



Motivations, adoption and impact of voluntary environmental certification in the Italian Forest based industry: The case of the FSC standard



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A B S T R A C T

Over the past few years several private voluntary schemes have been developed worldwide to address the environmental issues in the forest based industry. Using survey data, this study analyse the main factors motivating companies operating in the Italian forest based industry to implement FSC (Forest Stewardship Council) standard, as a tool to promote responsible forest management and traceability of derived products, and the impact of this standard on the economic and organisational results. The findings provide evidences that signalling mechanisms drive the entrepreneurs towards the adoption of FSC certification, followed by moral and ethical reasons. In terms of impact, emerges that companies are compared to higher operation costs necessary to obtain the certification of compliance with the scheme requirements, that are only partially compensated, not by an increase in the selling price of certified products, but by the company's ability to establish new business relationships with a consequent increase in the sales.

1. Introduction

The issues related to environmental sustainability that emerged in the 1960s and 1970s as a result of the intense and indiscriminate human activity have encouraged public and private organisations to adopt increasingly responsible behaviour which is generally known as Corporate Social Responsibility (CSR). The forestry sector has not stood indifferent to this intense transformation, resulting in the progressive deterioration of world forest cover that was estimated at around 13 million of hectares between 1990 and 2015 (FAO, 2016). This damage has been caused by human activities and, in particular, by agricultural expansion, urban growth, infrastructure development and mining (FAO, 2016). To contain this phenomenon, companies under the NGOs pressure, are increasingly implementing responsible and specific actions within their CSR activities, such as Sustainable Forest Management (SFM), which is a universally adopted dominant paradigm for discussing forest management and protection (Cubbage et al., 2010).

Parallel to the SFM, certifications systems were developed in the early 1990s as governance tools that attempt to reward environmentally friendly business practices (Auld et al., 2009). Because of their non-governmental nature, these certification schemes are included among the private sector hard law that is defined by Cashore (2002) as Non-State Market-Driven (NSMD). Compared to the other types of CSR

innovations, in the NSMD governance rulemaking comes from customers within the market supply chain with a marginal use of state sovereignty to enforce compliance of the rules (Cashore et al., 2007). NSMD governance requires a firm to understand and manage the upstream implication of its activity. It also requires that firms look downstream to understand that it is ultimately the market that drives NSMD schemes to be adopted. Through NSMD governance, it is possible to provide credible assurance to customers about the effective compliance of forest management with sound social, environmental and economic principles (Cashore et al., 2005; Johnson and Walche, 2004; Overdevest and Rickenbach, 2006; Rametsteiner and Simula, 2003; Vogt et al. 2000). This compliance is ensured by the existence of an outside monitoring procedure. The involvement of a wide range of stakeholders in their activity governance makes forest certification programmes different to the other types of CSR efforts and, although the actions involved in the forestry programme are driven by the profits quest, the same programme can be seen, such a civil society organisation mechanism embracing the overall value of sustainable forest management (Meidinger et al., 2003).

According to Paluš and Kaputa (2009), forest certification can be defined as a method by which an independent third-party performs a valuation to determine whether forest management satisfies pre-established ecological, economic and social standards and verifies it

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through a written document (Paluš and Kaputa, 2009, p. 67). Forest certification can apply to forest management solely or it may include the entire supply chain, from the forest to the end users, which is defined as the Chain of Custody (CoC) (Paluš and Kaputa, 2009, p. 67). The CoC has the objective of ensuring the traceability of wood-based products and to ensure that they have come from certified forests (Nussbann and Simula, 2005).

Today, the forest certification represent a significant tool in achieving good governance in environmental management, particularly extending decision making to local communities (Cadman et al., 2015, p. 115). They have also become a strategic instrument for business, particularly for companies that sell or export their certified products in environmentally sensitive markets (Nor Suryani et al., 2011). The most widespread forest certification schemes are the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). Both standards are promoted by non-governmental organisations to foster the responsible management of forests through a voluntary certification system and third-party (independent) assessment, specifically for the forest sector and forest based products. While the FSC—which was established in 1993—adopts worldwide common principles and governance for the promotion of sustainable and responsible management of forests, the PEFC—which was established in 1998—recognises the individual programmes existing in different countries in order to provide a common eco-label. Another difference underlined by Cadman (2011) between these forest governance schemes is that while the FSC adopts a multi-stakeholders approach that is central to its decision making process, the PEFC impedes the participation of a wide range of interested parties in substantive discussions (Cadman, 2011, p. 195). Italy is one of the most advanced European and international countries in terms of environmental certifications, including in the forestry industry, with 2024 FSC certified companies (of which, 2009 are related to the CoC) and 963 companies with PEFC certification (of which, 936 have CoC certification) (FSC, database, 2016; PEFC database, 2016). The data, as clearly stated in the *Symbola report* (2016), should be seen in the overall context of the competitive repositioning of companies in the quality market and the green economy.

Given this background, the aim of this work is to analyse the role of environmental certifications and particularly of the FSC, which is the most widespread standard in the Italian forest-based industry, as tools to promote responsible forest management and the traceability of derived products. More specifically, this study aims to highlight the main factors motivating companies operating in the industry to implement the FSC standard. We will also study the impact of the latter on the economic and organisational results. Our aim is to provide useful information for businesses that adopt certification systems, to revise or strengthen the system adopted, and for those wishing to adopt them.

The rest of this paper is organised as follows. Section 2 reviews the literature on the major theoretical models of forest certification adoption with specific reference to the motivational aspects and changes incurred in the business following the implementation of environmental certification schemes in the forest based industry. Section 3 presents the methodological approach adopted. The results of the empirical investigation are presented and discussed in Section 4. Our Conclusions are presented in the final section.

2. Literature review

In recent years, economic issues related to the diffusion of voluntary certification in the forest based industry have attracted the growing interest of both practitioners and scholars. Some studies analyse the forest certification costs, which Nor Suryani et al. (2011) found represent 96.0% of the full cost supported by forestry companies in order to obtain the requirements (training, documentation, identification and labelling), or the premium price for certified forest products (Owari and Sawanobori, 2007). A review of the extensive body of economic

literature shows that great importance has been given to the analysis of what motivates forest owners or entrepreneurs who operate in the forest-based industry to implement voluntary certification schemes, and their impact on the economic and organisational efficiency of those companies on the basis of specific theoretical models.

One of the major models for the explanation of certification diffusion in the forest based industry has been developed by Cashore et al. (2004). The NSMD model argues that the structural features that can affect the efforts of companies in the adoption of FSC programmes at a domestic-level are linked to the place in global economy, to the structure of forest industry, and to the public policies in this field. This model has been empirically tested by the Authors, who compared the adoption of FSC certification in five countries (Canada, United States, United Kingdom, Germany and Sweden). Their findings show that the diffusion of this standard is linked, on the one hand, to the market features and in particular to a greater dependence from foreign markets environmentally sensible, and, on the other hand, it is also linked to the structure of the sector, and especially to a wider presence of large and vertically integrated companies. The same model has subsequently been adopted in several studies, confirming the explanatory power of this theoretical approach. Gulbrandsen (2005) compares the diffusion of FSC standard in the Swedish and Norwegian forest based industry showing that, although public policy in both countries encourages the adoption of these voluntary initiatives, the standard has only been widely diffused in Sweden. This can be explained by the structure of the Swedish forest sector, which is characterised by larger companies. The important role of the structure of forest industries in the diffusion of voluntary initiatives was confirmed by the study carried out by Espach (2006), which compared two Latin American countries. In Brazil, the heterogeneity of the forest companies diffused throughout the territory has encouraged the adoption of the FSC. In contrast, a highly concentrated sector in Argentina has impeded the diffusion of this standard due to the opposition of the biggest companies. Cashore et al. (2007) applied the NSMD model to the Finnish forest industry and found that large and concentrated forest companies, particularly those which are more market oriented, are more likely to support the FSC programme. Furthermore, the authors highlight that the Finnish government's new legislation appears to have minimised public dissatisfaction and that the historically close relationship between governmental agencies and forest owners has affected the adoption of codes of conduct and procurement policies with tangible impacts on the demand for certified forest products. This evidence is supported by the results of Gale and Haward (2011), according to which governments can facilitate the development of forest certifications by providing financial support.

The NSMD model has also been used to understand the main features affecting the adoption of voluntary initiatives in developing and transitioning countries. Cashore et al. (2006) conducted research of 16 case studies and confirmed the role played by the structure of the forest industry and also found that a considerable influence is exerted by policy and governments. Indeed, if in some countries the government has wholeheartedly supported FSC certification, in others politics has put maximum efforts into developing and promoting alternative schemes. Furthermore, if in some countries some business operators of the forest industry share the principles of FSC and recognise it as a solution to market access difficulties, in other countries forest operators are vigorously opposed to the growth of the FSC, opting instead for alternative schemes.

The model proposed by Cashore et al. (2004) is focused on the factors that can influence the diffusion of certifications taking into account the social, economic and political context in which businesses operate. However, other theoretical approaches have been built by relying on the entrepreneurial motivations and the role of certifications as a strategic and competitive tool. In this field, one of the first studies was that of Takahashi (2001), who applied Pfeffer's classification scheme (Pfeffer, 1997) in the Canadian forest industry. In particular, this author identifies four potential motivational models for participating in

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