

## For Your Bookshelf

# The Voluntary Environmentalists: Green Clubs, ISO 14001, and Voluntary Environmental Regulations

**Aseem Prakash and Matthew Potoski**

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‘Command-and-control’ environmental regulations have been lauded for reducing pollution yet also criticized as too costly, inflexible and adversarial. With ‘The Voluntary Environmentalists’, Aseem Prakash and Matthew Potoski jump into this environmental policy fray by arguing that well-designed voluntary environmental programs (‘green clubs’) can complement regulation by inducing firms to go beyond prescribed standards. They build and test the theory that some companies will join green clubs that produce real and additional environmental benefits so that they may claim the clubs’ positive reputation. Concern for reputation, in other words, can translate into less pollution.

Prakash and Potoski (P&P) make clear that not any green club will lead to improved environmental performance. They present the counter-intuitive hypothesis that ‘bootcamps’ – clubs with low standards but credible enforcement mechanisms – offer the most opportunity for environmental gain. Leniency, they argue, solves the ‘Olsonian dilemma’ that few companies would want to join too strict a club, while credible

enforcement solves the problem of shirking (joining the club but not meeting its requirements). P&P write that ‘the key policy promise’ of bootcamps is that they ‘can potentially produce high levels of desirable public goods by encouraging small to moderate improvements in environmental performance across a large membership roster’ (p. 66)

P&P investigate two research questions. First, they examine how national policy and social context affect the level of reputational benefits provided by green clubs. Second, they examine whether joining a bootcamp actually leads to better corporate environmental and compliance performance.

P&P’s examination of the first question is the most convincing part of the book. The authors combine qualitative and quantitative analysis to tease out the factors affecting national ISO 14001 adoption rates. ISO 14001, they note, covered nearly 50,000 facilities in 118 countries as of 2002, establishes a certification standard and 18 guideline standards governing environmental labeling, performance evaluation and

lifecycle assessment. P&P develop hypotheses through a case study of ISO 14001 membership in the US, where adoption rates are low, and the UK, where they are high, and then test their hypotheses via a large sample (59 country) econometric analysis. They conclude that ISO adoption (and therefore its perceived reputational benefit) is greater in countries where, among other things, environmental regulations are more stringent and flexible, business–government relations are cooperative rather than litigious and consumers are concerned about the environment. P&P essentially develop an extremely thorough country-level contingency theory of corporate environmental reputation. Their findings suggest that companies view the value of investments in environmental reputation as varying markedly across national contexts.

P&P study their second question, the link between ISO membership and environmental and regulatory performance, by analyzing the environmental and regulatory performance of over 3,000 US ISO 14001 certified and non-certified facilities. They control for a wide range of variables and use instrumental variables to address the ‘endogeneity problem’ – in this case, the problem that improved environmental performance may be driven not by ISO 14001 membership but rather by some other variable that is highly correlated with both ISO membership and performance. P&P conclude that as a group, ISO-certified facilities have achieved better regulatory compliance records and lower emissions than non-certified facilities. This ‘result persists’, they find, ‘even while controlling for facilities’ compliance histories as well as potential endogeneity between facilities’ environmental performance and their decisions to join ISO 14001’ (p. 30)

Is this conclusion credible? While the use of instrumental variables can be problematic, P&P’s approach appears to be extremely careful. If there are reasons for doubt, they have more to do with ISO 14001 than with

econometric techniques. To their credit P&P are transparent about this, noting that ISO 14001 is open to any company willing to bear the cost, has a potentially significant moral hazard problem, does not require audit results to be made public, imposes no sanctions and requires no demonstration of environmental improvement. Yet while these features of ISO 14001 may be cause for skepticism about the program and the results of the authors’ analysis, they also provide greater reason to buy into P&P’s theory. If ISO 14001, a green club with no real teeth (or at least no big sharp fangs) delivers the environmental benefits that P&P find, then it is likely that a true bootcamp – a club with similarly lenient standards but more credible enforcement – would provide even greater benefit.

If there is anything in the Voluntary Environmentalists that leaves the reader wanting, it is not P&P’s focus on ISO 14001 but rather the book’s narrow scope. P&P are interested in the nitty-gritty of policy design rather than the broad strokes. They never explore their frequent assertion that green clubs must be seen as a complement to rather than a substitute for regulation, leaving the reader to wonder just how green clubs do operate in conjunction with other policy tools. This is no trivial matter. While it is plausible that green clubs would induce companies to go beyond the requirements of rigid command and control regulations, it is less clear that they would add significant value when partnered with emissions trading or green tax regimes, both of which are designed to reward strong environmental performance and stimulate technological innovation. I would like to have seen P&P at least speculate about such issues.

Management scholars also are likely to want more exploration of the book’s implications for corporate reputation management. The authors’ argument that companies join green clubs because they confer ‘a degree of legitimacy that a firm alone may

find difficult to acquire' (p. 53) suggests that companies making investments in corporate environmental reputation face an either/or decision between green clubs and unilateral action. Of course this is not the case. Managers worry about both industry and corporate reputation, knowing that they can be found guilty by association yet also seeking to distinguish their companies from the pack. Further, they seek to signal corporate goodness to a diverse array of stakeholders. The potential reputational benefits of green clubs are determined not only within the national context but also within a broad set of company-level questions about corporate reputation management, identity and strategy. Case study research addressing this would nicely complement P&P's work.

Of course, The Voluntary Environmentalists ultimately must be judged on its own terms. P&P state upfront that 'the core theoretical challenge in voluntary program research is to identify what distinguishes effective voluntary programs from the ineffective' (p. xi) Do they meet this challenge?

I think the answer is yes, because their argument that bootcamps can deliver real environmental improvement is compelling, rooted in well-developed theory and supported by evidence. Nonetheless, it seems to me that the real takeaway from this carefully conceived and crafted book is their other conclusion that companies see green clubs as worthwhile investments only when regulators and other stakeholders value them. While as management scholars we easily drift toward pioneering firms that push the social and environmental envelope, this book serves to remind us that, to use David Vogel's (2005) term, many managers still take the view that 'the market for virtue' is limited.

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#### REFERENCE

Vogel, D. (2005) *The Market for Virtue: The Potential and Limit of Corporate Social Responsibility*, Brookings, Washington, DC.