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Environmental Respect: Ethics or Simply Business? A Study in the Small and Medium Enterprise (SME) Context

Jesús Cambra-Fierro
Susan Hart
Yolanda Polo-Redondo

ABSTRACT. In recent years there have been ever-growing concerns regarding environmental decline, causing some companies to focus on the implementation of environmentally friendly supply, production and distribution systems. Such concern may stem either from the set of beliefs and values of the company's management or from certain pressure exerted by the market – consumers and institutions – in the belief that an environmentally respectful management policy will contribute to the transmission of a positive image of the company and its products. Sometimes, however, ethics and market rules are not enough to deal with this situation and specific laws must be considered. This is the case when companies base their activity on the 'ethics of self-interest' concentrating their efforts on projecting an adequate image – e.g. environmental respect – rather than fundamentally behaving in environmentally respectful ways. This article, taking as reference the SME context, discusses the reasons for implementing environmentally friendly systems. Both ethics and business seem to be relevant and, therefore, a certain balance between market and interventionism seems to be necessary.

KEY WORDS: environmental respect, ethics, image, market, regulation

Introduction

In recent years increasing societal concerns about environmental decline has caused some companies to focus on the implementation of environmentally friendly supply, production and distribution systems. The implications of such systems might be illustrated either by the set of beliefs and values of the company's management or the belief that an environmentally respectful management policy will contribute to the development of a positive image of the company and its products. In other words, economic and ethical reasons may underlie these decisions. (Di Norcia and Larkins, 2000).

On February 16, 2005 the Kyoto Protocol, signed in 1997, came into force. It was designed to fight climate change and global warming, but some companies had already implemented measures to reduce emissions and improve energy efficiency, trying to get a positive public image; thus achieving two of the Protocol's objectives. In any case, environmental respect and sustainability are considered to be relevant management factors by the literature (Adolphson, 2004) and, more precisely, as one of the four major concepts in the field of contemporary business ethics (Werhane and Freeman, 1999).

Recommendations made by Di Norcia and Larkins (2000), state that it is essential, from the perspective of research and management to identify the reasons that lead managers to make ethical decisions, as their reasons may condition actual real behaviour and the system's effectiveness. Several recent studies have attempted to delve into the analysis of this phenomenon (e.g. Adolphson, 2004; Argandoña, 2004; Fisher, 2004). Nevertheless, as Lahdesmaki (2005) points out, little attention has been given to the SME context. Therefore, despite the relevant economic role of SMEs, there is a lack of studies analysing the ethical profile of SMEs, which generates a considerable gap in the literature.

The SMEs present a different business profile: smaller size and fewer resources when considered individually (Beekman and Robinson, 2004), managerial systems where ownership–management separation rarely occurs (Richbell et al., 2006); and, management training that does not always meet the company's real needs (Emiliani, 2000; Park and

Krishnan, 2001). These are some of the traits that may define the SME context and, obviously, affect the companies' functioning.

Consequently, this article intends to: (1) Identify the reasons that lead an SME to opt for environmentally respectful management; (2) Assess the repercussions of each type of decision; and (3) Contribute to the specialised literature by bridging the gap in the SME context.

Ethics and regulations

One of the main traditional goals of management is to maximise economic benefits. Thus, some companies opt to develop and manage a positive corporate reputation, both managerial and social, as a strategic factor to obtain such benefit (Martin et al., 2006). That said, many other companies exclusively focus on the specific objective of profit-maximisation, even at the expense of distancing themselves from ethical behaviour (Robin and Reidenbach, 1987; Desmond and Crane, 2004). Nevertheless, the managers of the latter may not be aware that ethical behaviour can help them reduce transaction costs (e.g. cooperating with their suppliers and avoiding opportunist behaviours) and increase their companies' effectiveness. That is, in certain situations the values of effectiveness, profit, self-interest and even selfishness could be compatible with ethical behaviour (Desmond and Crane, 2004). This idea is not new, in the words of Adam Smith (1793): 'society's well-being is the outcome, not so much of altruistic behaviour, but rather the matching, through voluntary and competitive exchange, of buyer and self interest'. Since there are companies that leave the path of ethics, society is concerned that managerial behaviour be compatible with the main ethical rules (Argandofia, 2004), rewarding or penalising such behaviour.

Despite this observation, an exhaustive analysis of the positive or negative externalities generated by an individual company may prove complex due to their relative importance in certain situations (Desmond and Crane, 2004). On the other hand the analysis may be simpler if performed at an aggregate level of an industry or a global economic system.

Considering the proposals of Coglianese and Lazer (2001) and Argandofia (2004), society can act by:

1) Allowing the authorities to establish norms that regulate managerial behaviour.
2) Establishing market incentives to stimulate a correct behaviour.
3) Granting companies total freedom to decide the type of behaviour they prefer to adopt.

From our point of view, the first proposal will be directly related to establishing a set of regulations that explicitly guide on the type of behaviour demanded by society, whereas the ethic–moral profile of the managers prevails in the third alternative, thus minimising social pressure. In the latter case, the company has a far greater margin for manoeuvring, increasing the uncertainty about the company's final behaviour. Between both extremes there is a continuum of possible situations.

Nevertheless, in a competitive market with perfect information, alternative 3 would be compatible with the ideas of Adam Smith (1793), which advocate a perfect adjustment of market forces based on total consumer sovereignty. Furthermore, this idea agrees with the proposal of Desmond and Crane (2004), who contend that those companies which best adapt to consumers' needs and desires and focus on long-term satisfaction and well-being will obtain higher benefits in the long run. That is, a market orientation and consumer demands are a better route to success. The flaw, however, is that since perfect information is a utopia, the intervention of the institutions is advisable in order to regulate some activities.

Moreover, Crane (2000) maintains that on certain occasions some companies base their activity on the so-called ethics of self-interest and concentrate their efforts on transmitting an adequate image (e.g. environmental respect) rather than really acting in a totally acceptable way. Consequently, a certain balance between market and interventionism appears to be necessary, so that the idea contained in the works of Chonko and Hunt (1985), Laczniak and Murphy (1993) and Smith (1995) may be developed: orientating certain business value towards a more ethic–moral context in order to produce ethically positive social outcomes.

Another aspect that also needs reflection is the influence of the social context on the perception and assessment of managerial decisions (Desmond and Crane, 2004). Different cultures can accept or penalise the same type of behaviour (Sinclair, 1993; Dahler-Larsen, 1994; Vitell and Ramos, 2006), so that, the mistake of analysing a decision in an isolated way rather than in its socio-cultural context should be avoided. Although there may exist worldwide accepted ethical values, most are in line with a specific assessment of each context, even within the same country.

Finally, the objectives of our research require that we consider the peculiarities that define an SME profile, since some differential features with respect to larger companies may affect their ethic–moral behaviour (Deniz and Cabrera, 2005; Lahdesmaki, 2005). Thus, many SMEs are managed by the owner and run according to his/her own value system, with no responsibilities towards other stackholders/shareholders (Spence, 1999); in other cases, the manager's training may prove insufficient to identify the implications of some regulations or manage the necessary technology (Emiliani, 2000; Park and Krishnan, 2001); and the availability of economic resources may also affect the adoption of one or the other management system (Beekman and Robinson, 2004). For these reasons, although we cannot conclude that the size of the company determines a more or less ethical behaviour, it is true that such behaviour presents some differences, since the literature considers that the management's dependence or independence with respect to other shareholders is a key aspect to understanding the ethical behaviour of small companies (Spence, 1999; Lahdesmaki, 2005).

Social corporate responsibility (CSR) and environmental respect

Regardless of the impact of market pressure or institutions, an increasing number of companies opt to explicitly comply with ethically accepted rules and they want society to appreciate their decision (Hemingway and Maclagan, 2004) in the belief that such behaviour will allow them to transmit a positive corporate image and gain reputation for the company (Adkins, 1999; Darby, 1999). The use of certain marketing tools (e.g. market research to understand the consumer value system, communication and public relations) plays a prominent role in reinforcing the competitive position of the company through the detection of the consumerś morality and value systems and the creation of messages that generate, maintain or improve the company's public image (Hemingway and Maclagan, 2004).

Either implicitly or explicitly, these companies respond to a series of demands that promote an economic, technological and legal system where social benefits take preference over traditional economic benefits (Deniz and Cabrera, 2005; McWilliams and Siegel, 2001); in other words, they opt for the concept of corporate socialresponsibility (CSR) (Cramer et al., 2004; Garriga and Mele, 2004; Hemingway and Maclagan, 2004; Knox et al., 2005; Mahoney and Thorne, 2004; Matten and Moon, 2005; Moon, 2001; Morimoto et al. 2005). The management of such companies associates a positive effect of CSR on the brand (Hemingway and Maclagan, 2004). Nevertheless, the approach to this situation will largely depend on managerial perceptions, the costs or benefits associated to each decision and the degree of social commitment (Quazi and ÓBrien, 2000) and the management's value system (Agle and Caldwell, 1999; Menon and Menon, 1997).

Thus, we may conclude that some type of self-interest will always be present in the motivation to implement a CSR system (Moon, 2001), whether the strategic development responds to merely commercial reasons or, at least apparently, to altruistic and/or idealistic purposes (Hemingway and Maclagan, 2004). Links between social responsibility and ethics had also been discussed by Fisher (2004). Regardless of the reasons, these companies tend to minimise the negative externalities in their activity and reinforce the positive ones, so that society will benefit. Moreover, with an increasing consumer regard for ethical consumption and social responsibility, pursuit of CSR may also be a source of competitive market advantage.

A specific example of CSR is environmental respect. Harris and Crane (2002) indicate that, in order to develop a sustainable behaviour, the company's actions will have to consider a set of environmentally respectful values and beliefs that influence their general behaviour and lead them to adopt certain production techniques. However, the technical complexity of some industries and the considerable environmental repercussions of their activity may generate market failures unwanted by both companies and society of which certain companies (e.g. some

SMEs) are not aware (Argandofia, 2004). For this reason, according to this author, it seems necessary to articulate a set of environmental norms and laws that regulate certain activities or sectors, as discussed in the previous section.

Therefore, taking as a reference environmental respect, this article aims to contribute to the debate about altruism and/ or self-interest present in entrepreneurial decisions.

Methodology

The cases studied in the present work are part of a larger-scale research project that analyses the reasons that influence the decision-making process in the management of SMEs. The main objective of this project is to identify the key factors that contribute to an effective and efficient management of SMEs, particularly in the Spanish context. Thus, the initial fieldwork revealed that the ethic–moral profile of owners and managers and the value system of the target consumers are elements that have an impact on managerial decisions. Furthermore, after a thorough revision of the literature, we have verified that the dimension of a company and its ownership–management structure could affect its ethical behaviour.

Two reference cases illustrating two relatively different situations are presented here: one based on management's value and belief system versus one based on legal obligations; in two relatively different industries: a winery (agroalimentary industry) versus a paint and solvent factory (chemical industry). These cases will be taken as a basis for further discussion and for the assessment of the main implications of the study.

Data collection focused on the main managers of each company who were interviewed: the managing director in the case of *Bodegas Pirineos*, and the owner–manager in the case of *Pinturas Fierro*. Thus, in both cases we obtained a global vision of each company and their commercial, supply, production and quality policy.

The semi-structured interviews, 45–50 minutes each, were conducted in Spanish, recorded and then transcribed for further analysis. During our visits we had access to several internal use documents and procedure manuals on which the companies are run. We were also given in situ explanations about supply, production and waste management procedures. Additionally, we completed our database with press cuttings related to both companies in general and to our study subject in particular.

Once the information had been collected and analysed, and using the terminology proposed by Yin (1994), two illustrative cases were developed. The specialised literature offers similar research processes and work profiles, thus enhancing the validity of our study in reaching proposed objectives (e.g. Hudson and Wehrell, 2005; Nakano, 1999; Ullmer and Sellnow, 2000). Moreover, it is worth mentioning that, according to the managers of both companies, some of the decisions here described have been recently analysed by managers of several Spanish companies from different sectors through interviews and visits to both companies, and the implementation of similar systems (adapted to the needs of each particular company) is taking place in other companies with similar profiles to the ones studied here.

Focal firms: background and their implementation of environmental systems

Bodega Pirineos, Ltd

Background

First of all we should point out that wine production is one of the most dynamic activities in the present-day Spanish farming and foodstuffs industry and it contributes to generating added value of extraordinary importance in the countryside.

Within this context Bodega Pirineos Ltd produces wine under the ''Protected Geographical Indication'' PDO *Somontano*. This is a wine-producing region formed by 44 municipalities located in northeastern Spain. Its regulating authority has registered 22 wineries, 450 winegrowers and 4,326 hectares of vineyards. Its wines enjoy a high level of recognition in both the Spanish and international market, placing them amongst the best known wines in Spain, together with *Rioja, Ribera del Duero, Navarra, Priorato* and *La-Mancha* PDOs, amongst others.

Bodega Pirineos Ltd was one of the enterprises that promoted the creation of the *Somontano PDO*, and consequently was one of the first wineries to register in the protected designation of origin *Somontano* in 1984. Founded in 1964, the new legal composition of Bodega Pirineos was established in 1993. Its ownership structure is mixed, as it is shared by the partners of the former cooperative, the regional government of Aragon (public institution), financial institutions, *Compania Vitivinicola Aragonesa, Vinedos y Crianzas del Alto Aragon* (the latter two are also wineries belonging to the *Somontano* PDO), and to a lesser extent by a farmer's association. This situation could contribute to promoting objectives other than profits (e.g. social responsibility, agricultures needs, environmental respect, sustainability, innovation).

The winery owns 80 hectares of vineyards and can also rely on the vineyards belonging to the partners of the cooperative, which are under an agreement to sell their production to the winery. Globally, this firm is responsible for more than 1,200 hectares (around 35% of the PDO total). Its workforce is made up of 53 employees distributed in the different areas into which the company is divided. With regard to the company's production and sales, in 2003 (last available data) it sold 2,520,000 bottles, which represents 27.4% of the total production of 9,197,145 bottles of Somontano PDO wine sold that year (data provided by the *PDO Somontano Regulating Authority* and Bodega Pirineos Ltd). For this reason Bodegas Pirineos is considered to be one of the driving forces among the PDO *Somontano* wineries.

Implementation of environmental systems

According to the management of Bodega Pirineos, the environmental legislation "is not so strict as in other sectors, although there are some minimum criteria for certain waste generated along the production process. We have to bear in mind that a large part of our waste is organic matter and its biodegradable... although a small part corresponds to auxiliary chemicals, cleaning stuff for metal tanks... in those cases we have to comply with some legally established standards, but it is not the main percentage of waste. In any case, the legislation seems to be about to change soon and it will become stricter in all aspects and for all materials".

For all these reasons the company had always complied with the required legal standards and in some cases they had even been stricter with themselves. The company's objectives establish that "Bodegas Pirineos looks for the satisfaction of all the parts: worldwide consumers, staff, shareholders' profitability and our main suppliers, grape suppliers and others, according to the principle of business excellence; and eventually, the satisfaction of the community, always with the proper ethical and social environmental behaviour", which justifies a higher level of environmental exigency.

Furthermore, it is essential to analyse the potential influence of the management value system: "I believe that in Bodegas Pirineos many of us think that something has to be done... although as a company we can't do much... but, what if everybody did something? Don't you think so? Surely if we all made some effort the global impact would be different". Several works (Forte, 2004; Harris and Crane, 2002; Hemingway and Maclagan, 2004) indicate that the management value system influences the corporate value system. In this case, since several public institutions and non-profit organisations that need to transmit a certain image of environmental respect and sustainability are amongst the company's shareholders, management is more inclined to increase the self-regulation systems even at the expense of increasing their cost structure.

Nevertheless, as the commercial management of the company perceived a growing interest in the market for environmentally respectful products, they looked for a credible way of transmitting such an image: "We were more demanding of ourselves, but we were not able to transmit it to our distributors and customers... we needed some kind of specific sign or emblem which was credible for the market, something that made us different... we were doing fine but needed that guarantee ... that's why we considered the option of implementing an environmental management system based on ISO 14000 norms".

ISO 14000 establishes, through ISO 14001, a set of international norms that can be applied by any organisation wanting to set up, document, implement, maintain and regularly improve an environmental management system. Once it has been applied, if the company wants to register its system, a registering company (authorised by the corresponding national institutions) has to be hired to certify that the environmental management system, based on ISO 14000, complies with all the requirements contained in that norm.

However, both the application of that norm and the registration requires adequate human resources for a proper management, a responsibility that fell on the quality manager and proved to be a wise decision; they also had to overcome an initial reluctance from the workforce, for which they decided to establish a salary system with incentives for environmental actions; finally, they had to allot more economic resources on the plan. Thus, in 1999 they were awarded the ISO 14000 certification–registration and it was included in the labels of all the wines produced by the winery, putting special emphasis on international fairs and meetings with distributors.

But, in a few months the commercial managers realised that the wine market, except for a small niche, does not particularly appreciate an environmentally respectful production system: "only a few customers who are not profitable by themselves... the average consumer appreciates aspects related to the product presentation, price, organoleptic characteristics, taste... so in the 2004 campaign we decided to continue working according to the ISO 14000 criteria but without the certification–registration, which involved two things: saving administration costs and the inspections required by the regulations; although we still work with a similar compliance level, without including the information in the label, which had proved to be less important than we had expected".

Currently, the company produces two types of ecological wine, "Young Ecological Montesierra, elaborated with Tempranillo and Merlot from ecological farming, and Rocal 2004 in collaboration with Riet-Vell and SEO/Bird Life, both [are] aimed at a very specific niche market that appreciates the concept of ecology and environmental responsibility". At the same time, the company manages the waste generated by production processes according to the ISO 14000 norms, though it is not certified. Finally, we must point out that in recent years the company has been given several awards related to environmental management and environmental respect (e.g. *European Environmental Award 2004* for Management and Communication in sustainable development, awarded by the European Commission and the Spanish Ministry of Science and Technology; *Validation of Sustainability Report*, awarded by AENOR in 2003), being the first agro alimentary company in Spain that obtains such award.

Pinturas Fierro, Ltd

Background

Pinturas Fierro is a family company devoted to the production and distribution of paint for industry, the motor and the decoration industries, as well as solvents and other auxiliary products. The company was created in 1930 and has always been in the hands of the same family, except for a short period (between 1934 and 1940) in which, due to the political situation in Spain, it was collectivised. Today the third generation runs the company while the fourth one is currently receiving training in the field of chemistry and business administration in order to take the control and management of the company in the future.

Since its creation, the company has been characterised by great dynamism and an eagerness to grow. Initially, the company was a small local shop that sold paint, varnish and accessories. When the founder's son took charge of the business, in 1943, the location changed to the city's commercial area and they established a provincial and regional network for the exclusive distribution of the most highly reputed paint brands in Spain (e.g. Titan, Valentine). This period was characterised by the region-wide consolidation of the company, the first small-scale incursions into the international market (south of France) and, above all, in the early 1980s, by the idea of investing in a paint, varnish and solvent factory. The first production activities coincided with the arrival of the third generation into the company's management in 1986. However, the contrast between high knowledge of chemistry and scarce training in business management put a brake on the company's development. The soundness of the commercial department, though, allowed them to maintain the production activity until, once that imbalance was corrected, the business began its national and international consolidation.

At present, the company is divided into two fundamental areas: (1) production and industrial distribution/wholesaler and (2) commercial distribution/wholesaler and retailer. The company has 16 employees: laboratory (3), production (6), administration and management (4), commercial (3), distributed among the areas above mentioned. Such division, however, affects the company's planning rather than the task assignment schedule. The sales figures in 2005 amounted to 4.5 million euros (last available data). They mainly operate in the Spanish market, especially in Arag6n, Cataluna, industrial areas of Madrid, Valencia and Andalucia. They have an international presence through exclusive distributors in France, northern Italy and, on a smaller scale, in Portugal and Morocco.

Implementation of environmental systems

Paint, varnish and solvent manufacturing, according to the manager of this company, is regarded as ''one of the most environmentally hostile industries due to the so many different substances harmful for health and [the] environment which are used in formulation, manufacturing... and obviously the type of waste generated''. For all these reasons, we may expect the environmental legislation to be extremely strict with the behaviour of companies in this sector.

Nevertheless, ''as the components and processes differ according to the type of paint and solvent, there are some peculiarities when it comes to industrial paint, car paint or decoration''. Currently, this sector has to comply with the EC, national and regional norms established for chemical industries in general, and for paint and solvent manufacturers in particular. Such norms are binding on all companies in the sector and ''regular inspections avoid failure to comply with the rules, although there is always someone who...tries... but on the whole nobody gets [a] competitive advantage in the cost structure for complying or not, since the environmental legislation is the same for all''.

Therefore, environmental respect is more related to legislation than to the corporate value system in this sector. Besides, in the sector of ''industrial paint we often find some customers, mainly in the north of Italy, who demand additional requirements. In order to comply with their legislation we have to use only those raw materials which meet those requirements; so there is no choice if we want to sell them our products...''. In this sense, the market regulates the company's environmental activity.

In 2004 the company's manager found out that a set of stricter laws for the sector would be passed: *VOC's* (regulations on organic/ inorganic waste management) and *REACH* (Registration, Evaluation and Authorisation of Chemicals), ''both in the EC context''.

The VOC's legislation establishes ''higher standards in the management of polluting waste, with special emphasis on its treatment and further storage''. The REACH legislation, was developed by the European Commission and its ''aim is to improve the protection of human health and the environment through the better and earlier identification of the properties of chemicals. At the same time, the innovative capability and competitiveness of the EU chemicals industry should be enhanced. The benefits of the REACH system will come gradually, as more and more substances are phased into REACH. The REACH proposal gives greater responsibility to industry to manage the risks from chemicals and to provide safety information on the substances. Manufacturers and importers will be required to gather information on the properties of their substances, which will help them manage them safely, and to register the information in a central database.'' (http://www.area.us.es/toxicologia/buscatox.htm)

These regulations will increase the cost structure of the sector companies, but as the company's manager says, ''it is essential to anticipate their coming into force so that we get familiar with them, because some customers are already asking us to comply with them though they have not been passed yet, and I do think that if there is something we can do for the environment but has not been done before, it is worth doing it''. However, for those customers who are not so inclined, or are not forced to comply with such restrictive legislation, the company ''is at a certain competitive disadvantage in prices... although as we will all have to comply with the legislation sooner or later, if we have managed to implement the system before other companies, we will surely benefit much more''. Finally, the owner states that ''if I have to spend resources to be better than my competitors, if I invest more and earlier in environmental protection, why not do it so that I can be different?... Why not use it in my communication and advertising strategy for my own benefit?''

Discussion

The comparison between both study cases yield very useful results to explore the reasons that lead a company in general, and an SME in particular, to implement an environmentally respectful and ''ethically correct'' management system: (1) management's value and belief system; and (2) legal obligations.

Nevertheless, there is a common point in both cases: the desire to make the market aware that the management system is respectful of the environment. However, in the case of Pinturas Fierro we should consider whether their behaviour responds to an ethically correct profile or if it is merely the owner's response to the need of complying with current legislation: is there a coincidence between their own value system and legal requirements? When comparing their previous and current behaviour, we observe that they are slightly different, and, although they used to comply with the legislation, even above the mandatory standards, their waste management process was not as strict as it is today. Furthermore, they might have decided to break the law in the belief that they would not be discovered or, at the most, they would receive a non-compliance fine lower than the required investment. Yet, it is also obvious that this firm decided to anticipate the implementation of the new management system required by law even at the expense of increasing their cost structure before it was necessary. However, , the firms would have to comply with those requirements, they decided to go ahead of the rest of the sector companies and exploit an environmentally respectful image, knowing in advance that in certain target markets (e.g. Northern Italy) both their regular and potential customers demand environmentally respectful products (e.g. unbroken chain of such demands all the way down the supply chain (Miles et al., 1997) since only environmentally correct ingredients can be included in their production processes) and many current customers in other markets are satisfied with the products and services they obtain from the company. In both cases, most reference customers are willing to pay a slightly higher price; that is, their market is willing to absorb part of the increase in the production costs. Consequently, ethical–moral, economic and legal aspects are combined in this case.

In the case of Bodegas Pirineos, the situation appears to be the result of the management belief system. We should observe that, unlike the other case, there is no coincidence between ownership and management, so the view of several deciding agents was considered, but, given that these values seemed to coincide, they opted for the voluntary implementation of the ISO14000 environmental management system. Despite the increase in the company's cost structure, such a system perfectly met the management's desires. The belief that the market (distributors and consumers) would positively react to such a decision also exerts an influence. Once the certification was obtained, however, the company's commercial managers observed that, despite the resources to communicate the new situation, the market did not actually appreciate it. In the case of the wine market, consumers appear to pay more attention to the product's characteristics (e.g. bouquet, taste and presence) and the price as quality signals, but they do not consider the environmental impact of the production process. For this reason, and in order to reduce costs, the managers decided not to maintain the ISO 14000 certification, although they continue applying the waste management system as established by the regulations. Therefore, in this case the management value system prevails over market laws and forces. The fact that the company is owned, in part, by public institutions and non-profit financial institutions with a specific profile, and their aim is not the traditional pure profit maximisation, leads to decisions that respond to a specific ethical profile.

Consequently, both cases reveal, to a certain extent, that the management's ideology, personal values and personal aims influence, either directly or indirectly, the company's behaviour, which agrees with the ideas expressed by Grojean et al. (2004) and Hemingway (2005), amongst others.

In addition, the ownership–management structure and the relationships with the market forces have also an impact on the decisions adopted. As Knox et al. (2005) claim, companies have to consider their relationships with all the shareholders and stakeholders. When ownership and management coexist, the owner's ideas will prevail, maybe as a result of the market forces and current legislation. However, in these two cases, it is necessary to consider the agreed decision of the shareholders and to understand the manager's room to manoeuvre. Thus, from our point of view, the dimension of the company may not be such a relevant factor with respect to the owner–shareholder relationship. As regards the relationship with the stakeholders, Knox et al. (2005) point out that the relationships with their stakeholders, except those established with their customers, is not a priority for many companies.

Context and industry are factors that affect the companies' behaviour. In our case studies we have proved that in certain areas (e.g. Northern Italy) environmentally correct behaviour is appreciated, while in others it is the company's performance what leads to make some investments. We have also found that for certain products (e.g. wine) some types of behaviour are not rewarded by the market. In both cases we can intuitively appreciate that the environmental impact of one and the other industry is different, which affects the legal corpus of each sector. Therefore, the ideas of Desmond and Crane (2004) and Argandoña (2004) are confirmed in these cases.

Enough evidence has been found to reveal that the market forces influence management systems, but in certain cases they are insufficient. The market itself is not able to reward/penalise desired/unwanted behaviours. In our case, therefore, it is necessary to articulate a set of norms that minimise the negative externalities generated by the sector, depending on the environmental impact of the activities (Figure 1).

We may thus conclude that managerial behaviour responds to both economic and ethic–moral stimuli, although many other factors determine specific behaviours: ownership–management structure, management ideology, socio-cultural context, industry-sector and legal system, amongst others. In addition, in the second section of our work we indicated that, as observed by Spence (1999) and Lahdesmaki (2005), the size of a company is not likely to determine ethical behaviour, although the behaviour of large companies was different from the behaviour of smaller ones. This idea is confirmed in our case: ownership–management structure rather than size determines a company's behaviour.

Finally, we must point out that, for both cases, regardless of the reasons that determine a company's environmental behaviour, the negative externalities generated by their production processes are lessened, which is beneficial, or at least not detrimental, for society.

Conclusions and implications

Environmental respect has become a need rather than just an idea. A growing number of voices are warning about environmental deterioration and its negative consequences, but we have verified that market forces are insufficient to regulate the impact of companies. For this reason, it is necessary to articulate a set of norms that consider the peculiarities of each

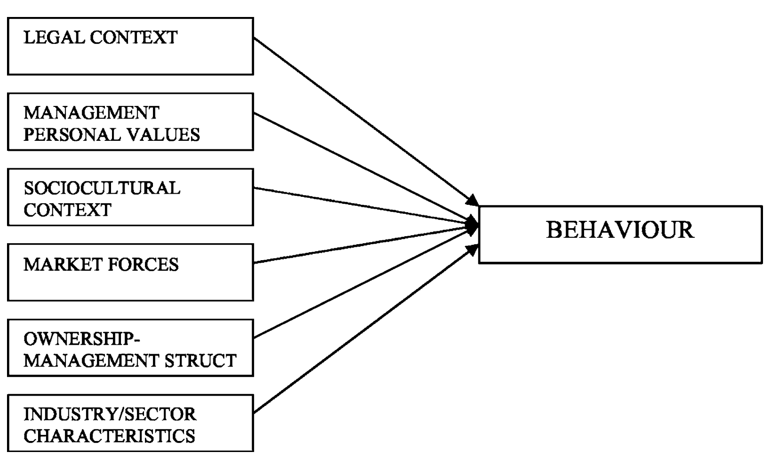

Figure 1. Determining factors of ethical managerial behaviour in SMEs.

industry and force companies to minimise the environmental impact of their activities.

Nevertheless, despite the existence of a set of minimum criteria based on legislation, some companies decide to increase the environmental contents of their activity because: (1) they will be able to develop some competitive advantage that will be positively appreciated by the market (Dentchev, 2004; Mahoney and Thorne, 2005); and (2) some managers want to implement a business philosophy compatible with their values and beliefs (Agle and Caldwell, 1999; Hemingway and Maclagan, 2004). These ideas could contribute to the debate started by Benson et al. (2006) related to social responsibility and managerś decisions and investments.

Moreover, although some companies occasionally take socially responsible actions in a purely altruistic way (Hemingway and Maclagan, 2004), most intend to obtain an economic profit from the management system or the effort to implement it, so that profit and social responsibility may be combined (Abratt and Sacks, 1988; Cummings, 2000). In such cases a communication system with the market will be vital for the company.

Therefore, companies in general, and some SMEs with scarce resources in particular, need to obtain an economic profit from their environmental effort. Thus, we should remember the title of this work, is environmental respect a decision made for ethical reasons or simply for economic interest and legal imperatives? There seems to be no categorical answer to this question, and some factors combine: complying with the reference legislation, adapting the management to the owners and /or managers' value system, and trying to obtain an economic profit with the effort. We thus have met the first objective of our work: identifying the reasons that lead a company in general and an SME in particular, to opt for an environmentally respectful management.

As regards our second objective, assessing the repercussions of each type of decision, the study of both cases has revealed that: (1) as the compliance level of each production process increases, production and management costs rise; (2) regardless of the reason, when the management system is respectful with the environment, negative externalities decrease and society as a whole benefits; and (3) although the repercussion of a single SME may not be significant, the sum of efforts makes the final result perceptible.

And finally, regarding the third objective, bridging the gap in the literature regarding the SME context, we consider that our two cases illustrate relatively characteristic and representative sectors and management philosophies, which makes both companies worth studying. Thus, the contribution of our work may be of interest.

As for the main implications derived form the present study, we highlight the following:

1. The need to articulate a set of norms for each sector/industry considering its peculiarities and environmental impact in order to minimise negative externalities and exploit the positive ones.
2. Identifying the value system of owners and/or managers in order to rectify potential deviations from environmental respect and ethical behaviour. In this sense, the investment of public institutions in specific training may prove essential.
3. Identifying the available resources in the SME context, mainly economic and formative, in order to enable managers to implement environmental production and management systems. Establishing a system of help and financial support, as well as adequate orientation, would be of great interest and beneficial for these companies and society.

Nevertheless, as we have analysed two specific cases, some caution is necessary when establishing generalisations from our conclusions. Although the companies under study present a different ownership–management structure and belong to different sectors, both are representative of the Spanish SME context. The study of different industries, countries and socio-cultural contexts may lead to other conclusions. Furthermore, although we have concluded that the size of the company is not so influential for both behaviour and ownership–management structure, literature on SMEs shows that both big companies and SMEs differ in their behaviour; thus, it would be advisable to analyse companies of different sizes to find management similarities and differences. Extending the study to a larger number of companies is still a challenge and represents a remarkable line of future research, which might help generalise our conclusions.

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Jesús Cambra-Fierro
Business & Marketing,
University ''Pablo de Olavide'',
Ctra. Utrera, km. 1, Sevilla 41.013, Spain
E-mail: jjcamfie@upo.es

Susan Hart
Department of Marketing,
University of Strathclyde,
173 Cathedral Street, Glasgow G4 ORQ, UK

Yolanda Polo-Redondo
Department Economia y D. de Empresas,
University of Zaragoza,
C/ Gran Via 2, Zaragoza 50.005, Spain