

Managers Who Can Create Strong Corporate Cultures Can Expect To See Environmental and Financial Performance Soar

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Corporate culture has a significant impact on a firm's environmental performance, according to new research from Durham University Business School (<https://www.durham.ac.uk/business/>).

Not only does the study reveal that taking steps to establish a strong culture can boost environmental performance, but it also shows that there is a financial advantage to be gained.

The study, led by Dr Mabel Costa (<https://www.durham.ac.uk/business/our-people/mabel-d-costa/>) in collaboration with Dr Solomon Opare (<https://www.massey.ac.nz/massey/expertise/profile.cfm?stref=727222>) of Massey University aimed to deepen the understanding of the relationship between corporate culture and a firm's ability to achieve its environmental and sustainability goals.

The researchers highlight an increasing necessity for companies to adopt more ethically responsible and sustainable practices, not only to comply with evolving legal requirements for sustainability action and reporting but also to safeguard the wellbeing of humanity.

"A report published by The Lancet Planetary Health cites that air, water and toxic chemical pollution causes up to nine million premature deaths every year," explains Dr Costa. "Pollution, such as the release of toxic chemicals, is routinely caused by businesses due to the nature of their operations, and has a direct negative consequence on the ecological environment and poses long-term health complications to humanity."

The study suggests that the link between strong corporate culture and better environmental performance is driven by;

- 1) First, managers with an eye on cleaning up their environmental impact tend to invest more heavily in developing innovative, and greener ways of operation. The successful implementation of such creativity is typically found, the researchers say, in organisations with a strong culture at heart, encouraging staff to present new ideas.

2) Second, managerial altruism. From a stakeholder's perspective, investors typically consider corporate social responsibility. Altruistic managers are more likely to invest their firm's resources in environmentally friendly technologies and promote ethical business processes to lower their carbon footprint. This makes them a more attractive investment. On the other hand, any environmental harm caused by a company leads to higher litigation costs and greater scrutiny from regulators, which will have a long-term consequence on a firm's financial performance, as well as reputation and standing. This makes such firms a less attractive investment.

Using a dataset of over 7,000 firm-year observations from 2002 and 2018, the researchers found that an improvement in a firm's corporate culture could result in a 3.85% (approximately 44,584 pound) reduction in toxic chemical release.

Cultural values such as innovation, quality and teamwork were found to be the most effective mechanisms for enhancing environmental performance, proving that managers who foster such attributes within their organisations stand to make the most gains.

Managerial competence and strong institutional ownership are crucial factors. They amplify the positive impact of corporate culture on environmental performance, by driving ethical action beyond mere compliance.

"Due to the inherent nature of businesses, they are expected to emit some toxic chemicals in the environment; however, the emission of toxic chemicals beyond the expected level is unethical. Our results reveal that firms with strong corporate cultures and leadership endorse ethical behaviour, and as a result exert greater efforts to reduce both the expected and excess toxic chemical release, thereby improving both overall environmental and financial performance," says Dr Costa.

The study has been published in the Journal of Business Ethics (<https://durham-repository.worktribe.com/output/2455728>).

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