The effect of ISO 14001 on environmental performance: Resolving equivocal findings

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1. Introduction

While traditional government regulations have led to significant reductions in industrial pollution, businesses typically argue that the prescriptive nature of these regulations is costly. Additionally, traditional regulations have been criticized for establishing a threshold of acceptable pollution because facilities typically strive to meet these thresholds but fail to reduce their emissions any further. These limitations and others have caused many governments to promote an alternative environmental policy approach that encourages facilities' voluntary actions to improve the environment beyond that which is required by law. The voluntary approach supplements existing regulations by encouraging cooperation between the regulated community and government officials (Khanna, 2001). It is regarded as more flexible and often times less costly than traditional regulations, as facilities have more freedom in choosing their pollution-mitigation strategies. In addition, the voluntary approach does not involve enforcement by regulators, which can reduce regulators' administrative costs. Further, voluntary approaches often encourage facilities to take a broader view of their overall pollution emissions, by emphasizing reductions in unregulated environmental impacts that could lead to greater overall pollution reductions.

One of the most widely used voluntary approaches involves the adoption of the certified environmental management system (EMS) called ISO 14001. By December 2014, 324,148 facilities worldwide had received ISO 14001 certification (International Organisation for Standardisation [ISO] 2015). ISO 14001 is a process standard that grants facilities flexibility in the types of environmental goals they wish to establish. It encourages facilities to systematically manage their environmental impacts by requiring them to implement a series of internal management procedures. Because of its potential to improve the natural environment, some governments have introduced assistance programs that promote facilities' adoption of certified EMSs more broadly (Arimura et al., 2008; USEPA 2010).

Previous assessments of ISO 14001 as a voluntary policy approach have shown mixed results. On the one hand, compared to non-adopters, ISO 14001 adopters operating in the United States (U.S.) (e.g., Potoski and Prakash, 2005), Japan (Arimura et al., 2008), and Mexico (Dasgupta et al., 2000) have shown improved environmental performance. More internationalized studies have also shown a positive relationship between ISO 14001 certification and improved environmental performance for manufacturing facilities in Canada, France, Germany, Hungary, Japan, Norway, and the U.S. (Johnstone et al., 2007). However, other studies of facilities operating in Mexico (Blackman, 2012), the United Kingdom (Dahlstrom et al., 2003), and the U.S. (King et al., 2005) demonstrate no change in environmental performance or pollution abatement behavior (Ziegler and Rennings, 2004), while still other studies in Canada (Barla, 2007) and the U.S. (Darnall and Sides, 2008) offer inconclusive results.

We argue that there are at least two reasons for the equivocal findings, the first being institutional pressures arising from differences in regulatory settings both across and within countries. Related to cross-country variations, facilities operating within

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countries with stronger regulatory settings tend to incur more environmental costs which creates incentives for facilities to implement ISO 14001 differently. Related to within country variations, countries utilize different types of environmental laws, with some being more prescriptive and others being more flexible. We suggest that flexibility in the regulatory system creates incentives for ISO 14001 adopters to explore more cost-effective approaches to reduce their environmental impacts, and thus achieve stronger environmental outcomes.

A second reason for the mixed findings may be due to how prior studies have addressed the endogeneity of ISO 14001 adoption. Endogeneity arises because of unobserved facility-specific factors, such as unobservable managers' attitudes towards the environment, and may be positively correlated with both environmental performance and ISO 14001 adoption. As a result, when estimating the relationship between ISO 14001 and environmental performance the error term may be positively correlated with ISO 14001 adoption. The effect of ISO 14001 may be overstated, unless this correlation is adequately controlled for. Endogeneity may also arise due to simultaneity in that facilities with lower environmental performance may be more likely to adopt ISO 14001 in order to improve their performance. In such a case, the effect of ISO 14001 may be understated.

Prior research has addressed issues of endogeneity by relying on an instrumental variable for ISO 14001 adoption (e.g., Arimura et al., 2008; Dasgupta et al., 2000; Johnstone et al., 2007; Potoski and Prakash, 2005). The choice of instruments is not an easy task, however. Even if the researcher believes that a variable might be relevant as an instrument, it may not necessarily be independent of the unobserved determinants of the performance and therefore lead to inappropriate conclusions that ISO 14001 is (or is not) effective.

Our research contributes to existing scholarship by exploring these institutional and methodological concerns to determine whether voluntary approaches such as ISO 14001-certification are related to improvements in facilities' environmental performance. Using data from the U.S. and Japan, we compare the facility-level effectiveness of ISO 14001 certification on environmental performance across and within the two countries. We consider two types of regulated impacts: the use of natural resources and air pollutant emissions. In undertaking our estimations, we rely on both the standard instrumentation approach to address endogeneity, in addition to Altonji et al.'s (2005) method for dealing with the case where researchers have no potential instruments. After comparing the results from the two estimation approaches, we emphasize the more conservative method to minimize the possibility of drawing inappropriate conclusions about ISO 14001's effectiveness.

Our results offer evidence that the effectiveness of ISO 14001 certification varies across institutional settings - both across and within countries, especially as it relates to the type of environmental impact. Our findings have important implications for the usefulness of this environmental governance tool in that ISO 14001 may be more effective in countries with stronger environmental regulations and for environmental impacts that are governed by more flexible regulation that open the way for greater cost-savings.

2. ISO 14001 and variations in environmental performance

An EMS is a formal set of procedures that defines how a facility will manage its impacts to the natural environment. EMSs require that facilities establish an environmental policy, create quantifiable goals to reduce their environmental impacts, and monitor their environmental progress through systematic auditing and management review (Coglianese and Nash, 2001). They are based on a continuous-improvement model that expects firms to periodically revisit and update their environmental improvement goals to ensure that negative environmental impacts are minimized (Darnall and Edwards, 2006).

While many facilities have employed EMSs for years, ISO 14001 is the first attempt to create an international EMS standard. It requires certification by an independent third-party auditor who helps ensure that the EMS conforms to the ISO 14001 standard. In preparation for certification, a facility must document the procedures that form its EMS. Once certified, the ISO 14001 label indicates that a facility has both implemented a management system that conforms to the ISO 14001 standard and has documentation verifying this conformance (Arimura et al., 2008).

At its core, ISO 14001 is a process standard. Rather than emphasizing actual environmental performance outcomes, ISO 14001 emphasizes the processes that facilities should undertake to manage their environmental impacts (Khianna, 2001). This emphasis allows for variations across facilities' environmental goals and subsequent performance, which opens the possibility that ISO 14001 may not reduce a facility's environmental impacts. This potential is further enhanced by the fact that ISO 14001-certified facilities do not incur regulatory sanctions if they fail to improve their environmental performance. However, by virtue of undergoing certification, facilities are likely to commit to achieving legitimate environmental performance goals (Rondinelli and Vastag, 2000), because external verification causes individuals to more seriously consider their group obligations (Olson, 1965). External verification also offers a greater degree of accountability and reduces opportunities for participants to behave opportunistically, which can motivate facilities to respond more earnestly to their EMS goals and conform to the ISO 14001 standard (Darnall and Sides, 2008).

Studies assessing the performance of ISO 14001 adopters have been mixed, with some studies determining improved environmental performance (Potoski and Prakash, 2005; Arimura et al., 2008; Dasgupta et al., 2000), while others have failed to demonstrate environmental improvements (Blackman, 2012; Dahlstrom et al., 2003; King et al., 2005; Ziegler and Rennings, 2004). Still others offer inconclusive results (Barla, 2007; Darnall and Sides, 2008). We suggest that effectiveness of ISO 14001 certification varies across institutional settings. In particular, we hypothesize that the equivocal findings are due in part to institutional factors related to country differences and differences in type of environmental impacts.

At the inter-organizational level, institutional pressures arise from external sources such as environmental regulation (Hoffman, 2000). Regulation involves coercive legal mandates for organizations to use pollution control technology, attend to pollution thresholds, and report their pollution emissions to reduce their impact to the natural environment (Darnall et al., 2008). Facilities that fail to comply with regulatory requirements risk legal sanction, including losing their operating permits and incurring fines and penalties, which constrains the strategic actions of business, and is the primary reason why organizations implement proactive environmental activities (Hoffman, 1997). We suggest that variations in regulatory settings both across and within countries help explain the equivocal findings about the effectiveness of ISO 14001.

With respect to cross-country variation in the regulatory setting, some countries adopt regulations that are more stringent than others. Facilities operating within more stringent regulatory settings have greater incentives to address environmental concerns. For instance, U.S. firms are not taxed excessively for their use of domestic natural resources, making them less expensive than natural resources in other countries. Additionally, the U.S. is not a signatory to the Kyoto Protocol and so U.S. firms are not pressured in the same way as other firms to minimize their carbon emissions. By contrast, Japanese firms have higher taxes on their use of energy, thus making this natural resource quite expensive comparatively.
Moreover, in 2008, Japan committed to achieve a 6% carbon reduction from its 1990 level, thus indirectly regulating Japanese facilities’ use of natural resources. This regulatory setting creates greater incentives for Japanese facilities (as opposed to U.S. facilities) to use ISO 14001 to reduce their natural-resource usage. Therefore, we offer the following hypothesis:

**Hypothesis 1. ISO 14001’s effectiveness at reducing pollution varies across countries.**

In addition to cross-country variations in the regulatory setting, variations in regulations within countries may help explain the equivocal findings. For instance, even if natural resources are regulated more in some countries than others, within most developed societies natural resource use is typically regulated using more flexible policy approaches. Such approaches include taxes or performance standards. Facilities therefore have more flexibility to explore cost-effective options when reducing these impacts. For instance, in reducing their natural resource usage, facilities may encourage employees to think differently about their daily routines, including how to reuse their production process water, retrofit lighting and install motion-detecting lights, and utilize process waste so that it becomes an input in the production line. Facilities may also renegotiate their supplier contracts to ensure that a greater proportion of product inputs come from recycled (rather than virgin) materials. By contrast, for pollutants that are governed by more prescriptive regulatory frameworks (e.g., air pollution), facilities are often required to install specific pollution control technologies or a specific change in their operating practices. Such regulation encumbers the sorts of activities a facility may be able to undertake to reduce its pollution, which may make ISO 14001 less effective at reducing these sorts of impacts, at least in the short-run. We therefore offer the following hypothesis:

**Hypothesis 2. ISO 14001’s effectiveness at reducing pollution varies across environmental impacts.**

We suggest that another possible reason why ISO 14001’s effectiveness remains unclear is because of methodological concerns related to typical estimation approaches. Prior studies (e.g., Arimura et al., 2008; Dasgupta et al., 2000; Johnstone et al., 2007; Potoski and Prakash, 2005) have addressed the endogenous relationship between facilities’ ISO 14001 adoption and environmental performance by relying on an instrumental variable. One of the most common instruments (e.g., Arimura et al., 2008; Johnstone et al., 2007) accounts for the availability of a government assistance program for EMS adoption. However, in developing these assistance programs, governments may purposefully target facilities with poor environmental records to encourage them to adopt an EMS. If these facilities subsequently adopt ISO 14001, the availability of an assistance program may not be independent of the unobserved determinants of environmental performance, and therefore lead to inappropriate conclusions about ISO 14001’s effectiveness. Other instruments may have similar concerns. For example, Dasgupta et al. (2000) employed a dummy variable for whether the facility was subject to a regulatory inspection. This variable, however, may be correlated with unobserved determinants of compliance if the regulatory agency changes the frequency of inspections for facilities based on their compliance status (Firestone, 2002). Similarly, Potoski and Prakash (2005) used emissions as an instrument. Their argument was that a facility’s emissions do not directly affect its compliance status, as regulations govern emission-control technologies rather than the level of pollutants. However, unobserved factors such as corporate culture and managers’ attitudes towards the environment may affect not only compliance status but also emissions, thus compromising emissions as an instrument. To address this concern, this study therefore uses an alternative method proposed by Altonji et al. (2005) for dealing with the case where researchers have no potential instrument, in addition to standard instrumental variable methods.

3. Data description

We draw on data that were collected from a survey developed by the Organisation for Economic Co-Operation and Development (OECD) Environment Directorate and which involved approximately 14 academic researchers and advisory group members located in Canada, France, Germany, Hungary, Japan, Norway, and the U.S. (Johnstone, 2007). The survey was designed to gather information on manufacturing facilities’ environmental activities within these countries (Johnstone, 2007). The survey was vetted by representatives of the OECD’s Business and Industry Advisory Committee and pre-tested in Germany, Canada, and Japan, before it was translated into each country’s official language and validated for accuracy (Johnstone, 2007).

Within Japan, a random sample of 4757 facility managers was selected from all manufacturing facilities operating within Japan having at least 50 employees. Within the U.S., all 3746 U.S. manufacturing facilities that reported data to EPA’s Toxic Release Inventory were part of the sampling frame, since nearly all manufacturing organizations with at least 50 employees submit data to the inventory. Surveys with an accompanying letter (both OECD and university letterheads) were addressed to each facility’s environmental manager and mailed via post in 2003 (Johnstone, 2007). Researchers sent two follow-up mailings at three-week intervals to prompt additional responses (Johnstone, 2007). The response rate for Japanese facilities was 32% (1499 respondents). After removing incomplete responses, the Japanese sample contained 1035 facilities.

The response rate for U.S. facilities was 13% (489 respondents), which is consistent with previous assessments of U.S. organizations’ voluntary environmental practices (e.g., Delmas and Keller, 2005; Melnyk et al., 2003) where response rates were 11.2 and 10.4%, respectively. After removing incomplete responses, the U.S. sample was 382. Almost half of the OECD sample consisted of small- or medium-sized enterprises (<250 employees).1

Because we use survey data, it is important for us to address issues related to common method bias (CMB). CMB relates to respondents’ affective states and their tendency to respond to surveys in a socially desirable way (Podsakoff et al., 2003). Survey research offers two kinds of remedies for CMB, the first being procedural remedies, which occur in the ex-ante phase of the research design (Chang et al., 2010; Podsakoff et al., 2003). The second remedy is statistical, and takes place in the ex-post phase of the research (Chang et al., 2010; Podsakoff et al., 2003). Related to procedural remedies, the OECD incorporated several recommended survey-design procedures (e.g., Podsakoff et al., 2003), one being psychological and methodological separation of measurement. To make it appear that the measurement of the dependent variable was not connected with the measurement of the explanatory variables, the OECD utilized six cover stories within the 12-page survey (containing 42 questions), which explained the focus of each specific part of the survey in an effort to separate variables of interest. Additionally, survey questions related to ISO 14001 (page 3) were separated from those related to environmental performance (page 6).

To further reduce the probability of CMB, the survey varied question response formats to engage respondents to a greater degree (Chang et al., 2010; Podsakoff et al., 2003). Response formats

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1 For a more extensive discussion of the OECD data, see Johnstone (2007).
included Likert scales, yes/no questions, semantic differential scales, and open-ended questions. The OECD reduced item ambiguity by pre-testing the survey. Ambiguity was further diminished by ensuring that target respondents were environmental experts and responsible for their firm’s environmental activities (Johnstone, 2007). As a final procedural remedy, the survey protected respondent anonymity in order to reduce respondents’ apprehension about the social acceptability of their responses, thus increasing confidence in the quality of the data (Podsakoff et al., 2003).

Related to ex-post statistical remedies that assess CMB, we examine the OECD data using Harman’s single-factor test (Podsakoff and Organ, 1986). This procedure involves a factor analysis of all the data, and if a single factor emerges accounting for the majority of the covariance between the dependent and independent variables then CMB is a concern (Podsakoff and Organ, 1986). The results of our factor analysis lead to multiple factors, suggesting that CMB is less of a concern.

The OECD did not examine non-response bias by comparing early to late responders, and this is a limitation of our study. However, it did evaluate the general distribution of its survey respondents. The OECD found no statistically significant differences when comparing industry representation and firm size of the survey respondents to the distribution of firms in the broader population (Johnstone, 2007).

### 3.1. Dependent variable

To measure facilities’ environmental performance, we consider two types of environmental impact: (1) the use of natural resources (energy, water, etc.), and (2) air pollutant emissions. These impacts are chosen for three reasons. First, findings from previous studies indicate that ISO 14001 helps reduce both facilities’ use of natural resources (e.g., Arimura et al., 2008) as well as their air emissions (e.g., Johnstone et al., 2007). Second, these impacts are regulated very differently and therefore exert different pressures on facilities. Facilities that reduce their natural-resource use typically do so in the absence of a regulatory mandate, and when regulations exist they tend to rely on flexible policies such as taxes and performance standards. As such, facilities can accrue efficiencies related to reductions in product input costs. By contrast, air emissions are prescriptively regulated, and reductions in air emissions beyond regulatory thresholds are often associated with pollution-control investments that can be quite costly. In some instances, facilities that reduce their air pollutants may improve internal efficiencies. However, the efficiency benefits that might accrue from air pollutant reductions are less compelling than that for natural resource reductions because they offer less flexibility in how regulatory compliance is achieved. Examination of these two types of impact therefore provides some insight into whether differential costs and benefits might relate to the effectiveness of ISO 14001.

Third, by examining two types of environmental impacts and using data that were collected equivalently across two different countries, we are in a rare position to assess whether the effectiveness of a voluntary approach differs across countries and also within countries based on regulatory settings. Doing so offers a unique pathway towards understanding the equivocal findings on ISO 14001’s effectiveness.

To measure environmental performance, we rely on an OECD survey question that asked, “Has your facility acquired any of the following certifications in environmental management?” Facility managers responded whether or not they had certified to ISO 14001. We code this variable equal to one if the facility is certified to ISO 14001; zero otherwise.

### 3.2. Key explanatory variable

To assess whether facilities were certified to ISO 14001, we rely on an OECD survey question that asked, “Has your facility acquired any of the following certifications in environmental management?” Facility managers responded whether or not they had certified to ISO 14001. We code this variable equal to one if the facility is certified to ISO 14001; zero otherwise.

### 3.3. Control variables

Larger facilities are often suggested to have more access to resources and capabilities (Bianchi and Noci, 1998) that may be

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2 To see this, consider an ordered probit model for \( z = 1, 2, 3, 4, 5 \). A latent response variable \( z^* \) depends on \( x \) and \( u \), \( z^* = \alpha + \beta x + u \) where \( x \) is a set of covariates and \( u \) is a random error term. \( z^* \) is associated with \( z \) via threshold parameters in the following manner: \( z = j \) if \( \mu_{j-1} < z^* < \mu_j \), where \( \mu_0 = -\infty \) and \( \mu_4 = \infty \). Usually, \( \mu_4 \) is normalized to 0 for identification. However, a different normalization, for example, \( \mu_2 = 0 \) is also possible. Then, the probability that \( z \) equals 1 or 2 is \( \Pr(z = 1) = \Pr(z = 2) = \Pr(z^* < \mu_2) - \Pr(z^* < \mu_0) = \Phi(\alpha - \beta x) - \Phi(\alpha + \beta x) \) where \( \Phi(\cdot) \) is the distribution function of the standard normal random variable. Now, consider a variable \( y \) where \( y = 1 \) if \( z = 1 \) or 2 and \( y = 0 \) if \( z = 3, 4, 5 \). It follows that \( \Pr(y = 1) = \Phi(\alpha - \beta x) \) and \( \Pr(y = 0) = 1 - \Phi(\alpha - \beta x) \). This means that we can identify \( \alpha \) and \( \beta \) by simply estimating the probit model with the aggregated binary data \( y \), although threshold parameters (\( \mu_1, \mu_2, \mu_3 \)) are not identified.
leveled towards achieving greater environmental performance (Darnall et al., 2010). We control for the number of facility employees (logged) as a proxy for facility size. We also account for facility age to control for technology vintage (Russo, 2009).

Publicly traded or multinational organizations are more sensitive to brand image, and may encourage them to adopt EMSs (Darnall and Kim, 2012). As a consequence, we control for whether or not the facility’s parent company is publicly traded. To control for firms’ financial heterogeneities (Delmas et al., 2013) related to their sales, we construct three binary variables to account for whether the facility’s sales have either “increased,” “decreased,” or “remained the same.” The omitted dummy category is whether the facility’s sales have “remained the same.”

Organizations operating in a competitive market are more likely to adopt proactive environmental practices in order to be recognized as being environment-friendly (Khanha and Speir, 2013). To address this issue we account for the facility’s market concentration for its most commercially viable product by constructing three dummy variables. These variables account for whether the facility’s “number of competitors is greater than 10” (1,0), if its “number of competitors is between 5 and 10” (1,0), or its “number of competitors is fewer than five” (1,0). “Less than 5 competitors” was our omitted dummy category. We include four dummy variables to control for the facility’s market scope since the more export oriented the organization, the higher the benefits it may accrue from its more visible actions to protect the environment (Darnall et al., 2010; Martín-Tapia et al., 2010). They take the value of one if respondents indicate “the scope of the facility’s market is global,” “regional (neighboring countries),” “national,” and “local.” The omitted comparison category is the “local market.”

Since facilities’ environmental practices are influenced by pressures from buyers and consumers (Khanha and Speir, 2013), we controlled for where the facility was located within the supply chain, and customers’ influence on the adoption of ISO 14001 (Arimura et al., 2008), we use three dummy variables, which equal one (zero, otherwise) if a facility’s primary customers are “households” (zero, otherwise), “other facilities within the firm”, or “wholesalers/retailers.” The omitted dummy category is “other manufacturing firms.”

Adopting a quality management system is known to influence facilities’ adoption of ISO 14001 (Arimura et al., 2008) because both quality management systems and ISO 14001 are based on complementary continual improvement processes (Ferrón-Vílchez and Darnall, 2015; Darnall and Edwards, 2006). To address this, we include a dummy variable to account for whether or not (1,0) the facility implemented a quality management system.

Technological innovation may also be an important determinant of environmental performance in that facilities with stronger technological innovation may greatly improve their environmental performance. For this reason, technological innovation might be included as a control variable. However, we refrain from doing so in our empirical model, because technological innovation is likely to be correlated with the error term in a way that is similar to ISO 14001 adoption and the inclusion of another endogenous regressor in the model is technically difficult, if not impossible. In addition, the issue of whether or not technological innovation is included does not seem to be relevant to this study, because the objective of this study is to examine the effect of ISO 14001 certification, and because the endogeneity problem that may arise from the omission of technological innovation is addressed with our preferred model.

Descriptive statistics of the variables for both U.S. and Japan facilities are presented in Tables 1 and 2, respectively.

### 4. Methodology

To estimate the effect of ISO 14001 certification, we start with a simple probit model with the assumptions that there is no endogeneity of ISO 14001. We then relax this assumption, and assume

<table>
<thead>
<tr>
<th>Variable</th>
<th>ISO 14001 adopters</th>
<th>ISO 14001 non-adopter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Std. Dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>IMPROVE (the use of natural resource)</td>
<td>0.74</td>
<td>0.44</td>
</tr>
<tr>
<td>IMPROVE (the air pollutant emissions)</td>
<td>0.70</td>
<td>0.46</td>
</tr>
<tr>
<td>Number of employees</td>
<td>542.34</td>
<td>640.11</td>
</tr>
<tr>
<td>Facility age</td>
<td>45.59</td>
<td>25.83</td>
</tr>
<tr>
<td>Facility belongs to publicly traded firm</td>
<td>0.64</td>
<td>0.48</td>
</tr>
<tr>
<td>Facility sales have increased</td>
<td>0.23</td>
<td>0.41</td>
</tr>
<tr>
<td>Facility sales have declined</td>
<td>0.44</td>
<td>0.50</td>
</tr>
<tr>
<td>Primary customer is other manufacturing firms</td>
<td>0.78</td>
<td>0.42</td>
</tr>
<tr>
<td>Primary customer is wholesaler/retailer</td>
<td>0.15</td>
<td>0.36</td>
</tr>
<tr>
<td>Primary customer is household consumers</td>
<td>0.03</td>
<td>0.16</td>
</tr>
<tr>
<td>National market scope</td>
<td>0.19</td>
<td>0.40</td>
</tr>
<tr>
<td>Regional (neighboring countries) market scope</td>
<td>0.08</td>
<td>0.28</td>
</tr>
<tr>
<td>Global market scope</td>
<td>0.71</td>
<td>0.46</td>
</tr>
<tr>
<td>Firm has less than 5 market competitors</td>
<td>0.26</td>
<td>0.44</td>
</tr>
<tr>
<td>Firm has between 5 and 10 market competitors</td>
<td>0.38</td>
<td>0.49</td>
</tr>
<tr>
<td>Quality management system</td>
<td>0.95</td>
<td>0.23</td>
</tr>
<tr>
<td>Availability of government EMS assistance programs</td>
<td>0.53</td>
<td>0.50</td>
</tr>
<tr>
<td>Food</td>
<td>0.01</td>
<td>0.12</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.03</td>
<td>0.16</td>
</tr>
<tr>
<td>Wood</td>
<td>0.01</td>
<td>0.12</td>
</tr>
<tr>
<td>Pulp</td>
<td>0.04</td>
<td>0.20</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.36</td>
<td>0.48</td>
</tr>
<tr>
<td>Other non-metallic mineral</td>
<td>0.01</td>
<td>0.12</td>
</tr>
<tr>
<td>Basic metals</td>
<td>0.27</td>
<td>0.45</td>
</tr>
<tr>
<td>Machinery</td>
<td>0.12</td>
<td>0.33</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>0.12</td>
<td>0.33</td>
</tr>
<tr>
<td>Recycling</td>
<td>0.01</td>
<td>0.12</td>
</tr>
</tbody>
</table>

a n = 73 for ISO 14001 adopters; n = 309 for ISO 14001 non-adopters.
that we have a valid instrument. We incorporate the traditional instrument—the availability of a government assistance program for EMS adoption—as it was used by prior studies using the same data set as ours (i.e., Johnstone et al., 2007; Arimura et al., 2008). Because of concerns about instrumentation quality, we also rely on Altonji et al.'s (2005) method for dealing with the case where researchers have no potential instruments. Altonji et al.'s (2005) method (defined precisely in Section 4.2) is based on the assumption that the degree of selection on unobservables is the same as the degree of selection on the observables. In our context, the observable and unobservable components of the environmental performance may or may not be associated with ISO 14001 adoption. The assumption means that the degree of association is the same for the observable and unobservable components of the performance.

However, this assumption is not testable, because parameters are just identified by the restriction implied by the assumption (this is just like the assumption that an instrumental variable is not correlated with the error term). Therefore, after comparing the results from the two estimation approaches, we emphasize the results for the more conservative one to minimize the possibility of drawing inappropriate conclusions of ISO 14001's effectiveness.

We assume that a facility will improve its environmental performance if its net benefit from environmental performance improvement is larger than or equal to zero. The net benefit depends on various factors including the adoption of ISO 14001. This is modeled as follows:

\[
\text{IMPROVE}_{i} = 1 \left[ \text{IMPROVE}_{i}^{*} \geq 0 \right] \tag{1}
\]

\[
\text{IMPROVE}_{i}^{*} = \delta \text{ISO}_{i} + \mathbf{X}_{i}^{T} \mathbf{B}_{1} + \epsilon_{1i}, \tag{2}
\]

where \( \text{IMPROVE}_{i} \) is a binary variable that equals to one if facility \( i \) made an improvement in the environmental impact, \( 1[\cdot] \) is an indicator function, \( \text{IMPROVE}_{i}^{*} \) is a latent variable that represents the net benefit from improving the environmental impact, \( \text{ISO}_{i} \) is a dummy variable that equals one if the facility adopted ISO 14001 (\( \delta \) is its coefficient), \( \mathbf{X}_{i} \) is a vector of control variables (\( \mathbf{B}_{1} \) is the vector of the corresponding coefficients), and \( \epsilon_{1i} \) is an idiosyncratic error term.

### 4.1. Standard probit model

We first assume that \( \text{ISO}_{i} \) is exogenous in that it is independent of \( \epsilon_{1i} \). Further we assume that \( \epsilon_{1i} \) is standard normally distributed; this results in a probit model where the probability that \( \text{IMPROVE}_{i} = 1 \) is expressed as

\[
P(\text{ISO}_{i} = 1 | \text{ISO}_{i} = 1, \mathbf{X}_{i}) = \Phi( \delta \text{ISO}_{i} + \mathbf{X}_{i}^{T} \mathbf{B}_{1} )
\]

where \( \Phi \) is the distribution function of the standard normal random variable. The effect of interest is the average partial effect (APE) of \( \text{ISO}_{i} \),

\[
E_{\mathbf{X}_{i}}[P(\text{ISO}_{i} = 1 | \text{ISO}_{i} = 1, \mathbf{X}_{i}) - P(\text{ISO}_{i} = 1 | \text{ISO}_{i} = 0, \mathbf{X}_{i})]
\]

which can be consistently estimated by

\[
\frac{1}{N} \sum_{i=1}^{N} \left[ \Phi(\hat{\delta} + \mathbf{X}_{i}^{T} \hat{\mathbf{B}}_{1}) - \Phi(\mathbf{X}_{i}^{T} \hat{\mathbf{B}}_{1}) \right],
\]

where \( \hat{\delta} \) and \( \hat{\mathbf{B}}_{1} \) are estimates of \( \delta \) and \( \mathbf{B}_{1} \), respectively.

### 4.2. Endogeneity of ISO 14001

We now relax the assumption that \( \text{ISO}_{i} \) is an exogenous variable. In our context, a standard model that allows for potential...
endogeneity of ISO is a bivariate probit model. In addition to the facility performance (modeled by Equations (1) and (2)), the adoption of ISO 14001 is modeled as

\[ ISO_i = 1 \left[ ISO_i^* \geq 0 \right] \]  
\[ ISO_i^* = x_{ij} \beta_2 + \epsilon_{2i} \]  

where \( ISO_i^* \) is a latent variable that represents the net benefit from adopting ISO 14001, \( x_{ij} \) is a set of control variables, and \( \epsilon_{2i} \) is an idiosyncratic error term. The error terms \((\epsilon_{1i}, \epsilon_{2i})\) are assumed to have a bivariate normal distribution with \( \rho \) where the first (second) element is the variance of \( \epsilon_{1i} (\epsilon_{2i}) \) and the third element is the correlation between \( \epsilon_{1i} \) and \( \epsilon_{2i} \).

Some of the variables in \( x_{ij} \) are usually assumed to be independent of \( \epsilon_{1i} \) and hence excluded from \( x_{ij} \). Those variables play a role as “instruments” for identification. Although parameters in a bivariate probit model are identified even without an instrument, it is only through a functional form assumption that identification is achieved. Estimation results that are based solely on a functional form assumption are considered to be unreliable, and therefore researchers typically use instruments to help identification. While the availability of a government assistance program for EMS adoption appears to be the most suitable instrument among all variables in the OECD dataset (Johnstone et al., 2007; Arimura et al., 2008), we have some doubts about its quality for the reasons mentioned earlier.

In the absence of absolutely credible instruments, we estimate the bivariate probit model with \( x_1 = x_2 = x \). Identification is achieved not by instruments but by a different assumption in an effort to supplement the results derived from the more standard instrumental variable approach. The method we use is the one proposed by Altonji et al. (2005), who formalized the idea of using selection on the observables to study the bias due to unobservables and demonstrate how this information can be incorporated into estimation. In what follows, we briefly explain the method within our context (for details, see Altonji et al., 2005). Hereafter, we drop subscript \( i \) for notational simplicity.

Let IMPROVE* be determined by

\[ \text{IMPROVE}^* = \delta \text{ISO} + \mathbf{w}' \gamma \]  

where \( \mathbf{w} \) is the vector containing the full set of variables (both observed and unobserved) determining IMPROVE*, \( \mathbf{w} = (w_1, \ldots, w_j)' \), and \( \gamma \) is the corresponding coefficient vector, \( \gamma = (\gamma_1, \ldots, \gamma_k)' \). Further, define a dummy variable \( s_j \) indicating whether \( w_j \) is observed. The observable and unobservable components are then given by

\[ x'j w_j' \gamma_j, \quad v = \sum_{j=1}^{k} (1 - s_j) w_j' \gamma_j, \]  

where \( x \) represents the observable portion of \( \mathbf{w} \) with coefficients contained in \( \gamma_x \) (a subvector of \( \gamma \)) and \( v \) is an error component accounting for the unobserved variables in \( \mathbf{w} \). Using \( x'j w_j' \) and \( v \), we can re-express Equation (5) as

\[ \text{IMPROVE}^* = \delta \text{ISO} + x'j w_j' \gamma_j + v, \]  

In this equation, it is highly unlikely that the observed control variables \( x \) are uncorrelated with \( v \). Equation (7) can be re-written as

\[ \text{IMPROVE}^* = \delta \text{ISO} + x' \beta_1 + \epsilon_1, \]  

where \( \beta_1 \) is defined to ensure \( COV(x, x') = 0 \) (i.e., \( x \) is exogenous in Equation (8)). \( \beta_1 \) therefore absorbs both the direct effect of \( x \) on IMPROVE* (i.e., \( \gamma_x \)) and the interaction between \( x \) and \( v \).

Now suppose that the linear projection of ISO on \( x' \beta_1 \) and \( \epsilon_1 \) is given by

\[ \text{Proj}(ISO' | x' \beta_1, \epsilon_1) = \phi_0 + \phi_1 x' \beta_1 + \phi_2 \epsilon_1. \]

Here, \( \phi_{x, \beta_1} (\phi_2) \) measures the impact of the observable (unobservable) component of the IMPROVE outcome on ISO 14001 adoption. This can be interpreted as “selection on observables” (“selection on unobservables”). Two conditions on \( \phi_{x, \beta_1} \), representing extreme assumptions about the degree of selection on unobservables, provide the identifying information for the upper and lower bounds of the ISO 14001 effect \( \delta \). The first extreme condition (called condition 1) is that the part of IMPROVE related to the unobservables has no relationship with ISO*, i.e., \( \phi_2 = 0 \) if this condition is satisfied, then there is no endogeneity of ISO 14001.

The second extreme condition (called condition 2) is that the part of IMPROVE related to the observables has the same relationship with ISO* as that related to the unobservables, i.e., \( \phi_2 = \phi_{x, \beta_1} \). Altonji et al. (2005) motivate the situation where condition 2 is likely to be satisfied. Consider the situation where restrictions on data collection are severe. In such a case, it might be reasonable to interpret the elements of \( x \) to be a random subset of a very large number of underlying variables \( w \). This corresponds to assuming that each \( s_j \) in Equation (6) is independent and identically distributed binary random variable equal to one with the same probability for all \( j \). Altonji et al. (2005) show that as \( w \) gets large, condition 2 becomes approximately true for all realizations of \( s_j \).

Although our situation is not exactly what Altonji et al. (2005) suggest, it could be considered an approximation. The data used in this study are a subset of a much larger OECD dataset that was assembled to serve a number of research purposes, instead of addressing one research question. Furthermore, in general, data collection is limited by both the knowledge of what the important factors are, as well as the cost and feasibility of gaining information on those factors. Because of these issues, it is reasonable to assume that many elements of \( w \) are likely to be left out in a relatively random fashion.

Conditions 1 and 2 constrain the degree of selection on unobservables between zero and a ceiling value equal to the degree of selection on the observables:

\[ 0 \leq \phi_2 \leq \phi_{x, \beta_1}. \]

Each extreme represents a different identifying assumption for the \( \delta \) coefficient. Condition 1 corresponds to the restriction that \( \rho = 0 \) in the bivariate probit specification with \( x_1 = x_2 = x \). Therefore, an upper bound estimate of the \( \delta \) coefficient is obtained by estimating a univariate probit model for the performance. Condition 2 can be shown to be operationally equivalent to the following upper bound for \( \rho \)

\[ \rho = \frac{\text{COV}(x' \beta_1, x' \beta_2)}{\text{VAR}(x' \beta_1)}. \]

Maximizing the log-likelihood over \((\delta, \beta_1, \beta_2)\) subject to the constraint on \( \rho \) given above provides a lower bound estimate of the \( \delta \) coefficient.

We also conduct a sensitivity analysis to reveal how much selection on unobservables is required to eliminate the positive relationship between ISO 14001 and environmental performance. This is done by estimating the bivariate probit model with \( x_1 = x_2 = x \) and constrain \( \rho \) to take values from 0.0 to 0.5 in increments of 0.1. The resulting estimates of the \( \delta \) coefficient indicate
5. Estimation results

5.1. Results under the assumption that ISO 14001 is exogenous

Model 1 in Table 3 provides the average partial effects (APEs) of ISO when ISO is assumed to be an exogenous variable. For natural resource usage, the APEs for the U.S. and Japan are estimated to be positive and significant at the 1% levels. According to the results, the former is smaller than the latter; specifically, U.S. adopters of ISO 14001 are 25.9% more likely to reduce their natural resource usage than non-adopters, while Japanese adopters of ISO 14001 are 35.1% more likely to do the same.

ISO 14001 adoption also seems to be associated with the reduction of air pollutant emissions; the APEs for the U.S. and Japan are found to be positive and significant at the 5% levels. In contrast to natural resource usage, however, the APE for U.S. facilities is found to be larger such that U.S. adopters of ISO 14001 are 15.6% more likely to reduce their air pollutant emissions than non-adopters, while Japanese adopters of ISO 14001 are 9.6% more likely to do the same. These results suggest that the effect of ISO may differ between the two countries and across the types of impact. The results also demonstrate the importance of controlling for observable effects, especially when estimating the relationship between ISO and air pollutant emissions. When we run the same model, but do not control for observable effects, the APEs are 19% (p < .05) and 13% (p < .05) for the U.S. and Japan, respectively, and thus are overstated by about three percent.4

5.2. Correcting for the potential endogeneity of ISO 14001: conventional method

Next we examine the importance of controlling for the potential endogeneity of ISO 14001. Models 2–4 in Table 3 present the results when we use conventional methods that rely on an instrument. Availability of government assistance programs (PRGEMP) is used as an instrument, and thus included in x2, but not in x1. In Equation (4), the instrument is highly significant both for the U.S. and Japan.4 This is also the case when we use a linear probability model (i.e., ISO = X2β2 + u). Therefore, PRGEMP satisfies at least one of the two requirements for a valid instrument in that it is correlated with ISO after controlling for other observables.

Model 2 presents the results of the bivariate probit model. For natural resource usage, the APE of ISO for the U.S. is not significant at the 5% level. In other words, there is no strong evidence that ISO 14001-certified facilities are more likely to have reduced natural resource usage than non-certified ones. To check the robustness of this result, we also use two different estimation methods: the Rivers and Vuong (1988) two-step method (Model 3) and the two-stage least squares (Model 4). The size and significance of the APE varies substantially between the methods: 54.7% (p < .01) for the Rivers and Vuong method (Model 3), while 94.3% (but not significant at p < .05) for the two-stage least squares (Model 4). In contrast to the U.S., the APE for Japan is significant at the 1% level and relatively similar across the estimation methods: 43.8% in the bivariate probit (Model 2), 51.8% by the Rivers and Vuong method (Model 3), and 56% by the two-stage least squares (Model 4).

For air pollutant emissions, similar results are obtained for U.S. facilities in that the size and significance of the APEs depend heavily on which estimation methods were used. By contrast, all estimation methods suggest that Japanese ISO 14001-certified facilities are no more likely to have reduced air pollutant emissions than non-adopters.

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3 The results are available upon request.

4 The results are available upon request.
We now ask whether ISO is actually an endogenous variable. Results for Models 2–4 provide clear evidence. Related to reductions in natural resource usage for U.S. facilities, the correlation between $e_1$ and $e_2$ in the bivariate probit model (Model 2) is found to be positive (0.586) but not significant at the 5% level. A similar insignificant relationship exists for both Rivers and Vuong’s estimation method (Model 3) and the two-stage least squares model (Model 4), suggesting that ISO 14001 is exogenous. Additionally, the correlation between $e_1$ and $e_2$ is statistically insignificant for Japanese facilities in Models 2–4. A similar pattern is seen for the correlation between $e_1$ and $e_2$ for reductions in air pollutant emissions in that it is statistically insignificant across Models 2–4 for both U.S. and Japanese facilities. These findings indicate that exogeneity cannot be rejected at conventional levels of significance, and that the univariate probit model (Model 1) provides a consistent estimate of the ISO 14001 effect.

5.3. Correcting for the potential endogeneity of ISO 14001: using Altonji et al.’s (2005) method

The results presented in the previous subsection depend on the assumption that our instrument, $PREGEMP$, is independent of $e_1$ in Equation (2) (the validity of which cannot be tested). However, as discussed earlier, there is reason to suspect that $PREGEMP$ is correlated with $e_1$. If so, the finding that ISO 14001 is exogenous could be incorrect. More importantly, all of our estimators that rely on the instrument (i.e., those from the bivariate probit, the Rivers and Vuong method, and the two-stage least squares) would be inconsistent. This possibility motivated us to assume that $PREGEMP$ is included in both $x_1$ and $x_2$ (i.e., $x_1 = x_2 = x$), and to use a different identifying assumption.

Results in Table 4 are obtained by including $PREGEMP$ in both $x_1$ and $x_2$. Columns (1)–(6) provide the results of a sensitivity analysis, in which we assess how estimates of the ISO 14001 effect change as the correlation parameter ($\rho$) changes from 0.0 to 0.5. For natural resource usage, when $\rho = 0.0$ (i.e., ISO 14001 is exogenous), we observe a positive relationship between ISO 14001 and environmental performance for each country. As is expected, the estimated APE decreases when $\rho$ increases. For the U.S., when $\rho$ is assumed to be zero, the APE is 0.243 ($p < .01$). That is, U.S. ISO 14001-certified facilities are 24.3% more likely to have reduced natural resource usage than non-certified facilities. This result is similar to that obtained in our simple probit model (Model 1, Table 3). However, at $\rho = 0.2$, the APE of U.S. ISO 14001-certified facilities becomes insignificant at the 5% level. Furthermore, when $\rho$ is 0.4 or larger, the APE becomes negative (though insignificant). The results therefore suggest that U.S. facilities’ positive relationship between ISO 14001 and environmental performance measured by natural resource usage is not so robust to moderate levels of the correlation between $e_1$ and $e_2$.

For Japanese facilities, Table 4 illustrates that when $\rho$ is assumed to be zero, the APE is 0.344, suggesting that Japanese ISO 14001-certified facilities are 34.4% ($p < .01$) more likely to have reduced natural resource usage than non-certified facilities. The APE declines to 0.287 when $\rho = 0.1$ and remains positive and significant ($p < .05$) until $\rho = 0.4$. Even after $\rho = 0.4$, the APE remains positive (though insignificant). The correlation between the unobservable components of ISO 14001-certification and reduced natural resource usage would have to be in the range of 0.4–0.5 before the certification effect is insignificant. These findings indicate that Japanese facilities’ positive relationship between ISO 14001 and reductions in natural resource usage is more robust than that for the U.S.

By contrast, for reductions in air pollutant emissions, we find similar results among U.S. and Japanese facilities. When $\rho$ is assumed to be zero, the APEs are 0.144 ($p < .05$) and 0.088 ($p < .05$) for the U.S. and Japan, respectively, suggesting that U.S. ISO 14001-certified facilities are 14.4% more likely and Japanese facilities are 8.8% more likely to have reduced air pollutant emissions. However, once $\rho$ becomes 0.1 or larger, the APEs become insignificant for both countries. These results suggest that for both countries the positive relationship between ISO 14001 and reductions in air pollutant usage is robust to only small levels of the correlation between $e_1$ and $e_2$.

Column (7) in Table 4 provides the results when we apply Altonji et al.’s (2005) method. This estimation approach provides a conservative lower bound estimate of the effect by using the identifying condition that selection on the unobserved factors is equal to the selection on the observable factors. For natural resource usage, the APE for U.S. facilities is 0.034, but not significant, suggesting that we cannot conclude with confidence that U.S. ISO 14001-certified facilities are more likely to have reduced natural resource usage than non-certified facilities. By contrast, the lower bound estimate of the APE for Japanese facilities is 0.239 ($p < .01$), suggesting that Japanese facilities’ positive relationship between ISO 14001 and reductions in natural resource usage is not spurious.

Related to reductions in air pollutant emissions, the lower bound estimates of the APEs are insignificant for both countries. Hence, we cannot conclude that ISO 14001-certified facilities are
more likely to have reduced air pollutant emissions than non-certified facilities.

5.4. Summary of the results

To summarize our results, related to the natural resource usage of U.S. facilities, the estimated APE of ISO differs considerably across the estimation methods, ranging from 0 (Altonji et al.’s method) to 0.55 (Rivers and Vuong’s method). In other words, evidence is not robust across the identifying assumptions. Given that the lower bound estimate of APE is not statistically different from zero, the data do not offer strong support for U.S. facilities’ positive relationship between ISO 14001 and reductions in natural-resource usage. This is not the case with Japanese facilities, however. No matter which estimation method we use, the APE of ISO is positive and significant, ranging from 0.24 (Altonji et al.’s method) to 0.56 (two-stage least squares). We therefore conclude with confidence that ISO 14001 is related to Japanese facilities’ reductions in natural resource usage.

Related to air pollutant emissions, for U.S. facilities, we observe a similar pattern to natural resource usage in that the estimated APE of ISO ranges from 0 (Altonji et al.’s method) to 0.49 (Rivers and Vuong’s method). By contrast, for Japanese facilities, the range of the estimated APEs is rather tight: 0 (Altonji et al.’s method) to 0.10 (standard probit). Importantly, for both countries, the lower bound estimates of the APE are zero. A subsequent sensitivity analysis revealed that the positive relationship between ISO 14001 and reductions in air pollutants disappears in the presence of very small levels of correlation (ρ = 0.1). Overall, our results therefore do not support the idea that ISO 14001 certification results in reducing air pollutant emissions.5

Overall, these findings offer support for the idea that variations in institutional pressures from regulation appear to be related to inconsistent findings in ISO 14001’s effectiveness. We offer support for Hypotheses 1 and 2, which suggest that equivocal findings are due to two factors: country differences and differences in type of environmental impacts.

6. Discussion and conclusion

This research adds to a growing body of literature that addresses the increasing prominence of voluntary environmental governance approaches and their role as supplements to traditional regulation. The most recognized of these approaches, ISO 14001, has demonstrated mixed performance outcomes, with some prior studies indicating that certification increases environmental performance while other studies show no effect.

Our results provide a basis for understanding the equivocal findings in the scholarly literature, and ISO 14001 as a voluntary policy approach. More specifically, our results are consistent with the possibility that institutional pressures arising from differences in regulatory settings across countries and within countries are related to ISO 14001 outcomes. Related to differences in regulatory settings across countries, Japanese (but not U.S.) ISO 14001-certified facilities are more likely to have reduced natural resource usage than non-certified facilities, most likely because natural resources are more highly regulated in Japan. Because of higher taxes, energy in Japan tends to be more expensive than the same natural resources in the U.S. Additionally, Japanese facilities’ natural resource inputs are indirectly regulated by way of the Kyoto Protocol. This setting creates greater incentives for the conservation of natural resources in Japan that can be achieved since ISO 14001 is a process standard, and facilities have significant flexibility in developing cost-effective pollution mitigation strategies. By contrast, U.S. facilities have access to cheaper natural resources that are not indirectly regulated because the U.S. is not signed onto the Kyoto Protocol. U.S. facilities therefore have fewer pressures to reduce their natural resources. Additionally, for both countries, ISO 14001-certified facilities are no more likely to reduce their air pollution emissions than non-certified ones. These findings are likely due to within country variations in the regulatory setting. Existing laws in both countries require manufacturing facilities to reduce air pollution by prescriptive regulatory approaches such as installing specific pollution-control technologies or changing their operating practices in a specific way. Such prescriptions often require that additional reductions in air pollution involve renegotiating the facility’s air pollution permit, or installing expensive control technology. These actions may discourage facilities (in both countries) from using ISO 14001 to reduce their air pollution emissions. If so, the prescriptive regulatory settings would appear to constrain the applicability of voluntary approaches such as ISO 14001, making it less effective (at least in the short-run). By contrast, regulation of natural resources is typically governed by a more flexible policy approach that is based on taxes or performance goals. Facilities that reduce their natural resource usage typically do so by improving their operational efficiencies and reducing product input costs, which can yield significant cost savings. In spite of these cost saving opportunities, U.S. facilities are not persuaded to reduce their natural resource usage most likely because the cost of these resources is relatively low. We attribute country-level heterogeneities related to Japan’s resource scarcity and indirect regulation of natural resources to its facilities’ greater emphasis on reducing natural resource usage.

While our results might indicate some constraints on the effectiveness of voluntary environmental approaches, even if an ISO 14001-certified facility does not directly improve its environmental performance, it is important to note that ISO 14001 adoption might affect the environmental actions of other organizations and especially those in the supply chain (Arimura et al., 2011). Indeed, ISO 14001-certified facilities are 40% more likely to assess their suppliers’ environmental performance and 50% more likely to require that their suppliers undertake specific environmental practices (Arimura et al., 2011), which may create compelling incentives for these suppliers to reduce their overall environmental impacts. The total positive externalities that might accrue from this voluntary environmental governance approach therefore may be quite significant even if the adopting facility only achieves modest environmental improvements.

In sum, while many governments promote voluntary approaches to improve the environment beyond that which is required by law, there is still much to learn about this non-regulatory approach. Our results offer important information about the relationship between ISO 14001 certification and environmental performance, and largely support our idea that studies assessing the effectiveness of these environmental governance tools should consider institutional variations across countries and idiosyncrasies related to the type of environmental impact being assessed. Additionally, scholars should go beyond typical approaches for addressing endogeneity. Overall, our findings point to the effectiveness of ISO 14001 as a voluntary governance tool, and

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5 As control variables are of second order importance to the current study, we briefly mention their results obtained by Altonji et al.’s method. We found that when implementing a quality management system, having more employees, having increased their sales, and having more competitors, facilities in Japan are more likely to reduce natural resource usage. Facilities in Japan also tend to reduce air pollutant emissions, when assistant programs are available to them and when their primary customers are wholesalers/retailers. For the U.S., the results are not as clear-cut as those for Japan. Detailed results are available upon request.
suggest that this certification might be particularly useful to reduce environmental impacts that are indirectly regulated and costly, as opposed to costly impacts that are highly regulated or impacts that are generally unregulated and inexpensive.

Acknowledgments

The authors thank the Organisation for Economic Cooperation and Development for funding a portion of this study. The views expressed in this paper are those of the authors, and do not necessarily reflect the views or policies of Australian Energy Regulator. All conclusions and any errors are the responsibility of the authors.

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