

The influence of national culture on business organisations' commitment to environment sustainability in European Union

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Abstract. *Current paper provides information on the way national culture with its specific characteristics influences business organizations across European Union countries in their decisions to implement Corporate Social Responsibility (CSR) practices, environmental sustainability initiatives and their eco-innovation performance. We reviewed an array of economy literature approaching the concepts of sustainable development, CSR, environmental performance, eco-innovation in relation Geert Hofstede's theory on culture and the six cultural dimensions. The paper offers an overview of the CSR practices and preferences around the world, with a focus on Corporate Environmental Responsibility, followed by a presentation of decision models of European SMEs in adopting circular economy practices correlated with the eco-innovation performance of EU countries. While there is a certain link between the environmental performance of firms and the cultural background and economic development of their host country, we must address the specific social, political, economic, historic context of the country society in order to find the personalized solutions for the improvement of circular economy practices among its organisations.*

Keywords: sustainable development, circular economy, multiculturalism, environmental performance, Corporate Social Responsibility, enterprises

JEL Codes: Q01, M14

1. Introduction

The sustainable development concept was first presented by the World Commission on Environment and Development, (also known as Brundtland Commission) in its 1987 report. Described as "development which meets the needs of current generations without compromising the ability of future generations to meet their own needs" (Report of the World Commission on Environment and Development: Our Common Future) , the concept proved to be one of the most successful paradigms that shaped international and national public policies, as well as the international community's attitude towards its main concerns: economic, social and environmental development. "The concept supports strong economic and social development, in particular for people with a low standard of living. At the same time it underlines the importance of protecting the natural resource base and the environment. Economic and social well-being cannot be improved with measures that destroy the environment. Intergenerational solidarity is also crucial: all development has to take into account its impact on the opportunities for future generations." (UNECE 2004-2005) □

In the context of a population growth at the disadvantage of the stability of global ecosystems, scholars militate for a redefining of sustainable development as “development that meets the needs of the present while safeguarding Earth’s life-support system, on which the welfare of current and future generations depends” (Griggs et al., 2013; Lahuerta-Otero, Gonzalez-Bravo, 2017, Lakatos et al., 2015)

At the United Nations Conference on Sustainable Development – or Rio+20 held in Brazil in 2012, UN members established a framework of 17 Sustainable Development Goals (SDGs) and guidelines for their implementation. At least 7 out of the 17 goals are linked to environmental issues (UN, Rio 2012)

The UN Sustainable Development Summit held in September 2015, at United Nations’ headquarters in New York integrated sustainable development goals and targets in the new Transforming Our World - 2030 Agenda for Sustainable Development to stimulate action “in areas of critical importance for humanity and the planet”: People, Planet, Prosperity, Peace, Partnership (Transforming our world: the UN 2030 Agenda for Sustainable Development UN, 2015)

Several authors indicate that the implementation of the sustainable goals for environmental performance varies from one country to another, according to each country’s own cultural specificity and socio-economic, political and administrative contexts from which derive the priorities given to each objective. (Lahuerta-Otero, Gonzalez-Bravo, 2017; Onel & Mukherjee, 2014; Baugh et al, 2007; Husted, 2005). The adoption of policies related to sustainable development paradigm depends on the commitment of all stakeholders of a country: government, organizations, private entities, citizens) towards a common set of principles, directives, guidelines (UN 2015; Lahuerta-Otero, Gonzalez-Bravo, 2017).

In order to characterize a country’s culture, literature widely uses Geert Hofstede’s theory of cultural dimensions (1983; Hofstede, 2001; Hofstede and Hofstede, 2005; Hofstede et al. (2010): power distance, individualism versus collectivism, uncertainty avoidance, masculinity versus femininity, long-term versus short-term orientation and indulgence/restraint. Other scholars showed a preference for the Globe Study instead of Hofstede’s theory. The GLOBE (Global Leadership and Organizational Behaviour Effectiveness) is an organization dedicated to the international study of the relationships among societal culture, leadership and organizational practices (globeproject.com; Lahuerta-Otero, Gonzalez-Bravo, 2017)

This paper focuses on the way national culture influences the commitment of corporate environment to introduce and apply strategies favouring environmental sustainability. Therefore, it is necessary to approach the field of CSR from a comparative perspective across countries.

Corporate Social Responsibility is defined by Business for Social Responsibility as ‘a company’s responsibility beyond return to shareholders to include an acknowledgement of its responsibilities to a broad range of stakeholders throughout society including employees, customers, business partners, communities and the environment’ (cited by Baughn et al, 2007) International Institute for Sustainable Development state that “ CSR should be seen as the way that firms—working with those most affected by their decisions (often called “stakeholders”)—can develop innovative and economically viable products, processes and services within core business processes, resulting in improved environmental protection and social conditions.” (International Institute for Sustainable Development, 2007). Similar definitions were given by various authors (Cheung et al, 2009; Dahlsrud, 2008; Ayuso et al, 2017). Cheung et al (2009) summarizes CSR as “the management of potential conflicts of interest between different stakeholders with respect to economic, environmental, social and ethical issues. For the firm, CSR is about its relationship with relevant stakeholders. More specifically, firms need to balance the priorities of their various stakeholders in all the aspects of performance”.

CSR has two distinctive dimensions emphasized in the literature: social and environmental responsibility (Baughn et al., 2007). The latter is also used separately when referred to practice of Corporate Environmental Sustainability Reporting (CESR) (Alvarez; Ortas, 2017; Jamali, 2016, Lakatos et al., 2017).

2. Methodology

The current paper, entitled “The influence of national culture on business organizations’ commitment to environment sustainability in European Union” aimed at identifying the behavior of firms with regard to circular economy activities depending on the cultural context of their country. In order to approach this topic, we analyze relevant content related the concepts of sustainable development, CSR forms environmental performance across the world, as well as relevant research on EU SME’s attitude towards undertaking circular economy practices in correlation with EU countries performance on eco-innovation. In order to characterize cultures, we use the common Hofstede’s theory of cultural dimensions derived from his extensive organizational anthropology research spanning over four decades. Hofstede and scholars in general draw a distinction between the two meanings of the term culture. On one hand, the objective or primary culture is related to all intellectual and artistic knowledge and productions which are usually delivered and developed in institutions. On the other hand, the secondary or subjective culture defines the way a collectivity feels and acts; it encompasses lifestyle, education forms, social rituals, systems of value, moral, ideology, as well as the culture in the current/primary meaning (Hofstede, 1996). Social anthropologists like Hofstede as well as other scholars in social and economic sciences relate to this secondary aspect of culture in their research on cultural differences between societies.

The six dimensions were defined (Hofstede, 2012) as follows: **1) Power distance** – the degree to which less powerful members in a society, active in social systems such as family, institutions, organizations, feel and accept an unequal distribution of power. **2) Individualism versus collectivism**. Individualism describes societies in which members have loose ties that often relates them only to their immediate family and everybody is expected to look after himself or herself. Opposed to it, collectivism pertains to societies in which throughout their entire life members are tightly integrated in strong, close-knit in-groups that offer them protection and support in exchange for undoubted loyalty; **3) Masculinity/femininity**. The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material rewards for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life; **4) Uncertainty avoidance** – the degree to which members of a society accept or avert unknown, unexpected, ambiguous or away from the status quo situations. Countries exhibiting strong uncertainty avoidance indices maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. Societies with weak uncertainty avoidance indices maintain a more relaxed attitude in which practice counts more than principles; **5) Long term/Short term orientation**. Long-term oriented cultures value immediate outcomes and rewards, personal dignity, thrift, perseverance. By contrast, the others emphasize respect for tradition and social order, protecting one’s face; **6) Indulge/Restraint** dimension was added in 2010 based on Minkov’s World Values Survey data analysis for 93 countries. An indulgent society is more likely to allow relatively free satisfaction of basic and natural human needs and desires related to enjoying life and having fun. On the other hand, a restraint society tends to regulate the expression of emotions with strict norms.

Therefore, this paper aims to find to what extent the six cultural dimensions influence the commitment of European business organizations to environmental protection depending on the national context of the

country they are located in correlation with the eco-innovation performance at the national level of the EU countries.

3. The relationship between cultural factors and Corporate Environmental Responsibility practices implementation

Hofstede (1996, 2012) defined culture as “collective programming of the mind which distinguishes the members of one group (or category of people) from another”. By analogy with the computer software, he uses the term “mental programs” or “software of the mind” for a group’s ways of thinking, feeling and acting. Therefore, it implies that stakeholders’ preferences and behaviour are influenced by the cultural characteristics of their country. Consequently, companies need to personalize all their actions from top management policies to most instrumental operations and procedures according to each market’s pressure and demands (Alvarez; Ortas; 2017)

Power Distance

In high power distance societies the dialogue between the management team and employees is not encouraged; as a consequence, system with high level of power distance record low pressure from stakeholders on businesses with regard to issues related to their social and environmental sustainability (Lahuerta-Otero, Gonzalez-Bravo, 2017; Alvarez; Ortas; 2017; Cox et al, 2011; Park et al, 2007; Husted, 2005). On the contrary, low power distance societies encourage its members to involve in the decision making-process, therefore individuals will be willing to initiate discussions and debates on social issues, including the environmental ones (Lahuerta-Otero, Gonzalez-Bravo, 2017);

Individualism/Collectivism

Several authors concluded that collectivistic cultures are more prone to obtain environmental performance as they are more committed to the society’s long-term well-being, while company members in individualistic societies tend to be less ethical (Alvarez; Ortas; 2017; Park et al., 2007;). Other authors believe that individualistic societies are more likely to protect the environment as they encourage personal initiatives which can lead to awareness movements and pressure groups with potential to shape public policies (Cox et al., 2011; Onel & Mukherjee, 2014; Lahuerta-Otero, Gonzalez-Bravo, 2017; Husted, 2005).

Masculinity/Femininity

Researchers commonly report that societies with a higher level of masculinity record a lower level of environmental performance, as they focus on the achievements of objectives, individual interest, growth and profit and ignore future risks, including the environmental effects (Alvarez; Ortas; 2017; Lahuerta-Otero, Gonzalez-Bravo, 2017; Park et al., 2007; Cox et al., 2011; Husted, 2005; Hofstede, 2012).

Uncertainty Avoidance

Several authors have confirmed that societies with high scores of risk avoidance have a long-term outlook and take measures to reduce uncertainty and environmental threats. (Lahuerta-Otero, Gonzalez-Bravo, 2017; Alvarez; Ortas; 2017; Onel and Mukherjee 2014; Park et al., 2007)

Long term/Short term Orientation

Short-term oriented societies consider environmental actions an unnecessary cost reducing the present benefits. On the contrary, long-term oriented cultures take into consideration the future benefits brought by present sustainable actions for general social wellbeing on which depend the future of organizations themselves (Lahuerta-Otero, 2017; Gonzalez-Bravo, 2017)

Indulgence/Restraint

Authors like Alvarez and Ortas (2017) consider that “restraint cultures would have companies with more incentives to engage in CESR.”

4. The relationship between economic development and environmental sustainability practices/performance

Researches have confirmed the relationship between the economic development of a country and its level of corporate social and environmental responsibility (Lahuerta-Otero, Gonzalez-Bravo, 2017; Baughn et. el., 2007) Wealthier societies have greater access to consumption and production which generate environmental damage. This situation will create awareness among society members that will boost the implementation of environmental friendly measures by individuals and organizations by providing incentives for a more responsible behavior and taking attitude against irresponsible behavior. Nevertheless, the more economically developed societies have greater access to information regarding future environmental risks as well as more financial and technological resources to be invested in environmental sustainable practices (Lahuerta-Otero, Gonzalez-Bravo, 2017; Zamfir et al., 2017; Baughn et al, 2007)

Baughn et al.(2007) research also linked a country’s corporate social and environmental responsibility with economic freedom (that is little governmental intervention), and absence of governmental corruption.

Another important factor which stimulates corporate social and environmental responsible practices is the engagement of firms in internationalization. Several academic papers, cited by Ayuso et al. (2017) confirm that internationalized firms operate in foreign markets with specific and diverse social, cultural and environmental challenges; as a consequence, they will leverage the knowledge acquired in those places (Bansal, 2005 retrieved from Ayuso et al., 2017). They will also “gain experience in communicating, negotiating, and building relationships with stakeholders, and will be able to develop greater sensitivity about how to adapt their CSR strategies to the local context” (Strike et al., 2006, cited by Ayuso et al., 2017). Nevertheless, firms with international experience can recognize the value of achieving high environmental and social standards in order to facilitate their license to operate in particular countries (Bansal & Roth, 2000).

5. The relationship between cultural factors, economic development and Corporate Environmental Responsibility (CER). CSR and CER forms across countries

In terms of CSR, related to both social and environmental actions, the practices, including here the reporting and the preference for one field or another varies across countries around the world. Jamali and

Karam (2016) provide a broad perspective on the nuanced forms of CSR in the developing countries in comparison with the one from the developed countries “grounded in largely coherent systems of governance”.

There are more frameworks used to compare CSR forms. The first framework, which takes into consideration the National Business System (NBS) of each country makes a distinction between explicit CSR and CER encountered in economies such as the USA and more implicit forms of CSR to be found across Europe (Jamali &Karam, 2016). Therefore, CSR practiced in US is less regulated by state and stimulates business to take voluntary social roles; on the other hand, European societies consider similar social obligations to be an attribute of the government. As a consequence, while explicit CSR derived from Anglo-American societies “encompasses the collection of formalized approaches, processes and frameworks of the CSR industry, implicit CSR includes perceived mandatory and/or taken for granted social obligations resulting in requirements for corporations to address relevant issues in their particular environments, often stemming from cultural norms about citizenship or stewardship, which may be salient in developing countries” (Matten and Moon, 2008 cited by Jamali and Karam, 2016).

A different framework, proposed by Kang and Moon (2012) compare CSR forms in three different types of capitalist societies. According to them, in liberal market economies such as USA and UK, CSR and CER are more competitive and instrumental (Jamali and Karam, 2016) given the fact that then national governmental systems offer incentives to companies’ shareholders in order to create value. In coordinated market economies like Germany and Japan, CSR is more cohesive given the preoccupation of the national system of government for broader value created by stakeholders and the common efforts of building solidarity between workers, unions and shareholders. In state-led economies (e.g. France, South Korea) prevails more developmental forms of CSR, given then national governance system focus on creating public value through the strong influence of the state (Jamali and Karam, 2016).

Both frameworks are difficult to apply when describing CSR form in developing countries that may have less coherent system of governance and regulations, “dysfunctional markets, contracted governments and weakened labor institutions” (Jamali and Karam, 2016). Still, scholars notes that in Asian culture firms “rely more on cultural mechanisms such as philosophy and guiding principles” rather than formal codes of action and documents. (Tanimoto and Suzuki, 2005; Weaver, 2001). Moreover, the inherent modesty in Asian cultures may determine companies in this region not to make public the success in CSR, CER and other activities (Welford, 2005) and therefore some of these activities may not be easily distinguished by outside observers.

CER and CSR are practiced differently around the world. US firms for instance have a preference for social CSR through philanthropic programs and volunteerism. In European countries like France and the Kingdom of Netherlands, companies are more committed to environment management. (Baughn et al., 2007). Firms in Asian societies like Japan, Taiwan and Singapore, for example, demonstrate equal or higher levels of social and environmental CSR compared to other developed countries while Pakistan and Bangladesh score levels of CSR that are lower than Eastern and Central Europe average levels, as well as Latin America and Africa. (Baughn et al., 2007)

Baughn’s (2007) study brings evidence for the positive relationships between CSR, CER and economic development, economic, freedom, non-corrupt government, political freedom.

6. Corporate environmental performance in European Union

Several authors reported that economic prosperity influence the link between cultural characteristics and sustainable environmental performance of a country. According to Lahuerta-Otero, Gonzalez-Bravo (2017) the best environmental protection performance is obtained by the more individualistic, less uncertain, and

less masculine societies. In their study on European Union countries, individualistic societies correspond to more developed societies such as United Kingdom, Switzerland, Luxembourg. Feminine countries with Finland, Norway, Iceland and Sweden, in top five tend to be more short-term oriented by focusing on their present quality of life and accept established roles. The authors concluded that “despite common objectives and strategic European lines, country-specific environmental policies differ and are affected by their levels of economic development and their innovative initiatives, as well as by cultural factors.”

Welford’s (2004, 2005) and Baughn’s (2007) studies found that Northern and Western Europe display a higher level of CSR activity than Southern and Eastern Europe. The latter concluded that, regarding Eastern and Central European countries, the high level of government corruption have a strong influence on both social and environmental CSR. In these countries the state has a strong role, thus citizens may have lower expectations from private organizations to take social larger social initiatives.

Zamfir et al. (2017), in their recent paper on European SMEs and their decision model of undertaking environmental sustainable actions reinforces the influence of the national-cultural context on the decisions of companies to commit to a more sustainable-oriented behavior. In European Union, despite the common Europe 2020 Strategy (European Commission, 2010), “economic development, national programs, funding mechanisms, the institutional framework, and incentives are still very heterogeneous across countries” (Zamfir et al., 2017)

They found that three quarters of SMEs have adopted circular economy measure in the last three years. “Most of them targeted waste reduction by recycling, reusing, or selling it to other companies (55%), and the reduction of energy consumption by re-planning its usage (38%). 34% of the SMEs have redesigned their products and services in order to reduce the use of materials or to use recycled materials, while 19% have aimed to minimize the usage of water by re-planning how water is used. 16% of the companies have adopted practices related to the use of renewable energy” (Zamfir et al., 2017).

Countries like Bulgaria, Hungary, Poland, Romania and Slovakia have the least stimulating framework which leads to the weakest participation of their SMEs in terms of circular economy-related initiatives – 60%, regardless of the sector of activity, size, or turnover of the company (Zamfir et al., 2017). Lakatos et al. (2016) in their survey on the Romanian consumers support for the circular economy concept concluded that consumers are aware of the importance of undertaking circular economy business models, but it requires a national strategy including incentives and benefits to encourage them to develop new consumption patterns favorable to both economy and environment.

However, Zamfir et. Al.’s (2017) study indicates that even in the case of the European countries that provide more favorable conditions for stimulating SMEs to undertake sustainable environmental practices, they attitude differs remarkably across sectors and with regard to the company’s turnover. There are sections of SMEs where the participation in circular economy-related practices is weak as well as other sections in which the vast majority or even all the companies engage in circular economy actions.

In Belgium, Spain and the UK for instance, 88% of companies active in manufacturing and retail initiated circular economy actions in the last three years. For the SMEs from the other sectors, where the turnover determines their involvement in circular economy practices, 98% percent of companies that registered a total turnover of 10 million euros undertook environmental sustainability practices. (Zamfir et al., 2017)

For another group of SMEs – from Greece, France, the Netherlands, Sweden and Czech Republic- the total turnover is the main criterion that companies consider when they decide in regard to circular economy initiatives. (Zamfir et al., 2017)

In the case of SMEs from Greece, France, The Netherlands, Sweden, and Czech Republic, the company's total turnover is the next most important predictor for its decision in relation to the circular economy. Only 61% of companies with a turnover below 25,000 euros have adopted circular economy activities, as compared to 92% of companies with a turnover above 10 million euros. Companies registering a total turnover between 25,000 and 250,000 euro, their relation with environmental performance activities is predicted by their country. 73 % of firms from Greece, The Netherlands and the Czech Republic and 83% from France initiated circular-economy practices, while in Sweden only 62% percent of firms engaged in similar practices. For companies in the same countries with a turnover of between 250,000 and 500,000 euros, the sector of activity is the decisive factor for commitment to sustainable environmental practices. Those from manufacturing and retails show more interest for circular activities than the others (Zamfir et al., 2017).

Regarding the group of SMESs located in Austria, Portugal and Germany, companies with a total turnover lower than 25,000 euros are the least prone to environmental sustainability practices; by contrast, all those from manufacturing and industry sectors registering a total turnover of more than 500,000 euros have got involved in circular economy practices. In what concerns the "middle" firms, with a total turnover of between 25,000 and 2 million euros, their decision to undertake circular economy practices is determined by their sector of activities, with those in manufacturing, industry and retail sectors displaying higher levels of propensity for this field. (Zamfir et al., 2017)

Within Italian firms, there is a variety of attitudes towards circular economy activities depending on the sector of activity. SMEs in the manufacturing sector are the most engaged in circular economy practices, while 75% of Italian firms in retail with a turnover of between 50,000 and 250,000 did the same. The involvement of SMEs from services and industry in circular economy actions is linked to their total turnover. As a rule companies with lower levels of turnover display less commitment to environmental sustainability practices than the wealthier ones. (Zamfir et al., 2017)

CSR and decisions of European firms in adopting sustainable environmental practices can be correlated with the Eco-Innovation performance of the European Countries. Davidescu et al. (2015) evaluates Romanian performance in terms of Eco-Innovation by comparison with the other European Union countries during the period 2003-2013 by using the methodology of constructing composite indices proposed by Organization for Economic Co-operation and Development (OECD) in 2008.

Their study revealed the values of the Eco-Innovation Index for each European country and reached the following conclusion: there are three types of EU countries: 1. The leading countries with the highest average values in the field of eco-innovation: Germany, Denmark, Sweden, Netherland and France; 2. Countries with improved performance over the studied period: Czech Republic, Estonia, Spain, Italy, Luxembourg, Portugal and Greece; 3. Countries with lowest performance: Bulgaria, Hungary, Lithuania, Latvia, Romania and Slovakia .”(Davidescu et al. 2015)

The results of Davidescu et al.'s study (2015) confirm to a certain extent the correlation between the environmental performance of business organizations and the cultural characteristics and economic development of the country in which they operate, in two aspects: 1)The role of governmental support and incentives for the development of circular, sustainable economy initiatives. Governments in the first two types of countries in terms of eco-innovation performance strongly promote environmental sustainable initiatives through public and EU funding, solid national environmental policy strategies and laws. 2) The correspondence between the environmental and eco-innovation performance of the countries and Hofstede's six cultural dimensions. Most authors consider that the more economically and environmentally performant societies are more individualistic, less uncertain, less masculine and low power distance. The leading

countries in terms of eco-innovation performance from Davidescu et al.'s study are all individualistic societies. Four of them (Sweden, Finland, Denmark, France) (HofstedeInsights.com) are feminine societies. In terms of uncertainty avoidance, three countries (Finland, Germany, France) display high-levels of aversion to risks. Also, all countries, except France, are low-power distance countries. Regarding the countries with the lowest score on environmental and eco-innovation performance: Romania, Bulgaria Slovakia, Hungary, Poland, Lithuania, Latvia, majority of them – four out of seven – show increased level of high power distance and all seven are prone to uncertainty avoidance. Four of them are feminine, while the rest of the three are masculine. Five countries are individualistic, while two (Romania and Bulgaria) are collectivistic (HofstedeInsights.com). Consequently, the correlation between Hofstede's cultural dimensions and the economic and environmental performance of the countries is applicable to a certain extent. On the other hand, Davidescu et al.'s (2015) study reinforces the relationship between economic development and sustainable environmental responsibility of a country. Both economic and environmental performance should be assessed in relation to their common each country's specific cultural, economic, political and historical backgrounds in order to identify appropriate strategies for development

7. Conclusions

The research confirms to a great extent the relationship between environmental performance of companies and the economic development of the country in which they operate as well as cultural background of the country. Still, some economically developed countries may perform better in social CSR than environmental CSR, depending on their priorities and culture-specific. At EU level, the most environmentally performant countries matches the scholars' statement: economically developed culture are generally the most concerned about environment issues and usually associated with higher levels of individualism, femininity, uncertainty avoidance, low power distance. This statement is partly applicable to the less performant countries in Europe in terms of environment and economy. Further research regarding each country's cultural characteristics in relation to circular economy actions is recommended in order to facilitate the identification of more personalized strategies needed by organizations in their specific country.

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