The Mechanism of Environmental Costs in Creating a Sustainable Competitive Advantage in the Enterprise

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Abstract:

Most enterprises are concerned with obtaining metrics and specifications that fundamentally improve their production performance, as these contribute directly to enhancing their competitive capabilities. However, they neglect the specifications with a social dimension, especially the environmental aspect, despite its very positive impact on the enterprise. It significantly contributes to increasing its sustainable competitiveness. Through our research, we have addressed the importance of complying with international laws that mandate environmental care, which forces the enterprise to incorporate new environmental costs. Therefore, it was necessary for it to manage its environmental costs to give the enterprise a distinguishing feature from other competing enterprises, thereby increasing its competitive capabilities, especially the sustainable ones. The significant impact of managing environmental costs on enhancing the enterprise's sustainable competitiveness was evident.

Keywords: Environmental costs; Environmental management; Sustainable competitiveness

JEL Classification Codes: Q56 ; L25 ; O33

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Introduction:

The environment is considered the primary source of all resources, and harming it does not only affect society but also extends to economic damage. Thinkers, business owners, and enterprise proprietors have recently realized that their continued depletion and pollution of environmental resources will threaten their future existence. It has become necessary to find ways to measure environmental impacts and account for them financially. Hence, enterprises must embed the environmental dimension and change the traditional perspective, which focused solely on economic profitability. It has become imperative for them to achieve harmony between their economic efficiency and their social and environmental profitability by paying more attention to environmental performance, which has become a competitive field among enterprises. Through this, they can achieve excellence and acquire quality in environmental performance, thereby gaining environmental competitive advantages for their products and, consequently, enhancing the sustainable competitiveness of the enterprise.

Study Problem

The problem of this study can be formulated in the following main question:

What is the role of environmental costs in achieving a sustainable competitive advantage for the enterprise?

Study Importance

The importance of our research lies within the significance of environmental costs, which has become an indispensable necessity for every enterprise, especially in the context of competition. This highlights the prominent impact of focusing on environmental costs on the sustainable competitiveness of the enterprise.

Study Objectives

The study aims to understand the nature of the impact of environmental management on the competitiveness of the enterprise and its sustainable competitiveness, and to demonstrate the nature of the relationship between them.

Study Structure

We addressed the topic through three axes:

- Sustainable competitiveness of the enterprise.
- The nature of environmental cost management.
- Environmental management and the sustainable competitive advantage of the enterprise.

Firstly. The competitiveness of the enterprise

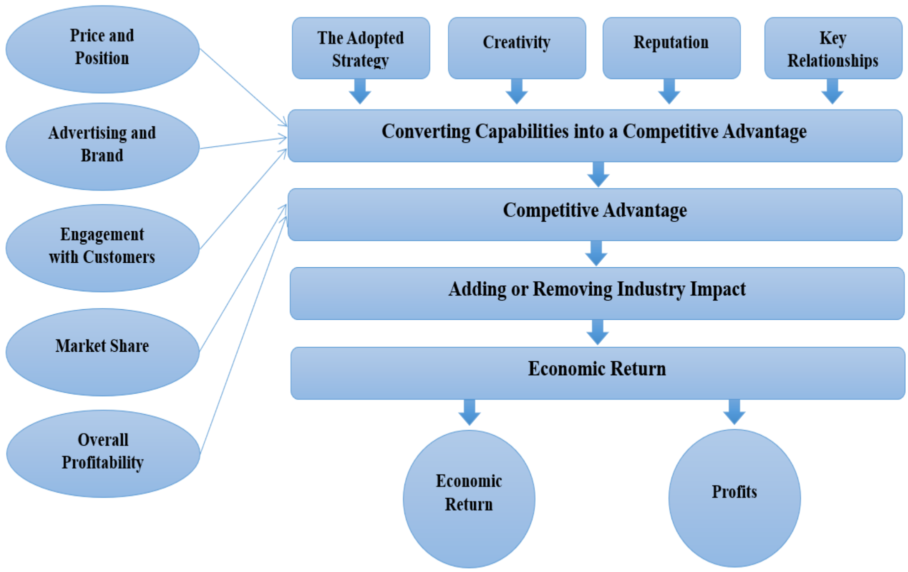
The concept of competitiveness is of great importance due to the fact that enterprises operate in an environment characterized by rapid change.

1. Concept of Competitive Advantage

It is the characteristic that distinguishes the enterprise from others, through which a strong position for the enterprise is achieved vis-à-vis other parties. This can be achieved either by having lower costs or by being able to differentiate its products physically or perceptually (Bouzayed & Wasila, 2012).

Moreover, the competitive advantage of an enterprise fundamentally is the advantage it enjoys over its competitors, which can manifest in the form of increased sales, margins, or the ability to retain its customers. Today, enterprises face many difficulties and challenges that must be addressed effectively to ensure their competitive ability and to maintain a strong market position. Managers need to understand clearly what their competitive ability is and how to create an existing advantage in the market, then extensively explore that to create a distinctive image (Alharthi, 2012, p. 24).

Fig.1. The steps adopted in building competitive advantage in the enterprise



Source: (Al-Bakri & Hamdan, 2013, p. 07)

2. Concept of Sustainable Competitive Advantage

Organizations today exist in an ever-changing business environment, characterized by the rapid evolution of its variables and factors. This makes the concepts of continuity and development among those that require the necessity of intensified and continuous hard work to ensure a distinguished position amidst transformations that have touched the depths of contemporary life. It's difficult to pinpoint the exact emergence of competition since it has existed as long as organizations have, in various methods and degrees from one stage to another. This makes the competitive advantage and its achievement a focus of interest for researchers and management specialists.

It is defined as "profitable businesses of value whose genesis exceeds the cost of the strategic activities to reach this value" (Arseculeratne & Yazdanifard, 2014 , p. 130).

The secret of sustainable competitive advantage lies in executing each step in the value chain in an appropriate way. A competitive advantage should not just be performing better than its competitors should fundamentally; it should also provide real value to the company and its customers, thus ensuring a dominant market position. The internal resources and capabilities of an organization play a very important role in building competitive capability. The enterprises that wish to build sustainable competitive capability possess advantages that cannot be eroded (regardless of the changes in the environment). It's essential to link the advantage to the underlying capabilities that are as impenetrable as possible. A significant part of the competitive advantage stems from the impossibility of being imitated (Kak & Sushil, 2002, p. 24).

Sustainable competitive advantage is also defined as: the process of executing a value creation strategy when none of the new or existing competitors can implement this strategy themselves and are incapable of replicating or benefiting from the advantages of this strategy (Hoffman, 2011, p. 06).

3. The difference between competitive advantage and sustainable competitive advantage

Generally, competitive advantage has been defined as an advantage that a single company has over a competitor or a group of competitors in a specific market, strategic group, or industry. A competitive advantage is a positive feature that distinguishes the company or its products from its competitors from the perspective of its customers or end-users. However, the focus here is not only on whether the company has a competitive advantage, but also on understanding its sustainability over time. Sustainability does not refer to a specific period in the calendar time, nor does it mean that these advantages last indefinitely, but it depends on the possibility and extent of competitive duplicability. It is conceivable that having a competitive advantage is not the only goal for a company, but maintaining it is more important and crucial.

Furthermore, the term "sustainable competitive advantage" is used to describe superior traits and resources of a performer that cannot be replicated or imitated by current or potential competitors ready to enter an industry and also lasts for a long period of time.

Thus, the sustainability of a company's competitive advantage depends on the duplicability of the competitive advantage, as it implements a value creation strategy that is not simultaneously executed by any current or potential competitors; while sustainable competitiveness is seen as the implementation of a value creation strategy not simultaneously executed by any current or potential competitors, and these other companies are unable to replicate the benefits of this strategy (Foon & Nair, 2010, p. 64).

4. Approaches to Competitive Advantage

Competitive advantage can be achieved through several key approaches (Pearson, 2010, p. 01):

- **Cost**: This is the ability of the enterprise to operate at lower costs compared to its competitors.

- **Quality**: Represented by a set of product characteristics that are crucial and determined in design and function.

- **Flexibility**: This is the response to changes in production, which are critical competitive advantages and include delivery flexibility and volume flexibility (Ibrahim, 2016, p. 134).

- **Time**: Enterprises aim to expand their customer base by focusing on the delivery time of goods or services.

- **Creativity and Innovation**: This involves creating new opportunities, monitoring competitors' activities, or using new methods.

- **Service**: The process of gaining a competitive advantage requires providing a service with added value.

- **Environment**: To avoid environmental problems, some industrialized countries have enacted laws to preserve the environment, necessitating significant expenditures on waste treatment units and the use of devices to reduce pollution. This has led to higher production costs. Therefore, it is necessary to consider environmental issues in a way that can achieve both economic and environmental goals and gain customer satisfaction by producing environmentally friendly products.

5. Dimensions of Sustainable Competitive Advantage

The dimensions of sustainable competitive advantage can be summarized in the following elements (Abdelghani, 2019, p. 90):

5.1 Cost

Known as the cost reduction strategy, it refers to the enterprise's ability to produce at the lowest possible costs compared to its competitors. Focusing on cost reduction will positively reflect on the final price and will provide the enterprise with competitiveness. Cost reduction can be achieved through:

- Economies of scale achieved from increasing the learning and experience curve among employees;

- Enhancing the level of utilization of available capacities in the enterprise's assets to reduce the proportion of fixed costs in the total cost per unit of production;

- Availability of economies of scale;

- A market composed of buyers fully aware of the price;

- Existence of opportunities that encourage cost reduction and efficiency improvement.

5.2 Quality

Due to the increased awareness of customers and the complexity of their needs, price is no longer the most important factor in making purchasing decisions. Quality now determines the product's ability to meet the customers' explicit and implicit expectations. Quality can be achieved through:

- **Design Quality**: Represents how well design specifications align with customer desires.

- **Conformance Quality**: Refers to the compliance of services with a set of specifications and standards predetermined by the enterprise in specific designs;

- **Service Quality**: The purchase decision and acquisition of many services depend on their quality and the quality of accompanying services. It is essential to adopt a system that ensures the continuity of these services at quality levels.

5.3 Innovation

Considered a key dimension of sustainable competitive advantage through its ability to discover new opportunities, monitor them, and respond quickly by making a specific development or creating something new. Innovation involves ideas characterized as new, useful, and related to solving problems or developing methods, goals, deepening vision, or reassembling known patterns in management behaviors into distinctive forms. Enterprises that adopt innovation as a competitive advantage must coordinate with their research and development department to achieve the best use of methodologies, which will facilitate the process of obtaining information related to the implementation requirements of the services.

Secondly. The nature of environmental cost management

Interest in environmental costs is a recent phenomenon, as it has become imperative for an enterprise to continuously incorporate environmental considerations.

1. Concept of Environmental Costs

These are defined as the expenses borne by an enterprise to comply with environmental law regulations and the costs spent to reduce or stop the emission of harmful substances, along with other costs associated with the process of reducing harmful environmental impacts on the workers and the enterprise as a whole (Al-Baz, 2007, p. 200). The United States Environmental Protection Agency defines them as "the monetary and non-monetary impacts caused by the enterprise due to activities affecting environmental quality" (Badawi & El-Beltagy, 2013, p. 167).

They are also described as "the expenses an enterprise incurs due to its obligations towards environmental laws resulting from its productive activities" (Ahmad, 2017, p. 24).

2. Environmental costs classification

Environmental costs are classified into four levels (Darawsi, 2013, p. 13):

- **Operational Costs**: These are directly linked to products and traditionally charged to products.
- **Legal and Legislative Costs**: Imposed by governmental bodies and the special expenditures resulting from compliance with legislation.
- **Costs of Expected Liabilities**: Include expenses, penalties, and fines in case of non-compliance with international laws.
- **Minimally Tangible Costs**: These result from consumer response to reduce or eliminate environmental pollution through

eco-friendly products. The types of costs can be categorized according to the financial impacts of environmental activities into (Nasr & Al-Khafaf, 2012, p. 71): Costs of prevention activities; costs of containment and measurement activities; costs of control activities; costs of environmental failure activities.

3. Concept of Environmental Management System (EMS)

The global standards for environmental management systems provide a good basis for designing and improving environmental management in economic institutions. Obtaining an EMS certification is a testament to the efforts made by these institutions to protect the environment and prevent pollution using the technologies available to them, as well as their ability to effectively control their environmental impacts and strive to continuously improve and enhance their environmental performance to a level that makes them environmentally friendly enterprises. It should be clarified that the Environmental Management System (EMS) is not only linked to the international standard ISO 14001 but also includes other standards such as the British Standard for Environmental Management BS 7750, the European Eco-Management and Audit Scheme (EMAS), and the NSF 110 standard in the United States (Taher & Shaaban, 2021, p. 28).

An Environmental Management System can be defined as "a transparent and systematic process known at the enterprise level, intended to describe and implement environmental objectives, policies, and responsibilities, as well as auditing its elements. Moreover, an EMS allows an organization to manage its environmental affairs systematically (Taillon, 2014, p. 02).

It is also known as: a part of the general management system consisting of policy, programs, objectives, responsibilities, training, processes, and resources for managing the key environmental impacts of enterprises.

According to a report by the United Nations on environmental programs, the concept of environmental management at the enterprise level is fundamentally based on developing environmental plans and policies to monitor and evaluate the environmental impacts of the enterprise, covering all production stages, from the acquisition of raw materials to the final product and its related environmental aspects. It also involves implementing the most efficient control measures, considering the cost and environmental impact of these measures, in addition to how resources are used. It is essential to clarify the tools and methods used for pollution prevention and the rational use of resources (Ayouaj & Draid, 2018, p. 18).

4. Motivations for economic units' interest in environmental cost management systems

Proving the environmental impacts of an economic unit's activity and subjecting it to accounting measurement are challenges that face accounting. Accounting measurement is one of the most important mechanisms of accounting because it measures the financial impact on the rights and obligations of the economic unit resulting from transactions that occur between it and other parties, and the events it has gone through during a specific period.

The motivations for focusing on environmental costs are (Mahalhal & Nouri, 2023, pp. 204-205):

- Often, these costs may be embedded within indirect costs and cannot be ignored.

- It is possible to reduce or completely avoid these costs as they do not add any value to the products. These costs may be operational, investment-related, or involved in redesigning the products themselves or alternative operating systems.

- Revisiting existing operating systems and understanding environmental costs helps the economic unit provide more accurate information about the environmental costs in pricing its products, thereby designing products with specifications that achieve better profitability.

- Enhancing the competitiveness of the economic unit's products by promoting products with better environmental specifications.

- Understanding environmental costs, helps support environmental management, which many economic units strive to develop in order to obtain the ISO 14001 certification related to the environment, developed by the International Organization for Standardization.

- The growing increase of environmental costs and their volume, as exemplified by "Amoco Yorktown," a petroleum refining company, where environmental costs in 1995 accounted for 22% of the operating costs.

- The focus on environmental costs does not equal across all products and processes that cause this type of cost and are accumulated in the indirect expenses category and then charged to the products, leading to higher prices due to the reliance on traditional cost accounting estimations in distributing and allocating environmental costs.

Thirdly. Environmental Management and the Sustainable Competitive Advantage of the Enterprise

Enterprises' interest in the environmental aspect and improving their environmental performance has become an area in which enterprises compete to enhance their brand image and gain a competitive advantage to support the enterprise's competitiveness against its competitors.

1. The Environmental Cost Management System in the Enterprise

It is a strategy that aligns with the environmental system, aiming not only to achieve profit but also to avoid potential harm to the environment. These strategies are prepared to offer competitive benefits that achieve cost savings. It works on combining environmental protection with gaining competitive advantages, which can be categorized into two types based on their traditional competitive benefits (Colas, 2013, p. 62):

1.1 Production and Environmental Management Strategy

This strategy is applied by influencing the production process to reduce costs through improvements in the enterprise's production processes resulting from energy savings, economical use of resources, pollution and waste reduction. It includes improving pollution control, organizing and managing waste, in addition to water treatment systems, recycling resources that are reproduced from internal and external sources, or redesigning production processes to be less polluting and more efficient in resource and energy use, or using renewable energy sources in production processes.

1.2 Product and Environmental Management Strategy

Through this strategy, an enterprise can increase its competitiveness by focusing on the environmental aspect of the product, which distinguishes it from its competitors. This can be achieved by designing a new packaging for its products to be environmentally friendly, attempting to integrate environmental efforts with marketing activities, redesigning products to be more environmentally friendly, developing new environmentally sensitive goods, or entering new environmentally improved markets.

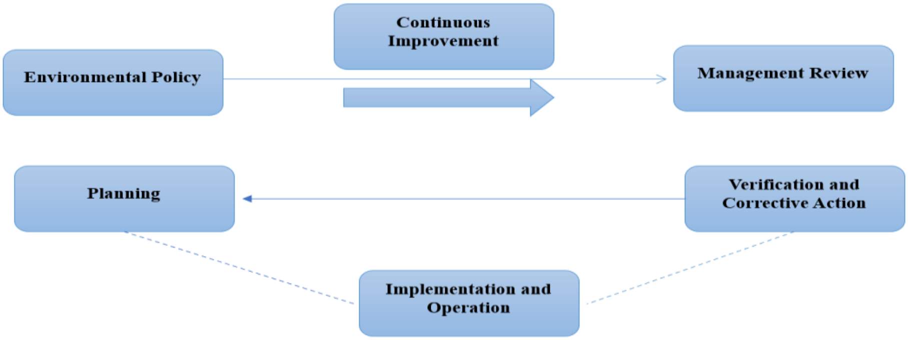
2. The Environmental Management System for the Enterprise to Achieve Sustainable Competitive Advantage

Prioritizing environmental quality and sustainable development has become a top priority for enterprise management. This involves the best exploitation of resources and compliance with local and international environmental standards and norms, improving the efficiency of resource utilization, and enhancing the production process to meet environmental requirements through pollution prevention measures, inspection, and assessment processes to ensure compliance with set standards, and avoiding any failures as they lead to increased quality costs. Improving quality means lower costs, increased customer satisfaction, an increased market share, which in turn leads to increased returns. Since customer satisfaction is the primary goal of the economic unit, which in turn achieves profitability for it, identifying environmental costs and using that information in environmental management has become imperative for the enterprise. Successful implementation of environmental management in the enterprise plays a positive role in enhancing its competitive capability, including:

2.1 Achieving Marketing Advantages

Enterprises producing environmentally friendly products gain a larger market share as they meet customers' environmental goals. Products that are recycled after use or produced following clean technology and environmental management principles increase the enterprise's competitive strength. Here, the role of environmental labels and environmental advertising and disclosure in disseminating information about the enterprise's environmental aspects contributes to opening new marketing channels, increasing sales volume and the profitability of the enterprise compared to those that do not consider environmental considerations. The application of environmental management also strengthens the enterprise's position in global markets through the reevaluation of the production process by implementing a number of measures, such as producing products with specifications that meet the environmental requirements of importing countries, fulfilling their environmental demands regarding packaging and shipping of products, and other measures aimed at making goods suitable for the international market, allowing the enterprise to gain a competitive edge in this market (Azimi, 2010, p. 200). The following figure illustrates the environmental management model according to ISO 14001 specification:

Fig. 02: Environmental Management System Model according to the ISO 14001 standard specification for the year 2004



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ource: (Shtouh, 2014, p. 03)

2.2 Increasing Productivity

Productivity is linked to price competitiveness; the higher the productivity of the enterprise and the lower its costs, it can set either lower price than its competitors by accepting a smaller profit margin, i.e., competitive prices that enable it to increase its market share. In this area, environmental management helps the enterprise reduce its costs and contributes to increasing productivity through the rational use of resources, reducing energy waste, increasing employee efficiency through training programs and talent selection, improving and controlling the relationship with suppliers, increasing employee productivity by making the work environment environmentally suitable, reducing transportation and storage burdens due to the reduction in raw inputs and energy, reducing waste and recycling it thereby lowering disposal expenses, savings from selling by-products and waste, and a decrease in financial burdens and penalties imposed due to pollution which leads to a reduction in insurance expenses and compensations for environmental damages (Tounsi & Bournane, 2017, p. 12).

2.3 Improving Managerial Function

Environmental stakes are a source of social pressures that the enterprise must recognize, analyze, and anticipate. These pressures not only endanger the enterprise's image but also limit its maneuvering space due to regulatory restrictions, public protests, media campaigns, or boycotts organized by environmental pressure groups. Applying an environmental management approach achieves a set of benefits that positively affect the improvement of the enterprise's managerial functions (North, 1992, p. 17).

Among the most prominent aspects of this improvement are job satisfaction, integration of administrative systems, and customer satisfaction, which is the primary goal of the economic unit, in turn, achieving profitability for it (Shtouh, 2014).

2.4 Access to Foreign Markets (International and Regional)

Implementing environmental management in an enterprise contributes to obtaining ISO 14001 environmental standard certifications, which are considered a visa to enter global markets and represent a competitive advantage for the enterprise. Moreover, obtaining the ISO 14001 certification has become a basic requirement in many global markets, making enterprises that have it enjoy a competitive preference that increases their chances of entering new markets and strengthens their position, especially in the European market. Developed countries, especially European countries, have used the ISO 14001 environmental management standard as a tool to protect their domestic production from foreign competition by requiring enterprises from Southeast Asia to obtain ISO 14001 to enter their markets, as enterprises from these countries practice environmental dumping due to not bearing the same environmental costs as European enterprises. The following table shows the ranking of countries that have obtained the ISO 14001 for environmental management the most until the year 2013:

Table 1. The top ten countries in obtaining the ISO 14001 specification up to the year 2013

Rank	Country	Number of Certificates Awarded	Growth
1	China	81,993	(+12,209)
2	Japan	30,397	(-4,619)
3	Italy	21,009	(+3,945)
4	Spain	16,341	(-2,006)
5	United Kingdom	15,231	(+885)
6	Republic of Korea	10,925	(+1,244)
7	Romania	9,557	(+2,139)
8	France	7,771	-2,520
9	Germany	6,253	(+252)
10	USA	4,957	(+550)

Source : http://www.whittingtonassociates.com/2013/01/iso-certificate-survey-

The interest of institutions in these countries in total quality through obtaining the ISO 14001 standard stems from their urgent need to gain a sustainable competitive advantage for their products, ensuring easy access to international markets. Therefore, it has become necessary for enterprises interested in exporting to focus on the environmental aspect and rely on the principles of total quality management. The following table shows the ranking of countries according to their commodity share in international markets:

Table2. List of countries by international market share of goods for the year 2014

Unit: US Dollar

Rank	Country	International Market Share of Goods
1	China	2,252,000,000,000
2	United States	1,610,000,000,000
3	Germany	1,547,000,000,000
4	Japan	710,500,000,000
5	South Korea	628,000,000,000
6	France	578,300,000,000
7	Netherlands	552,800,000,000
8	Japan (repeated)	528,200,000,000
9	Russia	520,300,000,000
10	United Kingdom	503,400,000,000
11	Italy	500,300,000,000

Source : https://ar.wikipedia.org/

From the above, it is clear that there is a relationship between acquiring the ISO 14001 standard by countries and increasing their share in the international market. For example, China, which has the highest number of certificates, has taken the largest share of the international market. This demonstrates the significant role of focusing on the environmental aspect in creating a competitive advantage and strengthening the enterprise's position in the global market.

2.5 Improving the Enterprise's Reputation

Integrating an environmental management system helps the enterprise to offer products that are not harmful to the environment and reduces its negative effects on the environment. This gives customers the impression that the enterprise is environmentally friendly, improving its image and reputation, which increases their loyalty and raises its market share, thereby strengthening its commercial position and enhancing its competitive power (Švikruhová, Čereš, Kapsdorferová, Zábojníková, & Fronc, 2023).

2.6 Achieving Financial Savings

These financial savings are manifested in several areas, including (Rahmah, 2014, p. 34):

- Investment in Fixed Capital: Selecting raw materials that have a lesser impact on the environment saves on the capital allocated for preventing these effects.

- Investment in Working Capital: The procedures followed to achieve optimal energy use and waste treatment can reduce the investment in working capital.
- Reducing Long-term Training Costs.
- Benefiting from Tax Exemptions due to Reduced Environmental Risks.
- Lowering the Costs of Compliance with Environmental Legislative Requirements.

Conclusion

The focus on measuring the environmental costs of an enterprise through the approach of environmental management serves as a purposeful tool to find a way to integrate environmental considerations within management and decision-making processes. Especially since enterprises face significant challenges due to the continuous changes in the business environment and the pressures of local and international competition they encounter, it provides them with an effective managerial approach in achieving a level of excellence that can surpass other competing enterprises through its positive reflections on the performance of all functions of the enterprise on one hand, and on the performance of management functions on the other hand, enabling them to implement the environmental management system and various benefits it achieves, particularly in improving the competitiveness of enterprises. For the application of environmental management in enterprises to be more effective, it is essential to emphasize the following:

- The importance of the enterprise analyzing the benefits of adopting environmental management and comparing them with the expected implementation and follow-up costs before deciding to adopt this approach, meaning that the decision study should be based on a (cost/benefit) analysis to ensure its economic viability.
- Successful implementation of environmental management in the enterprise requires the support, attention, and commitment of senior management and the integration of efforts at all management levels within the enterprise, in addition to the necessity of having all the necessary material and human resources for the application and sustainability of this system.
- The importance of environmental laws including mechanisms for implementing environmental management in enterprises.
- The application of environmental cost management will be more effective in improving the competitiveness of the enterprise if it

is integrated with the total environmental quality management system.

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