

## Greening the Firm

Over the last two decades environmental issues have become important in public and business policy. This book asks why firms sometimes voluntarily adopt environmental policies which go beyond legal requirements. It employs a new-institutionalist perspective, and argues that existing explanations, especially from neoclassical economics, concentrate on external factors at the expense of internal dynamics. Prakash argues that “beyond-compliance” policies are due to two types of intra-firm processes, which he describes as power-based and leadership-based. His argument is supported by analysis of ten cases within two firms – Baxter International Inc. and Eli Lilly and Company – including interviews with managers, and access to meetings and documents. This book therefore examines the internal working of firms’ environmental policy in a theoretically rigorous way, providing a significant contribution to the theory of the firm. It will be valuable for students of business and environmental studies, as well as political economy and public policy.

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# Greening the Firm

*The Politics of Corporate Environmentalism*

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Aseem Prakash

*The George Washington University*



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To Papa and Mummy

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## Preface

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This project has a long history. After completing my MBA from the Indian Institute of Management, Ahmedabad, I joined Procter and Gamble's marketing department in 1989. I was a great believer in the dominant paradigm that is often taught at business schools: firms maximize profits, those that do not are punished by the market, and managers can objectively pursue profit maximization by employing tools of investment appraisal. So, armed with technocratic knowledge and naive enthusiasm, I joined Procter and Gamble that was (and continues to be) a well-regarded and profitable company. One of the things that really struck me was the role of organizational dynamics in affecting a firm's tactical and strategic decisions. The neoclassical economic theory and the various sophisticated financial and marketing techniques that I had learnt at my alma mater did not seem to have the desired relevance. I had always thought that only the functioning of governmental bureaucracies was impacted by organizational politics. How wrong I was! As I exchanged notes with my fellow MBAs across firms and functional areas, I realized that they too were having similar experiences. Broad structural factors external to firms indeed outlined a framework within which firms made decisions. Firms also seemed to pursue a loosely defined objective of "high" levels of "profits." However, internal politics – inter-personal, inter-departmental, etc. – was important in shaping outcomes. Many projects that were pursued were clearly wrong and many "sensible" policies were not adopted. The strategies and power of key individuals mattered in shaping organizational outcomes.

By 1992, I was ready for a change. Also, Anil Gupta, Indian Institute of Management, Ahmedabad, whom I admire very much, had been encouraging me to pursue a career in academia. In 1993, I enrolled in the Joint Ph.D. program co-sponsored by the School of Public and Environmental Affairs and the Department of Political Science at Indiana University, Bloomington. I planned to focus on environmental issues and it seemed that I had an opportunity to leverage my experience of the corporate world for this task. I, therefore, decided to examine how firms actually



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make environmental policies. Since most large firms in the US are voluntarily adopting programs that are more stringent than the requirements of the extant laws, I decided to focus on firm-level response to “beyond-compliance” policies. Thus, my research project seemed to have important business strategy and public policy implications.

Beyond-compliance initiatives are also interesting to study because they provide a political space for discursive struggles among managers on the benefits and costs of various environmental programs. As a consequence of such struggles, profits no longer remain an objective and abstract concept that can be technocratically determined. They become a subjective concept that are influenced by varying and changing managerial interpretations of future benefits and costs. As I discovered during my field work, many beyond-compliance projects, even the ones costing hundreds of millions of dollars, were not subjected to formal investment appraisal procedures. Organizational dynamics played an important role in deciding whether or not such projects were adopted. I could discern various kinds of organizational dynamics, the conditions under which they were activated, and their impact on the policymaking processes and on the final policy outcomes. Thus, “unpacking” firms to study environmental policymaking processes provided interesting theoretical and policy-relevant insights.

In summary, the contributions of this study are fourfold. First, it highlights the inadequacy of the neoclassical theory, the dominant paradigm, in explaining why firms selectively adopt beyond-compliance policies. Second, at a broad level, it argues that “agents” (or managers) have some (not complete) autonomy in pursuing beyond-compliance policies; external “structures” alone cannot provide fully specified explanations. Organizational dynamics play an important role. Third, it focuses on the important role of power-based and leadership-based processes in shaping the policies of firms. It argues for “bringing back leadership” in the study of political economy. Further, the book integrates insights from sociological institutional theory and stakeholder theory (that focus on pressures external to firms) with leadership-based and power-based theories of the new-institutionalist tradition. Finally, since the conclusions of this book are generalizable to other issue areas where firms adopt beyond-compliance policies, it outlines important questions for future research.

At Indiana University, I had the privilege of working with the leading scholars of environmental policy, institutional analysis, and political economy. Elinor Ostrom, my mentor, encouraged me to embark on this multi-disciplinary project. As the dissertation committee co-chair and the first reader, she constructively challenged me throughout the process. Lin

also provided me with valuable office space at the Workshop in Political Theory and Policy Analysis that enabled me to work in the Workshop's intellectually rich environment and interact with scholars from all over the world. Jeffrey Hart, also my committee co-chair, gave me very useful input on the dissertation and then continually encouraged me to revise and refine it into a book manuscript. Mike McGinnis contributed significantly in shaping this project as well as influencing my overall intellectual agenda. Rosemary O'Leary supported this project from the very outset and introduced me to the idea of examining environmental policies of Baxter International and Eli Lilly. Kerry Krutilla helped me to understand the political economy of environmental issues. Vincent Ostrom has been a source of inspiration and continued intellectual support.

Internal workings of firms on environmental policies are difficult to examine because firms are often unwilling to share information on this subject. I am indebted to Dean James Barnes (School of Public and Environmental Affairs) who wrote to Baxter and Lilly on my behalf, thus paving the way for my empirical work. Managers at Baxter and Lilly were first intrigued by the objectives of my research. This was not surprising since this was the first occasion that an academic researcher was closely scrutinizing them. Eventually, they were very supportive of the project. They candidly discussed policy dynamics of various environmental programs. They made themselves available for multiple interviews and follow-up questions. I had opportunities to attend their environmental policy meetings and to examine their internal documents. However, the interpretations and analyses of the events pertaining to environmental policymaking are entirely mine. Bill Blackburn (Baxter) and Daniel Carmichael (Lilly) enabled me to "step inside" their respective organizations. Don Brannon (Lilly) was extremely helpful in ensuring access to appropriate managers as well as documents. Bill Blackburn, Ron Meissen (Baxter) Don Brannon, and Joan Heinz (Lilly) read my dissertation and provided useful input. I would also like to acknowledge help and support from the following: Rob Currie, Mike Cycyota, Peter Etienne, Munira Meharauli, and Verie Sandborg (all from Baxter); Jonathan Babcock, Catherine Ehlhardt, Bert Gorman, Rick Lattimer, Ronald Pitzer, James Vangeloff, and John Wilkins (all from Lilly).

This book is a significantly revised version of my doctoral dissertation. John Haslam, Cambridge University Press, was very supportive and helpful throughout the review process. The two anonymous referees provided excellent and constructive comments that brought greater clarity to my arguments. My friends and colleagues at Indiana University and George Washington University patiently read and reread numerous drafts and gave me invaluable substantive and editorial comments. These are:

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Finally, my family supported me emotionally, intellectually, and financially. I have been fortunate to have wonderful parents who have supported all my ventures including the decision to abandon the lucrative world of Procter and Gamble for a career in academia. I dedicate this book to them. My brother, Anshu, and my sister, Charu, have been a source of great support and affection. They have permitted me to enjoy all the benefits of being the youngest in the family. Nives Dolšak stood by me during my stay at Indiana University and also conceded to do so in the future by marrying me.