

Business and public policy:

Responses to environmental and social protection processes

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Cambridge University Press
(Forthcoming, July 2010)

Chapter 10: Conclusionⁱ

The argument that the external context plays a significant role in shaping the behavior and choices of individuals and organizations is the subject of very little controversy in the social sciences. Different streams of neo-institutional scholarship have indeed produced a vast literature emphasizing and explaining how external pressures, factors, and events affect decision making and behavior. There is also little disagreement about the existence of stark differences between developing country contexts and those of industrialized nations. For instance, consider the large discrepancy between the total number of U.S. EPA employees and its equivalent federal government agency in China. In 2005, the Chinese State Environmental Protection Administration, had just 300 workers in Beijing and 100 more for the rest of the country compared to 17,645 employees at the U.S. EPA during the same year (Balfour, 2005:122; U.S. Office of Management and Budget, 2009). To be sure, these country disparities may be evident not only to social scientists examining regulatory agencies but also to ordinary travelers during a short lay-over in a developing country airport.

Yet, most neo-institutional work has been focused on industrialized nations, particularly the U.S. Thus, it assumes compliance as the taken-for-granted business response to environmental and social protection policies and regulations (called

“protective” public policies and regulations throughout this book). A similar focus and assumption can be observed in the corporate political activity and corporate social responsibility scholarship examining business responses to protective public policies. The main contribution of this book to the literature is to develop a framework of analysis that explains how variations in specific country context characteristics – that tend to prevail in developing countries - moderate the protective policy process-business response relationship. In general terms, my framework posits that higher levels of business resistance to different stages of the protective policy process are more likely in countries with lower levels of democracy, state-corporatist interest representation systems (as opposed to pluralistic and neo-corporatist ones), command-and-control regulatory instruments (as opposed to incentive-based ones), more stringent regulations, or lower economic income per-capita (see Figure 3.1 on Chapter 3).

In addition to considering how country context variations moderate the protective policy process-business response relationship, it is also important to point out the book’s emphasis on taking a policy process perspective. In stressing a policy process view, the book draws ideas from the policy sciences literature and from recent work on institutional process from the organizational sociology literature (Hoffman, 1997, 1999; Hirsch, 1997; Seo & Creed, 2002; Brewer and deLeon, 1983; Lasswell, 1956, 1971). Thus, instead of assuming compliance as the taken-for-granted business response to protective policies and regulations, my framework of analysis follows others in highlighting the intense political dynamic involved in the long-lasting process of institutionalization of these policies (Hoffman, 1999; Oliver, 1991). The book adds to the literature by discussing the underlying logic that explains the nature of business responses to the protective policy

process. In particular, I propose that the protective policy process-business response relationship in the U.S. is likely to follow an inverted U-shaped pattern in which business tends to show increasing political opposition as the public policy process moves from initiation to selection and thereafter declining resistance that turns into growing cooperation in mid-implementation (see Figure 2.1). The main rationale underpinning the proposed nature of the protective policy process-business response relationship in the U.S. and how it is moderated by country contextual variations is discussed in the next few pages.

1. Protective policy process-business response relationship in the U.S.

During the initiation stage of the policy process, business in the U.S. is more likely to show lower levels of resistance than in the formulation-selection and early implementation stages because most firms are unaware of the existence of nascent conditions that may erode the legitimacy of institutionalized governmental policies and regulations and thus highlight contradictions within the established sociopolitical order (Hoffman, 1997; Jepperson, 1991; Seo & Creed, 2002). Additionally, at the initiation stage, the inherent complexity and ambiguity of environmental or social phenomena make it very difficult to understand the causes and trends linked to perceived emerging problems that may not receive the attention of policy makers. Accordingly, business managers tend to rely on cognitive simplification processes to focus on narrower problems that are more immediate, simpler, and consistent with already institutionalized expectations in the U.S. (Schwenk, 1984; Tversky & Kahneman, 1974).

On the other hand, during formulation-selection, business tends to display the highest levels of resistance compared to other stages of the policy process. Most firms,

given their managers' extensive socialization and internalization of the pre-existing protective public policy order, are spurred to most actively defend its shared logic, values, and symbols, as well as its prescribed structures, routines, regulations, and standards (Barley & Tolbert, 1997; Pettigrew, 1987; Scott, 2001). Business' utmost resistance arises for multiple reasons. First, potential changes to already institutionalized protective policies and norms challenge the issue-specific political accommodation that favors the interests of (powerful) incumbent groups and individuals such as business and top policymakers (Fligstein, 1996; Brewer & deLeon 1983). Second, managers usually have a strong preference for stable government policies and regulations that reduce risks and allow them to maintain legitimacy and a sense of control over the regulatory environment (Fligstein, 1996; George, et al. 2006). Third, business managers rely on multiple decision-making simplifications that are likely to negatively bias their perception of the appropriateness and financial implications of new protective policy alternatives.

In early-implementation most companies in the U.S. are still likely to offer high levels of resistance, although probably not as high as during the formulation-adoption stage as they try to shape, challenge, and/or altogether stop the regulations, enforcement styles, standards, and budgets adopted to implement new protective policies (Hoffman, 1997; Suchman and Edelman, 1997). Despite the adoption of new policies, old institutionalized business practices and forms consistent with previous environmental and social protection policies are pervasive among most firms. During mid-implementation as government monitoring and coercion begins, business cooperation with the politically contested regulatory standards and enforcement practices is likely to increase. This is

because these standards and enforcement practices progressively become part of the accepted patterns and knowledge shared by business managers, policymakers, and stakeholders (Berger & Luckmann, 1967; Tolbert & Zucker, 1996). The gradual increase of business cooperation is also spurred by the actions of other companies that seek to be recognized as environmental and social responsibility leaders.

Finally, if the process of institutionalization persists over a long period of time, in late implementation the highest levels of business cooperation are likely to be observed as the collective internalized understanding of appropriate social and environmental responsibility becomes part of the objective reality of business (Berger & Luckmann, 1967; Tolbert & Zucker, 1996). During late implementation, aggressive coercion is seldom required and most businesses, independently of their characteristics, have adopted institutionalized social and environmental protection practices and structures prescribed by politically bargained protective public policies and regulations (Hawkins & Thomas, 1984; Tolbert & Zucker, 1996). Resistance to sedimented taken-for-granted practices is seen as highly illegitimate not only by policymakers and stakeholders but also by other members of industry and peer managers (Hoffman, 1997; Tolbert & Zucker, 1996).

2. Moderating effect of country context

As mentioned at the beginning of this conclusion chapter, the main contribution of this book is to clarify how variations in political and economic contexts typical of developing countries affect the responses offered by business during the different stages of enactment and implementation of protective public policies. The moderating effect of the level of democracy on the protective public policy process-business response relationship arises from traditional democratic rights and liberties. Freedom of the press,

speech, association, participation, and the unhindered right to vote are core rights taken-for-granted in democratic systems. These rights open information and advocacy channels to multiple grassroots actors that in authoritarian regimes are traditionally, and almost exclusively, enjoyed by business, military, and political elites (Ascher, 1999; Grindle & Thomas, 1991). Yet, most studies examining business behavior and political context have focused on variations in the distinct systems of interest representation in industrialized countries and thus assume higher levels of democratic traditions as given (Hillman & Keim, 1995; Murtha & Lenway, 1994; Spencer et al., 2005).

Institutionalized freedom of the press and speech allows citizens, scientists, interest groups, the media, and interested government officials to be more informed and to monitor the causes and effects of social and environmental problems produced by business activities (Neumayer, 2001; Payne, 1995). Free speech traditions also make it easier to publicly and timely convey concerns and demands to the media, policymakers, and business managers about the detrimental consequences of problematic social and environmental protection routines that may be pursued by business (deLeon, 1997; Fischer & Hajer, 1999; Payne, 1995). Well-established freedom of association mechanisms inherent in democratic nations expedite the organization of social and environmental protection advocacy groups and coalitions that are better able to debate, promote, and sustain demands for protective policies and enforcement aimed at improving business social and environmental responsibility (Diamond, 1999; Lybecker & Horan, 2005; Payne, 1995). The increased resources, connections, administrative capacities, and legitimacy attained by organized groups significantly reduce their vulnerability to retaliation and/or manipulation and enhance their bargaining power

relative to business and the government (Kim, et al 2007). Additionally, freedom of political participation and the right to vote also play a key role in constraining the level of resistance that can be offered by firms during the different stages of the protective policy process. This is because, citizens and groups that advocate social and environmental protection can support the election of like-minded politicians that are more likely to promote the adoption and effective enforcement of protective policies perceived as costly by the business sector (Diamond, 1999; Lim & Tang, 2002; Payne, 1995).

Besides stressing the degree of democratization, political science's neo-institutional theory also highlights the importance of identifying the system of interest representation to characterize a country's political context (March & Olsen, 1989; Schmitter, 1974). The extant literature has focused on neo-corporatist/pluralistic variations across systems of interest representation to predict firm responses but has given scant consideration to state-corporatist systems more typical of developing countries (Jepperson & Meyer, 1991; Streeck & Kenworthy, 2005). The moderating effect of different systems of interest representation on the protective policy process-business response relationship arises first, from the variations in the levels of business participation; and second from the distinct emphasis on policymaking consensus inherent in pluralistic, neo-corporatist, and state-corporatist countries.

Compared to pluralistic countries, in a state-corporatist country businesses' likely monopolistic access to policymaking and implementation increases their capacity for using higher levels of resistance in the form of manipulation tactics, often allowing them to capture the policy process. In contrast, business resistance is likely to be lower in neo-corporatist countries compared to pluralistic countries because of shared participation

with labor and other environmental/social protection peak associations capable of effectively excluding issues from the public policy agenda. The lower levels of business resistance observed in neo-corporatist countries are also the result of sedimented traditions, routines, and structures that emphasize consensus and collective rights in policymaking over pluralism's priority on political competition and individual rights, and over state-corporatism's emphasis on the exclusion of social protection groups from policymaking (Crepaz, 1995; Scruggs, 1999).

Other key factors that moderate the public policy process-business response relationship are the stringency and the type of regulatory instruments considered, enacted, and implemented to promote social and environmental protection by business. The combination of higher costs and restricted compliance choices associated with more stringent regulations and command-and-control instruments enhances the conflict between institutionalized profit-seeking business traditions and protective policy demands. Accordingly, it can be expected that firms are more likely to offer higher resistance during the different stages of the protective policy process when confronting more stringent regulatory requirements or/and command-and-control instruments (Gunningham et al., 2003; Henriques & Sadosky, 1996; Winter & May, 2001).

Finally, a large body of the economics and organizational theory literatures details the logic explaining why firms operating in poor countries (below upper-middle GNI per capita) are more likely to offer higher resistance during the different stages of the protective policy process than those operating in wealthier countries. In poor countries demands for social and environmental protection are more likely to be considered incompatible with legitimate subsistence practices of large numbers of barely surviving

businesses (Blackman & Bannister, 1998; O'Rourke, 2004; Rivera, 2004). Moreover, it is not only that social and environmental protection demands may be perceived as trivial and illegitimate when faced with the struggle for survival; but also these issues are usually dismissed because it is taken for granted that poor developing country governments lack the capacity and/or the will to enforce "on-paper" protective regulations (Ames & Keck, 1997; O'Rourke, 2004; Rivera, 2004; Stuligross, 1999). Additionally, many business owners-managers rarely have the basic education required to understand complex social and environmental protection requirements (Rivera & deLeon, 2005).

3. Evidence from empirical research: Costa Rica hotel industry and U.S. ski industry

The theoretical framework developed in this book has its main roots in the empirical studies detailed in Chapters 5-9. These chapters present the findings of over a decade of work examining the environmental protection strategies and behavior of the Costa Rican hotel industry and the U.S. ski industry.ⁱⁱ Accordingly, it is important to stress that these studies are not intended as proof of the conceptual framework proposed. These studies do, however, provide limited and preliminary evidence for a few of the ideas offered by the conceptual framework developed in the first part of the book. For instance, returning to the initial question posited in the introduction: why is it that the Costa Rican hotel industry appears to have shown more cooperation with environmental policy process demands than the U.S. ski industry? This book suggests some of the factors that may explain this difference.

If we consider country income per capita alone, hotels in Costa Rica should be displaying higher levels of resistance to environmental policy demands than ski resorts in the U.S. since Costa Rica's GNI per capita is much lower than the U.S.'s – \$10,950 versus \$46,970 respectively in 2008; corrected for purchasing power parity (World Bank, 2009). Yet, per-capita income levels in Costa Rica are not so low as to impose urgent survival needs on the country and its businesses. Both countries also have long and well established traditions of democracy. Thus, other contextual factors may be at play. First, Costa Rica has a neo-corporatist system of interest representation as opposed to a pluralistic system prevalent in the U.S. As suggested by the book's framework of analysis, less business resistance to environmental policy process demands is more likely in neo-corporatist countries than in pluralistic countries. This is because in neo-corporatist countries environmentalist groups are less likely to be excluded from policy making and because of an enhanced emphasis on consensus and collective rights as opposed to the priority given to political competition and individual rights in pluralistic countries like the U.S. Second, Costa Rica has relied more on incentive-based environmental policies and programs as opposed to the U.S. focus on command-and-control environmental policies and regulations.

The Certification for Sustainable Tourism (CST) in Costa Rica reflects the influence of these factors. It was established by the government in cooperation with representatives of leading business, environmental, and academic groups. Its standards and audit mechanisms have been governed by a National Accreditation Board with equal representation from these sectors. Thus, from its inception, the CST has involved environmental performance-based standards, third-party certification, and public records

(available on the Internet) of the environmental performance of its participants. The assessments of the CST discussed in detail in this book suggest that these governance mechanisms may have helped to reduce free-riding behavior by dirty hotels and to allow only the hotels with the highest certified environmental performance to show an association with significant price premiums.

On the other hand, the evaluations of the Sustainable Slopes Program (SSP) discussed in the book suggest that this initiative may be characterized as reflecting an aggressive resistance strategy by the U.S. ski industry aimed at preempting new environmental regulations and to reduce the enforcement of existing regulations by adopting symbolic 'green' practices. Since its inception in 2000, the SSP has been a strictly voluntary initiative with no performance-based standards, no independent certification, and no sanctions/rewards for different levels of environmental performance. Established by the U.S. National Ski Areas Association, the SSP received endorsement by the U.S. EPA and some financial support from the U.S. Forest Service during the George W. Bush Administration. However, none of the major environmental conservation organizations, such as the Sierra Club, the Nature Conservancy, and the Natural Resources Defense Council that were initially involved in the design of the SSP, have officially endorsed the program.

Facing SSP's weak institutional mechanisms for preventing opportunistic behavior, it appears that the program tends to attract ski areas with lower environmental performance than non-participant ones. Moreover, once enrolled and compared to non-participants, SSP ski areas do not appear to have higher overall environmental performance or higher scores in the following individual dimensions of environmental

protection: expansion management, pollution management, and wildlife and habitat management. SSP participants only appear to show a statistically significant correlation with higher natural resource conservation performance rates.

4. Future research agenda

Finally, I anticipate that the framework of analysis and initial empirical studies detailed in this book can help guide and spur additional empirical research that focuses on studying the variation in business responses to the protective public policy process in different country contexts. Initially, research may entail in-depth case studies that allow longitudinal examination of the protective policy process and the associated responses adopted by business. An alternative approach involves firm level cross-sectional research that collects information about the different levels of resistance/cooperation adopted by businesses during specific stages of the policy process. Other researchers may want to focus on three important topics not discussed in detail in this book. First, they may want to theorize about the business performance implications of adopting different levels of resistance with the protective policies process. Second, developing theoretical arguments explaining how variations in local country conditions moderate the policy process-business response relationship. And third, theorizing about the internal organizational, political, and psychological phenomena that drive firms' responses to the institutionalization dynamic unfolded during the policy process stages.

Endnotes

ⁱ This chapter includes slightly modified portions of: Rivera, J., Oetzel, J., de Leon, P., and Starik, M. (2009). Business Responses to Environmental and Social Protection Policies: Towards a Framework for Analysis. *Policy Sciences*, 42:3–32. Reprinted with permission.

ⁱⁱ I led this work and had the great fortune of receiving the advice and ideas from multiple co-authors; all duly recognized in the acknowledgment section at the beginning of the book.