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Corporate Environmentalism and Public Policy

This is the first book to provide a hard-headed economic view of the voluntary approaches to environmental issues, especially toxic chemicals, waste disposal, and global warming, that have become prominent since the mid-1990s. Corporate environmental initiatives are seen as a tool for influencing the behavior of environmental activists, legislators, and regulators, though they may have ancillary benefits such as attracting “green” consumers or reducing costs. Equally, government voluntary programs are seen as a way to achieve modest environmental results when political resistance to mandatory policies is high. Rigorous analysis is illustrated with numerous case studies drawn from the USA, Europe, and Japan, while technical details are relegated to appendices, and each chapter highlights implications for corporate strategy and public policy. Although rooted in economic theory, this book will appeal to business strategists and policy practitioners, as well as scholars and researchers.

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*We dedicate this book to our families for
their love and support.*

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Preface

“Corporate environmentalism” – by which we mean environmentally friendly measures that are not required by law – is playing an increasingly visible role in environmental protection. We first encountered this phenomenon in the mid-1990s when we stumbled upon a report that the Council of Great Lakes Industries was offering a prize to the firm that most significantly reduced its emissions of pollutants into the Great Lakes. Immediately our skeptical economists’ minds kicked in: “Why would companies voluntarily increase their own costs just to win a plaque they could put on the wall? Would there be any tangible benefits to society?” The conversation that ensued has proven to be much richer and more intellectually fulfilling than we ever imagined.

Investigating these questions with the tools of economic theory has helped us avoid becoming Panglossian optimists or naive cheerleaders for business, unlike the authors of many popular books on the subject. Nevertheless, our research has driven us to the conclusion that corporate environmentalism can indeed produce welfare improvements, though they are by no means guaranteed. Indeed, our ongoing work in this area has made us aware of the many subtle ways corporate environmental strategy intertwines with public policy. Part of our rationale for writing this book is the belief that we have arrived at an overarching framework within which much of the corporate environmental activity we observe can be understood.

While our analysis is rooted in economic theory, we have written this book with both business strategists and policy practitioners, as well as scholars, in mind. We illustrate our analysis with examples drawn from the USA, Europe, and Japan, and we summarize what researchers have learned through empirical study of these issues. We have striven to make sure that each chapter highlights implications for corporate strategy and public policy. Technical details are relegated to appendices, and each chapter includes a non-technical summary for readers who wish to glean the key strategic insights as succinctly as possible.

In parallel with the movement toward corporate environmentalism, governments around the world are turning increasingly to “voluntary” programs rather than traditional command-and-control regulations. We argue

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that these trends are two sides of a single coin, and reflect growing political resistance to using traditional regulatory tools to cope with emerging environmental issues whose severity is uncertain, whose causes are diffuse, and whose abatement costs may be high. In part III of this volume, we explore the causes and consequences of government involvement in voluntary programs.

Many people and organizations have played a role in helping us develop the ideas presented here. We should begin by acknowledging the contributions of our co-authors Chris Decker, Steve Hackett, and Stefan Lutz to papers that formed the basis for several chapters of this volume. We have learned much from our collaborations with them, and enjoyed their enthusiasm for the ideas that emerged from the process.

Another notable influence on this work has been our participation in Concerted Action on Voluntary Approaches (CAVA), the European research network on voluntary approaches funded by DG XII of the European Commission. We would like to acknowledge the valuable contributions of the project director, François Lévêque, and the organizers of specific workshops, Carlo Carraro, Marc De Clercq, Frank Convery, Birgit Dette, and Anders Larsen. CAVA gave birth to an international research community that has continued to interact beyond the period of the project's funding. Our thinking about voluntary approaches to environmental protection has been shaped in many ways through repeated interactions with other members of this community.

Among the many colleagues with whom we have discussed the ideas in this volume are Seema Arora, Jim Barnes, Allen Blackman, Jim Boyd, Dave Buzzelli, George Carpenter, Carlo Carraro, Martina Chidiak, Bob Charlton, Cary Coglianese, Nicole Darnall, Magali Delmas, Vincenzo Denicolo, Maurizio Franzini, James Frederick, Matthieu Glachant, Lars Hansen, Rich Howarth, Scott Johnson, Madhu Khanna, Skip Laitner, Joe Mayhew, Katrin Millock, Jennifer Nash, Bruce Paton, Frank Popoff, Kate Probst, Francois Salanié, Kathy Segerson, Sam Smolnik, and Alice Tome. In addition, we have benefited greatly from the helpful comments of seminar audiences at numerous universities, research institutes and government agencies in the USA, Canada and Europe. Several of these presentations have appeared as chapters in conference volumes edited by Andrea Baranzini, Chuck Bonser, Philippe Thalmann, and Eric Orts, whom we thank for the opportunity to develop our thinking on various aspects of corporate environmentalism and for providing a broader audience for our work.

This project has been supported by a number of institutions. Indiana University provided an excellent atmosphere for conducting much of this

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research. We would particularly like to thank our colleagues within the Department of Business Economics and Public Policy, and the Workshop on Political Theory and Policy Analysis, for their helpful feedback and general encouragement. Research support from the Kelley School of Business and sabbatical and travel support from Indiana University are gratefully acknowledged. We also appreciate the support we have received during visits at various other institutions. In particular, Resources for the Future and the Department of Economics at University College, London provided collegial atmospheres for working on this project.

We would like to acknowledge two individuals who were instrumental in bringing forth this book. Our colleague Alan Rugman first suggested to us the idea of a book-length treatment of the topic of corporate environmentalism. Without his encouragement and advice this project would never have been started. Chris Harrison, our editor at Cambridge University Press, has shepherded us through the writing and editing of this manuscript with a friendliness and professionalism that made the process a pleasure.

We are most grateful to our families for the support they provided during this project. Susan and Emily Lyon incurred the costs of moving to Washington, DC, for a year during the writing of this book; their willingness to do so is greatly appreciated.