



Use Environmental Performance to Get to the Top

Pressure from customers, shareholders, governments and the general public pushes firms to improve their environmental performance – but what about a firm's competitors? What role does competition between companies play in influencing environmental practices?

Christian Hofer (University of Arkansas), David E. Cantor (Iowa State University) and Jing Dai (Iowa State University) asked the same questions. They looked at the two largest firms in 48 different manufacturing industries from 2006 to 2009 and found that competition within an industry does affect environmental performance.

Specifically, the trio found that businesses are likely to undertake new environmental practices if their rivals had improved their own environmental performance in the previous year. The reason for this is straightforwardness: environmental performance is a valuable source of competitive advantage and companies don't want to fall behind.

The study also found that smaller companies respond faster to their competitors' environmental moves, possibly because they are less constrained by bureaucracy. Similarly, more profitable companies are more responsive to competitors' environmental strategies, likely because they have the necessary financial slack.

Finally, and perhaps most importantly, the study found that industry leaders generally show worse environmental performance than their nearest rival. This may be because leaders become complacent and their rivals actively leverage environmental performance to narrow the competitive gap.

There are three practical lessons that managers can take away from this study:

1. **Use environmental activities to get ahead of competitors.** Environmental performance makes up part of an industry's competitive landscape. Managers need to actively seek out and analyze the environmental actions of their competitors – for much the same reason they analyze competitors' financial and marketing undertakings.

2. **Don't let the size of your company become a disadvantage.** Larger firms respond slower to the environmental actions of their competitors, putting them at a strategic disadvantage. To overcome this strategic pitfall, larger companies need to trim their bureaucracies and allow for the timely implementation of environmental initiatives.

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3. **Maintain industry leadership with environmental activities.** To maintain the top spot, industry leaders must recognize and counter the strategic moves of their competitors. Industry leaders consistently have inferior environmental performance, which puts them at a strategic disadvantage. Closing this performance gap is vital, especially considering the growing emphasis put on the environment.

Recognizing the importance of environmental management and following these simple recommendations allows managers to improve their competitive standing and the environment at the same time.

Future research should include: investigating more than just the top two competitors in the industry; exploring the environmental practices of both diversified and private firms; and tracking the relationship between competition and environmental performance over a longer time period.