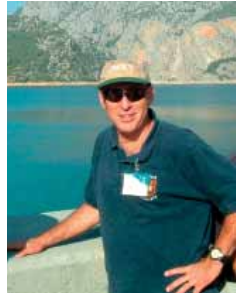




## Import purchasers favour ISO 14001-certified suppliers

*A survey of American, British, Dutch, German, Japanese and Spanish importers of Israeli products indicates that the decision to purchase can be positively influenced by the existence of a supplier's ISO 14001-certified environmental management system.*



by **Florencia Bellesi** and **Alon Tal**

Conventional wisdom holds that being “good to the environment” is “good for business”, and there is ample evidence to show that an environmental management system (EMS) such as ISO 14001 can improve an organization's environmental performance. Yet many industries appear lukewarm to EMS implementation, suggesting that we need to do a better job of demonstrating the benefits.

Unlike ISO 9000, ISO 14001 has generated moderate enthusiasm in the industrial sector to date. Israel is a good example. By mid-2004, only 180 Israeli companies had acquired ISO 14001 certification, a fraction of the 6 000-plus ISO 9000 certifications<sup>1</sup>. Although Israel relies on foreign trade and exports

1) Standards Institution of Israel (SII) *Certified Companies, ISO 9000 and ISO 14001 (2004)* – [www.sii.org.il](http://www.sii.org.il)



are perceived as an engine for economic growth, many Israeli corporations seem unconvinced that EMS implementation will help improve the bottom line. Similar scepticism exists in the USA and in many developing countries<sup>2</sup>.

### ISO 14001 survey

During 2003 and 2004, we undertook a survey<sup>3,4</sup> of Germany, Japan, The Netherlands, Spain, United Kingdom and the United States to find out

2) Mohammed, S.T. *The Impact of ISO 14000 on Developing World Businesses*. *Renewable Energy*, 2001, 23 (2-3), pp. 579-584.

3) A more detailed report of the survey results was first published in the April 2005 issue of *Environmental Science and Technology Journal*, Vol. 39, No. 7, pp. 1943-1953, see “Comparative Advantage: The Impact of ISO 14001 Environmental Certification on Exports”, by Florencia Bellesi, David Lehrer and Alon Tal.

(Note 4) overleaf

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whether there was a basis to claims that ISO 14001 certification improved the marketability of Israeli products for export, and why organizations hesitate to implement ISO 14001.

**Investment in environmental protection may be economically beneficial**

The findings suggested that for many exporting firms, investment in environmental protection may be economically beneficial. The countries surveyed were selected as the leading importers of Israeli products. Yet, their geographical and economic diversity suggest that the results are relevant for exporters elsewhere. This article summarizes the principal findings.

**Survey outline**

The survey was conducted by the Center for Environmental Policy at the Arava Institute for Environmental Studies,

4) **Acknowledgements:** the survey was funded by the Israel Ministry of Environment, and would not have been completed without the collaboration of the British, Dutch, German and Japanese trade representatives and embassies in Israel, as well as the Israel Export Institute. We would like to thank Rotem Amir, Dr. Oren Kaplan, Dr. Ted Sasson, Dr. Moshe Schwartz, Dorit Kerret and Abby Lutman for their assistance during the implementation of the study as well as the staff of the Arava Institute Policy Center who assisted in conducting the survey.

ies, Israel. The Arava Institute ([www.arava.org](http://www.arava.org)) is an academic and research center focusing on regional environmental challenges in the Middle East.

The industrial sectors selected for sampling were based on their local importance and their potential for negative environmental impacts – chem-

icals, plastics and rubber, fruits and flowers, and textiles and leather.

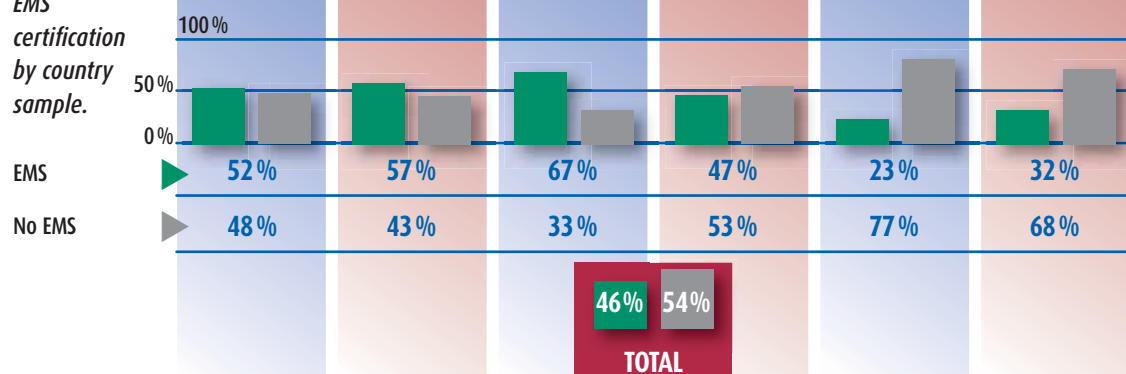
A questionnaire was designed to investigate procurement preferences and to validate the central research hypothesis: *that ISO 14001 certification produces a substantial competitive advantage for exporting firms.*

It was sent to 400 firms, of which 124 (31 %) responded. Participating firms were mainly manufacturers. The majority had under 100 employees (45 %), and 34 % had between 100-1000 employees. Some 16 firms could be categorized as “large”, with over 5000 employees.

**Figure 1: Survey sample by industry sector.**



**Figure 2: EMS certification by country sample.**



Options provided	Average score	Percentage ranking	Median	Standard deviation
Price comparison	1,62	86,2 %	1	0,73
Quality management system certification	1,74	83,1 %	2	0,70
Environmental management system certification	2,43	41,5 %	3	0,77
Just in time delivery	2,59	37,7 %	3	0,64
Loyalty to traditional suppliers	2,21	30,0 %	2	0,80
Local product preference	2,50	15,4 %	3	0,76

Table 1: Ranking of factors influencing importer's choice of supplier.

Chemicals was the sector best represented (36 % of all companies sampled), and accounted for 46 % of the United Kingdom respondents (see **Figure 1**). Fruits & Flowers and Plastics & Rubber represented 23 % and 22 % of the importing companies surveyed respectively, while only 5 % of the sample were from the Textiles and Leather sector. Other products, such as electrical machinery and paper, made up 14 % of the sampled countries, with the United States (27 %) as the primary importer of these products.

### Participating firms were mainly manufacturers

Nearly half of the respondents had a certified EMS in place (46 %) and 54 % did not (see **Figure 2**). Companies in Germany, The Netherlands and the United Kingdom had most EMS certifications, with lower rates in the USA and Japan. Spain, Japan and the United Kingdom demonstrated the fastest increase in EMS certification.

### Key survey findings

#### 1. Factors influencing importer's choice of supplier

Respondents were asked "Does a supplier's 'environmental performance' play a role in procurement decisions?" and then to rank selection criteria (see **Table 1**) – the higher the percentage of an item, the more important it was among importers.

The results indicated that the key factors influencing an importer when deciding on a supplier were:

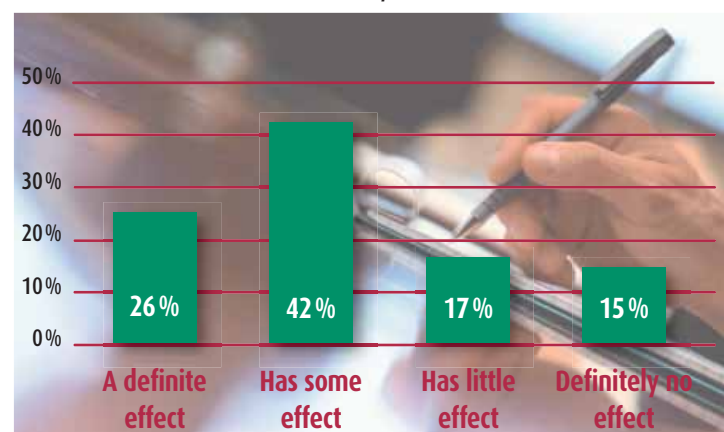
- 1) Which supplier offers the best price?
- 2) Is the supplier QMS-certified?
- 3) Is the supplier EMS-certified?

Although in international markets price and quality still played the greatest role in supplier choice, an EMS was also largely taken into consideration. Of those firms with EMS certification, 83 % rated this factor as second in importance from the list provided.

"Loyalty to traditional suppliers" was also frequently rated as the second priority, particularly by plastics and rubber industry respondents, although much less so than EMS certification. Statistically, the less loyal a producer was to a traditional supplier, the greater importance the purchaser attached to an EMS-certified supplier.

#### 2. The influence of EMS certification

Respondents were asked: "Does the fact that a potential supplier has a certified EMS affect your decision to buy its product?" **Figure 3** summarizes responses to four ratings.



The responses confirm that first-world industries do attribute significance to EMS certification among potential suppliers in their procurement decisions. Some 66 % of respondents reported that EMS had "some" or a "definite" affect on their procurement decisions. Only 17 % answered "little effect" and 15 % dismissed the role of an EMS altogether.

### First-world industries do attribute significance to EMS certification among potential suppliers

Significantly, *all* EMS-certified importing companies found ISO 14001 certification of a potential supplier to be an important factor influencing their decision to buy. Even among surveyed companies who themselves lacked EMS certification, 49 % reported that they were more likely to buy from an EMS certified supplier.

Figure 3: Effect of EMS certification on importers' procurement decisions.



Figure 4: Choice of Israeli product with EMS or local product without EMS.

3. Reasons for EMS influence

Respondents were asked, “Why does EMS certification affect or not affect your decision?”, with six possible answers ranked in order of importance (most important first) as follows:

- **1) Presumption of quality:** 42% of respondents saw a commitment to stewardship and high quality production implicit in EMS certification. It was also seen as an indication that all systems and procedures of the potential supplier company had been checked by an independent body, with presumptions of security and reliability.
- **2) EMS as a factor only when price is identical:** 21% of respondents explained that EMS became a factor only when price and quality were

comparable. Cheaper non-EMS goods would ultimately win over more expensive EMS-certified products, unless a client specifically required EMS certification as a condition of doing business.

- **3) Internal policy and pressure from customers:** 14% of respondents made decisions driven by internal policy – often a result of an importer’s own ISO 14001 implementation, which mandated a preference for purchasing from EMS-certified suppliers. Customer expectations were also cited as driving this policy.
- **4) EMS unimportant:** Only 7% held that EMS had no influence on their decision at all.

- **5) and 6)** Of the remaining 16%, 13% of respondents provided a variety of “other” explanations while 3% provided “no response”.

Thus, a significant 42% chose “presumption of quality” as the key reason, suggesting that it was not “environmental” values and gains *per se* that drove company policies, but rather a perception that EMS certification was an indicator of corporate commitment to quality and accountability. When company policy requires that suppliers fulfil ISO 14001 or EMAS standards, this is usually coupled with a conviction that the current market requires evidence of ISO 14001 certification.

Several respondents explained that if they had to purchase hazardous chemicals from a new supplier, then they would be far more likely to demand evidence of EMS certification.

4. Preference for Israeli products backed by EMS certification

Respondents were asked: “If you know two suppliers of products that are more or less identical including price – one an Israeli product with an EMS certification and the other a local product without EMS certification which would you buy?”

Some 50% of importers expressed a preference for an Israeli product with EMS certification to an identical local product without. This implied that the other half maintained local loyalties that were stronger than environmental preferences. Nevertheless, the question revealed an extremely strong commitment to EMS certification.

Figure 4 reveals some national variations and contrasting degrees of patriotism; note particularly Spain and USA in contrast to The Netherlands where 71% indicated local loyalties as secondary to EMS certification.

Further questioning revealed that respondents from EMS-certified companies and large corporations in particular exhibited a greater preference for Israeli EMS certified products over locally produced non-EMS goods.

When asked if Israeli companies had a better chance of export success if they were EMS-certified, 84 % responded in the affirmative (46 % “definitely”; 38 % “sometimes”), with only 16 % disagreeing.

### 5. Willingness to pay

Most respondents nominated price as the most important single factor in purchasing and believed that consumers should not bear the cost of environmental quality. Nonetheless, as **Figure 5** indicates, 79 % of respondents believed that consumers would be willing to pay up to 9 % more for products from EMS-certified manufacturers – however 50 % of these limited the possible increase to 0,5 – 1 %.

### 6. Comparative advantages of EMS-certified local exporters

In order to make the survey more universal and not specifically Israeli in context, respondents were asked if they thought an EMS offered advantages to local exporters. Here, there was powerful consensus: 42 % of respondents thought that EMS certification definitely contributed to international trading competitiveness, and 45 % that it sometimes contributed favourably. Only 13 % of the respondents believed it did not contribute to increased export sales.

Greatest benefit was perceived among those industries that are “potentially polluting” with more need to demonstrate environmental responsibility, e.g. the chemicals and plastics

and rubber industries (see **Table 2** *overleaf*).

Asked to explain their reasons, most respondents cited international trends and the growing number of companies – particularly in Europe – with internal policies requiring EMS certification. The combined advantages of a “clean image” and “product reliability” again appear to dominate thinking.

Again, the survey revealed substantial differences between countries. Of US companies, 30 % thought that their clients were largely unconcerned with environmental matters and that environmental consciousness was still minor. Compliance with US Environmental Protection Agency regulations appears to drive American firms more than consumer pressure.

Many respondents explained that with government regulation being so extensive in the US, there was less likelihood of voluntary initiatives by industry. Moreover, some explained that as long as an

EMS fell short of being a regulatory requirement, ISO 14001 popularity in the US would fall short of that in Europe.

Conversely, 39 % of German companies believed that their clients cared about environmental matters and desired products backed by ISO 14001 certification. German importers who participated in the survey attributed momentum towards EMS certification (ISO 14001 or EMAS) to European Union policies. Some 20 % of Dutch companies held the same view.

The majority of respondents from EMS-certified companies believed that an EMS certification would help exporters from their country. However, 55 % of companies without EMS certification stated that an EMS certification would contribute towards success in the international market “only sometimes”. Nevertheless, 88 % of all respondents were in the range of “definitely yes” and “sometimes yes”.

### Conclusions

The study findings support the view that ISO 14001 or other EMS certifications matter and are prudent business practices. Not surprisingly, price and product quality remains predominant in influencing importers decisions. Yet environmental management systems have emerged as an additional factor that can sway business decisions.

**The central hypothesis: ISO 14001 certification produces a substantial competitive advantage for exporting firms**

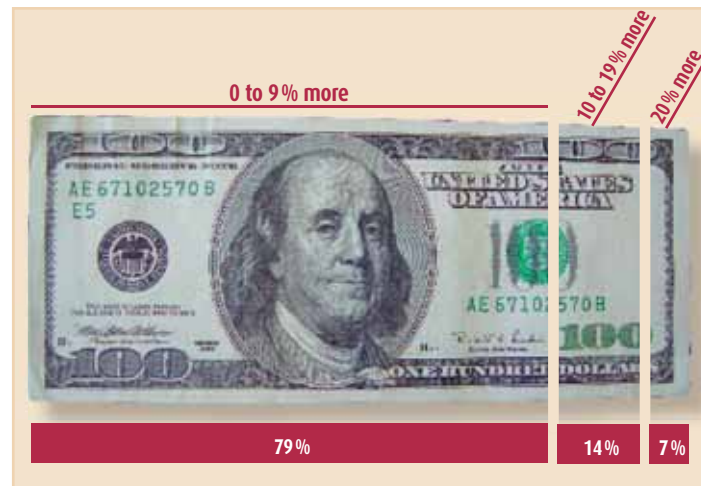
EMS certification has become an indicator of a supplier managing its business well and demonstrating ethical responsibility, probably more than reflecting environmental commitment. ISO 14001 or EMAS certification by an independent entity was seen by many to signify “reliability” and thus could save extensive qualification of the exporter/supplier.

### Europe

Europe has emerged as the world leader in EMS implementation and certification and this is reflected in European company attitudes. Both national and European Union commitment to voluntary initiatives appear to have created a momentum for EMS certification among suppliers.

Moreover, European customers seem to be perceived by industry as more environmen-

### WILLINGNESS TO PAY



**Figure 5:** Price increase consumers are willing to pay for a product from an EMS-certified manufacturer.

tally conscious than consumers in other industrialized regions. However, many respondents did not believe that their customers would be willing to pay more than 0,5 to 1 % extra for products manufactured via environmentally friendly production processes.

The European environmental ethic has changed the business culture. When coupled with growing regulatory expectations, EMS certification appears to be an important step for companies wishing to export to Europe, especially to Germany, The Netherlands and the United Kingdom.

*USA and Japan*

However, US respondents expressed greater skepticism about the advantages of an EMS. This was reflected in the comparatively low rate of ISO 14001 certifications in the US, and probably in the aggressive North American environmental regulatory culture. US firms seemingly have less time or inclination to pursue voluntary initiatives such as ISO 14001. Many respondents felt that until US law required ISO 14001, certification would not be necessary for overseas suppliers.

Japanese respondents held ISO and ISO 14001 certification in high regard. Yet, given the business pressures created by the recent recession, price had become an even more decisive factor in supplier selection. This situation was perceived by many respondents as temporary, with environmental considerations expected to make a comeback.

While the survey results might not provide a compelling basis for EMS certification of an exporting firm primarily targeting US and Japanese markets, respondents in these countries largely acknowledged that the situation was changing. The growing number of multinational corporations stipulating more stringent environmental policies, including ISO 14001 certification, could soon influence US and Japanese importers.

*Survey team's summing up*

Based on the survey results, our research team reached the following conclusions:

- The greater importance an importer gives to EMS certification, the less importance the purchaser tends to assign to the price of the product offered.

**Only 7 % held that EMS certification had no influence on their decision at all**

- An importer that knows and trusts a supplier will tend to continue purchasing from that company even when a cheaper alternative exists.
- The more an importer believes that local consumers are environmentally conscious, the greater the likelihood that the company will choose EMS certified suppliers.
- The larger the enterprise surveyed, the greater the significance its representatives attribute to an EMS and the more it believes EMS certification will contribute to exporting profitably abroad.

*Competitive advantage*

EMS certification is not without cost, so it is important that organizations are aware of what they stand to gain. Our survey findings indicated that companies wishing to expand their export business would improve their international competitiveness abroad by achieving ISO 14001 certification.

Neither industry nor government seems clearly aware of the competitive advantage that ISO 14001 implementation can confer on an exporter. This should be communicated to industry by trade organizations and government agencies. Governments can, of course, affect this equation by offering forms of regulatory relief to companies that pursue an ISO 14001-based environmental management strategy.

**Neither industry nor government seems clearly aware of the competitive advantage that ISO 14001 implementation can confer on an exporter**

Taking the initiative in promoting ISO 14001 awareness or offering real incentives for EMS adoption could potentially raise environmental performance with relatively little enforcement or public expenditure.

Answer options provided	Chemicals (%)	Fruits & Flowers (%)	Plastics & Rubber (%)	Textiles & Leather (%)	Other Products (%)	TOTAL (%)
Definitely Yes	49	43	50	42	12	42
Sometimes Yes	42	50	32	29	76	45
Usually No	7	0	11	0	6	6
Definitely No	2	7	7	29	6	7

**Table 2:** Do importers think EMS-certified local exporters have a better chance of exporting products ?