

Strategical Perspective of Corporate Environmental Policy

Valentinas Navickas, Rima Kontautiene

Kaunas University of Technology, Laisvės al. 55, LT-44309 Kaunas, Lithuania,
valentinas.navickas@ktu.lt; rima.kontautiene@stud.ktu.lt

The authors of the article analyze the benefits of corporate environmental policy in pursuance of a competitive advantage in the global market. Corporate environmental policy described as a strategic business investment opens new possibilities for their relationships with stakeholders and contributes to the promotion of social activity and to the attainment of the competitive advantage. By emphasizing the positive environmental policy's impact on competitive advantage of corporation in the global market the article treats of corporate environmental performance benefits, which are defined as improvement of relations with all stakeholders, intensification of corporation image, reputation development, business growth and customer loyalty. The paper deals with the development of Lithuanian corporate environmental policy in recent years and investigates the relationship between corporation activities and the improvement of relations with the stakeholders, which influences intensification of corporation's image and thereby increases competitive advantage of corporation. Researching the impact of corporate environmental policy on increasing competitive advantage, the authors found that active environmental performance positively influences business relationships with stakeholder groups and increases their competitive advantage in the global market.

Keywords: strategy, environmental protection, corporate environmental policy, competitive advantage, corporate environmental activity in Lithuania.

1 Introduction

The role of environmental functions within companies has significantly changed over the last few years. As a result of the increasing awareness of environmental management' importance in sustaining and growing business companies are realizing the need to understand the environmental impacts of their business functions. This, in turn, has led to the desire to integrate environmental principles into business functions. The environment protection is closely linked with economic development. The integration of environmental principles treats as the strategic investment by companies seeking a competitive advantage in global markets. This means that it is expediently to develop the corporate environmental policy, which positively impacts on all stakeholders and ensures a competitive advantage of companies.

Problem of the study

It is important to emphasize the necessity of environmental policy implementation in this period, when international

competition is intensifying. Environment protection is a matter of great concern worldwide. It is necessary to highlight the benefits of implementing environmental principles for the companies in pursuance of competitive advantage in the global market.

The object of the study is corporate environmental policy.

The aim of the study is to analyze the importance of corporate environmental policy in pursuance of competitive advantage in the global market.

Tasks of the study are as follows:

1. To evaluate the importance of environmental policy implementation for business.
2. To analyze the trends of environmental management in companies.
3. To describe the development of corporate environmental policy in Lithuania.

The methods have been applied in order to achieve the aim and tasks of the study presented in this article: systematic-logical analysis and synthesis.

2 The importance of environmental policy implementation for business

Over the past two to three decades many companies have incorporated environmental principles into their activities in order to eliminate or reduce the impact on the natural environment. Today environmental issues are frequently analyzed at corporate management level. The roots of this relatively new development can be traced back to the late 1980s. At that time companies felt increasing pressure from international politics to internalize their impacts on the environment. The environmental policy developed, environmental laws are constituted in different countries. The environment protection has become one of the elements of the national policy. An attitude to the environment began to change: instead of eliminating pollution effects, the idea was to find ways to save natural resources and to prevent contamination. For example, the European Community (now European Union) environmental policy was based on the following principles:

1. Precaution. Do not wait until the real extent of the problem to get out and take immediate action. Ecological problems are formed slowly, so they needed a lot of time to be solved.
2. Polluter pays for the pollution. For pollution prevention and cleaning polluter has to pay opposed the society self.
3. Pollution prevention. Lower the costs of avoiding pollution, than after of cleaning and liquidating it (Council Directive of 15 July 1975).

In 1992 at the United Nations Environment and Development Conference in Rio de Janeiro a number of major environmental conventions was adopted, in subsequent meetings in Buenos Aires and Kyoto were identified some national targets of climate improvement (General Assembly of the United Nations, 2011). Ecological problems have a global impact, but they are the result of many millions individuals and companies influence on the environment. The most recent approach to the environment is reflected in increasingly stringent environmental protection laws and more environment-friendly society rules. In 1996 the International Organization for Standardization on purpose to adhere to the tasks of Rio de Janeiro Environment and Development Conference and supported by environmental specialists from a variety of countries issued its first ISO 14000 environmental standards (Environmental management and other management and leadership standards, 2011). There laid tools and techniques to help companies manage their environmental impact. By certification companies can demonstrate their attitudes in respect of environmental protection to stakeholders (consumers, public authorities, community, investors, environmental activists, etc.). In the range of environmental protection the main interested party is the community, that is expressing its needs through appropriate laws and regulatory requirements also known as mandatory requirements. Companies must comply with them anyway. Business leaders seek security in all their fields of activity, including those relating to environmental protection.

Environmental protection is now a major concern throughout the world, therefore the requirements for all public and

private firms to carry out environmental commitments are particularly increasing. Environmental protection must cease to be a secondary objective in the company and become one of its elements, while requiring the investment, but also giving significant opportunities for the company and reducing costs. Companies are currently confronted with clear and ever-growing environmental requirements of society. In this context, companies must be receptive to such requirements and liabilities. Any noncompliance of such liabilities or requirements should be seen as adversely affecting the environment and seriously compromising company's activities in the future. The environment affects every company regardless of its size, and today it is a fact that the environment is a key requirement in achieving long-term corporate success (Burnett & Hansen, 2008). For companies, in terms of reputation and achieving a competitive advantage, this involves assuming and internalizing a portion of social costs on their balance sheets (Porter & Kramer, 2002). But it needs to be recognized that the incorporation of environmental criteria must be from a strategic and integrating perspective (Fuentes, 2006). This factor also considered by consumers as a positive perception of a "socially responsible" company, making them more likely to consume its products in equal cost conditions (Bigne et al., 2005).

Combating pollution, both inside and outside industrial plants and complexes, requires systematic environmental management in companies. Appropriate environmental management in an industrial firm involves foreseeing contingencies associated with corporate finances as regards cleanup techniques, staff organization and company's psychology. In this respect, companies have undergone a major environmental transformation, taking the form of a set of practices designed to prevent and correct the environmental impact of their activities (Gonzalez & Gonzalez, 2007). Thus we have gone from a reactive attitude to environmental transformation, confined to a minimal implementation of environmental practices forced upon firms by legislative requirements or the need to yield to the requirements of various pressure groups (such as public administration, environmental organizations or the media), to a proactive approach, as has been highlighted by numerous studies (Aragon, 1998; Buysse & Verbeke, 2003; Gonzalez & Gonzalez, 2007). In recent years the importance of environmental protection has increased in particular and is associated with climate change, a cause for great concern throughout the world and the ongoing globalization of the world economy. Since many companies and organizations operate globally, their business impact is rarely confined to one country. Thus the environmental principles have not to be applied in one country or in Europe, but must be implemented globally, internationally.

3 The trends of environmental management in companies

Climate change has been the most high profile environmental issue in recent years. Public concern about other issues of environmental degradation, such as the use of hazardous chemicals, local pollution and water availability, has also grown in recent years. Over the past decades in the

world, notably in Europe, regulatory measures have increased both in frequency and scope. These include WEEE (Waste Electronic and Electrical Equipment Directive) and REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances) which came into force in 2007 and RoHS (the Restriction of Hazardous Substances Directive) in 2006 (Environment Agency, 2011). There is expanding a number of companies seeking to actively manage their impact on the environment and demonstrate their performance results. Companies that have a huge impact on the environment (e. c. mining, air transport, agriculture, manufacturing, chemicals and pharmaceuticals) and face a higher risk of harm to the environment must manage the impact on the environment and regularly report about the implementation of environmental strategies for existence often stringent regulatory requirements and a high pressure of stakeholder groups. The impact of environmental management includes the implementation of environmental principles and dissemination of environmental performance.

“European and Japanese companies are clear leaders with respect to managing environmental impacts. Over 90% of high impact companies in Europe and Japan have developed basic or advanced policies, compared with 75% in Australia/New Zealand, 67% in the US and 15% in Asia ex-Japan” (The state of responsible business: Global corporate response to environmental, social and governance (ESG) challenges, 2007: 3). “A number of factors drive the strong performance demonstrated by European companies including strict EU regulation and a high level of pressure on companies to adopt sustainable environmental practices from investors, NGOs and civil society” (The state of responsible business: Global corporate response to environmental, social and governance (ESG) challenges, 2007: 6). European companies, that are integrating environmental principles into their activities, not only improve relationship with stakeholders, what leads competitive advantage in business growth, but also improve their economic performance.

For example, Norwegian fishing industry’ companies founded the factory “Environmental Process AS” in Batsfjord. The factory benefits from the following products: fish meal, protein and oil products, which are produced from the original production process waste that would previously have been discarded. The result - 12 employed by the local population and cleaner water around the production facilities (Gruzevskis et al., 2006). German company “Van Clew” invented a new way of treating waste water. This technological innovation has helped the company to drastically reduce water and energy consumption. Increasing pressure from local communities to improve company’s participation in the environmental field forced to speed up investigations. Community has been unable to cope with environmental pollution. At that time the company has complied with all national standards. The company has assessed the conflict as very important to business success in the future. Then “Van Clew” invented a new method of processing sewage. The new method allows the company to use a hot (50 to 75 degrees) waste water to produce energy, which is used later in the manufacturing process. As a result, the company’s energy demand is significantly reduced. And finally, innovation has accelerated the production process. With this

new company set new standards for sewage treatment and had a lot of attention from the North Rhine-Westphalia government, as well as from the company’s competitors. “Van Clew” has gone far beyond the community for an investment that paid off (Gruzevskis et al., 2006). In 2008 the British energy company “EDF Energy” by implementing of leak management strategy has introduced new methods for leak localization, evaluated by the Environmental Protection Agency (Great Britain) as a very safe and consistent with best practices in environmental samples. (EDF Energy: Our sustainability performance report, 2009).

“Performance is strong in Japan as ISO 14001 has been widely adopted, championed by the government as a way of providing customer assurance and as a means to avoid losing export business to certified firms elsewhere” (The state of responsible business: Global corporate response to environmental, social and governance (ESG) challenges, 2007: 6). Japanese companies in the implementation of environmental programs focus on the safety of consumers what also affects the good relations with stakeholders and ensures the growth of competitive advantage in the global market. For example, the Japanese airline company “JAL Group” has invested nearly 4 million yen to the quality of fuel and aircraft engines to reduce emissions of CO₂. Total expenditure amounted to more than 10 million yen. “JAL Group” also utilized over 2,400 chemicals that were used in aircraft materials, paints and lubricants (JAL: CSR Report 2006). Japanese company “Bosch” manufactures fuel injection systems for diesel engines. That’s allowing engines to work quietly, economically and cleanly, with less CO₂ emissions. Company’s production of safety systems including airbags, electronic stability control systems and the combination of active and passive safety systems ensures protection of the vehicles and their passengers (The Bosch Group-Sustainability, 2011).

Dissemination of environmental activities is strongest in Japan, where companies tend to produce high quality environmental reports. In Japan 33% of companies demonstrate good dissemination, compared with 28% in Europe, 18% in North America and 5% in Asia ex-Japan (The state of responsible business 2008: Implications for PRI Signatories 2008). Japanese and European companies are leaders of environmental management and dissemination. They actively integrate environmental principles into their activities and develop a high quality of environmental reports. This was influenced by the Japanese government and its active support to companies implementing environmental management systems standard ISO 14001 and the fact that the EU has one of the most stringent environmental requirements in the world. It has been developed for decades and is up for the solution of various problems.

Today the main priority is the fight against climate change, biodiversity conservation, and more responsible use of resources. The implementation of these priorities can contribute to economic growth by promoting innovation and increasing the competitive advantage of companies in intensified international competition. The environment and business are closely related, and long-term business success depends on how the companies are able to integrate harmoniously into the environment and to sense public sentiments.

4 Corporate environmental policy development in Lithuania

According to "Sustainable Development Strategy" (2009) the main objective of sustainable development in Lithuania is to achieve by 2020 the development level of EU countries of 2003, according to the indicators of economic and social development as well as to the efficiency in consumption of resources, and to stay within the EU's permissible limits, according to the indicators of environmental pollution, while meeting the requirements of international conventions to minimize environmental pollution and input into global climate change. In order to achieve these objectives it is necessary to base future development of the economy on advanced and more environment-friendly technologies. The state of environment in Lithuania is in line with the EU standards. Thanks to the introduction of the latest technologies distinguished for efficient consumption of resources a smaller negative environmental impact and cleaner production methods in different areas of production and services, environmental pollution grows much slower than production. Lithuania meets all international commitments in terms of global climate change and environmental pollution.

The orientation of business in the country consolidates on activities that result is not directed solely at profit, but also oriented to stakeholder needs and environmental sustainability. In Lithuanian companies such projects are usually encouraged by foreign partner/ parent companies. These projects operate within the business and concerns directly with their collaborating partners. According to Zyglidopoulos, "multinational corporations are often held to higher standards for social and environmental responsibility than national companies because they are subject to the additional pressure of stakeholders from foreign countries" (Delmas & Toffel, 2004: 215).

Environmental pollution' reduction measures and general environmental protection remains one of the priority areas of socially responsible business activities in Lithuania. Lithuanian companies use a variety of environmental certification schemes for certifying activities and products, which enhance the competitiveness and image, and promoting and

facilitating international trade. "Although the implementation of ISO 14001 environmental management systems has increased significantly in recent years, but according to the quantity of implemented systems counting for a million of the population, Lithuania significantly behind not only from the world's leading countries, but also from some new EU countries" (Ruzevicius, 2010).

In 2000 only one Lithuanian company has implemented a certified environmental management system in accordance with the international ISO 14001 standard (The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates – 2003; The ISO Survey of Certifications 2008; Lithuanian Standards Board, 2011). In 2010 Lithuania has had 630 companies that have implemented environmental management systems to ISO 14001 (Figure 1).

Environmental management system helps companies to show a responsible attitude to global and local environmental issues, allows the formalization of environmental commitments and demonstrates that it is implemented through policies, objectives and environmental protection programs. Thus allows for companies to show to the public and all stakeholders their care for the environment and sustainable development and for companies themselves helps to ensure that their activities are managed and continuously improved.

More and more companies declare their commitment to reduce environmental damage, as well as they connect to various industry organizations to demonstrate a responsible attitude to the environment. For example, joint-stock company "Lifosa" together with other Lithuanian chemical industry companies set up by the environmental initiative "Green generation", which aims are to develop the younger generation responsibility about the nature, to support environmentally friendly initiatives and projects that promote the public more interested in protecting environment (Lifosa: Social responsibility, 2011). "TNT Lithuania" is implementing corporate "green" initiative. One of its goals is to develop the staff responsible for the environment, promote environmental protection and energy saving habits in everyday life. For example, the company collected and stored on the recovery of discarded cell phones. For every phone picked 5 Euros transferred to the foundation of United

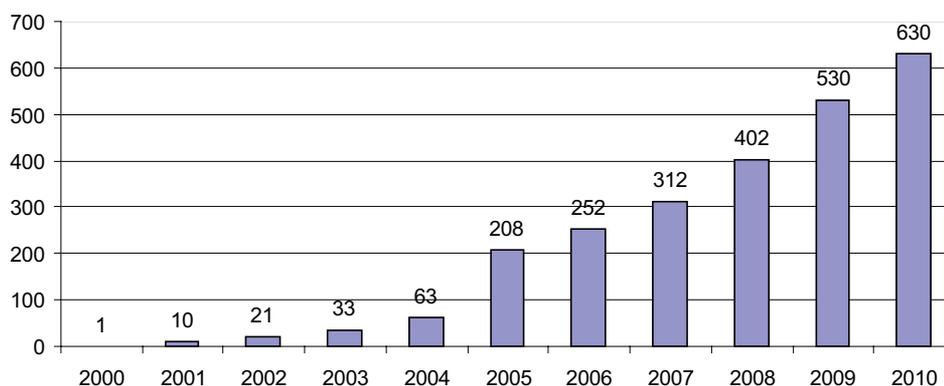


Figure 1: Companies certified under the ISO 14001 standard in Lithuania, in numbers

Nations World Food Programme campaign “Walk across the World” (Corporate Social Responsibility in Lithuania, 2009). Joint-stock company “TEO LT” implement resource-saving program “Save Resources and Change”. It is, according to the seasons, grouped into three phases: spring for the paper and water-saving, summer - waste sorting and transport, autumn - electricity and energy savings. This program aim is that every employee (and their families) acquires at least one new habit of protecting the environment a year (TEO: Environment protection, 2011). Joint-stock company “Lietuvos draudimas” together with University of Vilnius founded the Youth Environmental Initiatives Fund. It will support for students and doctoral research on climate change, evaluates the best ideas and encourages their authors annually (Corporate Social Responsibility in Lithuania, 2009).

Effective environmental policy helps businesses operate more efficiently: improves productivity, saves resources and helps to meet their needs at lower costs. It also ensures a responsible approach to environmental protection, knowledge of legal requirements and enforcement. Effective environmental mainstreaming in the general business management system is also useful in many other environment-related areas, including better exchange of information within an organization, a clearer distribution of employees' responsibilities, anticipating the future legal requirements and readiness for change, reduction of costs and expenses associated with pollution or violations, improving communication with the local community and other stakeholders. Lithuanian companies are increasingly integrating environmental principles into activities. Socially responsible companies hold annual social responsibility reports, which disseminate information about the business' environmental policies. This not only improves the company's image and relations with stakeholders, but also increases the competitive advantage of Lithuanian socially responsible businesses.

5 Conclusions

Environmental policy implementation in companies is a strategic integration and the prospect of a competitive advantage in the global market. This is an investment in the company's overall strategy development, revealing advantageous business prospects, ultimately guaranteeing a good relationship with stakeholders and a greater prestige. An active integration of environmental principles shows the initiative companies' attitudes to the environment regarded by consumers as a socially responsible approach. Positive consumer' attitude is particularly important to companies seeking a long-term recognition.

Japanese and European companies actively integrate environmental principles into activities and disseminate information of environmental strategies. This is due to the strict European Union environmental regulations, large pressure from investors, NGOs, political, public, the active participation of Japanese Government. Japanese and European companies in the implementation of environmental policies primarily pursue to protect the environment and also experience economic benefits: improvement of their relations with stakeholders, increase their competitive advantage.

In Lithuania business orientation is consolidating in environmental activities. Socially responsible companies, increasingly integrating environmental principles into their activities, prepare annual reports on social responsibility. The implementation of ISO 14001 environmental management systems in Lithuanian companies has increased significantly in recent years, although Lithuania still significantly lagging behind not only from the leading countries in the world, but also from some new EU countries. Socially responsible companies of Lithuania use various environmental strategies, enhancing their competitiveness and image, promoting and facilitating international trade.

References

- Aragon, J. A. (1998). Strategic Proactivity and Firm Approach to the Natural Environment. *Academy of Management Journal*, 41(5), 556-567.
- Bigne, E., Chumpitaz, R., Andreu, L. & Swaen, V. (2005). Percepcion de la Responsabilidad Social Corporativa: un analisis Cross-cultural. *Universia Business Review*, No. 5, 14-27.
- Burnett, R. D. & D. R. Hansen. (2008). Ecoefficiency: Defining a role for environmental cost management. *Accounting, Organizations and Society*, 33 (6), 551-581, DOI: 10.1016/j.aos.2007.06.002
- Buysse, K. & Verbeke, A. (2003). Proactive Environmental Strategies: A Stakeholder Management Perspective. *Strategic Management Journal*, 24(5), 453-470. DOI:10.1002/smj.299.
- Council Directive of 15 July 1975 on waste (75/442/EEC). (1975). Available from: http://www.wastexchange.co.uk/document/europeanorm/wfd_dr_859830.pdf (15.09.2010)
- Corporate Social Responsibility in Lithuania. (2009). Available from: <http://www.socmin.lt/index.php?211085659> (2011.01.04)
- Delmas, M. & Toffel, M.W. (2004). Stakeholders and environmental management practices: an institutional framework. *Business strategy and the Environment*, 13(4):209-222. DOI:10.1002/bse.409.
- Environment Agency. (2011). Available from: <http://environment-agency.resultspace.com/search?p=Q&lbc=environment-agency&uid=924664728&ts=ev2&w=directives&af=cat2:environmentaltopics%20cat1:businessindustry&isort=score&method=and> (2011.01.03)
- Environmental management and other management and leadership standards. (2011). Available from: http://www.iso.org/iso/about/the_iso_story/iso_story_environmental_management.htm (2011.01.07)
- JAL: CSR Report. (2006). Available from: http://www.jal.com/en/corporate/csr2006/pdf/e_all.pdf (2011.01.03)
- Fuentes, E. (2006). La responsabilidad social corporativa. Su dimension normativa: implicaciones para las empresas españolas. *Pecunia*, No. 3: 1-20.
- General Assembly of the United Nations. (2011). Available from: <http://www.un.org/documents/resga.htm> (2011.01.05)
- Gonzalez, O. & Gonzalez, J. (2007). Enfoque de marketing y proactividad medioambiental. *Mediterraneo economico*, No. 11: 129-146. Available from: <http://www.fundacioncajamar.es/mediterraneo/revista/me1106.pdf> (2010.12.20)
- Gruzevskis, B., Vasiljeviene, N., Moskvina, J. & Kleinaite, I. (2006). Corporate Social Responsibility// Topical questions of social policy. Vilnius, 2006. p. 40. ISSN 1648-6269.
- Lifosa: Social responsibility. (2011). Available from: <http://www.lifosa.com/index.php?page=socialine-atsakomybe> (2011.01.07)
- Lithuanian Standards Board. (2011). Available from: <http://www.lsd.lt/typo%5Fnew/index.php?id=157> (2011.01.05)

- Porter, M. E. & Kramer, M. R. (2002). The competitive advantage of Corporate Philanthropy. *Harvard Business Review*, 80(12), 56-68.
- Other-environmental-impacts. EDF Energy. (2009). Available from: <http://www.edfenergy.com/sustainability/performance-report/environmental/other-environmental-impacts/networks.shtml> (2010.12.26)
- Ruzevicius, J. (2010). Lithuanian system of quality certification. Available from: <http://www.kvalitetas.lt/lt/visi-straipsniai/76> (2011.01.05)
- Lifosa: Social responsibility. (2011). Available from: <http://www.lifosa.com/index.php?page=socialine-atsakomybe> (2011.01.07)
- Sustainable Development strategy. (2009). Available from: <http://www.am.lt/VI/en/VI/index.php#a/297>
- TEO: Environment protection. (2011). Available from: <http://www.teo.lt/node/12> (2011.01.10)
- The Bosch Group-Sustainability. (2011). Available from: http://csr.bosch.com/content/language2/html/55_ENU_XHTML.asp (2011.01.05)
- The ISO Survey of ISO 9001:2000 and the ISO 14001 Certificates (2003). Available from: <http://www.iso.org/iso/iso9000-14000/pdf/survey2003.pdf> (2010.12.27)
- The ISO Survey - 2008. Available from: https://za.dqs-ul.com/fileadmin/files/za/Documents/Content/survey_2008.pdf. (2011.01.05)
- The state of responsible business: Global corporate response to environmental, social and governance (ESG) challenges// A report by Ethical Investment Research Services (EIRIS). (2007).

Available from: <http://www.eiris.org/files/research%20publications/stateofresponsiblebusinessexecsumsep07.pdf> (2010.12.27)

- The state of responsible business 2008: Implications for PRI Signatories. (2008). Available from: <http://www.eiris.org/files/research%20publications/stateofresponsiblebusinesssep08.pdf> (2011.01.05)

Valentinas Navickas is doctor of social sciences (economics), professor at Kaunas University of Technology, the Faculty of Economics and Management, the Department of Economics and International Trade. He is an author of more than 210 scientific and scientific-popularity articles, published in Lithuania and abroad, author of four experimental development projects. Spheres of interest: microeconomics, macroeconomics, international economics, tourism economics, corporate social responsibility, interorganizational structures, clusters, strategical alliances.

Rima Kontautiene is PhD student of Kaunas University of Technology Economics and Management Faculty Department of Economics and International Trade. Spheres of interest: microeconomics, macroeconomics, international economics, corporate social responsibility, corporate philanthropy.

Strateške perspektive korporativne okoljske politike

Avtorja analizirata pridobitve korporativne okoljske politike pri doseganju konkurenčne prednosti na globalnem tržišču. Korporativna okoljska politika kot strateška poslovna investicija odpira nove možnosti za odnose z deležniki in prispeva k promociji socialnih aktivnosti in s tem k doseganju konkurenčne prednosti. Avtorja se osredotočata na vpliv pozitivne okoljske politike na doseganje konkurenčne prednosti na globalnem tržišču. S poudarkom na vplivu pozitivne okoljske politike članek obravnava pridobitve okoljskega obnašanja na izboljšanje odnosov z vsemi deležniki, okrepljen imidž korporacije, razvoj ugleda, rast poslovne aktivnosti in lojalnost strank. Nadalje obravnava razvoj korporativne okoljske politike v Litvi v zadnjih letih in raziskuje odnos med aktivnostmi korporacije in izboljšanjem odnosov z deležniki, kar vpliva na okrepitev imidža korporacije in s tem izboljša njeno konkurenčno prednost. Avtorja ugotavljata, da aktivno okoljsko ravnanje pozitivno vpliva na odnose podjetja s skupinami deležnikov in poveča njegovo konkurenčno prednost na globalnem tržišču.

Ključne besede: strategija, zaščita okolja, korporativna okoljska politika, konkurenčna prednost, korporativna okoljska aktivnost, Litva