

The Impact of Environmental Issues on Business Management

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Abstract: *A review of the existing scientific literature regarding world trade and foreign direct investment (FDI), both theoretical and empirical, demonstrates the existence of a growing link between international business and protection of the natural environment, in both positive and negative directions. Some authors voice the opinion that accelerated deregulation and trade liberalization play a particularly important role in this relationship. Environmental norms and standards play a significant role in determining the competitiveness of goods and products on the international market. There are a number of different norms and standards concerning environmental management and the implementation of systems of environmental management. Among the most significant is the EMAS system and the concept of an integrated environmental management system according to ISO 14001 that is based on the fundamental elements of the Total Quality Management (TQM) idea. In light of the explosive expansion of international trade in environmental services that promote “clean” technologies and production equipment, a firm’s proper environmental policies may have a positive effect on the international competitiveness of its products and services, yielding an advantage to those producers and exporters who first initiate and implement them.*

Keywords: empirical, EMAS system, TQM idea, Environmental norms, foreign direct investment

I. INTRODUCTION

International trade becomes a significant contributing factor in effecting strategies of stable development among participating countries when raw material resources are effectively utilized in production and when the cross-border movement of environmentally friendly products and technology is encouraged. Trade and free trade policies regarding the movement of goods have a significant impact on the environment and should be closely connected with the basic standards of environmental protection policies. In countries with high environmental protection standards, losses resulting from environmental destruction have been assessed at 1-2% of GNP, while in countries with much lower standards of protection, these losses have been known to reach 3-5% of GNP. Applicable regulations regarding environmental protection standards may encompass both the protection of indigenous natural resources as well as bans on the import of goods that may be harmful to the environment, such as large vehicles with excessive emissions that pollute the air, products containing heavy metal compounds such as lead, very noisy vehicles or machines and devices or fuels that may be harmful to the environment. The effects of raising environmental protection standards in a given country’s foreign trade practices become especially visible in the following sectors of the economy: agriculture, forestry, fishing, transport, as well as in “heavy” industry sectors such as mining, metallurgy and “heavy” chemical production. These effects are usually two-sided; on the one hand the trade of goods harmful to the environment is limited (these goods usually belong to the above-mentioned industrial sectors and are known as “raw material absorbent” - they have a negative impact on the flow of imports and exports taking place between a country and its foreign trade partners), while on the other hand the raising of standards can cause a trend towards cleaner technological production through the reallocation of production resources, which will be closer to meeting international standards (which in turn will translate into more effective competition on foreign markets and an improvement in competition among enterprises in foreign as well as domestic markets, and will in the long run stimulate a rise in exports). Goods which may also have a significant impact on the changing face of foreign trade are those which encourage the improvement of the state of the environment, mainly goods and services related to the measurement, prevention and/or moderation of water and air pollution, as well as those that aid in the resolution of problems regarding waste, noise

pollution and ecosystems. These encompass cleaning technologies, goods and services that limit environmental risk and lessen the pollution and exhaustion of natural resources, recycling, as well as waste disposal plant, tools and technology.

II. FDI AND THE ENVIRONMENT

The environmental implications of FDI are the subject of special interest on the part of international organizations (e.g. the UNO and OECD), governments of investors' home countries, host countries and non-governmental organizations (NGOs) acting for the sake of environment protection. The issue of the impact of FDI on the environment stirs essential controversies. On the one hand, FDI is perceived as a potential burden for or an outright threat to the environment, especially in less developed countries, for it entails the use of land and raw materials and contributes to growth of consumption in host countries. By introducing new products into the market, foreign investors' activity may also contribute to a change in the consumption patterns in the host country in the direction burdening the environment. Furthermore, the gap in the environment protection standards between developed and developing economies may contribute to the creation of the so-called "pollution havens", since it encourages the transfer of "dirty" industries to countries with lower environment protection norms. There may also arise a problem of the so-called "cascading pollution havens" when a firm contracts its "dirty" production processes with other enterprises so as to make an impression of being environmental-friendly. According to the other group of views, FDI contributes to improvement in the state of the environment, for the investing firms coming mainly from the OECD countries possess more advanced and cleaner technologies than firms in the less developed host countries. Thus FDI leads to improvement in efficiency and transfer of know-how in the area of management. As a result, the environmental protection level in the host country is raised by bringing the protection norms closer to the standards binding in developed countries (the "pollution halo" effect). Foreign investors' activity may also find its reflection in environmentally favorable changes in the consumption patterns. The research - although there are too few of them - allow surmizing that FDI generates both positive and negative environmental effects. The balance sheet of these influences is dependent on the characteristics of the investor, the sectoral structure of investments and their geographical location. The verification of the extreme hypotheses encounters methodological difficulties and lack of data. Transnational corporations, like domestic companies, use natural resources in their production processes. Their methods of dealing with the problems associated with their use, however, differ from those applied by domestic companies. For in addition to the common problem all companies have of dealing with the environmental effects of their own activities, transnational corporations have to deal with the issue of the potentially negative environmental effects their foreign affiliates and subsidiaries may produce. The issue thus arises of trans-border management, taking into account the issue of environmental protection.

III. EMPIRICAL ASPECTS OF THE RELATIONSHIP BETWEEN FDI AND THE ENVIRONMENT IN ECE COUNTRIES

Transition economies in Central and Eastern Europe witnessed a significant increase in foreign direct investment (FDI) in the last decade. The growing importance of FDI in these economies measured by the ratio of FDI stock to their GDP and by FDI inflows as a percentage of gross fixed capital formation raises a question concerning the implication of this trend for the environment in these countries. The environmental effect of FDI depends on a combination of macro and micro issues. At the macro level, apart from environmental protection regulations and their enforcement, the impact of FDI on the environment of the host country is determined by the branch structure of FDI involved in a given country and especially by the extent to which it is located in pollution-intensive activities. Traditionally, industries classified as potentially highly polluting include chemicals and related products, mining for minerals and metals, pulp and paper, fabricated and non-fabricated metals, cement, glass and ceramics.

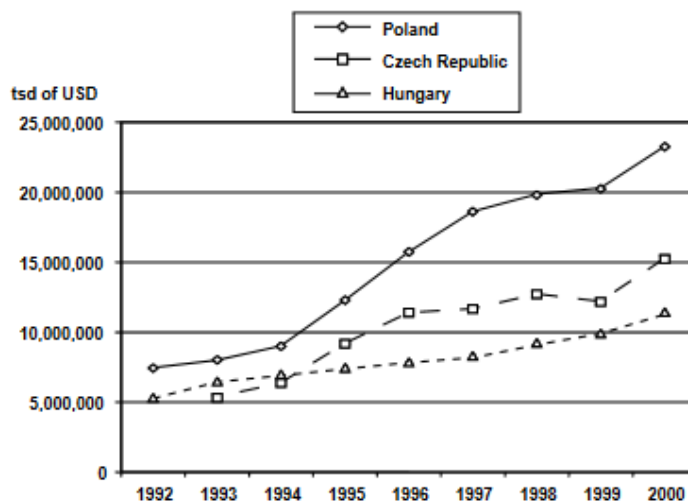


Figure 1- Import of commodities difficult for the environment

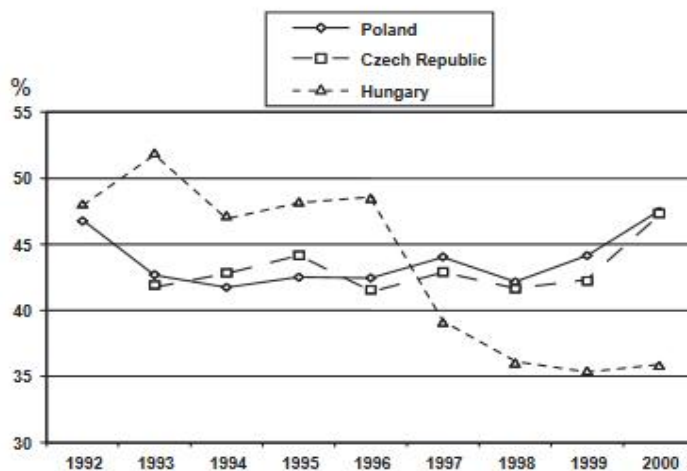


Figure 2- Share of commodities difficult for the environment in total import

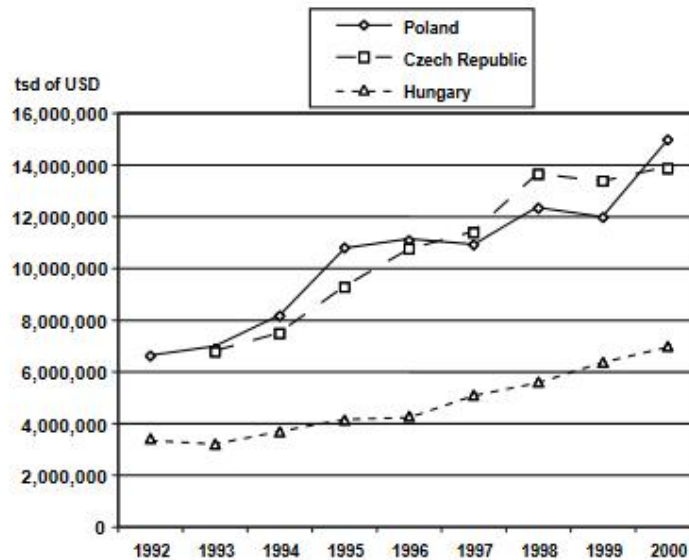


Figure 3- Export of commodities difficult for the environment

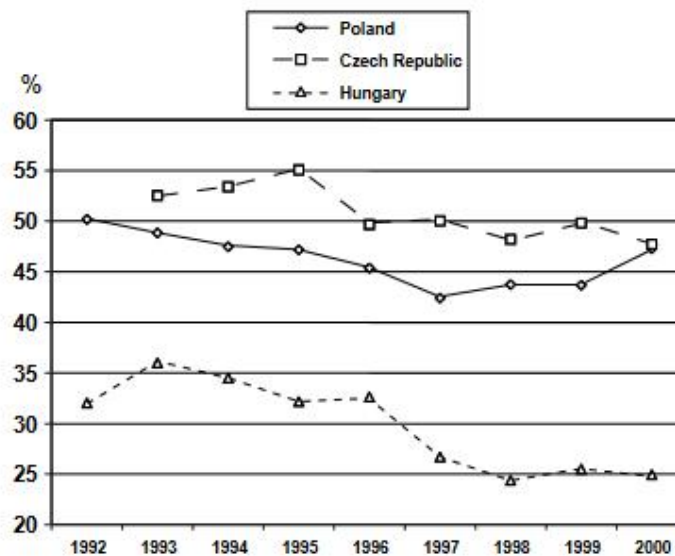


Figure 4- Share of commodities difficult for the environment in total export

At the micro level, the issues are concerned with management of production activities, motives guiding investors' projects in a given country and types of technology used in foreign affiliates, i.e. whether technologies are environmentally sound. The shares of FDI in so-called "dirty" industries in total FDI in some CEE countries are presented. They vary from 16.5% in Hungary to 29.6% in Slovenia. In the case of Poland, the increased involvement of foreign capital in the form of FDI can be illustrated by the following figures: - The ratio of accumulated FDI capital as a percent- age of GDP grew from 0.3% in 1991 to 21.3% in 2000 - similarly, the ratio of inward FDI to GDP has grown systematically (from 3.1% in 1991 to 5.9% in 2000);- the share of the annual FDI stream in gross fixed capital formation has grown from 1.8% to 23.4%. The structure of FDI in industries regarded as burden- some for the environment, in the so-called "dirty" industries. The data shows that in absolute terms, FDI flowing into dirty industries was rising steadily in the entire period of transformation. Their share in total FDI was also changing. In the early trans-

formation period, the share of FDI potentially burdening the environment rose from the level of 13% of total FDI in 1992 to 25.2% in 1995 and next declined to 13.8% in the first half of 2002. Among these industries, major investments flowed into chemicals (2.8% of total FDI), manufacture of cellulose and paper (2.9%), glass, ceramics and manufacture of cement (5.6%). Foreign investments were much smaller in the remaining industries burdening the environment, e.g. they were negligible in the mining and leather industries. The characteristics of the branch structure of FDI leads to the following conclusions:

Poland has no large foreign investments in the extractive raw material-processing industries which often cause irreversible consequences for the environment.

FDI in services does not constitute a major burden for the environment, for the structure of FDI involvement points to much interest in professional services (finances) and traditional ones (retail and wholesale); on the other hand, FDI in services regarded as more burden-some for the environment, i.e. in transport and hotels and restaurants is less significant in the case of Poland.

The branch structure of FDI in industry shows that about 13.8% of total FDI is involved in the so-called dirty industries; this share fell in the late 1990s, for it amounted to over 25% in 1995.

IV. CONCLUSION

CEE countries analyzed in the paper undertook significant steps in the 1990s to improve their natural environments, increasing their imports of goods designed to aid in environmental protection and technologies to implement "clean production" of export goods. These steps should improve the competitiveness of Polish, Czech, and Hungarian goods and products in the future on both the European and global markets.

Research results confirm the pro-ecological emphasis of transition economies' restructuring efforts, particularly when read together with the significant increase in their foreign trade in pro-ecological goods and services.

In the case of firms with foreign ownership the effect of compliance with environmental norms and standards on their share of the domestic market is very slight, while the effect of compliance with environmental norms and standards on their share of the export market is somewhat greater, but still modest.

An analysis of the results shows that most foreign investors do take environmental protection issues into account in making their decisions, but they do not consider them to constitute a major investment factor. A majority of the respondents favour centralizing strategies. This strategy seems advantageous for recipient countries. Firms with foreign capital frequently introduce environmental protection norms and take part in environmental protection programs

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