Changing corporate attitudes towards environmental policy

Journal Article

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Version: Accepted Manuscript
Link(s) to article on publisher's website:
http://dx.doi.org/doi:10.1108/14777830510614349

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Changing Corporate Attitudes Towards Environmental Policy

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Changing Corporate Attitudes Towards Environmental Policy

Structured Abstract

1. Choose a category for the paper
Research Paper

2. Write the abstract

Purpose
To report findings from an updated survey of environmental policy and practice among UK organizations. To draw conclusions about the relationship between environmental concerns and organizational strategy making.

Design/Methodology/Approach
The paper reports findings from a 1999 survey of 911 UK organisations, updated by interviews conducted with participant organisations in 2004. The paper represents an extension of a ten-year longitudinal study of environmental policy and practice in UK organisations.

Findings
The gap between policy formulation and implementation in the environmental area has continued to narrow, but environmental concerns appear not to have moved towards the centre of the strategy making process in many firms. Organizations are still primarily influenced by short-term rather than long-term imperatives, and although recognition of opportunity offered by the environment is increasing, organizations are still liable to adopt a reactive position, increasingly so as the size of the organization decreases.

Research Implications
It offers a contribution to the debate over the on-going relationship between organisational strategy and environmental factors as a determinant of organizational strategy. It locates the debate in the wider discussion of determinants of organisational strategy.

Practical Implications
It highlights the complex decision-making processes facing managers in satisfying a variety of stakeholders who may be making competing demands of their organisation.

Originality/Value
The paper offers a longitudinal review of changes to environmental policy and practice among UK organisations, providing an opportunity to explore the nature of change over a ten-year period.

Viney Revision: 09/02/05
1 INTRODUCTION

Is there any evidence that corporate attitudes are changing towards environmental issues? Are organisations responses to the demands of a variety of interested stakeholders, for them to behave responsibility in relation to the physical environment, moving from a more traditional reactive stance to more a proactive stance which recognises a degree of potential opportunity? Furthermore, is there evidence that issues relating to the environment are being to taken towards the heart of the organisational strategy process, an early and abiding goal for the environmental community (Welford, 1997), developing towards concepts such as strategic environmental management (Goldstein, 2002)? How different are the attitudes of UK organisations compared to their global counterparts?

The environmental management literature routinely argues the negative short-termist case, that it is possible for industries and organizations to advance their business interests while lessening their adverse environmental impacts (e.g. Porter and Van der Linde, 1995; Pearce, 1997: 105-9); the so-called ‘Porter hypothesis’ (Connelly and Limpaphayom, 2004). It also presents a number of cases which support the more positive long-term proactive stance by highlighting ‘economic opportunities’ (Bansel and Roth, 2000: 718) offered by the environment. These include environmentally motivated production improvement programmes, market development approaches, like those associated with green marketing, the sale or reuse of waste by-products through concepts such as eco-industrial development (Cohen-Rosenthal, 2003), and the rent-earning potential of a ‘green’ as opposed to ‘grey’ image, to mention a few (Bansel and Roth, 2000: 718; Christmann, 2000: 664-686).
The motivation for organizations to pursue environmentally aware policies is somewhat ambiguous and controversial. A general perception that communities ‘want’ to live in a greener world is conditionally supported by recent evidence (Franzen, 2003), although this analysis found that attitudes differed between citizens of wealthier nations who preferred “general environmental protection to economic growth” (Franzen, 2003: 306) and citizens of poorer nations, whose concerns were a complex combination of advancing economic growth whilst facing deepening ecological problems. Observations that the environmental debate is, therefore, driven by ‘objective problems and subjective values’ (Inglehart, 1995) seem valid.

Recent evidence from the USA (Khanna and Anton, 2002) suggests that the factors motivating organizations to pursue environmental policies are a combination of both reactive and proactive. Their findings, drawn from a sample of Standard and Poor (S&P) 500 organizations, found that “both the high costs of existing and anticipated regulations, the opportunities for winning the good will of the public and of stakeholders as well as gaining a competitive advantage globally are driving corporate environmental management” (Khanna and Anton, 2002: 554). The USA is often portrayed as a ‘poor performer’ in the environmental field and Khanna and Anton’s findings reflect the complexity of the demands facing managers. Does evidence from the UK support these conclusions?

In order to address this question, this paper returns to and updates work begun in the UK in 1994 (Ghobadian et al, 1995) which explored the relationship between environmental
policy and practice among large UK organizations. The original research was based upon
the administration of three separate research instruments (in 1994, 1996 and 1999), and
has been updated with a series of interviews, conducted in 2004 with participant
organizations, to revisit conclusions drawn in the original research and explore how
developments in the intervening period have influenced the attitudes of UK organizations
in this contentious and highly emotive area.

The paper is structured accordingly. The following section provides a brief note on the
methodology employed during this research and the background to the original research.
This is followed by a brief review of the key conclusions drawn from earlier research
before the paper moves on to explore the latter stages of the analysis including recently
concluded interviews. The paper then moves on to consider the possible relationship
between developing a proactive stance in this area and organizational performance,
locating the debate in the wider debate concerning the selection of effective strategic
options. The final section summarizes and concludes the paper.

2 METHODOLOGY AND BACKGROUND TO THE RESEARCH
We have already noted that our work builds upon a series of surveys conducted between
1994 and 1999 by a team of researchers led by Ghobadian. Their primary aim was to start
a research process which would eventually enable them to develop an understanding of
corporate attitudes and expectations towards a range of aspects of environmental
corporate policy. A secondary aim was to grow the population in the survey sample with
each repetition. This paper reports an extension of this original research, based upon a
series of a dozen in depth semi structured interviews with a number of respondents to the 1999 survey. The objective of interviewing managers was two fold. Firstly, to ascertain whether the policies and practices of their organizations had changed in the intervening period, and if so, why this may have been. Secondly, to revisit and review the conclusions emerging from the earlier research. The decision to return to these questions five years after the last contact with the organizations was intentional, as it extends the longitudinal nature of the research project, provides an opportunity to review the conclusions reached earlier in the research at a remove from the immediate circumstances in which the original research instrument was completed, and provides an opportunity to establish the precise motivations underpinning general statements of policy and practice.

The sample population for each of the original surveys was in each case drawn from the Times Top 1000 list of the highest grossing UK companies for the year of the survey. In 1994 the survey was administered to 164 of the top 200 companies (Ghobadian et al, 1995: 47). In 1996 it was distributed to 400 companies (James et al, 1999: 339) and in 1999, 911 companies were surveyed in total. Although response rates over the period dropped, it is noted that 25.6% of the original respondents supported the subsequent two surveys, which provides some basis for the identification of longitudinal trends. However overall, in 1994, 47.5% responded. By 1996, the rate had dropped to 32% and in 1999 only 17.3% of surveys were returned.

The authors explain this reduction in response rate as being a product of a variety of factors, principally the growing numbers of companies involved, and partly by the
prevalence of short-term attitudes towards environmental policy issues over the period. Throughout the three surveys, it was increasingly evident that smaller companies proved less inclined to continue their support by returning the questionnaires. This, as the original researchers acknowledged, biased findings in favour of larger companies. This may be attributed to a variety of factors: an uncertainty over responsibility for environmental issues in smaller organizations; a lack of available resources to enable responses to requests for academic research or the existence of policies of not supporting academic research; or a general reluctance to discuss environmental matters which is less evident in larger and more ‘environmentally exposed’ organizations, and so on.

The resultant focus upon larger organizations can nonetheless be defended as legitimate and worthwhile on at least four grounds. First, larger corporations are more likely to actively engage with the environment as a significant issue as they are more prominent social actors (Hutchinson and Chaston, 1994). Second, larger corporations are likely to have a greater environmental impact. Thirdly, larger corporations perform the function of role model for smaller companies. (Taylor and Welford, 1993). Finally, large companies can and do influence the behaviour of smaller firms through their supply chain and logistical activities (Hill, 1991).

In this paper, we compared data from the later two surveys which, unlike the earliest, enable long and short term perspectives to be distinguished. We present data which we have attempted to extrapolate and explain using internet research and semi-structured qualitative interviews conducted in 2004 with original respondents who stated their
willingness to be contacted again for this purpose at a later date. Before moving on to this analysis, it is necessary to briefly review the reported findings of the earlier analysis.

3 CONCLUSIONS OF EARLIER RESEARCH

A key conclusion of the first survey was that UK firms were fundamentally short-term in their outlook towards environmental policy issues (Ghobadian et al, 1995). On the basis of the 1994 data, the conclusion was drawn that although concern for the environment was increasingly becoming an issue which managers perceived as affecting the bottom line, UK organizations strategic stance was predominantly reactive, defensive and short term. Environmental issues were considered to pose potential threats to current performance rather than presenting opportunities to create future competitive advantage. Few respondents exhibited any genuine inclination to invest in proactive longer term environmental strategies. Indeed, in 1994, many organizations were still in the process of developing environmental policy statements.

Subsequent research instruments saw the addition and amendment of relevant questions to ascertain whether or not managers perceived environmental issues differently when they were asked specifically to consider the longer term view. Results from the 1996 survey were reported in 1999 (James et al, 1999), and researchers found that increasingly, companies were incorporating statements concerning the environment into their corporate policy statements. The need to formulate some sort of environmental policy was increasingly being recognized, but there was little evidence of genuine long term commitment. The researchers implied that environmental policy formulation was being
recognized as a factor in sustaining corporate image and some, albeit a minority
considered that environmental issues could present opportunities. However, despite a
proliferation of environmental policy statements, the research revealed a ‘gap between
policy formulation and implementation’ (James et al, 1999). This phrase was intended to
reflect the finding that while the number of companies introducing policy statements was
growing, relatively few had developed effective procedures for implementing their
policies in practice.

4 WHAT COMPANIES DO: THE PREVALENCE OF THE REACTIVE
STANCE

As we have noted, an early conclusion of the research was that firms were fundamentally
short term in nature with respect to environmental issues. While UK corporations
recognized the importance of developing effective environmental policies, their
motivations were primarily reactive, and dependent on the expected development of
environmental legislation. Companies were not actively seeking environmental
leadership positions (Ghobadian et al, 1995:57). Ten years after this initial conclusion
was reached, it is appropriate to ask ‘Has this situation changed?’
Table 1: Perceptions of Competitive Advantage

As the original research progressed, findings suggested that organizations became less, rather than more, optimistic about the potential for opportunity offered by the environment, as shown in Table 1. In 1996, a higher proportion of respondents thought that there were current opportunities to increase competitive advantage offered by environmental issues compared to though that perceived the area as a threat (46 compared to 20). In the later survey this confidence had decreased, and fewer respondents perceived such opportunities. When asked about the future, rather than the present situation, the earlier respondents suggested that the balance of feeling was that threats outweighed opportunities (52 compared to 44). By 1999 this feeling had reversed itself (58 against 53). However, a significant finding is that almost a quarter of respondents felt as uncertain about the future as to be unwilling to take a view.
In the area of profitability there was less confidence in 1999 than 1996. In the area of threats, attitudes appeared to be stable. In 1999, confidence in future opportunities had increased, and perceived levels of threat remained stable but high. Uncertainty though increased. This perhaps reflected the volatility of economic circumstances.
Respondents saw slightly fewer opportunities for cost reductions in the 1999 survey than they did in 1996, but there was a great deal of uncertainty in this area.
In 1996, nearly three quarters of all respondents believed that an improved corporate image would result from the adoption of sound environmental policies. Over half thought that their corporate image would be damaged if such policies were not adopted and implemented. In the later survey, views were substantially the same on these points.
A substantial number of respondents recognized the threat posed by legal sanctions in 1996. The proportion of respondents perceiving sanctions as a current threat declined in the 1999 survey. This could reflect the fact that by 1999, many companies felt that they were better able to cope with the existing legal framework. However, in the later survey, an increased proportion of respondents feared future legal sanctions and the proportion that were uncertain enough about the future not to express a view increased substantially.

The data presented above reflects a recent statement offered by Alan Banks, chief executive of CoreRatings, the European investment rating agency. He suggested that the prevalent attitude of many companies in 2003 was that ‘most CSR (Corporate Social
Responsibility) risks are uninsurable, and the potential liabilities …have the potential to bankrupt many companies, (and consequently) the only prudent approach for boards of directors is to set about active risk mitigation’ (Banks, 2003:11). The suggestion here is that a defensive, reactive and possibly short-termist approach is understandable, especially in the light of increasing levels of uncertainty about the future.

Notwithstanding this view, it is significant that when asked to take a longer term view in considering the question of opportunity, more respondents identified the future potential offered by the environment in 1999 than they had in 1996. Our recent set of interviews has also suggested that managers continue to adopt the view that the environment is likely to be a key future strategic area. In the short to medium term, therefore, environmental issues are seen as potential threats, but in the longer term they can be seen, and are starting to be seen by at least some senior executives as opportunities to re-align business strategy to a changing environment.

For example, in a CSR round table discussion reported in the journal ‘Strategic Risk’, Alan Knight, head of social responsibility for Kingfisher, the UK retailer, described his role as follows: ‘I translate social and environmental trends into the business strategy ……one of the things I do is make the business realize it actually causes some of the trends’ (Knight, 2003:5). This description reveals a more proactive strategic stance than that which was reflected by the majority of the survey respondents, although our 2004 research suggests that some of the large companies in these surveys have developed a desire to become more proactive since last surveyed in 1999.
Our 2004 interviews, coupled with internet research on original participant companies, revealed that some have indeed become more proactive in the environmental area. Not only has evidence of organizations embracing environmental ethics in their strategic outlook become more significant, many companies were trying to embrace corporate social responsibility more widely. In our interviews it was clear that senior managements in the larger companies were trying to embed good environmental practice and ethics structurally and culturally into their organizations. There was a growing recognition of the fact that companies which stay ahead of the game may be better placed in future to take advantage of any strategic opportunities which environmental and CSR issues present. Although many of our interviewees recognized that they had yet to reach a point whereby effective environmental practices and procedures were implemented organization-wide, they had moved a long way in terms of closing the gap between stated environmental policy and environmental practice.

For example, our interviewee from Johnson Matthey, the metallurgical, chemical and pharmaceutical company, told us: ‘We have gone from a Health and Safety Policy to an Environmental one and on to CSR more broadly in recent years. We haven’t really got into the social issues (e.g. inclusivity et cetera) fully yet. In this area we are in the early stages of awareness and development. We do see commercial opportunities in the environmental area, but we have not yet fully mainstreamed (which we interpret to mean that they had not yet been able to fully implement practices, procedures and systems organization-wide). However since 1999 we have come a long way. Our (environmental)
policies were revised in 2002 and given teeth. Hitting targets is a difficult one, but we are energetically developing in the area”. (See www.matthey.com for more information).

Another interviewee, from Rugby Cement, the cement products company, informed us that: ‘since Rugby was acquired by RMC (Ready Mix Concrete) in 2000, the main board has been involved in sustainability policies and the environmental approach has now been broadened to include CSR. We are pro-active in the environmental area….’

Knights (2003) comment’s, cited earlier, suggest a role for the implementation of environmental ethics as a vehicle for organizational renewal which could keep the business aligned with changing stakeholder attitudes, but of course, stakeholder attitudes can conflict. Stockholders are normally interested in performance, dividends and stock prices although some investors are becoming more environmentally aware, and it is possible to buy ethical investments. Employees are concerned about their jobs and maintaining employment which typically depends upon sustained financial performance. This priority may at times conflict with ideal environmental requirements.

Many senior managers appear to believe that in principle, an approach which responds reactively to legislation, CSR and environmental threat is inadequate. For example, David Thomas, the executive director of global markets for Willis Limited, the international insurance broker, has commented that ‘the legal goalposts are constantly moving as regulatory frameworks evolve across the globe – further adding to the uncertainty. The development of the EU directive on environmental damage is a current example; many
industries face the possibility of strict liability for unquantifiable damage’ (Thomas, 2003, p 18). While some senior managers in some organizations are beginning to see and in some cases advocate a strategic case for more pro-activity in relation to CSR and environmental issues, many less senior managers remain more skeptical. Our research suggests that although the gap between environmental policy and its implementation is closing, there has been a more widespread implementation of concrete practices and procedures. However, we suggest that it is more difficult to address the gap between CSR/environmental aspirations and strategies and business strategy.

5 BUSINESS AND ENVIRONMENTAL STRATEGY: IMPACTING FACTORS

There is a large literature debating the relationship between good corporate social performance and financial performance (Lantos, 2001). Governmental agencies and organizations promoting CSR and good environmental practice assume that corporations which take up the CSR agenda will profit. The findings of academic researches have been mixed. Some have found no correlation between the two either positive or negative (McWilliams and Seigel 2000; 2001). Others postulate a positive correlation (e.g. Waddock and Graves, 1997; Balabanis et al, 1998; Ruf et al 2001). Yet others have suggested that the relationship between good CSR and environmental practice is negative (e.g. Wright and Ferris, 1997). It is difficult to reconcile environmental aspirations and strategies with business strategies from a short-termist perspective when good practice carries a cost. A case for pro-activity is unlikely to be convincing on the basis of short term performance criteria especially in the context of smaller firms. It is therefore
possibly unsurprising that we found that senior managerial advocates of pro-activity were typically associated with larger firms. Larger companies almost always have lower average costs associated with good environmental practices than smaller ones (McWilliams and Seigel, 2001) and have greater reputational awareness.

On the other hand costs and revenues associated with environmental activities may not offer a true reflection of longer term benefits, some of which are difficult to quantify or estimate in the short term. Bansel and Roth (2000) suggest that when companies are primarily motivated towards implementing environmental policies by the prospect of enhanced competitiveness, 'social initiatives are adopted only if they serve to enhance a firm’s financial performance’ (Bansel and Roth, 2000: 274). This will often mean that they take a low priority because it is often easier to measure the short term costs associated with them that the longer term benefits.

In 1995 Ghobadian et al (1995) highlighted external environmental factors, as opposed to internal factors as having a more significant impact upon environmental policy than internal factors. Of all the possible external influences, legislative demands were the most important, closely followed by the fear of prosecution. These findings were repeated in the 1996 survey (James et al 1999) and in the 1999 survey; although in 1999 there is some suggestion that other factors, such as customer expectations and financial markets were additionally beginning to increase in significance. Table 6 compares results from the later two surveys in which companies were asked to rate influencing factors on a
scale from 1 to 5 where 1 was very low and 5 very high. The table shows both mean ratings for external influencing factors and standard deviations.

Table 6: Impact Of External Factors On Environmental Policy

<table>
<thead>
<tr>
<th>1996</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>External influencing Factors</td>
<td>Mean  SD</td>
</tr>
<tr>
<td>Customer Demands</td>
<td>3.45  1.26</td>
</tr>
<tr>
<td>Competitor actions</td>
<td>2.82  1.08</td>
</tr>
<tr>
<td>Legal Requirements</td>
<td>4.46  0.81</td>
</tr>
<tr>
<td>Risk Of Prosecution</td>
<td>3.91  1.2</td>
</tr>
<tr>
<td>Sector industry Standards</td>
<td>3.25  1.06</td>
</tr>
<tr>
<td>Social Pressure</td>
<td>3.31  0.98</td>
</tr>
<tr>
<td>Financial Markets</td>
<td>2.93  1.16</td>
</tr>
</tbody>
</table>

In 2004, our interviews suggested that legal requirements coupled with the fear of prosecution for non compliance were still primary drivers of environmental policy. However, they also lent a greater significance to the finding that in 1999 other external factors were rated more highly than they had been in 1994. While citing legal factors as a key influence upon environmental policy, most managers were keen to point out that other external factors, such as customer demands, requirements of financial markets and corporate image were equally or almost equally important.
In 1999, Ghobadian and colleagues (James et al., 1999) presented a model depicting the range of interacting influences upon environmental policy which they had found in their surveys to date.


During the past ten years, many companies have experienced changes in the ‘external factors’ identified in the model. Markets have become more volatile, the pace of technological change in many industries has increased. There have been numerous legislative changes, especially in the context of Europe. There is a greater expectation amongst consumer and investors that companies will behave in environmentally ethical
ways. In 2004, managers would appear to be more aware of conflicting pressures. On the one hand, the world has in some sectors become more keenly competitive, on the other pressures to implement cost incurring environmental policies have increased.

As noted above, our research shows that although some managers do see longer term opportunities to potentially benefit from a pro-active stance on environmental ethics, the majority adopted a short-term view seeing environmental policies as a incurring identifiable costs even though they might also confer uncertain longer term benefits. The short-term satisficing perspective remains more prevalent than the long term opportunity seeking stance. The satisficing theory of choice was first elaborated by Simon (1955; 1956) in the 1950s and is well-established in the literature. It considers decision-making situations in terms of alternative courses of action to be analyzed and assessed. Simon contrasts satisficing in decision-making with optimizing in terms of an analogy. Optimizing is a strategy which involves ‘looking for the sharpest needle in the haystack’ while satisficing is one which involves ‘looking for a needle sharp enough to sew with’ (Simon, 1987; 244).

In many decision-making situations, including those involving the implementation of policies to improve environmental practice, optimizing is an impractical strategy. There is disagreement about the practical implications of some of the scientific findings concerning the environment, and apart from this the obvious costs of a satisficing approach appear to be much lower in most decision situations than those attached to any attempt to optimize. Furthermore, an optimizing strategy today may be superseded by
advances which make it less than optimal tomorrow and satisficing can be achieved more speedily.

In its original 1950s formulation, the satisficing approach involved identifying, assessing and deciding between alternative courses of action where the criteria for a satisficing option were relatively static. Later writers like Levinthal and March (1981) and Nelson and Winter (1982) offered more dynamic variations of the satisficing approach in which alternative courses of action might be created through innovation as opposed to merely discovered from some hypothetical pre-existing pool of alternatives. They recognized that the criteria by which a satisficing decision outcome could be judged could also be subject to change. As knowledge develops, technologies advance and competitive environments evolve, what will satisfice in terms of suitable courses of action can be expected to change. Pre-existing options for action might be costed on the basis of existing knowledge and prior experience but accurate costings for innovatory courses of action are likely to be unattainable in advance of their implementation. Finally, as March (1991) notes, aspirations as to ideal courses of action adapt and change over time. Despite the polemic tone of much of the environmental literature, organizations may only ever be able to satisfice in the light of contingent circumstances and what is known at a given point in time, but this does not preclude the possibility of fostering aspirations and attempting to develop the capabilities to achieve more environmentally friendly practices and procedures in future. As we noted, our 2004 interviews revealed that most companies had aspirational goals in relation to both CSR and the environment. Most were trying to develop capabilities organization-wide. This is no guarantee that they will achieve these
aspirations but, as the work of Hamel and Prahalad (1989; 1993) suggests ‘strategic intent’ coupled with ‘stretch goals’ can, at least in some cases produce results.

6 CONCLUSION

In 2004, our qualitative findings supported the latter survey finding that companies were increasingly beginning to perceive that environmental issues could present future opportunities. We also found that the gap between policy formulation and implementation appeared to have continued to narrow. Furthermore, our qualitative data and internet research on original participant companies suggested that many of the original respondents had moved beyond environmental awareness and policy implementation to embrace the concept of CSR more widely. This finding was reflected in some of their web sites as well as in our interviews.

We find that the corporate sector has made big strides towards the effective implementation of good environmental practice in the past ten years, and that most now aspire to broader CSR ambitions as well. We suggest that the pressing problem today may be less a matter of how to narrow the gap between stated policy and practice, and more a problem of how to narrow the gap between business strategy and environmental and CSR aspirations in an increasing climate of uncertainty. This is a problem of a different order to the previous problem of linking environmental policy to company practice.
External factors are still primary drivers of policy in many companies. The nature of the modern competitive environment is such that competitive pressures can conflict with the demands of legislation, customers and even financial markets in some cases, for companies to behave in more environmentally and socially responsible ways. Environmentally friendly actions usually carry costs. Nonetheless external factors, legislation in particular, have necessitated a more positive stance towards environmental issues. We may note from the survey results above that fear of prosecution ranked highly as an influencing factor on policy. The gap between policy formulation and implementation which was the subject of the paper published in 1999 has undoubtedly narrowed substantially. More striking in 2004 was the gap between perceived requirements for environmental strategy and business strategy.

From a shorter term tactical perspective, environmental issues can often be seen to pose a threat to current performance. From a longer-term strategic perspective these same issues can sometimes be seen as an opportunity for organizational renewal. The future impacts of economic activity can not always be known. As science advances, previously unrecognized potential problems can surface, but if social and environmental trends can be translated into business strategy, organizations will be better adapted to the changed environments of the future in which environmental issues can be expected to become more prominent. It has been repeatedly pointed out that in order to meet increasingly vociferous demands for socially and environmentally responsible corporate behaviour in future, industry needs to integrate environmental policies into operating strategies (Porter and Van der Linde, 1995; Shrivastava, 1995; Hutchinson, 1996; Lober, 1996). Our

Viney Revision: 09/02/05
research highlights the fact that the gap between perceived requirements for environmental strategy and business strategy is now more significant than the gap between environmental policy formulation and implementation.

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Viney Revision: 09/02/05

Viney Revision: 09/02/05