Business ethics and environmental strategies of large companies in Colombia.

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Abstract

Environmental crisis drives society to design new methods for conducting businesses including environmental strategies that goes beyond compliance of law. The aim of this paper is to identify the drivers for business strategies in large companies in Colombia and establish the correlation between business ethics and their environmental strategies. It was used quantitative analysis to evaluate managers´ business ethics perspective in company´s environmental strategies.

Data was collected trough the application of questionnaires to decision-makers in organizations. From the research, it can be inferred that decision of managers in Colombia, are mainly influenced by risk perception, market positioning, followed by cost benefit ratio of economic transactions and organizational mission and values.

From the data analysis it is implied that organizational mission and values category is correlated with market opportunities in a first place. In the second degree of correlation, organizations' managers associate their businesses´ values with supporting the development of the country. Being leader in the economic sector constitutes the third higher level of correlation with values. In the fourth place appears the correlation between organizational values and their Corporate Social Responsibility *(CSR*). For Colombian managers CSR includes environmental protection and investment in human capital training.

Study contributes to pinpoint the drives for business strategies in large companies in Colombia and open a path for future research in this subject.

1. Introduction

Some of the activities that have predominated in the analysis of business ethics includes the study of business practices, the discover of ethical assumptions of business and the response of business to critical problems of society (George, 1987a). Business ethics are usually influenced by three different factors: 1) legal and financial frameworks (Hendry & Vesilind, 2005a; Huimin & Ryan, 2011), 2) what is assumed by the managers as the right thing to do and 3) the implementation in organizations of the code of ethics (Huimin, 2011).

When business decisions are mainly driven by financial factors or a normative perspective is “business as usual”. On the contrary, performing environmentally responsible actions constitutes “the right thing to do” (Hendry, 2005). Public demand on corporate social responsibility has placed a pressure on business’ managers for assuming a stronger responsibility in their managerial decisions (Vidaver- Cohen, 1998).

According to Gilley a crucial tool for adding value to stakeholders is a code of ethics communicated in an effective way (Gilley, 2010). Gilley give some examples of companies in which the promotion of organizational values constitute the core portion of their code of ethics.

Environmental and social crisis are moving organizations to design new strategies for conducting businesses, beyond existing categories and procedures (Mintzberg, 1994 and Figge, 2002). Environmental strategies have evolved from an industrial environmentalisms perspective up to a strategic environmentalism view. (Hoffman, 2001).

Companies must now consider how to devotes resources to environmental initiatives in a way that satisfies their economic objectives, moving the issue from the outside to the inside of the corporate mindset. Managers should today contemplate how environmentalism and business strategy overlap (Hoffman, 2000).

The influence of business ethics on environmental strategies raises some questions. “Is being ethical and sustainable seen by companies as a tool of competitive advantage?” (Svenson, 2010), “What driving forces push organizations to move toward “green business” and “green engineering? ” (Hendry & Vesilind, 2005b) and “What should drive decisions about the adoption of green practices and why?”

Large companies have been the focus of attention for the study of ethical business practices (George, 1987b). Furthermore, due to their capability for implementing environmental strategies, major corporations have began to publish annual reports to socialize their fulfillments in pollution prevention (Hart, 1995a).

The aim of this paper is to identify the drivers for business strategies in large companies in Colombia and establish the correlation between business ethics and their environmental strategies.

The structure of the study is as follows: materials and methodology is presented in Section 2. Section 3 presents a review of literature related to business ethics and its influence on their environmental strategies. Section 4 discusses the results. Finally discussions, conclusions and recommendations for future research are presented in Section 5 and 6.

2. Materials and methods

There was applied, in 2011, a questionnaire to the CEOs or the managers of planning, operation, CSR, and marketing areas of large manufacturing companies located in Bogota, Colombia. It was developed a questionnaire that used 26 categories, distributed among multiple-choice questions, in order to identify the driving factors that influenced organizations environmental strategy. Questionnaire used a five-point Likert scale, ranging from 1: ”less important” to 5: ”more important” and was validated prior to its usage by a group of managers (decisions-makers) to guarantee the quality of the research process.

Drivers for decisions that were evaluated, included companies capabilities to perform strategies such as organizational resources (Hart, 1995b), external conditions that influence decisions to perform strategies such as coercive and market drivers (A. Hoffman, 2000) and organizations´ ethical perspective such as mission and values driver (Huimin, 2011 and Hendry, 2005)

Selection of Bogotá for the study is based upon the fact that it contains 36% of the total companies of the country and 78% of the big ones (Chamber of Commerce of Bogotá, 2005). In Bogota, there are approximately 3000 big companies, including national and multinational organizations. A company is defined as a large business if has a minimum of 9 millions dollars in sales.

Study of big companies obeys to the fact that large business in Bogotá “ concentrates 89% of the organizational assets of the city, perform higher investment [in comparison to other kind of business], have a larger foreign market penetration and a high influence in the market where they belong” (Chamber of Commerce of Bogotá, 2005).

For analyzing the population under study there were performed interviews of personnel from 83 companies, which corresponds to a sample with a 95 % confident interval and a precision level of 0,2.

Companies belonged to the technology, automobile, food, commerce, aviation, construction, graphic design, pharmaceutics, oil and gas, among others industrial sectors. From the 83 questionnaires that were applied 12 questionnaires were rejected.

3. Theory, business ethics and environmental strategies

The literature review was focused on business ethics and its influence on the environmental strategies perspective in organizations. Following key words were used for conducting the review: business ethics, environmental strategies, decision-making and ethics. The literature selection was limited to articles in peer-reviewed journals with an orientation to business research and environmental management that were available on major databases such as Proquest, EbscoHost y JSTOR (Journal Storage). The literature review provided a comprehensive insight for analyzing the interactions between the business ethics perspective and the environmental organizational behavior.

3.1 Business ethics

Business ethics was defined by Steiner as the ”impacts of decisions on people” (Steiner, G. A., & Steiner, 1980), which involve a decision making process influenced by factors such as organization internal capabilities, external conditions and company´s business ethics perspective.

Business ethics, under the management perspective, is the look for a successful combination between “profits and ethical concerns”. Some scholars consider that profits growth is the main driver for business (Beschorner, 2006). Nevertheless, according to the institutional theory the driver of a company is not only the profit maximization but the legitimacy of its business before society (A. J. Hoffman, 2000). Henry and Vesilind states that although the main reasons that drive business in sustainable practices correspond to legal or financial factors, in some cases a remarkable sustainable performance is due to the fact that companies assumes that “it is the right thing to do” (Hendry & Vesilind, 2005b).

It appears the concept of social embeddedness in which society institutions influence the relative importance of knowledge in organization routines and process to generate innovation (Lam, 2000) such as conducting green practices.

From a constructivist perspective, the adoption of green practices varies according to the moral development stage of organizations in decision-making process. Hendry proposes three different stages: legal affairs, financial issues and ethical concerns (Hendry & Vesilind, 2005a).

- In the legal affairs stage appears the organization goal of fulfilling environmental standards for avoiding punishment. For example, materials substitution and technological solutions for diminishing of environmental burdens (Martinez de Anguita, 2008) occur in response to regulatory approach.
- In the financial issues stage, organizations assume environmental strategies to get an economical retribution for the stakeholders. It appears the fulfillment of management standards as ISO 14001 / ISO 9001 and the use of sustainability reports as GRI.
- Finally, in the last stage, the driving force for the implementation of green practices “is to do the right thing on a moral basis related to environmental issues” or an ethical concerns perspective (Hendry & Vesilind, 2005a). It emerges Corporate Social Responsibility guided by organizational principles.

According to Chang, corporate environmental ethics is measured trough the evaluation of four different aspects: “(1) clear and concrete environmental policies, (2) environmental investment/procurement included in budget planning, (3) environmental plan integrated to company´s marketing events and (4) integration of environmental plan to company´s culture" (Chang, 2011).

Gilley writes that environmental contamination is around the world and that creating value for society will conduct companies to a long term success (Gilley, 2010).

3.2 Environmental strategies

Strategists have been influenced by the concept of competitive advantage in which the activities that a firm performs, from designing of a product to its distribution, can contribute to a cost and a position differentiation in the market (Porter, 1985). Barney mentions that a firm achieves a continuous competitive advantage when its strategy has no yet been developed and executed by a competitor. ((Barney, 1991))).

Strategists have evolved from the position-based view to resource-based view in which the determinant of strategy and a competitive advantage was not only given by external environment influence but for internal resources to sustain required capabilities to do so (Hart 1995 and Kirsh 2004).

Hart mentions that it is required a new strategy concept for "incorporating the challenge of the natural environment into management" in order to achieve a sustained competitive advantage in which internal capabilities and external (social) legitimate reputation coexist. Furthermore, "Product stewardship may be enhanced if a shared vision of sustainable development exists to help focus and accelerate both resources and capability development" (Hart, 1995).

Hart incorporated a conceptual framework where new capabilities are required according to constraint and challenges imposed by natural environment and for achieving a sustained an environmentally sustainable economic activity, interconnecting strategies associated to pollution prevention, product stewardship and sustainable development (Hart, 1995c).

- Pollution prevention, according to Hart refers to the organization's scope in the reduction of the contamination associated to their activities through contamination diminishment and "pollution abatement" (Hart, 1995 & Smart, 1992).
- Product stewardship is focused on the perspective of integration of the environmental impacts into the usage of life cycle phases of a product, from raw material's extraction to final disposition, for a) avoiding environmentally risky businesses b) redesigning life cycle of products to avoid adverse effects and for c) developing of new products that are costly-efficient during their product life-cycles (Hart, 1995).
- In addition to the triple bottom line perspective: economic, environmental and social aspects, sustainable development should have a broader focus for incorporating in environmental strategies from organizations, the actions needed for taking care of "environmental degradation" of developing countries that have been driven by "consumption in the north" (Hart, 1995c).

Hart´s conceptual framework was used to analyze main driven factors for decision-making process in order to perform environmental strategies in organizations.

Hendry´s model was used as a basis for analyzing the ethics perspective of the companies under analysis. Independent variables that were revised corresponded to mission and values, position in the market and economic conditions. Dependent variables analyzed were associated to CSR, environmental impact and social impact.

4. Results

4.1 Driving factors for decision-making process in large companies.

The measurement of driving factors, that influence decision-making process, used 26 variables for the evaluation of companies' capabilities, external conditions and ethical perspectives. There were evaluated companies' capabilities such as organizational resources (Hart, 1995b) employees competences and logistics efficiency, among others variables. External conditions that were evaluated corresponded to coercive, market drivers (A. Hoffman, 2000) infrastructure, market, regulation, country risk and biodiversity among others variables. Organizations´ ethical perspective was evaluated trough mission and values (Huimin, 2011 and Hendry, 2005), Corporate Social Responsibility, environmental impact and social impact.

Managers evaluated given variables using a five-point Likert scale, ranging from 1: ”less important” to 5: ”more important. Higher scores were present in the variables listed on Table 1.

From the data analysis, it can be inferred that decision of managers in Colombia, are mainly influenced by risk perception, market positioning, followed by cost benefit ratio for economic transactions, employees competences and mission and values (See Table 1).

Table 1. Scores of driving factors for decision-making process in large companies in Bogota.
Five-point Likert scale, ranging from 1: ”less important” to 5: ”more important”

				Likert scale				
	N	Mean	Standard deviation	1	2	3	4	5
Reputation	70	4,66	0,587	0	1	1	19	49
Market share	71	4,63	0,741	1	1	2	15	52
Leadership in economic sector	71	4,55	0,789	0	3	4	15	49
Cost benefit ratio for	83	4,52	0,771	0	2	8	18	55

economic transactions								
Employees competences	71	4,49	0,734	0	2	4	22	43
Mission and values	83	4,46	0,941	3	2	2	23	53

Table 1. Driving factors for decision-making process in large companies.

Corporate Social Responsibility, environmental impacts and social impacts correspond to the variables that have a lower influence on managers´ decision-making process. Environmental and social impacts have the same level of influence managers' decisions. Score of environmental and social impact (average score = 4,07) was lower than CSR score (average score = 4,32).

Table 2. Scores of driving factors for decision-making process in large companies in Bogota.
Five-point Likert scale, ranging from 1: "less important" to 5: "more important"

				Likert scale				
	N	Mean	Standard deviation	1	2	3	4	5
Corporate social responsibility	71	4,32	0,858	1	1	9	23	37
Project infrastructure	71	4,24	0,933	2	0	12	22	35
Stakeholders satisfaction	71	4,23	0,929	1	2	12	21	35
Labor conditions improvement (health, education)	71	4,18	0,99	1	5	8	23	34
Market conditions	83	4,13	1,124	5	2	11	24	41
Environmental impact	82	4,07	1,08	2	4	11	30	35
Social impact	83	4,07	0,894	0	4	18	29	32

4.2 Correlation between organizations´ mission and values variable and environmental responsibility.

Organizations´ ethical perspective was evaluated trough organizational mission values. In order to identify if there was a relationship between organizational values and CSR, it was analyzed how strong was the relationship between the mission and values category and Corporate Social Responsibility. Others categories such as energy consumption and contribution to country development were correlated as well. For the statistical analysis it was used the Spearman correlation, which is used in ordinals scale as, it is the case. It was found that higher correlations were present between taxes benefits and mission and values (SC= 0,389, see Table 3).

From the data analysis it is implied that organizational mission and values are correlated with taxes benefits in a first place, which can be associated to a market opportunity. In the second degree of correlation, organizations' managers associate their businesses´ values with their contribution to the development of the country. Being leader in the economic sector constitutes the third higher level of correlation. In the fourth place appears the correlation between values of organizations and their Corporate Social Responsibility (Spearman correlation = 0,251). According to La nota Económica, Colombian companies assumed that Corporate Social Responsibility (CSR) includes pollution prevention and investment in human capital training ("La nota Económica," 2012)[1] .

Category	**Category**	**Spearman Correlation**	**p value**
Mission and values	Taxes benefits	,389	,001
Mission and values	Contribution to country development	,279	,023
Mission and values	Leadership in economic sector	,272	,027
Mission and values	Energy consumption	,252	,041
Mission and values	Corporate Social Responsibility	,251	,042

Table 3. Correlation between ethical perspective in organizations and their environmental responsibility.

[1] La nota económica (Economic note magazine). Report on Industrial Association (ANDI) Survey on CSR.

From the data analysis it appears that organizations perceive that their mission and values category is associated first with market opportunities such as taxes benefits regulation. In the second degree of correlation, organizations' managers associate their mission and values with the duty of helping the country to develop which constitutes their social impact. Leadership in their economic sector constitutes the third higher level of correlation and in the fourth place appears the correlation between mission and values and the Corporate Social Responsibility *(CSR)*.

4.3 Correlation between internal capabilities and external conditions categories for the decision-making process in organizations.

Measurement of the correlation between internal capabilities and external conditions categories for the decision-making process in organizations, included six variables: (1) Mission and values, (2) Cost benefit ratio of economic transactions, (3) Reputation, (4) Economical resources of the company, (5) Market conditions, (6) Legislation, (7) Social impact and (8) Environmental impact.

The higher correlation (SC[2] = 0,537 **[3]) was found between environmental impact (internal capabilities category) and social impact of the company (internal capabilities category). Additionally, it was found a correlation between economical resources of a company (internal capabilities category) and cost benefit ratio of economical transactions (external conditions category) with an SC of 0,516 **[4]. The lower correlation was found between economical resources of a company (internal capabilities category) and market conditions (external conditions category) with an SC of 0,316 *[5].

In the outcome of the results (media of the population) it was not found a significant correlation between environmental or social impacts and other variables. That could imply that environmental strategies are not mainly driven in the large Colombian companies interviewed by reputation, legislation or market conditions as it occurs in others latitudes.

In relation to business ethics perspective, mission and values variable was correlated to reputation variable with an SC of 0,264[6]*. Mission and values did not have a significant correlation to any other variable.

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2 SC= Spearman correlation value

3 p value<0,001

4 p value<0,001

5 p value<0,005

6 p value<0,005

5. Discussion

In Table 1 scores indicates that reputation and market positioning constitute the more important factor in the decision-making process of managers in large companies in Bogota. Of interest is the finding that environmental impact holds a low grade for decision-making process. It could be inferred that managers are influenced mainly by a positioning strategy perspective in which market is economic and competitive (Mintzberg, 2010) and that environmental and social impact of the company are not aligned with the social object of the business Risk perception could be a driver for performing environmental actions.

In table 1, it is shown that CSR could have a higher influence on decision-making process that environmental impact. There could be a relation between CSR and reputation or corporate image. Table 3 provides correlations indicating that mission and values correlates first with market opportunities such as taxes benefits (SC=0,389); correlates second with country development category, which constitutes their social responsibility and help to achieve better conditions for business (SC=0,279); and correlates in a third place with being leader in the market sector. (SC=0,272). In the fourth place appears the correlation between mission and values and the Corporate Social Responsibility *(CSR)*.

6. Conclusions

Attainment to goal in large companies are mainly influenced by risk perception, market positioning and cost benefit ratio, rather than environmental protection. It seems that the concept of competitive advantage is the lens that a firm uses in decision-making for achieving a cost and a position differentiation in the market, which corresponded to Porter´s philosophy in 1985.

Other aspects like environmental and social impacts occupy last seats among the drivers that drive decisions. This could reflect that strategists have been influenced by an industrial environmentalisms perspective. It looks that managers, from the population under study, are not aware of environmental strategies as a position differentiation factor and that organizations maturity is on the legal affairs stage where environmental standards are fulfilled for avoiding punishment.

From the data analysis it is implied that organizational mission and values category is correlated with market opportunities in a first place, before their contribution to country development.

An ethical business perspective in which the driving force for the implementation of green practices is to do the right thing could facilitate a progress towards the establishment of an environmental strategy that protects the environment (environmentalism view). It is needed a new strategy concept for "incorporating the challenge of the natural environment into management" and achieve a sustained competitive advantage in which internal capabilities and external (social) legitimate reputation coexist (Hart, 1995).

Study contributed to identify the drivers for business strategies in large companies in Colombia and established the correlation between business ethics and their environmental strategies. Study opens a path for future research in this subject. Future research includes the analysis of driving factors for companies that assumed a strategic environmentalism view for their business as "the right thing to do".

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