



Improving Competitiveness: Environmental and Social Considerations of Sectoral Reform

Contrary to earlier teachings about economic development, it is now understood that competition that contributes to sustained economic growth cannot be based on cheap labor and raw materials, because that approach essentially means competing to have the poorest workers and offer the lowest prices for a country's environmental resources.

Improving enterprise competitiveness

Improving enterprise competitiveness means improving the ability of a company to constantly increase its productivity in creating and producing differentiated goods and services that respond to market demand, to produce them sustainably and bring them to market efficiently, while at the same time fostering an increasingly discriminating customer base.¹

Let's take a closer look. The critical elements for improving enterprise competitiveness as we now understand them involve, first, constantly increasing productivity by upgrading employee skills and combining energy, water, and other inputs more efficiently.

A key means for an enterprise to increase productivity is to undertake measures to prevent pollution. Preventing pollution means using less energy, water, and raw materials, and is nearly synonymous with minimizing waste. In a USAID project in Romania, a chemical manufacturing company invested \$26,000 in minor process improvements to prevent pollution, and as a result reduced zinc oxide in its wastewater by three tons per year and reduced water consumption by 2,400 m³ per year. While significantly improving its overall environmental performance and its regulatory compliance the company's investment produces an annual cost savings of \$33,000 per year: that represents an investment payback period of about eight months, with all savings after that, year after year, going directly to the bottom line. Michael Porter is among those that have recognized the importance of preventing pollution for improving competitiveness.²

Improving competitiveness means not just constantly increasing productivity, but increasing productivity in creating and producing differentiated goods that respond to market demand. A key way for an enterprise to differentiate its products and appeal to a growing market of environmentally concerned consumers is to make environmentally friendly products, to employ environmentally friendly production processes, and to tout that.

An enterprise can tout that by publicizing facts about its environmental performance and the environmental performance of its products against environmental regulatory standards; by publicizing facts about the overall environmentally friendly nature of its products and production

¹ This definition is adapted from the work of Michael Porter. See, for example Michael Porter's "Competitive Advantage of Nations" (1998), p.6.

² See the article "Green and Competitive: Ending the Stalemate," *Harvard Business Review*, September/October 1995, pages 120-134, co-authored with Claas van der Linde.

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process, including conformance to international standards such as ISO 14001; and even by publicizing facts about its use of design for environment principles in its new products, processes, and facilities. Observers of advertising by major corporations like auto, petroleum, and electronics producers know that they now employ all these approaches.

Improving competitiveness means not just creating and producing differentiated goods that respond to market demand, but producing them sustainably. An enterprise and its workers can continue to prosper from what they send to market and invest in being even more competitive only if their production processes are environmentally sustainable. This includes having environmentally sound and overall operations, including, for example, fleet and sales operations.

But it also requires a sound system for environmental management. A sound system for environmental management helps a company continually identify opportunities to improve its environmental performance; it helps reduce overall costs through better management, lower insurance premiums, and lower interest rates for borrowed capital; and it helps identify and address risks of environmental liability that can devastate an enterprise financially and even injure its employees and neighbors.

Finally, an integral part of improving competitiveness as it is now understood is fostering a discriminating customer base. This means that to be competitive an enterprise needs not only to serve market demand, but to help shape a market segment, or niche, that will pay a premium for what the enterprise can offer. Understanding this, many enterprises, such as Stoneybrook Farms and Patagonia in the United States, have begun educating their customers and potential customers on environmental matters, particularly in ways that highlight their own laudable environmental behavior. Sometimes they even engage their customers in environmental initiatives, thereby branding themselves as environmental leaders and fostering deep loyalty among a customer base that gladly pays a premium for their products.

Four principal types of environmental behavior that improve enterprise competitiveness can be summed up as:

- *Preventing pollution* – utilizing new materials, processes, and technologies to avoid creating pollution in the first place, rather than just managing it after it has been produced
- *Complying with environmental regulations and conforming to international standards* – meeting all relevant environmental regulations and standards, preparing to comply with upcoming new standards, and conforming to voluntary international standards
- *Designing for environment* – designing new products, processes, and facilities with deliberate attention to preventing pollution and minimizing use of environmental resources
- *Continually and systematically improving environmental performance with the help of an environmental management system (EMS)* – having a method in place for continually examining the operations of the enterprise to identify and act on opportunities to further reduce its environmental footprint

Policies that can foster and support improved enterprise competitiveness

Policies that can foster and support improved enterprise competitiveness include a wide variety of both explicitly environmental policies such as industrial effluent policies, and other policies, such as international trade policies. But for these policies truly to foster and support competitiveness, and

therefore sustained economic growth, they need to be implemented by institutions, such as environmental regulatory enforcement agencies, that understand the power of the policies to improve competitiveness, and that implement them accordingly.

Policies and associated programs that can foster and support improved enterprise competitiveness include those that, for example:

- Result in environmental laws and regulations benchmarked to world standards
- Establish strong programs to help enterprises comply with environmental regulatory standards
- Create and provide adequate resources for strong inspection and enforcement regimes
- Require frequent review of environmental regulatory standards, with public input
- Set and enforce pollution charges and fines that encourage preventing pollution
- Allow enterprises to make investments to prevent pollution in lieu of pollution fines
- Provide financial or tax incentives to promote pollution prevention and other environmentally friendly technologies
- Allow environmental inspectors to conduct less frequent inspections and be more forgiving of occasional off-standard pollution if an enterprise has a functioning EMS
- Require enterprises to monitor their use of water, energy, and other resources, and provide assistance to them for doing that
- Require enterprises to monitor and benchmark all waste streams, and provide assistance to them for doing that

Establish government procurement preferences for environmentally friendly products and products produced by environmentally friendly production processes

Provide seminars and technical assistance to enterprises for preventing pollution, complying with environmental laws and regulations, establishing EMSs, conforming to international standards, and designing for environment

Good policies that are implemented by institutions that use the right mix of inspection, enforcement, incentives, training, and technical assistance can go far to help improve enterprise competitiveness. And by improving enterprise competitiveness a government can improve the competitiveness of its industry sectors, subnational regions, and national economy.