow. To become a market leader is potentially very profitable and new investment, while initially adding to costs, will eventually generate more sales revenue. Moreover, such companies position themselves in "green" sectors of the economy where demand is growing fast. Biotechnology, energy conservation, pollution control and recycling are good examples.

Apart from identifying new market niches for "green" products, such companies tend to be dynamic and prepared to research and develop new products as well. While some companies have been created to exploit these opportunities, it is more typical for already established companies to diversify their commercial interests in anticipation of market changes. The truly "green" company is not just exploiting opportunities to cater for growing numbers of "green" consumers; it is also anticipating changes in environmental legislation that will ultimately force companies to introduce cleaner technologies. The truly "green" company will be in the vanguard of change, taking the initiative in redesigning products and technologies. This might involve "clean" technologies where waste is automatically recycled or the use of renewable energy sources. Such far-sightedness can also pay dividends as companies become market leaders and gain an international advantage in these new technologies.

[2] Ibid, p. 249.

CRITICAL SUCCESS FACTORS FOR ADOPTION AND MAINTENANCE OF A SYSTEM FOR ENVIRONMENTAL MANAGEMENT

There are several critical success factors that influence the success of the adoption and maintenance of the system for environmental management within companies. They are general in nature and accordingly can be used by any organisation, regardless of its size, sector or nature of the business. These are presented below under four broad headings, namely:

- *Management leadership and support* – it is vital in ensuring organisation-wide awareness and understanding of environmental issues and commitment to the implementation of the system/standard. This understanding and commitment is required for adoption of the system for environmental management, its maintenance, and subsequently its certification. Top managers: provide leadership and motivation to employees at all levels; introduce and sustain cultural change and organisational vision; appoint a champion/manager for overseeing the implementation and progress of the environmental issues and programs; assist the manager/team in charge of the implementation of the system for environmental management in finalising realistic and achievable objectives and targets; allocate time for communication, training, motivation, etc. during the stages of adoption of the environmental management system and provide adequate and timely resources for implementation of the changes required as part of the implementation of the strategy.
- *Corporate environmental strategy* which enables a firm to achieve a set of well- defined objectives, usually to increase resource productivity, while at the same time being environmentally friendly. It refers to outcomes in the form of actions firms take for regulatory compliance and to those they take voluntarily to further reduce the environmental impacts of operations. The range of strategies available to organisations faced with environmental issues essentially moves from resistance to compliance to pre-emptive strategies and innovation. Thus, a firm may adopt a reactive strategy and simply comply with existing regulations, or it may follow a more proactive strategy of developing competitive advantage through environmental initiatives such as, developing green products and green markets, cleaner technologies, changes in product and process design, and so on. There is a commonly accepted classification of the strategies that companies pursue with regards to the environmental protection:
    - *Reactive:* Corporate responses to environmental scandals and consequent regulation are typically reluctant, technical and compliance-oriented. New environmental restrictions are seen as constraints on their operations and as obstacles to the development of shareholder value. When threatened by NGO or government action, they often resort to the courts before considering other approaches.
    - *Functional:* As firms gain experience and become more comfortable with new environmental realities and their new responsibilities, they gradually shift to a more positive attitude. Recognising the limitations of initial end-of-pipe solutions, governments, too, soften their somewhat confrontational approaches, and become more open to solutions from industry. Significantly, they also modify their regulatory approaches, specifying targets (such as emission-level deadlines) rather than relying on the prescription of means. However, the response of the firm is still limited and they still do not think about possible win-win solutions. Rather, they enter into more sophisticated lobbying efforts to 'defeat' new regulation.
    - *Integrated:* As attitudes towards the environment begin to encompass a broader conception of ecosystems, the various players in the environmental arena (government, NGOs and business, for example) realise that in order to arrive at 3E (effectiveness, efficiency and equity) solutions to environmental problems, they have to cooperate. Changing societal needs and consumer choices begin to be reflected in corporate behaviour. Industry leaders begin to look beyond the boundaries of their current business and establish partnerships – not just with other private firms, but also with government agencies, NGOs, suppliers, customers and especially competitors to pursue joint goals such as waste collection and recycling. They increasingly accept environmental responsibility for their activities and strive to be respected as good corporate citizens. Further, firms begin to adopt cradle-to-grave approaches, and undertake measures with a view to environmental benefits 10 to 20 years down the road. Eventually, these firms also come to realise that instead of incremental improvements, which sufficed in the past, major technological and/or organisational changes are required. As a result, these firms adapt their business strategies and, when necessary, seek to exploit business opportunities arising

from environmental developments.

- *Proactive:* Although, clearly, firms are beginning to toy with this approach, proactive environmental management is still mostly a projection. As stakeholders increasingly push for sustainable solutions, it is expected to become an increasingly common corporate response. Proactive response requires a deep organisational change. It involves the transformation of the business culture into one driven by an environmental vision, in which all management actions are directed by a quest for sustainability and shareholder value through harmony with the environment. Both the government, and the public (the customers, employees, community), expect business to assume a significant share of responsibility by virtue of their impact on the environment and the resources they command. Top managers need to become more and more aware of this challenge, and respond by more openly linking their concerns as environmentally-aware citizens with their business responsibilities. Business also must become increasingly conscious of their competitive self-interest in sustainability.

  Thus, firms with a proactive mindset are neither content with a functional response nor adopt programmes to deal with immediate problems such as upcoming regulation or competitive action, as is typical of the reactive response. Even the refocusing of an organisation by motivating its business managers to pursue best practice objectives is insufficient. Rather, they build corporate attitudes and values that stimulate all individuals throughout the organisation to bring their everyday behaviour into line with the corporate environment-driven vision.[3]

- *Learning and training* – organisations contemplating adopting a system for environmental management should learn from other organisations' experiences, both within the same and different industrial sectors, as this will assist the organisation in reducing the potential challenges/obstacles encountered. Benchmarking can help organisations to identify world best practices. The lessons learnt from this exercise should enable organisations to improve their operations and procedures and comply with the continuous improvement clause of the ISO 14001 standard.
- *Internal analysis* – there is a variety of analyses that should be carried out to ensure successful implementation of the system for environmental management. Conducting cost-benefit analysis; initial environmental review; identification of aspects and impacts and setting of objectives and targets; audits that should incorporate the completion of gap analysis and the identification of potential improvement areas and the operational procedures; document control etc. are just some examples of the ways that this internal analysis could be conducted.
- *Sustainability* - sustainable development considers the simultaneous improvement of the economy, the environment, and the wellbeing of the people. Sustainability needs to be built-in or become part of the long-term organisational benefit, if the organisations wish to remain competitive and survive in the business world. There are various factors influencing sustainability. They are inter-related and include: employee consultation and involvement; organisational change; work and life balance; workplace institutions and systems; and career development and organisational learning. Also embedded in this sphere of issues is HR policies; management style; leadership; organisational culture and, last but not the least, the organisation itself.[4]

FACTORS INFLUENCING CORPORATE CHOICE OF THE ENVIRONMENTAL STRATEGY AND THE LEVEL OF DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

Literature and empiric studies suggest that strategic response to environmental protection challenges is highly dependent on the context within which the organisation operates. The context can be further differentiated into 'outer' and 'inner'.

[3] Agarwala, Tanuja, 2005, 'Corporate Environmental Strategy: A Perspective and a Theoretical Framework', *Social Responsibility Journal, Volume 1 Number 3/4, October 2005,* pp. 170 – 174.

[4] Adapted from Zutshi, Ambika, Amrik S. Sohal, 2004, 'Adoption and Maintenance of Environmental Management Systems: Critical Success Factors', *Management of Environmental Quality: An International Journal Vol. 15 No. 4, 2004,* p. 401 – 413.

The outer context may include elements such as laws, policies, and law enforcement mechanisms. The external pressures emanate from three principal locations: legal-regulatory, market behaviour, and the wider society, that is, the external stakeholders. The inner context may include economic feasibility and considerations such as corporate attitudes and beliefs. Corporate values and culture constitute the inner pull. Greater public environmental awareness, environmental regulations and, increasing demands from environmental pressure groups constitute the outer pull. The trend of green strategic change which usually commences in a particular industrial sector and spreads first among the competitors is also exogenous. Sometimes, organisations conform to superior environmental standards implemented by a leading edge company, largely to secure the legitimacy to remain in business.

One could make a different type of list of all of these factors. Here are the categories of factors that could be considered:

- Social and regulatory pressures through enforcement of laws, rules and norms;
- Employees' views on a firm's environmental performance affect their willingness to work for that firm and the willingness to stick to the environmental management system and strategy;
- Managerial perception of environmental risks and market opportunities that also form the basis of managers' decision about how environmental concerns should be integrated into strategy. This integration, in turn, determines the range of corporate responses;
- Culture and the dominant paradigm of the firm etc.

CONCLUSION

The growing trend towards the globalisation of markets has heightened the importance of the environment as a competitive factor. Recent research argues that sustainability will be the key business issue of the new millennium, and that early mover companies will achieve competitive advantages. Arguably, business is fast approaching a situation where the strictest environmental regulation in place anywhere in the world will become the effective minimum price of entry into that market. Those firms that achieve high standards of environmental performance will benefit in a number of ways, such as improved media coverage and community relations, reduced risk exposure, lower insurance premiums, cheaper finance, improved product quality, etc.

In the long run, these benefits will translate into competitive advantage for the firms. Many of these benefits are directly related to cost reduction and as such are not inconsistent with principles of profit maximisation. The benefits, however, also reflect a more ethical approach to business where profits are not the sole motivation and where due care and responsibility towards the environment are integral parts of doing business. An increasing number of organisations are "going green" as they realise that they can be both, that is, environmentally responsible as well as profitable. The adoption of environmental management practices, it is argued, presents clear evidence that the environment is a key issue on the business agenda.

Nowadays, in order to remain effective in the face of increasing demands, industry must integrate environmental policies into its operating strategies. The environment need not represent a cost, and may indeed present opportunities for business.

AUTHOR INFORMATION

Milena Ristovska works as a Teaching and Research Assistant at the Faculty of Economics, University "Ss Cyril and Methodius", Skopje, Republic of Macedonia. Holds a Bachelor Degree in Economics; Master of Science in the field of Economic Development and International Finance and is currently a PhD candidate at both Faculty of Economics, University "Ss Cyril and Methodius", Skopje (PhD thesis proposal "Technological Advancement and Competitiveness of Propulsive Industries in Republic of Macedonia") and at Radboud University Nijmegen, The Netherlands, (PhD thesis proposal "Quality of Institutions and Governance and Their Impact on Development Prospects of Republic of Macedonia").

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