REDUCING COST WITHIN THE FIRM AND THE ENVIRONMENTAL PERFORMANCE

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Cost reduction is at the heart of maintaining competitiveness of any firm. Cost Leadership implies that a firm sets out a broad scope and serves many industry segments, or even related industries and competes which is important to its cost savings. . The sources of costs advantage are varied and depend on the structure of the industry. They may include the pursuit of economy of scale, proprietary technology, preferential access to raw materials, and other factor.

The idea that companies can simultaneously reduce their costs and improve their environmental performance is very popular in environmental circles and has been proven attractive to some managers as well.

Another important factor to be pointed out is that even the low-hanging fruit can only be gathered after an investment of management time, and that resource is hardly free. Investments in environmental improvement, like all other investments, are worthwhile only if they deliver value after all the management costs have been included. It also turns out that the prevalence of opportunities for private costs savings in a particular business will be influenced "by the structure of the industry in which the business is competing and the changes that this industry is undergoing; by the importance of human capital to the business's success; and by the time horizon over which the business evaluates its progress."

Accounting for environmental costs and performance can support a company's development and operation of an overall environmental management system. Such a system will soon be a necessity for companies engaged in international trade due to pending international consensus standard ISO 14001, developed by the International Organization for Standardization.

As we know in real life information does not flow with complete freedom between managers on different levels or between managers and shareholders. In particular, the firm's senior managers know less about environmental costs and opportunities than do the middle-level managers. If information flowed freely within a firm, senior managers and shareholders could detect opportunities for costs savings as easily as the managers who are immediately responsible for the operations. An effort to remove some of the impediments in information flow could result in opportunities to save costs. There might be cases though where the relevant information is buried but there is no way to disinter it; in this case environmental pressure can not drive the cost savings unless some incentive - whether a government rule or an internal executive initiative - brings it to light.

Most of the immediately evident forms of environmental cost savings that firms can capture in the short run take the form of reductions of quantities of purchased materials and services. Firms that produce less waste need to buy fewer waste management services, and perhaps fewer raw materials as well. Reductions in price also may happen when improved environmental performance leads to lower per-unit costs for certain specialized purchased services, like purchased environmental impairment liability insurance. More commonly, though, quantity reductions drive the short-term cost savings

Through pollution prevention companies can realize significant savings, resulting in a cost advantage relative to competitors. Indeed, pollution prevention may save not only the cost of installing and operating end of-pipe pollution-control devices, but it also increase productivity and efficiency. Less waste means better utilization of inputs, resulting in lower costs for raw materials and waste disposal. Pollution prevention also may reduce cycle times by simplifying and removing unnecessary steps in production operations. Furthermore, pollution prevention offers the potential to cut emissions well below required levels, reducing the firm's compliance and liability costs. Thus, a pollution-prevention strategy should facilitate lower costs, which, in turn, should result in enhanced cash flow and profitability for the firm.

Pollution prevention is a challenge for the private sector because it requires diverse forms of innovation. Pollution prevention can require the redesign of the products, the reconfiguration of manufacturing processes, and the realignment of supplier and customer relationship.

Evidence also suggests that in the early stage of pollution prevention, there is a great deal of easy and inexpensive behavioural and material changes that result in large emissions reductions relative to costs gain, the so called "low-hanging fruit."

As the firm's environmental performance improves, however, further reductions in emissions become progressively more difficult, often requiring significant changes in processes or even entirely new production technology.

Many companies are using supply chain and product stewardship initiatives to help them to improve their environmental performance and profile while reducing costs. For instance, increasingly more firms want their suppliers to work toward certification under the environmental management standards of the International Standards Organization (ISO).

Savings from capital, labour, and information are harder to capture in the short run than savings from purchase materials and services. In the long term, the firm may be able to capture savings in some of these other categories, but not all.