Business Motivations FOR CONSERVATION

Conservationists can stimulate pro-environment business practices, ***James W. Boyd*** *argues, particularly if they learn to think like companies —and beyond regulation.*

Business decisions have a huge impact on natural resource use and environmental quality, so the ability to influence these decisions presents an opportunity for significant conservation gains. How can conservationists tap into the range of factors that drive business behavior and motivate businesses to invest in conservation efforts?

Not surprisingly, most theories of business behavior emphasize financial motivations. A powerful, but incomplete theory is that businesses do not care about the environmental costs they impose on others because "externalized" costs do not affect profitability. The corollary is that environmentally beneficial behavior can be motivated by the imposition of those costs on firms. The need to internalize otherwise external social costs justifies most modern environmental laws and regulations.

Conservationists can focus their advocacy around new, reformed, or expanded government policies to internalize a broader suite of environmental costs on businesses, regulate or prohibit activities at odds with conservation goals, or subsidize desirable conservation behaviors. This strategy resulted in landmark policy and legal innovations in the 1960s and 1970s, and it continues today. But lobbying government to enact such policies is not the only strategy available to conservation advocates.

Businesses routinely engage in environmentally beneficial behaviors that are not motivated directly by statutes or regulations. They take a variety of actions that go beyond compliance with environmental regulations and can loosely be described as voluntary. But while voluntary, these actions are not necessarily altruistic; profits do rule the day. However, pro-environment business behaviors are driven by a range of consumer, business partner, and community factors—all of which are points of leverage for conservation advocates.

Pro-environment business behaviors are driven by a range of consumer, business partner, and community factors—all of which are points of leverage for conservation advocates.

How Consumers Motivate Business Decisions

Most obviously, businesses sell their products to consumers who may desire—and be willing to pay for—environmentally beneficial products and services. In some cases, the products and services themselves may be less environmentally damaging, such as biodegradable packaging or low-emissions vehicles. In other cases, the environmental benefit may arise from the product's broader ecological footprint, related to its production processes or resource demands—think shade-grown coffee. In addition, marketing surveys and some economic analyses suggest that consumer perceptions of firms' social and environmental sustainability influence consumer choices and behavior.

The degree to which consumer motivations are environmentally effective and good for business depends in large part on how well consumers can assess a product's or company's environmental performance. If "green" features are fairly clear, companies can market those features directly to consumers. However, it is often difficult for consumers to observe and verify a product or company's environmental features, performance, or footprint. For example, the

environmental features of many products are associated with their production, by-products, recycling, or disposal rather than anything directly experienced by the consumer. And many consumer products involve vast supply chains where the environmental performance of a given link is nearly impossible to observe.

This situation can lead to consumer skepticism about green marketing claims, which reduces the price premium that a business can charge for environmentally beneficial products. In turn, this means that businesses may not be able to recoup the costs of green products or profit sufficiently to make their development worthwhile from a business perspective. The public, environmentalists, and businesses have a collective interest in addressing this market failure.

Harnessing individual consumer motivations sometimes requires intervention via information-based programs. Labeling and certification programs, if properly executed, provide consumers with an independent, and thus presumably credible, signal of the environmental quality of a product, process, or company. If consumers can rely on this signal, their willingness to pay a premium and businesses' subsequent willingness to provide high-quality products are restored.

A variety of voluntary information-related programs are also closely linked to environmental performance. Consumers can rely on a range of green signals provided by government certification programs, such as the Energy Star label, recycled content information, and fuel-efficiency ratings. In general, these programs operate as partnerships between government and businesses. In exchange for salutary environmental behavior, businesses are able to brand themselves as environmentally advanced, using the government program and its imprimatur as evidence.

In some cases, the private sector establishes its own programs for certification and standards, primarily to deal with supply chain information issues. An example is the American National Standards Institute that, via the International Organization for Standardization, developed the ISO 14000 environmental certification program. The Forest Stewardship Council, which certifies sustainable forest products, is another example. Web-based applications also are being created by independent firms to provide consumers with easily accessible product ratings (GoodGuide.com is one notable example).

Positive environmental behavior today can influence politics, regulation, and stakeholders in ways that improve future business profitability.

Studies suggest that the firms most likely to participate in voluntary programs tend to be larger, produce final consumer goods (where public values are likely to be most influential), and be exposed to pressure from advocacy groups and the public.

Partnering for Environmental Branding

A related tactic involves partnerships between environmental groups and businesses. Some prominent examples include the following:

» the Sierra Club's endorsement of Clorox's Green Works line of biodegradable cleaners,

» the National Audubon Society's partnership with Monsanto to develop protection plans for waterfowl habitat near the company's industrial farms,

» the Wildlife Conservation Society's certification of forestry products from Congolaise Industrielle des Bois, and

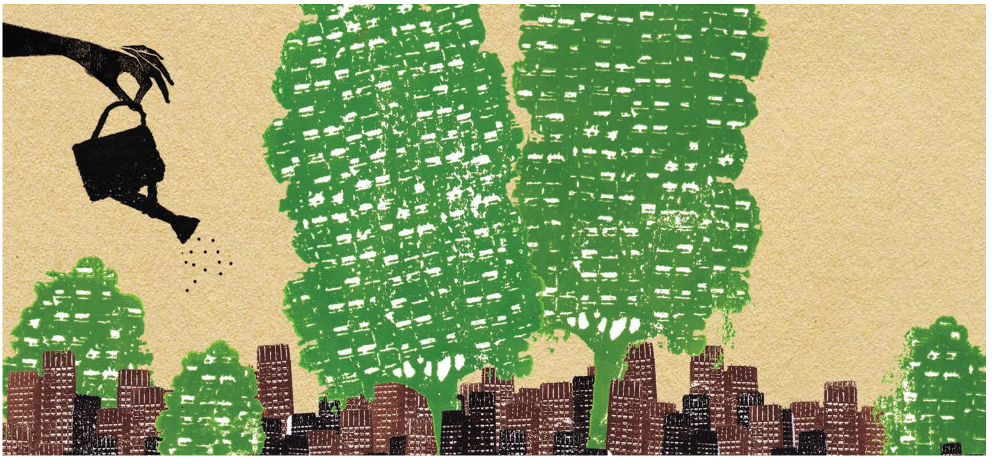
» the environmental assessments provided to BP by Conservation International and The Nature Conservancy.

Environmental NGOs can provide businesses with technical assistance due to their expertise with environmental analysis and planning. Several of the above examples (such as the partnerships with BP) take this form. But the NGOs also are providing businesses with powerful branding tools. In some cases, a branding relationship can take a particularly direct form—as when Clorox placed the Sierra Club's logo on its Green Works products. But even without logo placements, the relationship itself is publicized in other ways, such as through advertising campaigns, websites, and annual environmental reports.

NGO–business partnerships are controversial within the environmental community. In part, this reflects the environmental community's differences of opinion over political tactics—specifically, whether it is better to work "with" or "against" the business community. But critics also note that when money changes hands (as it did in some form for all of the examples listed above), this undermines the NGO's independence and credibility as a certifier.

"Political" Motivations for Overcompliance

Because politics can determine changes in law and regulation, businesses and other stakeholders have an incentive to influence



© Katie Edwards/Ikon Images/Corbis

the political process. Most of the related insights ahead follow a basic intuition: positive environmental behavior today can influence politics, regulation, and stakeholders in ways that improve future business profitability.

Some firms or whole industries may position themselves as environmental leaders by overcomplying in order to reduce the incentive of environmental interests to organize and lobby for tighter regulatory standards. Similarly, because monitoring and enforcement resources are limited and regulators lack compliance information prior to monitoring, they may target firms considered more likely to be noncompliant.

Firms also often require contentious local approvals—such as zoning permits—in order to site their facilities. Corporate reputation can be important to the success or failure of these political deliberations, as well.

Firms understand that regulation can have a differential effect on competitors in an industry. For example, DuPont supported a ban on chlorofluorocarbons, at least in part because it had developed a substitute, a non-ozone-depleting chemical that would be in demand once the ban was in place. The regulatory ban, in effect, gave it a competitive advantage over technologically lagging rivals.

Supply Chain and Business-to-Business Motivations

The production of almost all consumer goods and services involves "chained" business relationships among suppliers, manufacturers, distributors, and retailers. Walmart is estimated to have 57,000 suppliers in the United States alone, with tens of thousands more internationally. The average automobile is composed of 20,000 different parts, produced by thousands of different suppliers. Apple, a far more vertically integrated company, has supplier relationships with 156 different companies (and each of those has its own supplier relationships).

Large global brands are increasingly concerned not only with their own reputations and environmental performance but also with the reputations and practices of their suppliers. Apple doesn't make its own logic boards; Tiffany & Co. doesn't mine its own diamonds; Walmart doesn't make its own T-shirts; and Starbucks doesn't grow its own coffee. But consumers understand that when they purchase from those companies, they are indirectly supporting those supply chains. For example, consumer reaction to the labor practices of Nike suppliers in the 1990s created a crisis for the company, as its brand became associated with unacceptably low wages and abusive factory conditions in the developing world.

Many of the supply chain impacts of greatest concern involve suppliers in different countries, in the developing world in particular. In general, it is very difficult—if not impossible—for US law and regulation to directly affect international environmental behavior. Supply chain incentives are therefore more likely to be driven by more "informal" profit motives.

Earlier, I mentioned third-party certification as an informational device in the context of end-product consumers. But certification is arguably of greater importance between business partners. Firms wishing to purchase green inputs from suppliers and other business partners may find it difficult to judge the environmental quality or impacts of their suppliers' products. The certification of wood products is a good example. Lumber retailers are far removed (geographically and contractually) from the forest managers and landowners, many of them in the developing world, responsible for harvesting practices. A firm whose reputation is vulnerable to charges of poor environmental stewardship therefore benefits greatly from an intermediary certifying institution.

A related strategy is for firms to audit supplier conduct and transparently disclose supplier information. For example, in 2012, Apple joined Nike, Intel, and Hewlett-Packard in publicly disclosing a list of its major suppliers. Alone, such disclosure is no guarantee of environmental performance. But it makes identification (and oversight) of these companies easier for stakeholders.

These kinds of supply chain initiatives are fairly recent, not particularly widespread, and often the result of external pressure, like boycotts and bad publicity, rather than more proactive strategies. It is also not a coincidence that supply chain behaviors tend to be associated with large, well-known brands. Branding is a competitive strategy to generate consumer loyalty, awareness, and publicity. The flip side of this strategy is that valuable brands are particularly sensitive to stakeholder pressure and negative publicity: they have more to lose if that brand is tarnished and inherently draw more public attention. These same factors also make valuable brands particularly desirable targets for advocacy pressure.

Valuable brands are particularly sensitive to stakeholder pressure and negative publicity: they have more to lose if that brand is tarnished and inherently draw more public attention.

Concluding Thoughts

Businesses are strategic and sophisticated when it comes to the richer social and political factors that affect their long-run profitability, routinely using "beyond-compliance" strategies to gain competitive advantage. Understanding the motivations for these strategies can inform the conservation community's own strategies.

A concluding thought relates to the investment community's unique power to affect business behavior. "Corporate social responsibility" is a generic term used for many of the business behaviors I've described. Over the past several decades, there has been significant growth in so-called socially responsible investment vehicles. As of 2012, 11 percent of dollars under professional management in the United States were in such funds (representing $3.31 trillion, compared to $639 billion in 1995). The most obvious explanation for such funds is that they identify portfolios that outperform comparable investments that are not socially responsible. Given the various profit motivations for beyond-compliance products, investments, and practices described above, a reasonable hypothesis is that firms adopting them, particularly in aggregate, would see above-average market performance.

In fact, the ultimate test of whether the environmental motivations described above do, in fact, explain business behavior is whether or not they can be related to a firm's profitability. Here, I must admit that the evidence is mixed (see the box below). This is due in part to the difficulty of defining and measuring environmentally responsible behavior. It also suggests that conservationists should interact directly with the investor community to better understand profit-driven points of leverage. ●

FURTHER READING

Lyon, Thomas, and John Maxwell. 2008. Corporate Social Responsibility and the Environment: A Theoretical Perspective. *Review of Environmental Economics and Policy* 2(2): 240–260.

Reinhardt, Forest, Robert Stavins, and Richard Vietor. 2008. Corporate Social Responsibility through an Economic Lens. *Review of Environmental Economics and Policy* 2(2): 219–239.

Scarlett, Lynn, James W. Boyd, Anna Brittain, Leonard A. Shabman, and Timothy Brennan. 2013. *Catalysts for Conservation: Exploring Behavioral Insights for Natural Resource Investments.* Washington, DC: RFF.

Are Environmentally Responsible Firms More Profitable?

Studies show that socially responsible investments underperform or are statistically indistinguishable from conventional investments. A meta-analysis of such studies by Harvard Business School's Joshua Margolis and colleagues found that, for a significant majority of firms, the relationship between corporate social responsibility and profitability was not statistically significant. However, a more positive spin on that study's findings is that socially responsible behavior reduced profitability in less than 2 percent of the companies in the sample.

One problem is that corporate social responsibility is often defined and quantified in ways that are more cosmetic than substantive. For these reasons, the findings of the literature on social responsibility and financial market performance leave something to be desired.

A recent study by Harvard Business School professor Robert Eccles and colleagues looks more concretely at firm-specific practices. The study stratified firms into two samples based on managerial and environmental practices. Interestingly, the study found that "high-sustainability" firms, defined as those exhibiting such practices, significantly outperformed their "low-sustainability" counterparts over an 18-year period ending in 2010. Specifically, $1 invested in the former portfolio would have grown to $22.60 over the period, compared with $15.40 in the latter.

SOURCES

Eccles, Robert, Ioannis Ioannou, and George Serafeim. 2011. The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance. Working paper 12-035. Boston, MA: Harvard Business School.

Margolis, Joshua D., Hillary Anger Elfenbein, and James P. Walsh. 2008. Do Well by Doing Good? Don't Count on It. *Harvard Business Review* 86(1): 19.