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# A strategic approach to environmental performance

## The case of manufacturing firms in China

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Concern for environmental welfare continues to grow exponentially. Safeguarding the planet for current and future generations is a top priority for many people around the globe. Everyone is encouraged to do their bit, especially business corporations. As a result, they face mounting pressure from activists and other sources to conduct operations in a more ecologically friendly manner.

### **Chinese manufacturers and the environment**

Certain firms and industries are deemed more culpable than others. Take manufacturers in China, for instance. Such operators are invariably at the forefront when condemnation is dished out. These accusations clearly do not lack substance though. Various manufacturing industries bear considerable responsibility for China's unenviable position as one of the world's biggest polluters. Statistics pertaining to carbon emissions and energy usage provide ample testimony to this fact.

But no one can accuse the Chinese government of resting on its laurels. On the contrary, creating the Ministry of Environmental Protection and a raft of initiatives that have since emerged demonstrate its commitment to becoming greener.

Organizations have likewise taken up the gauntlet and revealed a willingness to plough extra resources into environment management (EM). Another positive indicator is the soaring increase of ISO certification in China. Despite all these efforts, the effect on ecological performance continues to fall well below desired levels.

### **Why a strategic approach is needed**

Equilibrium between ecological and financial performance offers scope to realize and sustain value. But the lack of strategic focus in EM efforts suggests that companies generally remain oblivious to this fact. The prevailing norm is for EM activities to be largely confined to the operational level. According to cynics, this reveals a superficial commitment to EM with apparent conformity largely driven by the prospect of rewards.

Without doubt, the emphasis on EM is mounting. But its impact would not increase accordingly until horizons are broadened so that EM becomes an integral part of a firm's overall strategy. That is the only part of the challenge though. In addition to increasing the adoption of strategic EM, it is equally critical to identify factors with potential to shape its ultimate effectiveness.

No business organization performs in a vacuum. Hence, they are subject to various pressures within their operating environment. Researchers claim that these pressures generally fall into three types, respectively labeled "mimetic," "coercive" and "normative." Each pressure dimension incorporates secondary factors reflecting the economic, social, cultural and political aspects able to influence firm practices and behaviors.

### **Institutional pressures that can affect environmental performance**

Market pressure is one example of mimetic pressure and often results in a firm feeling compelled to mimic the actions of successful competitors. Strategic EM simply imitates the



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approach adopted by these rivals. Such a policy might be okay at the outset. However, it is likely that a conflict will arise between the adopted strategic EM and the company's own vision, culture and business goals before too long.

In these circumstances, what analysts identify as "decoupling" could materialize. The term describes behavior whereby adherence to EM serves as a symbolic gesture to conceal the fact that the organization is more genuinely committed to other practices it considers more important with regard to business goals.

Capacity for strategic EM of an organization to improve its environmental performance is severely hampered when market pressure is considerable. Similar sentiments apply where business turbulence is concerned. This form of mimetic pressure concerns the uncertainties which arise as market conditions, customer needs and technology evolve. In the face of such unpredictability, temptation to assume proven yet possibly unsuitable EM strategies of others again becomes strong. This arguably reduces the whole environmental exercise to a façade whereby a firm seems to comply with institutional expectations but in reality is going through the motions.

Legal voids and carbon policy are common examples of coercive pressure. When a comprehensive legal system is in place, businesses are more prone to comply with institutional demands like responsibilities to the environment. A greater likelihood thus exists of operational-level practices being properly integrated with different corporate functions. The reverse is also true though. An incomplete legal framework can make firms complacent since the fear of being punished is obviously lower. Consequently, some may simply pay lip service to their ecological performance. However, as voids in China's legal system disappear, such behaviors will likely change.

Chinese regulators have wisely tried to ensure carbon policies are tailored to account for emission levels within each specific industry. Nonetheless, studies to date have produced inconclusive findings in respect of how these policies affect EM. One possible reason is policy stipulation that companies only need meet minimum obligations. This obviously invites questions about their overall degree of commitment to enhancing their environmental performance.

Excessive government control means that China is different to most other emerging economies. As a result, normative pressures are particularly influential. One notable facet is government interference, which is more prevalent among firms partly or wholly state-owned. In these circumstances, willingness to act in accordance with government EM practices is invariably stronger.

Some evidence also exists to indicate that the possibility of decoupling behavior is likewise much lower among operators that enjoy significant "guanxi" with the government or other regulatory bodies. But the counter argument is that these informal relations lead to certain firms gaining preferential treatment. Immunity from inspection is one potential outcome of such "cognitive bias" that might see commitment to environmental performance reduced to being a token gesture.

### **The importance of constant monitoring**

Culture might further influence how these different pressures impact on the effectiveness of strategic EM among Chinese companies. Potential variation in how operators relate to central and regional governments is likewise worth exploring.

Leaders of manufacturing firms across China clearly must pay greater attention to environmental performance. Need for monitoring becomes more important still when conditions are unfavorable with regard to market pressure, business turbulence, legal voids and/or government interference. Appropriate action at such times will hopefully sustain or increase alignment between EM practices and other key corporate issues.

Closer scrutiny from regulators should likewise prompt organizations to take necessary measures. Failure to do so invites government sanctions or the potentially harsher punishment of being exposed to the public and suffering a damaged reputation as a consequence.

### **Comment**

The review is based on: “Efficacy of China’s strategic environmental management in its institutional environment” by Yang *et al.* (2019). Manufacturing firms in China can improve their environmental performance by integrating operational-level activities into wider corporate strategy. Awareness of how to manage different institutional pressures should enable an increase in overall effectiveness of EM.

### **Reference**

Yang, Y., Lau, A.K.W., Lee, P.K.C., Yeung, A.C.L. and Cheng, T.C.E. (2019), “Efficacy of China’s strategic environmental management in its institutional environment”, *International Journal of Operations & Production Management*, Vol. 39 No. 1, pp. 138-163, doi: 10.1108/IJOPM-11-2017-0695.