

# THE COMPETITIVE ADVANTAGE OF HOLDING ECOLOGICAL COMPETENCIES

Professor PhD **Tudor NISTORESCU**

University of Craiova, Faculty of Economics and Business Administration, Romania

E-mail: tudor.nistorescu@yahoo.com

Junior assist. PhD student **Ionuț-Cosmin BĂLOI**<sup>1</sup>

University of Craiova, Faculty of Economics and Business Administration, Romania

E-mail michellebrave@gmail.com

## ABSTRACT

*Companies must promptly respond at the constraints exercise by the political and social factors regarding the impact their work has on the natural environment. For now on, respecting the environment become a real source of competitive advantage in businesses. In this research, we show that exist a correlation between resources and skills development linked with the environment and the holding of competitive advantages by the companies. We promote here the reconsideration of environmental factors and integration of ecology in the strategic decision-making approach. Using resource-based view, we propose some conclusions and affirm the company requires to make proactive steps regarding the environment.*

**KEYWORDS:** *environmental management – resource-based view – ecological competencies – competitive advantage.*

In the past decades, respecting the environment became a priority trend in the wider society. Facing such challenges, companies are required to integrate the environmental dimension in the conduct of ongoing activities and to think about the ecological parameters in defining objectives. The organizational context of these changes consists, firstly, in the extensive increase pressure on all industries, and secondly, in opening new market perspectives, resulting in new practices, synonymous to competitive advantages acquired by companies.

Reconsideration of ecology, long term regarded as a constraining factor for business (Walley and Whitehead, 1994), amended now its status entirely. As a source of potential competitive advantages (Boiral, 1997), the ecology determines today a long term encouraging position and regular profit-generating business. During the present work we show how can become the integration of environmental parameters one of the pillars of development policy in companies and one of the key elements of its competitiveness.

We will focus on the category of expertise (know-how, savoir-faire) and we show that firms develop, taking into account the environmental dimension, some resources and

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competencies acquisition, aspect translate as a competitive advantage in this competitive universe. We opted to implement a formal theoretical approach in order to go beyond the collective discourse on the need for companies to implement a truly proactive approach on the environment.

Michael Porter himself argues for the reconsidering of ecology, insisting that if environmental standards are properly designed, they can produce innovations. Porter provides an example showing that some production activities should be adjusted to reach a compromise between production and environment. Manufacturers must install equipment and filters to diminish pollution, an element that increases business costs. Alternatively, Porter<sup>1</sup> promotes the rethinking of production process by reducing pollutant emissions which may lead to more savings. For example, the costs with cleaning residue and hazardous materials handling can be eliminate.

### 1. Environmental management: between ethics and utilitarianism

As revealed by the published research on this issue in the last twenty years, environmental problems can be interpreted through several conceptual models. Most recent works emphasize on two directions, concerning different interpretations in terms of ecological factors to integrate in companies (Berman et al, 1999). The direction called regulatory promotes the idea considering this problem in terms of responsibility (*Corporate Social Responsibility*), or even like social conformity (*Corporate Social Rectitude*), its promoters considering that it is the firm's duty to take into consideration the environmental parameters, beyond any economic considerations, both in terms of operations and durable policy development. From this point of view, the integration of ecology cannot revel from an account balance analyses costs - associated benefits. The scope of this approach is typical of normative ethics (Donaldson and Preston, 1995) that say the company cannot be relinquished of certain moral principles governing the functioning of a society in which the company has a major role. After supporters of this approach, there is a sort of implicit contract between the company and the community, stating that the company has certain obligations to society, and the society owes to punish (de la Bruslerie and others, 1992). Therefore this approach sustains the development of environmental policies based on principles different than those based on calculations of payback rates.

Another model, named *utilitarian*, investigates the opportunity for companies to integrate environmental variable in the growth prospects of its activities. Without rejecting demands of responsibility and social conformity (Harrison and Freeman, 1999), representatives of this theory attempts to show that there are economic interests under which the enterprise engages in some steps that will ensure sustainable, ultimately, the integrity of the natural environment (Slater et al, 2000). Company responsiveness regarding the expectations of society (corporate social responsiveness) becomes a key element of success in the context of increased competition. Ecology penetrate the sphere of the economy whereas being considered, can provide a competitive advantage for the company may pursue such an approach. Although there is a moral dimension, integration of environmental considerations is wholly or partly, the result of an opportunistic approach initiated by the organization. This theory that determines the emergence of *instrumental*

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<sup>1</sup> In an interview give to G. Stonehowse and B. Snowdon, "Competitive Advantage Revisited - Michael Porter on Strategy and Competitiveness", in *Journal of Management Inquiry*, Vol. 16, Nr. 3, Sept. 2007, pp. 256-273.

ethics in the economic environment, tend to promote protective practices, based on compliance with external requirements and the financial interests of the company.

Differences between the approaches presented, contained also in the theory of stakeholders (Carroll, 1996), proves the difficulties of reconciliation between the two directions opposite to the base. However, researchers agree to recognize that preservation of environment is a principle that companies cannot depart.

Environmental issues are included as a normative paradigm as it is, above all, a moral issue and considered that certain universal values. However, many critics have been made to this trend, focusing especially on the difficulty of explaining the behaviour of firms faced with conflicts of interest in areas within the scope of ethics (e.g. support employment in an area affected by unemployment, the cessation of activities pollution or risk of serious pollution). Moreover, regulatory approach provides little explanation of problems regarding the origin of disparities between some firms through the account of environmental impact. Positivist vision, which may suffered some critics, offers several answers to these questions. Different optics has its origin in use by companies of different to market apply mechanisms to encourage beneficial practices: tax systems, relationships, rules, environmental law, etc. So, utilitarian dimension cannot be ignored because she is an essential variable for functioning markets. It is why, without denying the normative basis of environmental issues, we will guide our approach towards the competitive advantages captured by that firms who can apply an ambitious environmental policy.

## **2. Transforming environmental competencies in sustainable strategic advantage**

Strategic thinking has been enriched considerably in the 90 years, primarily due to contributions made in the resources analysis domain. Even if the first developments have an occurrence of over 20 years, this school of thought has gained consistency and was consolidated with the work of Prahalad and Hamel (1990). Criticizing the deterministic vision who sustain the classical theory, this trend starts from the premise that the company's success is not determined exclusively by a set of contextual factors. This new approach defends a conception of voluntarism about strategy and attempts to show how internal resources are important for business performance.

The most important strategic postulate states this intrinsic intention, in opposition to the concept of adaptation more or less voluntary environment. Therefore, the members of this thinking school provide that the competitive advantage is rooted inside the company and is a result, in fact, of the valuable and inimitable character of resources (Grant, 1991). However, those authors recognize the importance of environmental organization has, since its capabilities are linked with the external dimension (Collins and Montgomery, 1995). These resources, rare and non-replaced cover primarily an inimitable character, through their specific and complexity. By combining and coordinating these resources, they contribute to the formation of key competence (Hart, 1995), synonymous with a competitive advantage for companies. The generated advantages results from the firm ability to attract and accumulate profit in the competitive context (Barney, 1991).

Companies seek to choose and implement a strategy to generate competitive advantages. In general, we can say that an enterprise has a competitive advantage when it can provide a higher economic value than competitors (Barney and Hesterly, 2008, p. 11). Value is defined as the difference between perception of benefits that can be obtained by customers who buy a company product or service and its cost of production. The size of

competitive advantage is just the difference between the economic value that can create a business and the economic value produced by competitors.

Starting from such considerations, one possible theory of competitive advantage founded on the relationship between business and the natural environment can be based on three basic ideas (Persais, 2002, p. 202): prevention of pollution, assuming responsibility for the products distributed throughout their entire life cycle, integrating the concept of "sustainable development"<sup>1</sup>.

Firstly, protectionist practices, such as stopping the production of harmful substances as an alternative to the instead treatment of polluting waste production (healing practices) might offer companies the opportunity to obtain substantial savings. These benefits come from a reduction in investment costs, pollutant treatment facilities become unnecessary.

Secondly, regarding the issue of liability, commercial law tend to extend firms liability of goods placed on the market, it preserves a number of obligations after the act of sale. Accepting the regeneration condition is also a competitive element in providing the possibility to avoid the additional costs generated by products in the final phase of the lifecycle, when designing these products is not adapted to the imperatives of recycling.

Finally, by applying consistent strategy of sustainable development, the companies affirm their alignment with the trends of society and show that, beyond their economic mission, they participate actively at the creation of community, helping to preserve the environment.

Persais (2002) considers that the ethical approach and the pro-social behaviour tends to enhance firms reputation, aspect that can be an important element in the market if we take into account the increasingly of customers sensitivity regarding the environmental cause. For example, in 1997 a small European producer of furniture was removed by the company Ikea, just because the manufacturer was not able to provide information about environmental policy. Although much less widely used today, these practices will generalize in a not too distant future. Certification of environmental quality will become a condition for employment of good market position.

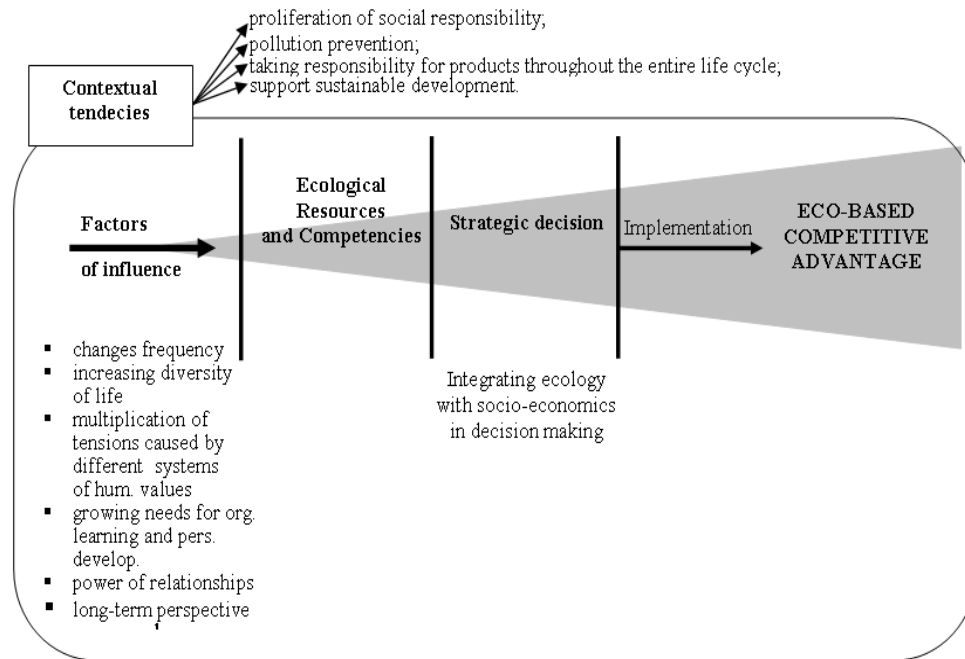
The focus on ecological factors could help enterprises to enhance their competitive position, when is an anticipatory approach. Therefore, ecology is not only to become one of the basic pillars of the strategy, but must make their mark and all actions undertaken within the organization. Therefore, we submit an initial research hypothesis, namely: that company, who opted for integrating environmental variable in its strategy, implement a global approach.

Integrating ecology in the strategic business approach leads progressively to the development of expertise that can favorably influence their competitive position. From there we discussed a second hipotesis, reads as follows: *resources and environmental key competencies developed by firms, enables them to occupy a privileged position in the market.*

In order to transform our approach in reality, we propose a systemic approach to highlight the influence of environmental issues and environmental science in the transformation of these factors into real sources of competitive advantage that enterprises can realize (Figure 1).

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<sup>1</sup> Expression enshrined in 1987 following a report of World Commission on Environment and Development: "*Development that meets the needs of present without compromising the satisfaction of those needs for future generations.*"



**Figure 1 The environment as a source of competitive advantage**

The contemporary economy faces many dynamic challenges of adaptation (Allen et al, 1999). These challenges have global expansion and derived from the fact that all communities adopt other ways of life and management styles. People live and work being circumscribed in the social sphere to increasingly broad perspective of globalization affecting their lifetime. Continuing the reasoning, Allen and others (1999, pg 64) believes that people must live within the limits of the natural environment, respecting its power, despite attacks that they exercise against nature. Another challenge is that of information processing skills and general visions, which outlines, in the end, certain ethical principles which are restrictive for economical system. In these new situations, people and companies develop their skills to adapt at changes realized at physical and conceptual level in the ecosystem.

The economic system is facing an accelerated dynamic and increasingly complex higher turbulence generated by lifetime. The effects of these challenges are combined and amplified the *magnitude of change* who takes place and causing organizational changes.

Social change (increased number and density of population, migration and globalization) contribute to the diversification of labour practices and moral standards. The *amplification of life diversity* touch the coexistence of social sphere issues with nature.

Environmental law and ethical issues wake up consciences, causing the different reactions of people at the increasing of their businesses impact as environmental imbalance factors. Varied attitudes and value systems causes more *tensions* as the interests of each of the actors can get divergent orientations.

We highlighted also, *the needs for more organizational learning and personal development* of employees, both trends being related with role change of the organic components of macro system. New skills determine the individuals to evaluate the

environmental risks of their activities, to act according to principles of nature preservation, to recognize and accept *long-term perspectives* of the processes they maintain. The short-time profitability obdurate the managers vision but the implacable orientation towards sustainable development will punish all those who have limited vision.

*Increasing power of networking*, influence and manipulation, lobbying all contributed to reconsider the status of ecology in the economic life. All of this changes the social macro system in a *more complex mechanism*, with many weaknesses and it is *difficult to manage* in an optimal way. One of these weaknesses concerns the environmental aspect and in our approach we will pursue the ways of these weaknesses could be transformed into benefits.

Orssatto R. and Clegg S. (1999) define the environmental determinants (*environment-contingent factors*) or *eco-factors*, considering that they may have indirect influence on organizations and on activities of people but they exercise their influence in more subtle, contextual ways.

### 3. Environmental resources and competencies

About the definition of resources, these were the subject of numerous investigations and a criticism raised in this school of thought has demonstrated the fragility and even non-operational nature of this concept (Doz, 1994). In particular, some authors have highlighted the relative nature of resources, which could be assessed only in relation to those held by competitors. Research using a subjective evaluation (perception of competitive advantage from the company itself) or insists on the difficulty to identify the resources and therefore to measure them.

Oliver (1997) defines the concept of resources as totality of inputs controlled and employed by the company to implement the strategy. These resources, which can be both material and immaterial, are the basic knowledge and use of company assets. Regarding the competencies, these correspond to the organizational level and skills resulting from the combination of complementary resources, from the ability to coordinate and develop these resources to fulfil tasks. One competence is considered strategic if it is critical for business, if is rare and essential for the offer and the value chain. If a resource may correspond to a good, the competence is par excellence intangible and difficult to imitate (Durand, 2000). This aspect cannot identify a key competence, but its strategic dimension, its ability to influence the future (*core competence*).

The resource-based view offers interesting ways to study and identify winning strategies on the environment. Hart (1995) believes that a strategy based on a harmonious relationship between business and the environment can be a source of sustainable competitive advantage. The author points out that the biosphere status worsened considerably in recent years and notes that respect for the natural environment is one of the main challenges of the future. Companies must deal with new constraints, trying to help people concerned about the issue of biosphere (Prahalad and Hamel, 1990). This anxiety is reflected today in a significant global expansion of environmental regulations. Legislation tends increasingly to fold on the "pollute-pay" principle, especially in highly industrialized states. Companies are thus forced to internalize environmental costs, supported till today by the society.

Paraphrasing J. Barney (2001), one of the promoters of the strategic resource-based view, companies can achieve superior performance by focusing on specific skills to develop new capabilities in a changing environment, an aspect that differentiates them from other companies through superior added value offered to customers.

Resources and skills available (Oliver, 1997) comes from the experience, firm's reputation and expertise in research and development, but also from technological capabilities. All of this becomes environmental expertise, having an inimitable and difficult to copy character (Russo&Fouts, 1997).

Parsais E. (2002, pp 205-207) believes that the following three main areas in which must be exercised environmental competencies: *technology* (the competencies regarding product and manufacturing process have a strategic importance), *the organizational field* (structural adjustment to the involvement of environmental considerations in decision making and external cooperation with other stakeholders who share the same sustainable strategy) and *communication field* (communication policy seeks a permanent dialogue with inside and outside partners).

Starting with Parsais's research (2002), we can adjust for the Romanian economy following factor in winning market fight (the author consider this elements as competitive advantages): image of the company (companies that demonstrate respect for the environment enjoying the benefits of reputation), economic performance (increased by maximizing the efficiency of resource used), staff mobilization (acceptance and involvement in strategic goals) and innovation (an imperative imposed from the outside) and risk management activities.

According to Ralph G. Stahl, etc. (2008, p. 4), improving environmental management requires the effective integration of environmental economy with ecology in making decisions. Economists, ecologists, and environmental decision makers have unique perspectives on decision-making process, on associated factors and consequences. Ecologists tend to focus on the structure and functioning of the ecosystem, while economists emphasise the changes in services of ecosystem. However, each needs the other information provided to be effective in decision making.

In that way, the decision could be improved if the *environmentalists* would consider ecological systems ability to provide goods and services expected of people with different objectives, developing a common set of measures to facilitate evaluation of those goods and services and that *economists* should learn how to include aspects of structure and functioning of nature captured by environmentalists in their assessment. Most environmental decisions would benefit from explicit recognition of both the ecological values that concern the stakeholders and the society. We need more interaction and integration of the various parties in environmental decision process for accomplishes this purpose.

The objective of socio-economic integration with the ecological risk evaluation is a common approach that hides different perspectives on environmental assessments in a cohesive, flexible support for the environmental decision and transparency of decision process. Achieving this goal requires a creative analysis and a critical evaluation of approaches and tools currently used.

#### 4. Conclusions

In this study we tried to highlight how could environmental science, in partnership with strategic management, to help decision makers in the Romanian companies to better serve the public interest.

From our approach it appeared therefore that, by mobilizing environmental skills, companies are likely to gain a sustainable competitive advantage. In other words, it appeared that the environment can be transformed into a strategic development axis.

Business interests to protect the natural environment can be materialized only through coordination of issues that determine their functioning (ecological goods and processes, and consensus among organisations, effective communication policy). Competitive advantage obtained can be analyzed at two levels: that of economic efficiency and the plus of input image, of reputation. There is still controversy whether to accept the fact that this share is real. We believe that the transformation of ecological principles in the internal rules of operation can be a strong commercial argument in trading on international markets, and we mention here only the episode of Shell who, in 1995, faced with a situation that brought it to collapse, only to that a small amount of oil leaked from an oil platform in the North Sea.

Companies which we outlined such a future would have to prove interest in implementing an active approach in relation to the environment, indicating their voluntary initiative that takes a consciously oriented environmental management system. ISO 14000 certified companies and those who achieved Eco-audit norm (given by the continental institution SMEA) or those who are in the process of obtaining those certifications fall into this category.

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