



# Drivers of corporate environmentalism: The case of the Polish economy in transition



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## ABSTRACT

At the beginning of the 1990s, the Central and Eastern European (CEE) countries went through significant changes that were supposed to mould them into liberal market democracies. Those changes that took place in the legal-institutional, market and civil society fields have also significantly affected the sphere of environmental protection and management (Clark and Cole, 1998). As a result, also corporate behaviour towards the natural environment has changed significantly. Apart from changes determined explicitly by legal developments, Poland has witnessed a rapid increase in voluntary corporate initiatives protecting the natural environment, such as ISO 14001 environmental management systems (EMS). The purpose of this study is to uncover the drivers of corporate environmentalism as well as its specificity and dynamics during the transition period in Poland. In order to reach this goal, 283 Polish-based companies were surveyed. The conducted study showed that they tended to 'go green' in order to improve their environmental performance and meet the ever-changing environmental regulations, expecting to capitalise on this type of corporate activity. The latter was reflected in the corporate expectation to enhance their image. Surprisingly, the research revealed that the importance of strictly economic drivers, such as cost reduction and the market share, was rather minor. The findings also show that the pressure from various stakeholder groups was of little importance.

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## 1. Introduction

For a long time, direct environmental regulations as well as economic instruments were perceived as almost exclusive groups of instruments designed to solve market failures such as negative externalities reflected, for instance, in environmental degradation. Despite being fairly effective in solving environmental problems, the command-and-control approach was criticised for being costly, fragmented, and inflexible (Sterner, 2003). Also, economic instruments based on the Pigouvian proposition to tax the polluters and hence internalise the social costs of pollution turned out to be far from perfect, as they require very expensive enforcement and monitoring systems. This gave rise to voluntary approaches towards protecting the natural environment. Many believed that the emergence of voluntary measures would provide a less expensive and more effective approach to environmental protection, but would also allow businesses more flexibility in achieving environmental goals (Sterner, 2003). Voluntary approaches are also

perceived as a reflection of corporate social responsibility (Babiak and Trendafilova, 2011).

The emergence of voluntary corporate approaches towards the natural environment has provoked numerous intriguing research questions, drivers of corporate environmentalism being one of them. Surprisingly, although this topic has received notable coverage in the academic literature, economies undergoing a transition from a command to a market system have been largely overlooked by scholars. This study seeks to fill this gap by investigating drivers of the implementation of ISO 14001 EMS in Poland-based companies. Drawing from the work of Clark and Cole (1998), the changes that took place in Poland, and that gave a rise to the identified drivers, can be linked with the developments that occurred in Poland in legal-institutional regulations, the market and civil society. In the course of the present study, I draw from this framework to highlight and structure the key changes at the macro level that occurred in Poland in the realm of environmental protection and management.

Using survey data collected from 283 companies based in Poland, supported further by 20 in-depth interviews, this study revealed the most important drivers motivating companies to

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implement ISO 14001 EMS as well as their changes in the period 1996–2006. The study showed that the companies' willingness to eliminate their adverse impact on the natural environment, together with their wish to comply with environmental regulations and to enhance their image, were the most important drivers for the introduction of EMS. Interestingly, drivers of an economic nature, such as cost reduction and the market share, were rather low in importance over the whole analysed period, and so was the role of various stakeholders, such as central and local authorities and local communities. However, the role of some of the examined drivers changed noticeably during the study period. According to the interviews conducted, those changes can be explained by changes in the socio-economic, legal and institutional milieu which took place in Poland at that time as a result of the ever-increasing embeddedness of the Polish economy in the European market as well as the legal and environmental order.

The remaining part of the paper is structured as follows: in the subsequent Section 1 make a review of the existing literature concerning drivers mobilising companies to introduce voluntary measures reducing their environmental impact. Next, I briefly highlight changes in the socio-economic and legal environment which took place during the transition period, taking Poland as an example, and which affected corporate attitudes towards the natural environment. Then I report how the data was collected and the analysis performed. Finally, I present and discuss my findings.

## 2. Review of drivers behind ISO 14001 EMS implementation

The ISO 14001 EMS standard is a unilateral initiative imposing additional, voluntary, and beyond-compliance commitments on a company towards the natural environment. The International Standardization Organization has developed this standard, first, to replace numerous and sometimes conflicting national standards perceived as a potential barrier to international trade. Secondly, a new standard was supposed to provide managers with an effective tool for implementing and developing an environmental management system, leading to an improvement in both environmental and economic performance. Finally, the emergence of the ISO 14001 standard has made various EMS operating in all types of organizations more comparable and auditable.

The key elements of ISO 14001 environmental management systems include establishing an environmental policy, identifying environmental aspects of all of an organization's processes and products to determine its impact on the environment,<sup>1</sup> as well as priorities and objectives concerning environmental performance, establishing an action plan to reach these objectives, increasing managers' and employees' commitment and responsibility for protecting the natural environment, and establishing a management system to audit and evaluate the efficiency of EMS and to identify potential opportunities for further improvement (MacDonald, 2005; Prakash and Potoski, 2006). Undoubtedly, ISO 14001 EMS have become the most widespread form of corporate voluntarism both in the world and in Poland. Over 223,000 businesses around the world have implemented EMS complying with ISO 14001. This number in Poland amounts to approximately 1500.

The emergence and rise of corporate environmentalism, reflected among others in ISO 14001 EMS, has stimulated scholars to explore and understand drivers of this kind of corporate behaviour. According to Bansal and Roth (2000), it is important to understand

the drivers behind this type of behaviour for at least two reasons. First, understanding the drivers will be useful for organizational theorists to predict ecologically based behaviour. Secondly, it could help in implementing "the mechanisms that foster ecologically sustainable organizations, allowing researchers, managers, and policy makers to determine relative efficacy of command and control mechanisms, market measures, and voluntary measures" (Bansal and Roth, 2000, p. 717). In a response to this call, we have witnessed a plethora of empirical studies attempting to identify drivers behind various examples of corporate environmentalism. A full and comprehensive review of the literature goes beyond the scope of this paper, nevertheless it is important to highlight the variety and richness of the existing empirical studies.

One of the most frequently advanced arguments is that companies 'go green' in order to improve their image and build a strong 'green' brand (Salomone, 2008; Massoud et al., 2010; Neugebauer, 2012). By 'going green' scholars often understand organizational, managerial and technological practices that companies introduce in order to minimise negative environmental effects of their operations (Klassen and McLaughlin, 1996; Welford, 2000). Environmental management principles and concepts are of special importance here as they specify policies, procedures, and audit protocols for controlling operations that create waste materials or emissions (Matthews, 2003). Building a 'green', responsible brand through EMS prevents consumer boycotts and adverse NGO activism, and also attracts a new demand for a company's products as a result of 'green' differentiation.

Another frequently reported driver is companies' willingness to improve their environmental performance (Kehbila et al., 2009; Schylander and Martinuzzi, 2007; Alemagi et al., 2006). More and more companies tend to take responsibility for their environmental and societal impacts. As a result, they undertake beyond-compliance activities or participate in various voluntary programmes intended to protect biodiversity, combat climate change, or improve the quality of local natural resources.

Many argue that undertaking voluntary, beyond-compliance environmental activities improves companies' competitive position in numerous ways (Arora and Cason, 1995; López-Gamero et al., 2011). For instance, according to Christensen and Rasmussen (1998), the latter occurs due to improved organizational performance and better control over the whole organization in a general sense. Several studies link companies' economic performance and EMS through cost minimization (Fryxell and Szeto, 2002; Takahashi and Nakamura, 2010; Salomone, 2008). The implementation of EMS improves the efficiency of manufacturing operations, which has certain environmental and financial consequences (such as expenditures on raw materials, water and energy, environmental fees), but in addition it allows companies to deal better with uncertainty reflected in environmental risks and potential liability costs (Shrivastava, 1995).

According to Khanna et al. (1998), some investors express their preferences by holding stocks of environmentally friendly firms. This can stem from their 'green' attitude or from the belief that these economic entities are going to be more profitable in the future as a result of their better environmental performance and smaller risk exposure. In recent years, we have witnessed a great rise in public environmental awareness mirrored, for instance, in a growing demand for 'green' products and services. This market pressure forces firms to undertake beyond-compliance activities which appeal to those consumers who are willing to pay more for delivering more public good to society, in this case, a better quality of the natural environment through 'green' products and services (Mainieri et al., 1997; Arora and Cason, 1995; Khanna and Damon, 1999).

Several studies report that ISO 14001 EMS represent a globally

<sup>1</sup> In the present paper I consider the natural environment to be the non-anthropogenic milieu which includes soil, natural resources, water, atmosphere and other elements that represent the input for corporate and industrial processes, and which are affected by corporate operations.

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