Environmental Self-Governance: Conditions for Industry Effectiveness

Aseem Prakash
University of Washington, Seattle
National Research Council
August 16, 2013

Background

- Draws on a recent review article: http://faculty.washington.edu/aseem/
- Synthesizes empirical and theoretical work on voluntary environmental programs (VEPs) across sectors and countries
- Very sophisticated literature
- Econometric studies and case studies (very few field experiments)
- Most studies focus on a single program and single pollutant

Key Questions

- How can VEPs get started and who would sponsor them?
- How can VEPs attract enough companies to join?
- How can VEPs improve environmental performance of companies and the industry? How to measure it?

Types of VEPs

- Beyond compliance initiatives.
- Prescribe systems, standards, or outcomes
- 3 basic types
  - Unilateral commitments
  - Bilateral, negotiated compacts
  - Multi-stakeholder; sponsored by industry, NGOs, and governments

Logic of VEPs

- Cost reductions insufficient incentive for stewardship
- Can we create mechanism for firms to corner benefits from stewardship?
- If so, why simply can't they do the right stuff and get credit?

VEPs = Market for environmental virtue?

- Two assumptions:
    1. Some firms are willing to become stewards but do not have a mechanism to claim benefits
    2. Stakeholders are willing to recognize stewards if they have credible information
- VEPs solve information problems
- Branding mechanism allows firms to signal stewardship, and stakeholders to reward them
- Collective endeavors; thus more credible
- Economies of scale in reputation production
- High exit costs

Criticisms

- Low entry barriers; lots of greenwashes
- Preempt or weaken public regulation
- Capture: therefore, do not serve the public purpose
- Democracy deficit

How to sort good VEPs from bad ones?

- Programs as good as their design
- Two critical program design issues
  - Obligations
  - Monitoring and enforcement
- These together help assess environmental stewardship potential
- Policy dilemma: stringent programs are high cost programs
- High costs: small roster; only progressive firms

Question 1: Why do they emerge?

- Business sponsored; protect common reputation within an industry; privileged group (typically, big firms)
- NGO: response to regulatory failure
- Govt: response to political gridlock

Question 2: Who joins and why?

- External factors
  - Trade associations: mandatory
  - Supply chain
  - Community pressures
  - NGO pressures
  - Govt: promise of regulatory and enforcement concessions
- Internal factors
  - Firm size, profits, R&D, compliance history, pollution history, multinationality
  - Corporate culture, Political clout of EHS

Do they work?

- Very difficult question
- Need to assess environmental performance (1) in the absence of the program, and (2) in relation to non-members.
- Facility level impact or aggregate impact?
- Aggregate Impact = (a) pollution reduction per participant * (b) # of participants

Do they work?

- Some times; modest improvements
- Key issue: monitoring and enforcement
- Two counter intuitive findings about stringent programs
  - They may attract high quality firms which have little room for improvement.
  - They may improve performance of individual VEP members but attract a small roster of members

New Questions

- Do programs have spillover effects beyond their members?
- Do VEPs have a greater impact when public regulation is strong or weak?
- Do multiple VEPs in a given sector undermine efficacy?
- Do firms indulge in strategic CSR?

Parting thoughts

- All regulatory systems share common design characteristics
- But all regulations fail
- Have realistic expectations about VEPs
- Look at regulatory layering, not either/or solutions
- The real challenge is to improve environmental performance of the small and medium size firms