

Environmental factors

Protecting the environment is now a mainstream business issue. Businesses can no longer afford to ignore their own impact on the environment, or the implications of a changing environment for their operations. Whilst climate change has risen rapidly up the agenda as an issue of major concern, it must be remembered that this is just one of many environmental issues of which businesses should be aware if they are to remain viable in the longer term. Other issues include water and noise pollution, congestion, destruction of the environment and waste disposal.

The **negative externalities** (environmental costs) of business activity used to be largely ignored by nearly all stakeholders: those stakeholders that did care were not listened to. Today things are very different. The government and pressure groups (whether local or global) have a strong influence on business activity and, to some extent, they are able to limit its wider environmental impact. As well as these external influences, many businesses now undertake the control of their environmental impact without the need for external pressure. Some produce and publish their own **environmental audits**, which measure their impact on the environment and set out plans for improvement.

The role of government

The UK Government has signed up to a range of EU limits and controls designed to restrict the negative impact of business activity. A range of green taxes has been designed, not so much to punish businesses, but to encourage them to improve environmental practices. These are often referred to as green taxes. Examples of such taxes include:

- **The Climate Change Levy** – this is a tax on energy use by non-domestic users. The tax is designed to provide an incentive to reduce energy consumption.
- **The Landfill Tax** – this was the UK's first environmental tax (1996), and is a charge on waste going to landfills. Landfill sites in the UK are almost full. Trying to open new ones would meet with fierce opposition.

The overall impact of environmental taxes means that businesses which are **medium-sized users of energy** face energy (gas plus electricity) costs that are on average **between 15% and 21% higher** as a result of environmental policies. UK businesses often argue that such costs harm their ability to compete with businesses based in less-developed economies where environmental regulation is not imposed.

The **Environment Agency** is the government body that monitors and controls pollution. It was set up in 1995 (Environment Act) and it has had a significant role in helping to reduce emissions into the air, cleaning up our rivers and generally ensuring that UK businesses comply with the numerous pieces of legislation introduced by the EU and UK Government.

The role of pressure groups

Pressure groups are organisations formed with the objective of influencing government or business policy at local, national or international level. The WWF (World Wildlife Fund) is a well-established example of a pressure group that has helped change attitudes towards environmental issues across the globe. Its aim is to protect endangered wildlife and environments, tackle climate change and promote the sustainable use of resources. This type of pressure group has a wide range of activities and their roles can evolve over time.

There has been huge growth in pressure group activity in recent years. Many of these groups have developed out of a desire to resolve a local environmental issue and they have helped to increase environmental and social awareness significantly amongst the general public.

How do pressure groups fight their case?

- **Lobbying** is now accepted as a one of the most effective ways for pressure groups achieving their set objectives. Lobbying involves meeting with, and discussing issues and concerns with decision makers such as government ministers MPs and senior management in large companies.
- **Direct action** against businesses is becoming more popular. There have been several examples in recent years of businesses being forced to make policy reversals as a result of pressure group action.
- To gain as much **publicity** as possible – the gaining of positive media attention is all-important. The interest of the media often raises public awareness of the issues and can bring the public onto the pressure group's side.
- **Legal action** is another alternative – pressure groups often fight their case through the courts, questioning the legality of proposed actions.

The impact on business activity

A sustainable business must first of all be a successful and profitable business. It is also one that continuously improves its productivity by taking action on the economic, social and environmental impacts of its business. That means a sustainable business takes a sustainable approach to what it produces, how it buys and sells, how it affects the environment, where it invests, how it recruits, trains and develops its own people, how it interacts with the wider community and how it respects the rights of people. A sustainable business must meet customer needs while, at the same time, treating the environment well.

There is no value in a business being the finest example of environmental good practice if it subsequently fails. Decision-makers in business should rightly consider the likely returns on their actions before adopting best practices. However, business leaders have become increasingly aware that profitability is not a separate function from environmental awareness and that both need to be part of the same strategy – **there does not have to be a conflict between profitability and protecting the environment.**

Resources are becoming increasingly scarce and prices are rising accordingly. Energy, water and waste often represent significant costs for businesses and any opportunity to drive these costs down is to be welcomed. Also environmental legislation is becoming more stringent and businesses that take action to ensure that they are complying with the law avoid fines and prosecution.

We have seen that legislation can force action by businesses, but it is also possible to take action without external pressure. For example, ASDA has improved the sourcing of local produce and often promotes local and regional produce. This feeds back into the local economy, enhances the viability of other local businesses and reduces emissions and congestion that result from the long-distance transportation of goods.

Waste is also a major issue for businesses. Waste impacts on many different areas of concern within the environment, from the excessive use of materials and resources (e.g. unnecessary packaging), the production of pollutants as a by-product of the manufacture of goods and the safe disposal of waste generated. Pressure on landfill space is at an all-time high and the identification of suitable alternative means of disposal presents some difficult

problems. Businesses increasingly recognise this as an area where by designing out waste where possible (e.g. through reduced packaging) and identifying opportunities for reuse and recycle. This represents an opportunity for many businesses to drive down costs and even improve profitability.

The phrase 'reduce, reuse, recycle' summarises the core waste-reduction process. By addressing waste management in this order, managers can ensure that they are achieving the maximum reduction in creation of waste:

<p>Reduce</p> <p>Elimination at source is far more effective than dealing with waste as a product.</p> <p>Monitor what is coming in and where it goes.</p>
<p>Reuse</p> <p>Can waste be turned into a new resource? Shredded paper can become packaging, broken items might be repaired, obsolete items put to an alternative use.</p>
<p>Recycle</p> <p>Businesses are starting to get much better at turning waste into new products. Remaining waste (after reduction and reuse) should be separated into recyclable materials.</p>

Environmental awareness can bring a number of advantages other than reduced business costs and avoiding legal penalties. These include:

- Improved business and brand reputation – environmental friendliness can be a highly effective marketing tool
- Recruitment of employees who commit themselves to ethical company objectives
- Greater customer loyalty from growing number of ethical consumers

The majority of consumers care (and like to show they care) about the environment. So we have fair trade coffee, tea, chocolate, etc. Adverts showing toilet paper businesses replanting trees, supermarkets also offer recycling of waste products to customers, such as battery bins, and loyalty points for reusing carrier bags.

Working with environmental groups, and learning about the supply chain impact of activities, improves efficiency and helps achieve long term sustainability, not just for the business but also for the wider environment. For businesses, environmental issues used to be seen as a threat, a limit on behaviour and an increase to costs; however, today they are seen somewhat differently. Environmental factors consistently give rise to a key message – action upon the environmental impact of a business’s activity presents an opportunity to reduce costs and develop a competitive edge. On the other hand, failure to act could spell financial, as well as an environmental, disaster.

Discussion themes

What is meant by negative externalities?

Explain the importance to businesses of taking environmental factors into account when setting business objectives.

Business activity will always harm the environment. Do you agree with this statement?

Calculate your own environmental footprint.

http://footprint.wwf.org.uk/?_ga=1.46160544.68987279.1463490179

Fracking could generate 64,000 jobs

<http://www.theguardian.com/environment/2014/apr/24/fracking-generate-investment-jobs-industry-report-uk>

Animal Welfare

<http://www.orbuk.org.uk/article/farm-animal-welfare-the-business-agenda-for-smes>

SeaWorld's Profits Fall

<http://www.theguardian.com/us-news/2015/aug/06/seaworld-profits-plunge-customers>

ASOS animal welfare policy

<http://www.asosplc.com/corporate-responsibility/our-products/animal-welfare.aspx>