



Analysis

Opportunism and environmental management systems: Certification as a smokescreen for stakeholders

Gustavo Lannelongue*, Javier González-Benito

Universidad de Salamanca, Facultad de Economía y Empresa, Campus Miguel de Unamuno, 37007 Salamanca, Spain

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ABSTRACT

This paper sets out to explain how the implementation of an environmental management systems (EMS) conditions the way firms respond to environmental pressures exerted by their stakeholders. While the most common approaches to be found in the literature consider the certification of such systems to be an indicator of proactivity and cooperation with stakeholders, this article posits that it is also a mechanism firms use to discriminate between stakeholders, allowing firms to react to the pressure of certain stakeholders only. Specifically, the analyses conducted on a sample of 3748 plants reveal that the implementation of an EMS responds to pressure from stakeholders, but once this system has been certified a firm's environmental actions basically respond to the pressure from internal primary stakeholders, ignoring pressures from external primary and secondary stakeholders and regulators. The key element in the theoretical line of reasoning regarding these results is the opportunistic behavior associated with certification, given that the certification by itself represents incomplete information. Thus, an EMS can serve as a valuable shield against a majority of stakeholders, since only the pressure of those stakeholders who can verify the effects of such pressure will have an influence on the environmental behavior of firms with a certified EMS.

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1. Introduction

Widespread awareness in recent decades of the impact economic activity has on the environment has led to a toughening of the regulatory framework, as well as to greater surveillance over corporate operations by different stakeholders (Johnstone et al., 2007). Some managers have looked upon this increasingly greater pressure as a market opportunity, thereby triggering far-reaching changes in business management and strategy (Potoski and Prakash, 2009). Stakeholder theory (Freeman, 1984) considers the alignment of a firm's goals with those of its stakeholders. Its application within the environmental field leads to one of the issues that have aroused the greatest attention in recent years, namely, to identify those stakeholders that can influence a firm's environmental performance (Buysse and Verbeke, 2003; Henriques and Sadosky, 1999; Murillo-Luna et al., 2008).

Environmental management encompasses several parts of a firm and may be more or less developed, possibly constituting no more than a subsidiary concern based solely on the minimal application of certain corrective actions or, by contrast, becoming an integral part of the organizational structure through the implementation of an environmental management system (EMS) that may be certified by third parties (Murillo-Luna et al., 2011). An EMS is understood to be the necessary platform for launching proactive environmental strategies, so numerous

papers have focused on analyzing the effect its implementation and certification has on a firm's environmental outcomes (Boiral and Henri, 2012; Comoglio and Botta, 2012). Nevertheless, the findings have hardly been conclusive (Darnall and Sides, 2008), perhaps because standards such as ISO 14001 (2004) or EMAS regulations, which are the basis for a large number of these management systems, are not results-based standards, and therefore do not guarantee the certified firm has achieved a specific environmental performance. Certification simply ratifies that the organization in question has implemented a certain number of processes to help it manage its environmental impacts, without guaranteeing that these processes have led to an enhanced environmental performance. Nonetheless, markets do tend to interpret this certification as a sign that the organization has made an effort in environmental matters (Christmann and Taylor, 2006; Prakash and Potoski, 2007).

It is precisely this signaling capacity of EMS certification that leads us to understand that the interest in adopting this initiative may not just lie in improving the firm's environmental performance, but also in responding to stakeholder pressure. Thus, the system's implementation and certification constitute a strategy to alleviate the pressure from some of these groups. In other words, instead of considering EMS certification to be a proactive initiative, and therefore studying its role as a precursor or trigger of a firm's environmental endeavors, it is also possible to understand the implementation of an EMS as a reactive initiative that responds to the pressure of the various stakeholders and one that allows discriminating between them. The main focus of this paper is to analyze the validity of this latter approach.

* Corresponding author at: Tel.: +34 923294400x3524.
E-mail address: lannelongue@usal.es (G. Lannelongue).

With a view to pursuing this goal, this article will show that, firstly, firms try to please their stakeholders by implementing and certifying an EMS, because those firms deciding to implement and certify an EMS are those that detect greater environmental pressure from their stakeholders. And, secondly, it will show that the effect of stakeholder pressure change when a firm implements its EMS and has it certified. Accordingly, we contend that once a firm has had its EMS certified, the influence of certain stakeholders diminishes. From then on, efforts to reduce the environmental impact are conditioned largely by those stakeholders classified in the literature as primary and internal.

This will enable us to further explore the relationships between stakeholders and a firm's environmental behavior. On the one hand, it allows us to contribute to the debate on the opportunistic use of EMSs and the role they really do play in environmental management. On the other hand, the findings of this research will be of use to regulatory bodies when defining and appraising the ever more frequent public policies designed to foster the implementation of EMSs by firms. Finally, our findings may also help professionals to identify other ramifications of their EMSs that go beyond the direct effect on the environmental impact.

In order to answer the questions posed above, the paper is arranged into five further sections. This first section serves as an introduction to the research question. The second section analyzes the literature on stakeholders, environmental management systems and opportunism amongst certified firms, and two hypotheses are formulated that provide a response to the questions posed. The third section describes the empirical methodology used for testing these two hypotheses. The fourth section describes the results obtained. The fifth initiates a discussion on the implications of the results obtained and, finally, the sixth section presents the paper's main conclusions.

2. Literature Review

2.1. Stakeholders' Environmental Expectations

Stakeholders are individuals or groups that affect a firm's performance or are affected by its operations (Freeman, 1984). One of the aspects addressed by stakeholder theory is to try to identify precisely who is and who is not a stakeholder (Phillips and Reichart, 1998). Environmentally speaking, several groups have been identified whose pressure is in some way perceived by a firm (Buysse and Verbeke, 2003; Clarkson, 1995; Henriques and Sadorsky, 1999). Returning to the classification made by Buysse and Verbeke (2003), we can distinguish between those stakeholders who impose legislation and determine rules of mandatory compliance (e.g., public authorities or industrial associations); those with the greatest influence on a firm's operations, who are referred to as primary because they are in some way involved in the value chain (Freeman, 1984), either from within (e.g., shareholders or labor unions) or from without (e.g., customers or suppliers); and finally, those with a smaller impact on a firm's operations, referred to as secondary (e.g., environmental or neighborhood/community associations).

Prior studies have shown that firms use different strategies to respond to stakeholders (Jawahar and MacLaughlin, 2001; Mitchell et al., 1997). In terms of corporate social responsibility, stakeholders expect firms to manifest integrity, respect, regulatory compliance, transparency and due accounting process (Morsing and Schultz, 2008; Waddock et al., 2002). In environmental terms, firms respond to their stakeholders' requirements by adapting their environmental practices (Murillo-Luna et al., 2008; Rueda-Manzanares et al., 2008; Sarkis et al., 2010), which ultimately leads to better environmental management (Turk, 2009).

Each stakeholder may have a particular standpoint on what a firm should do and their subsequent particular risk perception (Benn et al., 2009). Although some research contends that firms respond in a similar way to each and every one of the pressures exerted by

stakeholders (Murillo-Luna et al., 2008), the literature has sought to single out a specific corporate performance for each stakeholder pressure (Buysse and Verbeke, 2003; Henriques and Sadorsky, 1999). This approach to the problem helps to gain a more accurate view of a firm's environmental performance with regard to its stakeholders. In short, the literature assumes that a poor environmental performance may damage the relationship between a firm and its stakeholders, and it may therefore be compromised (Buysse and Verbeke, 2003).

2.2. The Role of Stakeholders in the Implementation and Certification of an EMS

The literature has managed to reveal strategic profiles in environmental matters using different variables: market awareness and the risk of a firm's operations (Steger, 1990), the arrangement of its environmental actions (Del Brio and Junquera, 2001), or environmental pro-activity; with this last one depending on legislative compliance, the incorporation of technology or other innovations, or strategic focus (e.g., Azzone et al., 1997; Roome, 1992; Van Wassenhove and Corbett, 1991).

Since then, *environmental proactivity* has taken root as an ongoing variable that allows differentiating between one organization and another according to a firm's adroitness for advanced environmental management involving a voluntary prediction of its environmental impacts (Sharma and Vredenburg, 1998). Such proactivity in the environmental field has been extensively reused in the literature to explain corporate performance and, from the resources based view of the firm, it has been defined as one of a firm's dynamic capacity (Aragón-Correa and Sharma, 2003).

Nonetheless, pollution control measures are an expense for firms, but they are also a source of value creation if such schemes are appreciated by its stakeholders (Heras-Saizarbitoria et al., 2011; Nishitani, et al., 2011). For those firms operating within a strict regulatory framework, as in the industrialized nations, the application of different measures of an environmental nature is in most cases forced (Murillo-Luna et al., 2011). The interest for these firms lies in coordinating such activities in the best possible manner so they can be perceived by their stakeholders as value creation in their environmental management. According to Del Brio and Junquera (2001), this can be achieved through the formal implementation of their environmental actions (e.g., through management systems).

Stakeholder theory argues that maintaining poor relationships with stakeholders is damaging to a firm. One of the reasons for the downturn in these relationships is the recording of a poor environmental performance (Buysse and Verbeke, 2003). It is therefore reasonable to expect firms to react to stakeholder pressure and improve their environmental management (Delmas, 2001; Henriques and Sadorsky, 1999). The most common way of improving this management is by integrating environmental practices into an EMS. The ISO 14001 (2004) standard is the most popular one, and the number of firms with an EMS based on this standard continues to grow in spite of the prevailing economic climate (ISO, 2009). Furthermore, this standard allows certifying the system by means of a verification process involving a third party, thereby reducing the information asymmetry between the firm implementing the system and its stakeholders. We may contend that firms' differing environmental strategies are embodied in three profiles according to the degree of institutionalization of the environmental actions undertaken: those that have not implemented an EMS, those that have implemented an EMS and those that in addition have had their EMS certified according to a recognized standard. When implementing an EMS, a firm embraces certain rules of behavior. Subsequently, upon certification, it confirms that such rules are set in stone, thereby converting them into a "credible commitment" to its stakeholders (North and Weingast, 1989). The standard's level of exigency acts as a proxy for the signal and affects the brand benefits that members can expect of their stakeholders (Prakash and Potoski, 2007; Qi et al., 2011).

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