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Policy Networks and Firm Responses: Using a Neo-Institutional Framework for Analyzing Corporate Responses to External Demands for Sustainable Forest Management

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**Policy Networks and Firm Responses:
Using a Neo-Institutional Framework
for Analyzing Corporate Responses
to External Demands
for Sustainable Forest Management**

by

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INTRODUCTION

With the decline in the resources and role of “the state” in the 1990s, political scientists have focused attention on explaining and prescribing processes to “reinvent” government in terms of the scope of government's role and the type of services it provides to civil society.¹ Another important research venue in the era of the shrinking state is to explore the interface between public policy and private firm policy choices. This is particularly important regarding environmental policy, where governments face contradictory pressures to reduce their role while increasing environmental protection. Where governments choose to resist the imposition of strict regulations and adopt voluntary compliance policy instruments, or where governments do not provide resources to address environmental policy problems, it is relatively easy to explain these public policy responses as “rolling back” the state. But what are the effects of these policy changes on corporate choices? Can governments and civil society rely on companies to address the problems for which policies first came on the public policy agenda? Does the system of governance affect the choices firms make as they respond to pressures for corporate policy change? What public policy initiatives best encourage firms to become proactive?

This paper constructs a framework to answer these questions by building on existing “neo-institutional theory” developed by organization sociologists² and which itself is placed as part of the broader area of Organization Theory (OT). A multi-faceted approach that examines the role of formal institutions, conventions, and values, neo-institutional theory is attractive to scholars of corporate “greening” because of its emphasis on factors external to the firm as the ultimate causes of firm responses (be they changes in a firm's issue management, corporate stance, policies and organizational structure). Merged recently with resource dependency (Oliver 1991; Greening and Gray 1994), stakeholder (Carroll 1989; Brenner and Cochran 1991), and social network theory (Rowley 1997), this literature shares the assumption of this paper that firm responses are largely determined by the makeup of their external environment. Internal firm structures are, for the most part, treated as dependent variables.

¹ See for example, Kettle (1994), Goddard and Riback (1998), Schachter (1997), (Cole 1997) and Wilson (1994).

² See DiMaggio and Powell (1991a; 1991b), Powell and DiMaggio (1991), Greening (1992), Greening and Gray (1994), Jennings and Zandbergen (1995), Oliver (Oliver 1991); Scott (1987; 1995), Zucker (1983; 1987; 1991).

We argue that while this literature sheds much light on how, when, and why firms respond to external pressures, it fails to adequately conceptualize the role different governance systems can have on corporate responses. In order to overcome this weakness, we incorporate political science's own neo-institutional literature,³ specifically looking at state/societal relations (policy networks) and regulatory regimes, and then offer a theoretical framework with which to understand corporate policy choices. Although this framework can arguably be applied in a variety of policy areas our purpose here is to explain how and why forest companies in North America respond to external pressures for increased environmental protection. We conclude this paper with a brief illustration of the application of this theory to the experiences of three forest companies operating in British Columbia, Alberta, and Alabama, all of whom have responded to pressures for increased environmental protection but in different ways.

Neo-Institutional Theory and its Modifications⁴

At its core, neo-institutional theory seeks to understand how, at the level of the organization, "certain social relationships and actions come to be taken for granted" or a "state of affairs in which shared cognitions define "what has meaning and what actions are possible" (Zucker 1983: 2; DiMaggio and Powell 1991a).⁵ Institutionalization is seen as a process of social construction by which individuals come to accept a shared definition of social reality which includes 'the way things are',

³Within political science, three approaches have emerged under the banner of neo-institutionalism: public choice, organization theory and historical institutionalism. Public choice is distinguished by three characteristics: 1) it assumes the rational behaviour of individuals; 2) it is a historical, focusing instead on the effects of rules and standard operating procedures on how individuals attempt to realize their preferences; and 3) preferences are seen as exogenous to the institutions itself.

Organization theory can be seen as constructing two bridges: one within political science between public choice and historical institutionalism literature; and the other among those from sociology, economics and political science who collectively study the effects of institutions but from different perspectives. March and Olsen (1983; 1989) have integrated these different perspective by recognizing the importance of institutions in shaping preferences, the historical interaction between institutions and society, and the consequences for public policy.

⁴For a review of differences and similarities of neo-institutionalism across disciplines, see DiMaggio and Powell (1991a: 1-40).

⁵Difficulties arise because neo-institutional theory is used in different ways. Some scholars (Stead, McKinney, and Stead 1997) emphasize the conscious adoption of formal rules and institutions (similar to political science's concept of institutions) while others (DiMaggio and Powell 1991a) focus on a virtually unconscious change in values, norms and conventions that take on "a rule like status" of their own (corresponding more closely to political science's concept of socialization). Summarizing this broad definition of institutions, (Hoffman 1997) notes that these definitions include shared values and norms, rules, procedures and structures which define the rules of the game by which organizations play (reviewed in Vertinsky and Zietsma 1998).

'what is important' and 'the way things are done' (Scott 1987; Jennings and Zandbergen 1995; Vertinsky and Zietsma 1998).

This literature has proven a useful tool with which to understand general patterns of industry or sector-wide firm convergence, especially since traditional rational choice/profit maximizing models have had difficulty capturing these types of long-term values changes. However, scholars criticized this approach for being overly deterministic (Greening 1992) and that it was unable to explain extant research indicating that firms in some sectors incorporate these external pressures in quite different ways. Powell and DiMaggio (1991) addressed these difficulties when they noted that firms in different sectors will undergo different types of “isomorphism” — the process in which external influences/values enter the firm. *Coercive isomorphism* refers to changes which result from government regulatory changes or from organized societal interests (environmental groups or the media) who successfully challenge corporate legitimacy; *mimetic isomorphism* occurs when firms see other firms making changes that appear to be successfully addressing an uncertain climate; and *normative isomorphism* represents those cases where pressures for change came from a firm’s own business association or other professional associations (DiMaggio and Powell 1991b: 67).

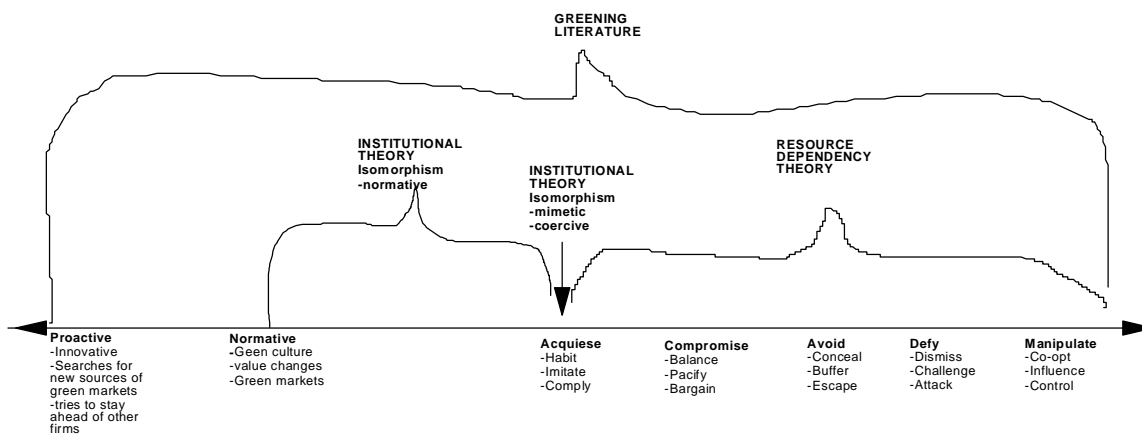
These distinctions recognize that a firm’s process of institutionalization will be different depending on the source of external pressure. However, the research project was limited to understanding the process through which firms would acquiesce, rather than on the ways in which firms might fend off external pressures, or innovate and move beyond them. And, the level of analysis was still largely focused on the response of firms in different sectors, rather than on explaining cases where individual firms in the *same sector* respond to societal pressures in quite different ways.⁶ It was still unclear as to why some firms, even within the same sector, would acquiesce to external pressures, while others would not (Jennings and Zandbergen 1995 ;Hoffman 1997: 1015).

These shortfalls led Oliver (1991) to argue that neo-institutional theory provided only one end of a continuum of possible responses by firms (Figure 1). Firms might acquiesce to external pressures as neo-institutional theory predicts, but firms might also compromise, avoid, defy or manipulate,

⁶ Extant research that shows firm-level divergence within the same sector includes Sharma (1998), Sharma and Vredenburg, (1998) and Raizada (1998).

depending on the type and nature of external pressures (Figure 1).⁷ Oliver turned to resource dependency theory because of its focus on the role of the individual firm, and the different types of short-term pressures that causes a firm to react to external interests (these include shareholders, government agencies, interest groups and the media). The task, as Oliver saw it, was to merge institutional theory with resource dependency's insights that some firms will respond according to individual self-interest, even if against dominant civil society values, while other others will acquiesce.⁸

Figure 1: Categorizing Firm Responses to External Pressures



We detail Oliver’s model because it our theoretical point of departure. She posits that more attention must be paid to the *type* of external pressures facing firms, and the *range* of firm responses and strategies that might be employed. Oliver offers a complex model that argues that the degree of resistance or acquiesce to external pressures depends on the cause, constituents, content, control and context of the external pressure. Resistance to external pressures are hypothesized to be greater when:

⁷ She also offers a range of tactics a company may choose under each strategy that it adopts. Manipulation strategies involve tactics to co-opt, influence or control external pressures; defiance involves dismissing, challenging, or attacking; avoidance results in concealing, buffering, or escaping; compromise involves balancing, pacifying or bargaining; while acquiescent strategies entail habit, imitation or compliance tactics (Figure 1).

⁸ Original institutional theory (Selznick 1957) allowed for leader choice, but neo-institutional theory does not.

- opportunities for social legitimacy and economic gain are limited (CAUSE)
- the sources of external pressures are themselves divided and dependence on the source of pressure is low (CONSTITUENTS)
- there is limited consistency with organizational goals and discretion is high (CONTENT)
- there is a low degree of legal coercion and few other firms have acquiesced to these pressures (CONTROL)
- there is a low level of uncertainty and limited interconnectedness (CONTEXT).

Oliver's model permitted future research to examine whether, and how, short-term pressures affected individual companies in the same sector; whether these pressures varied across individual companies; and the way in which longer term institutionalization took place. However, the attraction and use of this model exposed epistemological difficulties. The model failed to address the situation in which the "cause" or "control" elements of pressure might predict a firm to acquiesce, but that the makeup of the constituents might cause a firm to resist. It was uncertain which of these factors were supposed to dominate (Rowley 1997: 896).⁹ Nor did the model allow for cases in which a firm might occupy "acquiesce" and "manipulate" categories at the same time, depending on the *source* of external pressures. For example, on the same issue a firm can try to avoid increased government regulations, while compromising with environmental groups over their demands.

Similarly, hypothesizing that the more divided a firm's stakeholders (constituents) are, the more resistant to change a firm will be, fails to distinguish between the type of stakeholders. As we will argue below, there is almost always division among "economic", "social" and "state" stakeholders (and thus always *de facto* constituent multiplicity), but the challenge is to understand the conditions under which different stakeholders have influence. We need to explore why it is that an organization's dependence on the "source" of pressure may vary, so that one day a firm only responds to its shareholders while the next day it is accommodating environmental groups, traditionally organizations upon which the firm has not had to rely. We need to know more about the

⁹ Rowley attempts to overcome this problem by arguing that two factors determine degree of firm resistance to stakeholder pressures: the density of the (interconnected) social network within which a firm operates and the firm's centrality in that network. Rowley's approach is useful for elucidating that a firm is not always in a series of independent relationships with different external pressures, but that they are interconnected. However, in the end Rowley ends up with similar response categories as Oliver, and he fails to identify situations in which companies may occupy different categories at the same time, depending on the source of pressure.

conditions under which different stakeholders have influence and *the conditions under which organizational dependence changes*.

In addition, Oliver's categories stop at “acquiescence”, leaving no category for those firms who went beyond societal pressure, undergoing what Vertinsky and Zietsma refer to as “corporate greening”, where green values become so ingrained the company is seen as being more advanced than societal pressure, leading the way with innovation and proaction (Figure 1). Neglecting this “proactive category” is particularly problematic because recent research indicates that firms that have developed internal procedures for issue management, are able to be proactive and take advantage competitively of their corporate greening policies (Post and Altman 1992; Greening and Gray 1994; Sharma and Vredenburg 1998).¹⁰ And just what governments should do, or should not do, to encourage corporate innovation, proaction and “greening” has consumed policy makers and advisors (Porter and van der Linde 1995). Recognition of the full scale of potential corporate responses reinforces the need to develop the role of governance systems in affecting corporate responses. Oliver’s essay directed future research in many beneficial directions, but also closed some important doors that we wish to open.

Incorporating Policy Network and Regulatory Regime Literature

Political science's own related but distinct “neo-institutionalism” literature¹¹ helps address the epistemological and heuristic problems raised above.¹² Neo-institutionalism is important because it recognizes the importance of the state both as an *actor* and as a *legal order*.¹³ We specifically focus

¹⁰ Post and Altman's (1992) study found that companies that are “able to push their strategic initiatives deep into the learning systems of corporations and create congruences across the strategic, structural, and learning systems will become more sustainable.” In fact, recognition of this category leads us to place DiMaggio and Powell's “normative isomorphism” closer to the proactive/innovative category of firm responses (Figure 1), which must be seen as having more profound consequences on a firm than “coercive isomorphism” in which the firm reluctantly implements changes because it forced to do so.

¹¹ See for example, Skocpol and others (1986), Hall (1986).

¹² In fact, failure to highlight the key place of the state led one study (Greening and Gray 1994) to emphasize the role of environmental groups and the media in creating coercive isomorphism, ignoring the role of the state altogether. Other applications, such as that by Jennings and Zandbergen (1995) did note the primacy of the legal/legislative setting, but failed to explicitly theorize or distinguish the importance of different types of state/societal relations (policy networks).

¹³ Due to its emphasis on past decisions and institutions as mediating social conflict, it is the historical institutionalist approach within political science’s treatment of neo-institutionalism which best informs this part of the paper.

on the neo-institutionalist work on policy networks (state as an actor) and regulatory regimes (state as legal order), which together we refer to as the sectoral level's system of governance.¹⁴

We argue that the system of governance is more than simply another variable that affects an individual firm's responses. Rather, it is an "intervening" variable that affects the way in which firms respond to all of its external stakeholders/pressures. We argue that the degree of independence of the state actors vis-à-vis economic and other organized interests (state as actor); and the type of regulatory style (state as legal order), together largely determine the type of responses firms will make to different stakeholders.¹⁵ Depending on the system of governance configuration, firms will respond to pressure from economic, social and state actors differently. Recognition of this allows us to get closer to understanding why, within the same sector, individual firms may take quite different choices. Whether or not an individual firm is targeted by external pressures differently within the same sector is still an important question for explaining corporate responses, but it is incomplete. The system of governance affects how an individual firm will respond to different external pressures, as well as understanding the way in which the system of governance directs stakeholder strategies (Bernstein and Cashore 1996).

The specific project of policy network scholars is to understand the nature of state/organized interest relations at the "meso" or sectoral level.¹⁶ This literature develops a set of policy network categories that have been used to help explain the role of societal interests, the nature of the policy making process, and uses this as a spring board to explain policy change and stability.¹⁷ This research

¹⁴Regulatory styles and policy networks are themselves determined by a number of factors, which often vary in their importance depending on the policy subsector. Cashore (1997) has found that three key antecedent variables that influence the type of policy network and regulatory style that exist in the forest policy sector: land ownership patterns, the type of statutory regime, and macro institutional structures.

¹⁵We do not treat legalism as contrary to a consensus approach, which is the traditional way to conceive of cross county differences in political science environmental policy (Hoberg 1992). Indeed, research conducted by Cashore shows that it is difficult to place such categories on a country, where legalism may occur on US federal lands, but no legalism may occur on private regulations. Moreover, consensus ADR processes are most prevalent on US federal forest lands (Wondolleck 1985, 1986, 1988), and are used in order to avoid litigation. In this sense litigation encourages ADR, rather than being in opposition to it.

Similarly, we take exception to Jennings and Zandbergen's (1995: 1029) that "in a societal field, the framework for governance is either market based or command and control". Market based incentives often exist along side a highly litigious system. Certainly the US literature on environmental policy is rich with examples of market based solutions existing alongside a highly legalistic statutory regime.

¹⁶ Policy network practitioners were unhappy with broad cross national studies (see for example Katzenstein 1978; Gourevitch 1986) that failed to uncover or explain important differences within each country regarding the nature of societal influence over policy making. Policy network scholars argued that since research found important sectoral differences within the state structure, more attention must be paid to this level of analysis.

¹⁷ See (Atkinson and Coleman 1989a; 1989b; 1992; Coleman 1990; Coleman and Skogstad 1990b).

is important to this paper because of the attention this literature places on whether business associations enjoy a dominant place in policy-making processes.¹⁸ Policy network scholars are interested in understanding those networks where business does not dominate, why this is so, and the effects of different networks on policy outputs and policy change. We review policy network categories below, and then turn the policy network literature on its head – arguing that different policy networks and regulatory regimes do not only affect public policy choices, but they also affect private sector firm responses to external pressures for change.

Network Structure

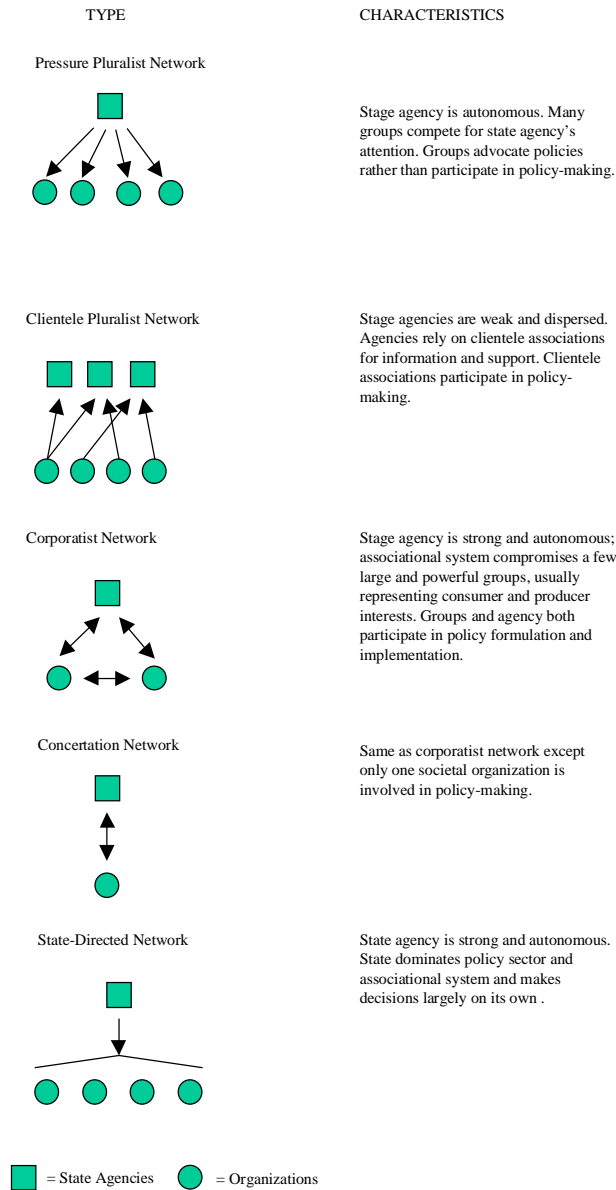
Coleman and Skogstad identify five general types of policy networks¹⁹ (Figure 2) which vary across three dimensions, the most important characteristic is the degree of state autonomy vis-à-vis business and non-business interests. State autonomy refers to the ability of the state to realize its own goals. State capacity (the ability to formulate and implement public policy choices) and the mobilization of business and non-business associations, are also key factors in understanding the type of network that exists.²⁰ Pluralist networks form when groups independently vie for attention of the state.²¹ If the state is autonomous, the network is classified as **pressure pluralism**. This category best conforms to traditional pluralist theories of power and represents a case where business interests must share their influence in policy making with non-business interests. Under this policy network groups are involved in the “sub-government” as “policy advocates”, rather than as “policy participants” (Coleman and Skogstad 1990a: 2). A **clientele-pluralism** network exists where the state has little autonomy from one or more organized interests. These relationships tend to involve a bureaucratic agency's dependent relationship with a corresponding sectoral-level business association. Under this type of network, business interests are “policy participants” within the sub-government; state agencies rely on business interests for advice; business interests essentially have a veto over policy change; and other organized interests are relegated to roles as “policy advocates”.

¹⁸ See (Atkinson and Coleman 1989b; Coleman 1988; 1989; 1990; 1991; 1993; Coleman and Skogstad 1990b). This school was inspired by the Lindblom's (1977) criticism of traditional interest group theory (Dahl 1958; Dahl 1961).

¹⁹ An important literature in Europe and Canada exists distinguishing between policy networks and policy communities. We prefer Coleman and Skogstad's distinction in which a policy community refers to all actors involved in policy making who share a policy focus and shape outcomes, while the policy network refers to the nature of state/societal relations on a given issue. The nature of policy community development can affect network change (Cashore 1997b). This paper deals less with communities because we treat the structure of policy networks as given.

²⁰ Atkinson and Coleman (Atkinson and Coleman 1989b: 77-94).

Figure 2: Description of Policy Networks



Source: Adapted from Pal (1997)

Clientele-pluralist networks dominated many sectors of decision making in most industrialized countries before the 1960s. They describe most aspects of forest policy making regarding federal

²¹Coleman and Skogstad (Coleman and Skogstad 1990a: 27).

forest lands in United States until the 1960s; in British Columbia until the late 1980s (Cashore 1997; Cashore 1998), and they continue to describe the forest policy making process in Alabama, Alberta, and to varying degrees in Oregon and Washington State. Whereas pressure pluralism and clientele-pluralist networks concern “unequal” relationships between the state and organized interests, a corporatist network exists where a high level of state autonomy is augmented by a “concentrated and well-coordinated” state decision-making structure, and where organized interests organized interests “representing conflicting producer or consumer groups participate with the state in the formulation and implementation of policy”. This network describes a system of state societal relations at the sectoral level in which business, labour, environmental groups and other societal interests deliberate over policy making in the hopes of finding a degree of consensus. While the state retains its right to make the ultimate policy choice, societal interests are given the opportunity to work out their differences and arrive at agreed upon solutions. A **concertation** network is different from a corporatist network in that only “a single interest association” is involved in policy making.²² Concertation networks tend to exist where business associations and their firms work with a government agency to collectively devise (or reject) policy choices. Unlike a clientele-network, the state in a concertation network is autonomous from business interests, and works with business to develop mutually acceptable choices. The state thus has room to inject ideas that it might not be able to do so under a clientele-pluralist network, where it has little autonomy from business interests. Still, there are important similarities between clientele-pluralism and concertation because industry is a policy participant in both networks and must give its approval to policy choices.

Finally, a **state directed** networks exist when state officials control the policy making process and impose solutions. Business, environmental and other societal interests are not involved as policy participants, with all of them relegated to policy advocacy roles. There are similarities to the pressure-pluralism network here, but the key difference is that the state does not limit its range of options to the proposals put forward by organized interests, and it does not feel any compelling need to balance or reflect the demands of societal pressures.

Using these typologies we can identify three cases (Figure 2) that distinguish the role of business interests from other societal interests. Business *dominates* other societal actors under

²²Ibid., 28–29.

clientele-pluralist and concertation networks, and even dominates state actors in the former case.²³ Business is on a relatively *equal footing* with other societal organized interests in pressure-pluralism and corporatist networks. Business is *dominated by* the state in state-directed networks, as are other societal actors (Figure 2).

Whereas policy networks elaborate the role of the state as an actor, regulatory regimes (Hoberg 1992; Eisner 1993) focus attention on the influences of the state as a legal order. We focus specifically on legalism and the role of the courts in this paper, since Hoberg (1993a; 1993b) and Cashore (1995; 1997; 1998) have found that the degree of legalism/non-discretionary legislation has important independent effects on public policy choices over forest management. Some have implicitly examined the how legal rules directly affect firm acquiescence (Flick 1994; Flick et al. 1995), but curiously few have explored the way in which regulatory regimes mediate firm responses to an array of external pressures.

The reason legalism and non-discretionary requirements are important because they permit judicial rulings to force government agencies and firms to act on environmental protection matters where they otherwise might not act, or would take different decisions than the courts mandate (Hungerford 1994; Yaffee 1994; Cashore 1998). A legal/non-discretionary regulatory style gives environmental groups an additional tool with which to pressure companies, as they can use the *threat* of launching costly and time consuming litigation in order to achieve increased access and influence. Wondolleck (1985; 1986; 1988) and has noted that under such regulatory styles, alternative dispute resolution process are often invoked in the hopes of avoiding litigation. Cashore (1995; 1997) has found that court rulings us legalism regulatory regimes can alter the way in which state officials must consult with non-business interests, and the way in which business interest consult with environmental groups and other social interests.

Exploring the role of systems of governance requires breaking down external pressures into their component parts. Extant organization sociology's neo-institutional theory has done this by making a distinction between the societal and organizational fields.²⁴ While useful for distinguishing

²³Under Coleman and Skogstad's definition, clientele-pluralist and concertation networks could exist in cases where non-business interests represent the societal organization. For the purposes of this essay, we necessarily limit these cases to those where business dominates.

²⁴The societal field tends to refers to such pressures as the "nation state", "social movements" and "innovations among sets of organizations" (Jennings and Zandbergen 1995) while the organizational field is defined as "those organizations that, in

between economic and social pressures these categories confusingly lump together the “state” with “social movements” under the societal field; while regulatory agencies (themselves part of the state) are treated in the same category as a firm's customers under the organizational field.²⁵ We prefer to conceptualize external pressures as representing four broad sets of stakeholders: the state as actor (state officials and state agencies); the state as legal order (regulations and court rulings); economic interests (shareholders, customers, suppliers) and social interests (environmental groups, the media and organized labour).²⁶

The Model

Using these categories of external firm pressures, and drawing on the policy network/regulatory style typology above, we extend both organization sociology and political science neo-institutional theory by arguing that the system of governance will influence a firm's approach to different external pressures. We also distinguish initial response by business to external pressures, from “plan B” and “plan C” responses when initial strategies fail to achieve their goals. We make this distinction because, as reviewed below, the ability of external pressures to sustain pressure on individual firms often results in corporate responses quite different from initial firm approaches (Table 1). Heretofore no work has been done explicitly looking at the effects of policy networks on corporate firm choices. However, we can survey extant policy network literature, the broader public policy research for clues that it might give to this question, the research on regulations on corporate responses, as well as relying on intuition to generate researchable hypotheses.

the aggregate, constitute a recognized area of institutional life: key suppliers, resources and product customers, regulatory agencies, and other organization that produce similar services or products (DiMaggio and Powell 1991b: 64-65).

²⁵Jennings and Zandbergen (Jennings and Zandbergen 1995: 1028) do recognize “the state's impact is the greatest” but Greening and Gray (1994) ignore the state altogether.

²⁶Workers and their unions hold overlapping positions in the economic and social categories. They are in the economic category insofar as they work to achieve high wages and improve working conditions in their individual firms. When sector wide and intersector unions join forces to influence public and corporate policy change that transcend individual self-interest issues, we place them within the social category.

Table 1. Systems of governance and predicted initial firm responses to external pressures.

	Policy Network (State as Actor)	Regulatory Style (State as Legal Order)	
		Discretionary - No Legalism	Non-discretionary Legalism
Business dominates vis-a-vis non-economic actors	Clientele-Pluralist	Economic Actors Accommodating, Proactive Social Actors Negative State Actors Negative	Economic Actors Accommodating, Proactive Social Actors Negative State Actors Negative Courts Negative
	Concertation	Economic Actors Accommodating, Proactive Social Actors Negative State Actors Accommodating	Economic Actors Accommodating, Proactive Social Actors Negative State Actors Accommodating Courts Negative
Business shares state interaction with other societal interests	Pressure Pluralist	Economic Actors Accommodating, Proactive Social Actors Accommodating State Actors Accommodating	Economic Actors Accommodating Social Actors Accommodating State Actors Accommodating Courts Accommodating
	Corporatist/ Consensus	Economic Actors Accommodating Social Actors Accommodating (compromise) State Actors Accommodating (compromise)	Economic Actors Accommodating Social Actors Accommodating (compromise) State Actors Accommodating (compromise) Courts Accommodating, Negative
	State directed	Economic Actors Accommodating Social Actors Depends on position of state officials State Actors Accommodating	Economic Actors Accommodating Social Actors Depends on position of state officials State Actors Accommodating Courts Accommodating

For the purposes of this table, the categories presenting in Graph 1 and detailed in the explanatory section have been collapsed into the following: Proactive = proactive; Accommodating = Compromise, Acquiesce; Negative = Avoid, Defy, Manipulate

Research on consumer and environmental politics since the mid-1970s indicates that it is unlikely that firms will initially acquiesce to pressures from environmental groups and other social interests²⁷ in cases where business interests dominate the policy making process (i.e., a clientele-pluralist or concertation network exists). Firms will seek to pacify, manipulate or even ignore these pressures as firms have little to lose — they influence public policy choices while the pressuring social interests do not. Similarly, where clientele-pluralist and concertation networks operate under a legal/non-discretionary regulatory style, firms will initially resist court intervention, seeking to rectify legal problems through statutory or regulatory change.²⁸

Only when social interests succeed in raising an issue among the media and general public (or through boycott campaigns that sees environmental groups themselves pressuring economic actors to which companies will respond), will firms in business-dominated policy networks respond strategically with limited changes in order to pacify external pressures and avoid the threat of increased regulations, scrutiny, or a change in the policy network (Pratt and Urquhart 1994; Cashore 1997). This phenomenon is more pronounced in a concertation network where state actors are autonomous and can more easily insert new items on the policy agenda.

Contrary to the avoid, defy, or manipulative strategies, existing evidence indicates that firms in clientele-pluralist and concertation networks will tend to acquiesce and in many cases proactively respond to economic stakeholders. This is for two reasons. First, economic actors such as shareholders and customers can affect the companies' profitability, turning environmental protection issues into economic ones. Secondly, pressures from economic actors will generally not be as threatening or as restrictive as those solutions raised by environmental groups because it is not usually in the direct interest of economic actors to propose solutions that would run the risk of rendering firms unprofitable. While this appears to mean that pressures from economic actors will not force companies to undergo stringent changes regarding environmental protection, Sharma and Vredenburg (Sharma and Vredenburg 1998) have found that in such cases innovation is encouraged. Since they do not feel threatened, companies feel freer to innovate in their efforts to improve environmental

²⁷Jeremy Wilson has found that for most of the 1970s and 1980s environmental groups attempted to influence business-dominated forest policy networks with limited success. Although most efforts were focused on the policy making process, few individual firms responded with acquiescent let alone proactive strategies (Wilson 1990).

protection and profitability. Similarly, Porter and van der Linde's (ibid, 124) research has likewise found that firm level innovation is encouraged when business interests directly participate in the development of unburdensome regulatory policies.

A different response occurs when business shares state interaction with social actors, and in particular environmental groups (i.e., pressure pluralist or corporatist policy networks exist). In these cases, firms are more likely to compromise or acquiesce to pressures from social interests, including environmental groups. While still concerned with minimizing these pressures, firms are less likely to defy or manipulate. Part of the reason for this is because the failure to address any concerns could very well result in increased regulations, in which companies would be forced to change through a process of coercive isomorphism. However, these same worries make it less likely that firms will innovate or be proactive in response to social actors in these types of networks — for fear of undertaking firm-level initiatives that might be ruled insufficient by state actors in the future. As Porter and van der Linde (1995: 121) have argued, “Regulators tend to set regulations in way that deter innovation”. In this regard Lippke and Oliver (1993) have asserted that strict regulations in the forest sector can have the unintended effects of encouraging unsustainable forestry practices.²⁹

We make a further distinction between pluralist and corporatist networks. Although rare, a firm might be inclined to take proactive initiatives under pressure-pluralist networks when it is faced with a barrage of pressure from economic, governmental, and social stakeholders. At such a point, a firm may decide that the potential market and legitimacy benefits in taking a proactive stance outweigh the uncertainty risks that come with a clientele-pluralist network. However, such an approach is even less likely when accompanied by a legal/non-discretionary regulatory regime, as the uncertainty risks associated with legalism would tip the scales in favour of a cautious, acquiescent approach. Whereas there are certain circumstances under which pressure-pluralist networks could see firms acting proactively, corporatist networks reduce this small likelihood even further. This is because the consensus-oriented approach of a corporatist policy network tends to inhibit innovative

²⁸ For example, the timber industry responded to court rulings over the Spotted Owl by exempting this species from the Endangered Species Act (Davis 1992), and then by calling for changes in the Endangered Species Act and National Forest Management Act (personal interviews, American Forest and Paper Association. See also Bonnett and Zimmerman 1991; Northwest Forestry Association 1994; Wilderness Society and the National Wildlife Federation 1990).

²⁹ Lippke and Oliver (1993) argue that “Extreme regulations may inhibit investment in silvicultural operations and cause landowners to avoid thinning and to harvest stands early. For example, some owners may do so to prevent spotted owls from occupying their stands-which prevents timber harvest and resultant income”.

approaches. The “veto-for everyone” effect tends to limit changes that deviate too far from the status quo, and encourages groups to minimize losses rather than offer proactive solutions (Hoberg 1993a).

Overall, the presence of a legal/non-discretionary regulatory style among pressure-pluralist and corporatist networks limits the likelihood of proactive responses: firms will seek to accommodate environmental groups and the courts, but at the same time this governance system will render firms less likely to be proactive or innovate — for fear that such actions may be ignored by these pressures or worse — that such actions will be struck down by the courts (rendering such actions useless and costly). As Porter and van der Linde (1995: 128) have found, “businesses spend too many of their environmental dollars on fighting regulation and not enough on finding real solutions” when operating under a non-discretionary/legalistic regulatory environment.

Firms will continue to acquiesce or compromise with economic pressures under pressure pluralist and corporatist networks, though innovation to these pressures remain unlikely because of the uncertain influence of environmental and other social pressures. Moreover, the increased role of environmental groups under these networks means that economic actors are less likely to be the main sources of pressure (with the exception noted above that they may be used as a tool by environmental groups to force change).

Firm responses under state directed networks will largely depend on the direction state officials have established.³⁰ Where a decision has been made to “reduce the regulatory burden”, firms may be less likely to respond to pressures brought by environmental groups. However, where the government has announced a review of corporate pollution, firms may take the opposite approach, even inviting state actors to collaborate with them in devising firm policy in order to position themselves as not in need of requiring state intervention. Firms will seek to accommodate the interests of state officials when they know decisions may be taken that could affect firm operations. Regardless of the ultimate direction the autonomous state takes under a state directed network, firms will be reluctant to be innovative or take proactive measures because they are preoccupied with meeting the requirements of the state. Similar to the cases of pressure pluralism and corporatism above, firms will be hesitant to make significant changes that the state may require be repealed or modified.

³⁰ The nature of party politics, the degree of stability in the party system, and the ideology of the governing party are all key factors to understanding policy choices under a state-directed network.

Explanatory Scheme

Drawing on this discussion and review of organization theory's literature on "neo-institutional theory" and our incorporation of political science's neo-institutionalist work on policy networks and regulatory regimes, we offer the following hypotheses to guide comparative studies of firm responses to external pressures.

General Hypothesis 1: Governance Systems and Corporate Responses

The type of policy network and regulatory style (the "system of governance") under which firms operate will largely determine the type of response firms make to external pressures from state officials, economic actors, and non-business societal interests.

Policy Networks – business dominates vis-à-vis other societal organizations

- P1 Under clientele-pluralist and concertation policy networks, individual firms are likely to respond to pressures for change from economic interests by undertaking "acquiescent", "compromise" or "proactive" strategies. Adaptation and innovation are facilitated and normative isomorphism may occur.
- P2 Under clientele-pluralist policy networks, individual firms are likely to respond to pressures for change from environmental groups, other societal actors and state officials by undertaking, "manipulation", "defiance" and "avoidance" strategies. Acquiescent and proactive/ innovation responses are unlikely in the short term. Proactive and innovation responses may occur in the medium to long term, but only in two cases:
- 1) when environmental groups are successful in causing a firm's economic stakeholders to exert pressure (usually through the use of highly publicized boycott campaigns targeted at individual firms) or;
 - 2) when firm officials believe actions must be taken in order to avoid changes in the existing system of governance
- P3 Under concertation policy networks, individual firms are likely to respond to pressures for change from state officials by undertaking "acquiescent", "compromise" or "proactive" strategies. Adaptation and innovation can be facilitated and normative isomorphism may occur.

Policy Networks – business shares state interaction with other societal organizations.

- P4 Under pressure pluralist and corporatist policy networks individual firms are likely to respond to pressures for change from economic interests by undertaking "acquiescent" or "compromise" strategies. Adaptation and innovation is less likely, particularly under corporatist policy networks, because attention is placed on limiting policy change being proposed by other societal actors.

- P5 Under pressure pluralist and corporatist policy networks individual firms are likely to respond to pressures for change from environmental groups and state officials by undertaking “acquiescent” or “compromise” strategies. Proaction under pressure pluralist networks is possible, but usually limited to situations in which firms face concurrent pressures from economic, social and state interests, and where the regulatory style is not highly litigious.
- P6 Under state directed networks, individual firms are likely to respond to pressure for change from state agencies economic interests and environmental groups by undertaking “acquiescent” or “compromise” strategies. Avoid, defy, and manipulate strategies with respect to environmental groups is possible, but only if the state has given clear indications that it has closed the door to increased regulatory initiatives.
- P7 Under state directed networks, individual firms are likely to respond to pressure for change from state actors through accommodation strategies. Avoidance strategies are virtually impossible given the strength of the state, while a proactive approach is unlikely, because under state dominated policy networks business has had little role in helping to shape regulations.

Regulatory Styles

- P8 The existence of a non-discretionary/legalism regulatory style will reduce the likelihood of innovative/proactive strategies being taken by individual firms in response to external pressures, because firms will tend to focus most of their efforts fighting burdensome regulations, and because of the fear of future costly regulations.
- P9 The existence of a non-discretionary/legalism regulatory style will increase the role of the courts as a new arena of state activity, which will increase the likelihood of firm acquiescence, while decreasing the likelihood of firm proaction/innovation.
- P10 The existence of a discretionary/no legalism regulatory style facilitates a firm’s choice to take a proactive/innovative strategy.

ILLUSTRATING THE MODEL

We illustrate the potential of the model by reviewing the experiences of three North American forest companies in the mid-1980s to mid-1990s, all of which were forced to address external pressures for sustainable forestry management. The companies examined are MacMillan-Bloedel in Alabama, focusing on its Pine Hill paper and saw mill operations; Canfor Corporation in BC, focusing on pulp mill effluent and forest management issues; and Alberta-Pacific, which owns and operates a pulp mill in Boyle Alberta, and manages a large tract of Boreal forest that provides the mill its fibre. These companies were chosen because as of the mid-1980s they all operated under clientele-pluralist forest policy networks, and experienced only limited governmental regulations. However, in the decade to follow, they each experienced varying degrees of external pressures.

Canfor experienced external pressures from social actors (environmental and citizen groups), state agencies and (eventually) industry associations. The case of Canfor also allows us to illustrate the effects of changes in systems of governance, as both the policy networks and regulatory climate were altered during the decade under review. Alberta-Pacific experienced pressures from environmental groups and industry associations. It felt only minimal direct pressure from government officials, and the policy network and regulatory style remained relatively stable. MB in Pine-Hill experienced external pressure from its national industry association, but only a minimum degree of pressure from regulatory agencies and virtually no direct pressure from environmental groups and other social actors. Its policy network and regulatory style also remained unchanged.

Canfor³¹

Canfor is a British Columbia-based forest products company specializing in pulp and paper and wood products. It harvests timber from publicly owned forest lands through timber licence agreements, which give the company forest management responsibilities, in exchange for a secure supply of fibre. When the company first began to be the target of external demands to improve its sustainable forestry management in 1985, it operated under a governance system marked by clientele-pluralist networks and a discretionary/non-legalistic regulatory regime (Wilson 1990; Cashore 1997). At this time pressure for change came exclusively from “social” stakeholders, as organized environmental interests and citizen groups targeted Canfor for its harvesting of old growth forests and for the air pollution from its pulp mills in Prince George and Howe Sound (Raizada 1998: 163)

The company’s initial response correlates with the model: it initially avoided and defied these social pressures. Canfor avoided the issues by arguing that old growth protection would have serious negative consequences on the provincial forest economy. At the same time, Canfor sought to defy (and in this case dismissing) the criticism by asserting that its forest harvesting was environmentally sustainable.³² Meanwhile Canfor used its close relationship with state officials to avoid (in this case escape) meeting pollution level targets by proposing management plans that allowed Canfor to continue its high sulphur pollution levels (ibid: 164). These actions were facilitated by a non-

³¹Most of the research for this case was conducted by Rachanna Raizada, who has detailed her findings in Raizada (1998).

³²Raizada notes (Raizada 1998: 163) Canfor argued that it had a long-established commitment to reforestation and wildlife.

legalistic/discretionary regulatory style that posed little threat that the courts would require Canfor to meet these targets (see Hoberg 1993b).

These avoidance and defiant strategies worked in the short term and Canfor was not compelled to significantly alter its strategic response and internal policies. However in 1987 Canfor's Howe Sound's pulp mill air pollution came under increased attention from media outlets, organized environmental groups, and local citizens (Raizada 1998: 165).³³ But Canfor acted as the model predicts, adding “manipulation” strategies to its defiance and avoidance techniques. It did this by holding a series of public meetings for the expressed purposes of fighting citizen efforts to require the Howe Sound Pulp Mill to meet the permit requirements.

Yet these “negative” responses did not improve Canfor’s image, and it appeared to be losing credibility with much of the public. Government officials felt compelled to respond, and environmental groups threatened to launch an international boycott campaign, for the first time bringing economic stakeholders into Canfor’s external pressures (Raizada 1998). The hypotheses above predict that when initial attempts to avoid pressures from social pressures under a clientele-pluralist network, firms will change approaches when either that the firm’s economic stakeholders are pressuring for change and/or it appears as if the system of governance is in jeopardy. This is what Canfor did, undertaking what arguably can be described as a proactive measure in response to these social pressures. Canfor stopped defending its level of pulp mill pollution, and announced that it was entering into a joint venture with Oji Paper Company of Japan to build an environmentally friendly, modern the pulp mill. CEO Peter Bentley promised that the project would “enable us to deal completely with the environmental problems that we have been working for a long time” (Raizada 1998). Although it is difficult to distinguish in the case a business decision from an environmental one, the joint venture did address much of the criticism. As Canfor's Vice Chairman acknowledged:

Protection of the environment is quite high on most people's lists. We know that, we understand it, and as good citizens we work hard and spend money to keep improving environmental conditions throughout our company. It is also true that some of the publicity on Howe Sound has not been entirely positive. It is very tempting to blame certain groups or the media for this kind of publicity, but instead we have been carrying out our improvement program there and making information about progress available to the public and the employees as we go along...

³³The Vancouver Sun reported during this time that the company had never been charged with its failure to comply with the original 1978 BC waste management permit for the mill, despite consistently exceeding agreed upon levels Vancouver Sun, December 14, 1987).

While Canfor eventually had to change its strategic response to these pressures, it was able to maintain the clientele-pluralist network under which it operated, by making a choice that was both environmentally and economically sound. This case supports the model above that firms are likely to taken proactive decisions in a clientele-pluralist network if it feels pressure from its economic stakeholders. In this case the threat of a boycott and policy network/regulatory change was enough to convince Canfor to adjust its strategic response. And, its response also allowed Canfor to reduce the threat of increase governmental regulations through a private firm-level policy decision.

Canfor's experience over pulp mill pollution produced a similar series of events. Just as Canfor appeared to have addressed and even gone beyond air pollution concerns, pulp mill water pollution was now becoming a provincial, national, and international issue.³⁴ And partly through serendipity, Canfor became the target of much of this pressure when, in November of 1988, commercial shellfish harvesting was stopped near Canfor's Howe Sound mill as dioxins were discovered in the shellfish.

Once again Canfor's clientele-pluralist network with regulatory agencies was showing signs of stress. In May 1989 the provincial Ministry of the Environment announced new regulations to control the discharge of organochlorines, and regulation of BOD and TSS in pulp mill effluent was tightened, requiring all mills to have a system of secondary treatment. Moreover, MOE began to flex its regulatory muscle, increasing fines for violations of the *Waste Management Act*. Amidst this scrutiny, federal Pulp and Paper Effluent Regulations were undergoing revision (Raizada 1998: 179). Apparently spurred by this activity and the fear of a wholesale change in the policy network and regulatory regime, Canfor took another innovative decision by announcing in April of 1989 that it would add a position as Vice President, Environment and Energy, and introduced an accompanying official environmental policy. Canfor's environmental policy included a commitment to conducting environmental audits at all its manufacturing operations. The Environment and Energy department was to perform environmental audits of all the company's operations to determine how well the

³⁴Both Greenpeace and the US Environmental Protection Agency released data in 1987 showing that pulp mill effluent contained traces of dioxin, a toxic organochlorine (Raizada). Canfor's pulp mill operations were now part of a general province wide anti-effluent campaign which included Greenpeace Canada, the BC-based Sierra Club, the West Coast Environmental law Association and the Western Canada Wilderness Committee, which were part of a larger international effort by Greenpeace and the World Wildlife Fund in Europe (Stanbury 1993; Raizada 1998: 167). The campaign was boosted by a 1988 study showing that most pulp and paper mills in BC were not in compliance with 1971 federal Pulp and Paper Effluent Regulations.

operations were complying with regulatory requirements, and corporate standards and policies. Audits would also “environmental management systems” at company operational levels. Meanwhile Canfor set the goal to reduce wood waste at its forestry operations by 50 percent (Raizada 1998: 178).

Again, Canfor took proactive responses to these pressures within the context of a clientele-pluralist network and limited regulatory regime. It did so for fear of internal boycotts that would result in pressure from its economic stakeholders. Canfor actively environmental protection on a number of fronts, including producing pamphlets on forest management practices and distributing 150,000 copies of “Cleaning Up Howe Sound”, which outlined the changes it had made in response to the public. Canfor also sought to accommodate Greenpeace through meetings and seminars (Raizada 1998: 179). Canfor had moved from defiance, and manipulation to innovation and proaction. It was spurred by the threats of social interests to pressure its economic stakeholders, and by the desire to maintain clientele-pluralist relationship with government agencies. Canfor was able to take innovative decisions, while maintaining its cooperative clientelist relationship with provincial and federal regulatory bodies, and was able to reduce the burden of regulations being considered. In fact, the government of Bill Vander Zalm overruled his own Ministry of Environment's proposals for increased pulp mill effluent regulations, resulting in the resignation of then Environment Minister John Reynolds (Harrison 1998).

If the story were to end here, the case of Canfor nicely illustrates the model above about the manner in which companies operating in clientele-pluralist networks and a discretionary/non-legal regulatory regime will at first avoid, defy or manipulate pressure from external social actors, but if pressure is moved toward economic stakeholders, innovation and adaptation may occur. However, Canfor’s experience in the 1990s also illustrates the way companies respond to groups under network in which they must share influence in the policy making process with environmental groups and other social actors. This is because many of BC’s clientele-pluralist forest policy networks crumbled post 1991, as pressure-pluralist, concertation, and state-directed networks emerged amidst an increasingly complex regulatory style (although with only limited legalism).

The key reason for the change in BC’s policy networks was the election of the New Democratic Party government in 1991 with a strong environmental forest policy agenda (Cashore 1997). And one of the first policy targets was to revise pulp mill pollution regulations. The new Environment Minister John Cashore announced the new government would introduce strict

regulations to reduce further the discharge of organochlorines in pulp mill effluent (measured through AOX), that would include legislative changes. At the same time overlapping federal/provincial jurisdiction issues meant that the federal government was also a source of concern, as it was considering its own new regulations. Canfor seized on these overlapping jurisdictions to argue that British Columbia should cede authority to the federal government, which was considering less stringent regulations and which, unlike provincial policy networks, was still decidedly clientele-pluralist in composition.

At the same time, Canfor sought to compromise with British Columbia government officials, as the above model predicts will happen under a pressure-pluralist network. It argued not against environmental regulations per se, but in fact that the proposed provincial AOX regulations would *not* improve the environment: As Canfor's 1992 annual report stated:

The provincial requirement to completely eliminate AOX discharge in mill effluent by December 31, 2002...[will cause] ...very substantial expenditures which cannot be justified on environmental grounds.

Far from a proactive stance it had begun to take under the previous clientele-pluralist network, Canfor was now taking a role of compromiser, with the hopes of minimizing this source of pressure that emanated from state officials. However, as Canfor sought to compromise with the BC government on its pulp mill regulations, a new European campaign to increase the awareness of the presence of dioxins and furans in Canadian pulp and paper products was taking place. Greenpeace Germany was able to garner support from leading German publishers in its demand for alternatives to chlorine bleached pulp (Globe and Mail, July 9, 1993: 3). Now, Canfor faced a situation in which government, social and some economic actors were all pressuring Canfor and the BC industry for change. And as world opposition to chlorine bleached pulp grew, so did international attention expanded to include forest practices and old growth preservation (Cashore 1997). The 1992 Earth Summit in Rio de Janeiro that similarly gave impetus toward forestry certification and the Forest Stewardship Council highlighted this.

Canfor was now facing increased pressure on a number of fronts from pulp mill pollution to the NDP promise of a Forest Practice Code to old growth wilderness protection issues. Recognizing changes in forest policy networks, Canfor did not fight either the code, or increased wilderness preservation (contrary to its initial stance in the mid-1980s). Instead Canfor sought to bargain through

advocating the type of code it would like to see and participated in land-use processes with other organized interests, including environmental groups.

At this point the experience of Canfor is predicted by the model to occur infrequently. Canfor officials made the decision that based on environmental group, consumer, and governmental pressures, that it would “lead the way” on investing in alternative bleaching processes in order for Canfor to “meet the rapidly expanding demand in Europe for pulps bleached without the use of elemental chlorine or any chlorine compounds”. The Howe Sound mill became the first kraft mill in North America to complete successfully a full-scale mill trial of completely chlorine-free bleached softwood kraft market pulp (Raizada 1998: 188). The combination of a pressure-pluralist network and the fact that there appeared to be a market for kraft free pulp led Canfor to take a proactive decision on pulp mill effluent issues. The model above predicts that only rarely will individual firms in a pressure-pluralist network take a proactive stance because they fear additional regulations would render such innovation costly and non-conforming. But part of the reason for Canfor appeared to choose this route is because they were still operating in a relatively discretionary-non legal regulatory climate, despite the change in the policy network. Not taking a proactive position might have led to more stringent regulations. In this regard we can actually place Canfor’s decision in a number of firm-response categories. Canfor can be placed as acquiescing to environmental groups and economic pressures, while trying to compromise with the BC government by showing them that firms can be relied upon for environmental protection and proaction without increasing the public policy regulatory burden.

A similar proactive approach was taken on the issue of sustainable forestry, which was taking over most domestic and international attention. Canfor sought to pacify and address the concerns of their customers in Europe by holding information sessions and explaining changes they had made (Raizada 1998: 191). In response to a promised BC Forest Practices Code, Canfor also developed its own “Forest Practices Compliance Policy” (Raizada 1998: 205). Similarly, Canfor was a leading player in the role to begin national certification for sustainable forestry under the Canadian Standards Association (CS) and the International Standards Association (ISO). Taking a lead role in certification helped maintain Canfor as being a proactive company on the environmental front, while allowing Canfor to focus the efforts of their critics on private firm level initiatives, rather than on the more unstable and uncertain public policy regulations. Indeed, as of 1998, Canfor successfully lobbied

for changes to the Forest Practices Code and reductions in stumpage fees (Hunter and Hogben 1998), while at the same time maintaining a leading role in private certification issues.

This discussion of Canfor's experience and adaptation to environmental pressures general supports the model offered above that the type of policy network and regulatory regime greatly influence how firms will respond to external pressures. Under industry-dominated networks, firms will tend to defy or avoid unless pressure from external interests accelerates, at which point compromise strategies will be invoked. Conversely, pressure-pluralist networks allow environmental groups to exert a great deal of pressure, especially when accompanied by the threat of increased state regulations and the potential loss of markets. In such a situation, acquiescence will occur and in cases noted above where a discretionary/non-legal regulatory regime still exists, proaction can occur, as Canfor did when it decided to take competitive advantage of its new environmentally friendly pulp operation. As predicted, proaction thus may occur under pressure-pluralist networks where the overall policy style is non-legal/discretionary. While more research has to be done, it appears doubtful that the same kind of proaction/innovation would occur under a governance system marked by a pressure pluralist network and a non-discretionary/legalistic regulatory climate.

Alberta-Pacific

Alberta-Pacific is a forest products company operating a pulp mill near Boyle, in Northern Alberta, and managing a surrounding area of boreal forest the size of the province of New Brunswick. The company was established as a joint venture in the late 1980s between Japan's Mitsubishi and Honshu Paper corporations and British Columbia's Crestbrook Industries.³⁵ The creation of Alpac can be traced back to the Alberta government's decision in the mid-1980s decision to diversify Alberta's economy, which is heavily dependent on the oil and agriculture sectors (Pratt and Urquhart 1994). Then Premier Don Ghetty wanted to expand the forest sector into Alberta's publicly-owned northern boreal forest, which had thus in Alberta's history remained virtually untouched by industrial activity (Reinhardt 1994). The Alberta government offered an array of financial incentives, including low stumpage rates, harvesting rights to an area of land the size of Nova Scotia (under a Forest Tenure Agreement), as well as low interest loans (Reinhardt 1994). In the winter of 1988 it was clear that Alpac, led by Crestbrook managers, had become a serious contender to build the mill sights.

³⁵ Honshu later withdrew and Kanzaki Paper Canada Inc. came on as a third partner.

Environmental groups such as the Friends of the Athabasca formed, not to stop, but to focus “against bleached kraft mills, and the chlorinated organics, especially dioxins and furans that they produced” (Pratt and Urquhart 1994: 166). Even before being awarded the licence, Crestbook took a “defiance” approach, dismissing such criticism and defending its “strong environmental record” (ibid).

In December of 1988, the provincial government selected Alpac’s bid for the rights to harvest timber and build a pulp mill. The policy network at this stage is best described as clientele-pluralist, as the government was dependent upon industry to participate in its diversification scheme and to provide the long-term economic productivity and growth.³⁶ The regulatory style was, for the most part, discretionary/non-legalistic. Alpac officials note that their relationship with government officials is non-confrontational and that they rarely are subject to detailed criticism or scrutiny from provincial officials (personal interviews). However, two hurdles remained before the mill could be built: an environmental impact assessment (EIA) process was required under provincial statutes, and successful negotiations over the Forest Management Agreement (FMA) Alpac would be required to operate under.

The Alpac case allows us to illustrate the influence of environmental groups in such a network. Both hurdles were deemed a formality both the Alberta Ministry of Forests and Crestbrook officials (who were taking the lead management role at this stage) (Pratt and Urquhart 1994: 176). However, concerns about the environmental impact of such a mill came from local environmental groups and some aboriginal peoples located near the proposed pulp mill (most communities strongly supported the mill, as did key aboriginal representatives). The urban population and media in Alberta’s two main cities of Edmonton and Calgary also increased their scrutiny of the proposed development. Key officials in the province’s Ministry of Environment also raised concern, but their Ministry was peripheral to the decision making process (Pratt and Urquhart 1994: 195). Alberta Ministry of Forest and Crestbrook officials believed that both hurdles would take about two months, and construction of the mill would begin in the spring of 1989. The public was excluded from discussions over the FMA agreement (Reinhardt 1994: 13) and the EIA excluded forest practices from its purview, focusing scrutiny largely on air and water pollution concerns. In essence, Ministry

³⁶ Elements of a concertation network also exist because it was the government who first acted autonomously to begin the diversification project in its northern forest, and it was the provincial government which owned the forest land. However, once the contracts were signed and the deal was in place, the network more closely resembled a clientele-pluralist one in which government officials relied on industry officials to implement the diversification initiative.

of Forest officials assisted Alpac's strategy of "avoiding" these external pressures by limiting the nature of public influence. This situation illustrated the model above in that industry will initially avoid, defy or manipulate external demands from social stakeholders. However, the Alpac/Alberta Ministry of Forests strategy was not entirely successful owing to unforeseen legal issues. A recent court ruling in Canada had expanded the purview of environmental assessment processes, which had the effect of nullifying a 1986 Alberta/Canada agreement over application of EIA rules. The result was that an expanded EIA that included federal government officials, and included a longer and more detailed review process (Pratt and Urquhart 1994). These changes opened the door to increased scrutiny, numerous briefs before the EIA panel that the mill was proceeding before the scientific data had been collected, and raised the widespread concern that existing plans could result in contaminated drinking water and damage to the fishery. The avoidance strategy appeared to be unravelling. Crestbrook's president criticized the delay for increasing the cost of the project by \$166 million and further asserted that the criticism at the EIA process had been unwarranted, stating that, "I feel uncomfortable that we've had to lower ourselves to the public hearing process....I think the criticism is a disgrace".³⁷ Finally, in March of 1990, the EIA review process panel did something industry and Ministry of Forest officials never anticipated – it recommended that the Alberta-Pacific pulp mill "should not be approved at this time" (Pratt and Urquhart 1994: 188), citing uncertainty over the effects of chlorinated organics and dissolved oxygen. The board recommended further scientific study to see "if the mill could proceed without serious hazard to life in the river and for downstream users" (ibid: 189) (Pratt and Urquhart 1994).

At this point the structure of the clientele-pluralist network appeared in jeopardy, as did a change in the regulatory environment. Given this uncertainty, Alpac officials acted in accordance with a company intending to limit changes to the governance system. It proposed in the summer of 1990 a new mill design that would "satisfy the review board's primary worries regarding chlorinated organics" by proposing to bleach pulp without using chlorine gas" (Pratt and Urquhart 1994: 193). A second but more limited review process was established to look at the technical feasibility of Alpac's solution, as well as review the first negative EIA. The second review was more favourable, and paved the way for the Alberta government to announce that it was giving approval to the mill.

for information and advice, and the role of the government was to facilitate.

³⁷Galliford (1989), quoted in Pratt and Urquhart (1994: 184).

The Alpac story at this point illustrates the way in which firms will avoid and defy external pressures when operating in a clientele-pluralist network, and will compromise when faced with changes in the governance system. However, the Alpac story to follow post 1990 shows how, in the same network structure, firms will take proactive decisions when economic stakeholders and concerns about wholesale change in the governance system enter the picture. With hurdles cleared to begin construction and develop the Alpac organization, Alpac officials took stock of what had transpired to get this far in Alberta, as well as looking at the experience of forest companies operating in BC (which included Crestbook's own experiences). Two lessons were taken: 1) Historically BC companies were slow to adapt to environmental and ecosystem concerns, and 2) this slowness to adapt eventually led to an overly burdensome regulatory process in BC in the early 1990s. As Alpac's environmental manager stated:

We have a big new land base that gives us some flexibility. We want to introduce new forestry techniques, and show people that we're doing environmentally sound forestry. In BC, there was never a plan for forest management. 'Forest planning' just mean 'fibre extraction.' We have to abandon that kind of thinking. The industry did a lot of things wring in BC; here, we have a chance to do it right' (Reinhardt 1994: 15)

Drawing on its EIA experience and looking to the polarized atmosphere that existed in British Columbia, Alpac officials also noted that, "We decided that we could not go down the same traditional road followed by the industry in BC... We knew had to create a new way of doing things. Otherwise, we'd do nothing but draw circles around a little timber base and lose more and more of the base as time went on" (Reinhardt 1994: 13).

The result was a decision by Alpac to take innovative and proactive steps with respect to public involvement in the forest planning on Alpac lands, the organization of employees using a cooperative "team" approach, the hiring of wildlife biologist and ecological experts, and the adoption of "ecosystem management" on its forest lands (Stuart-Smith and Rabik 1996; Alberta-Pacific Forest Industries 1998). Alpac placed research emphasis in its efforts to replicate natural forest fire disturbances, and monitors a number of wildlife indicators. Unlike most other forest companies, it has developed procedures to address provincial, national and international certification programs, with the intention of developing substantive and planning procedures that will facilitate certification under most of these processes. So proactive were these steps compared to many other members of the forest products industry in Alberta, that both government and other industry officials have criticized

them for “going too far” (Reinhardt 1994: 19; Stuart-Smith and Rabik 1996: 9). One Alpac report on its “ecologically sustainable forest management system” noted that others in the Alberta forest industry were “concerned that AlPac was seen as running down the operations of theirs while promoting its own style of management. More so, most industry people felt that their own program was advanced enough and that the concept of ecosystem management broad enough that they should not be criticized”.³⁸ It is beyond the scope of this paper to examine the effects of company policy with on the ground performance, or to rigorously examine where rhetoric is joined by substantive action. We do note, however, that Alpac has taken a strong position criticizing other Alberta forest companies for using only rhetoric, “many companies are still talking about ecosystem management rather than taking actions toward achieving it... Many company’s ecosystem management programs are little more than slightly modified forms of traditional sustained yield management” (Stuart-Smith and Rabik 1996: 9). Moreover, Reinhardt (1994) notes that Alpac has consistently discharges far less pollution than its licence permits (contrary to Canfor’s experience in the 1980s).³⁹ All of these changes were made within a system of government characterized by its clientele-pluralist network and overall discretionary-regulatory style. Far from being undertaken in a coercive manner, and unlike its initial response to public scrutiny, Alpac officials have indicated that they believe that its operations are far better today because of public scrutiny (Reinhardt 1994: 19).

These dramatic changes are owing to four factors 1) the fear of increased regulations that they saw take place in the neighbouring province of British Columbia⁴⁰; 2) recognition that if changes were not made the mill could suffer heightened scrutiny by environmental groups in the future; 3) the recognition that there was a potential price premium for green pulp products in Europe and 4) that one of the parent companies, Mitsubishi, was coming under a sustained boycott campaign by the San Francisco-based Rain Forest Action Network (Pratt and Urquhart 1994: 170). The combination of these external pressures facilitated Alpac’s decision to adopt a proactive/innovative approach to environmental forestry issues. And the system of governance was key in the minds of Alpac officials – key officials noted in recent interviews that British Columbia’s regulatory environment would not

³⁸ Following this statement, the AlPac report contains in parentheses the words, “not our opinion”.

³⁹ Reinhardt, (1994: 15) notes that initial pollution levels in 1993 were “.08 kilograms of AOX per tonne of pulp, compared to 1.5 allowed by Canadian regulations”, and that “the mill released 200 kilograms of BOD per day, compared to 4500 in its operating license”.

⁴⁰ The Alberta Environmental Protection and Enhancement Act, passed in September 1993, would require increased public participation for the renewal of pulp mill licenses. This spurred Alpac to initiate and go beyond such requirements.

have given Alpac the flexibility it needed in establishing ecosystem management. At the same time the clientele-pluralist network resulted in low stumpage rates, which gave Alpac officials a degree of financial room to manoeuvre not available to other companies.

MacMillan Bloedel, Pine Hill

MacMillan Bloedel, Pine Hill is part of MacMillan-Bloedel Packaging, a subsidiary of British Columbia based MacMillan-Bloedel Ltd. MB Pine Hill operates woodlands, wood products and pulp and paper divisions and employs 900 individuals (MacMillan Bloedel Pine Hill Undated). The history behind the establishment of MB's Pine Hill operations in the 1960s is similar Alpac's origins in the 1990s. MB was lured to the area by low taxes, loan guarantees and an abundance of fibre from its own and nearby private woodlots (Walkingstick 1996: chapter 4).⁴¹ A key difference from Canfor and Alpac's environment is that timber land in the US South is 95 percent privately owned, the inverse of British Columbia's and Alberta's share. In addition, virtually all of the forest land is second, third, or even fourth growth (Hyde and Stuart 1998), essentially removing the debate over old growth preservation from Alabama forest politics (Parfitt 1998). Policy networks are best described as clientele-pluralist. Government officials simply do not dictate policy to the forest sector or individual companies, and where problems occur, voluntary solutions are expected to be found (Alabama Forestry Commission 1993). Indeed the Alabama Forestry Commission, the "lead agency for forestry in Alabama" is "not an environmental regulatory or enforcement agency" (ibid: 1) but instead "[avoids] environmental problems through voluntary application of preventative techniques" which it argues is "much less expensive, more cost effective and practical than restoration after the fact" (ibid).

The effects of US environmental/forest oriented statutes on the Alabama regulatory environment is contrary to analyses in other parts of the country and other sectors – the forestry regulatory style in Alabama, is for the most part, discretionary/non legalistic. This is partly because the strict non-discretionary legislation such as the *Endangered Species Act*, *National Environmental Policy Act*, and the *National Forest Management Act* to do not have the same kind of application to

⁴¹ In both Alberta and Alabama, the promise of long-term economic development and relatively high paying jobs has been used to justify loan guarantees and tax concessions. However, unlike Alpac's experience, this luring of industry has also been examined for its role in contributing to ongoing poverty in Alabama's "Black belt" (Bliss et al. 1993).

US privately-owned lands, which are largely left to the regulation of individual states.⁴² And unlike Oregon and Washington, a *Forest Practices Act* has not been established in Alabama. Federal legislation such as the *Federal Water Pollution Control Act*, the *Clean Water Act*, the *Water Quality Act* and the *Coastal Zone Management Act*, as well as the, *Alabama Water Pollution Control Act* do apply to forest practices that affect water quality, but here to their implementation is conducted through the establishment of voluntary “Best Management Practices” (Alabama Forestry Commission 1993; Brinker 1997).

Unlike Canfor and Alpac’s experiences, MB Pine Hill has to date not experienced sustained pressure from organized environmental groups, although it noted in the mid-1990s a change in public values and attention over forest stewardship issues (Walburn 1997b). Instead, the MB Pine Hill experience illustrates the role of a firm in a clientele-pluralist network that experiences external pressure from its own forest industry association. In this case external pressure came from the American Forest and Paper Association (AFPA) to implement its newly developed Sustainable Forestry Initiatives (SFI). The SFI contains a detailed list of measures to implement sustainable forestry among its member organizations, and was developed in response to two sources of pressure. The first was increased domestic scrutiny of forest company practices in the US (much of which was focused in the US Pacific Northwest, California, and New England). The second was in response to other international forest certification efforts, such as the World Wildlife Fund backed Forest Stewardship Council (FSC) Certification System (Personal interviews, Hansen 1998: 18).⁴³ The AFPA has noted several difficulties in implementing the FSC system (American Forest and Paper Association 1993) and proactively developed SFI because it believed it was a more viable alternative.

⁴² The Endangered Species Act requires for more US agencies that manage publicly owned land management (Cashore 1998). To date, the Red Hills Salamander is the only listed species on MB Pine Hill managed timber lands, and MB Pine Hill is working with the US Fish and Wildlife Service to maintain the salamander population on 5,000 acres of its forest land (Perpetual Harvest 1995: 14).

⁴³ The SFI officially began implementation 1996 which contains “implementation guidelines, objectives, and performance measures” (Hansen 1998: 18). Participation is mandatory in SFI for all AFPA members. Third party verification is not yet required, though AFPA is currently considering this option (ibid).

MB Pine Hill's response was as the model predicts – it responded to these industry pressures in a proactive fashion, through “normative isomorphism”. Indeed, MB Pine Hill noted that many of the SFI requirements had long been in place in Pine Hill (Perpetual Harvest 1997) and that it was actively streamlining its policies to fit those of SFI. The woodlands manager noted in its corporate journal that, "doing the right thing — to protect wildlife, water quality and special woodland sites, to lessen the incidence and impact of clearcutting and to reforest promptly — is what the Sustainable Forestry Initiative is all about" (Perpetual Harvest 1997). Although it is difficult to separate public relations from value changes, and even further the effects of value changes on environmental performance, it is worth noting that an internal Pine-Hill document reveals little doubt that adherence to SFI was believed to be more than simply a public relations strategy. In an inter-office memo the Director of MB's Pine Hill operations outlined changes to its Forest Land Stewardship policies in order to incorporate SFI objectives. In the memo, he highlights the importance of these changes:

Adherence to the guidelines set forth will ensure forest practices that are silviculturally, environmentally, and economically sound. They will further ensure the sustainability of our forest resources and protection of the environment for future generations. It is important that each of us understands and implements the intent and spirit of these policies (Walburn 1997a).

In this case, the combination of a “hands off” clientele-pluralist policy network and a relatively uncumbersome regulatory regime produced a governance system in Alabama that facilitated MB Pine Hill in acquiescing, and even adopting a proactive response to external demands from one of its key economic stakeholders – its own industry association. Arguably the same response would not have taken place in a highly regulated litigious environment where corporations are more focused on “bomb proofing” their policies from legal attacks, rather than developing innovation solutions.⁴⁴

CONCLUSION

This paper outlined the contribution of organization sociology's neo-institutional literature and its modifications to date in understanding firm responses to external pressures. It argued that incorporating policy network and regulatory regime literature allowed us to develop a series of hypotheses that more accurately predict firm responses. Intra-sectoral firm difference can be traced not only to differences in the source of external pressure, but the way in which the system of

⁴⁴ The US Congress' Office of Technology Assessment first noted that the complex nature of the US federal statutory regime had led agency officials to focus on “bomb proofing” at the expense of long range planning (1992: 65)

governance influences/constrains the types of response a company will consider.

It should also be noted that the model above is far from deterministic – it allows for a wide degree of choice even within the constraints of the particular governance system, and it notes that initial responses to external pressures are often quite different from longer term responses when it undergoes sustained and unrelenting pressure. Its attraction is in highlighting the boundaries of choices that governance systems create. The illustrations above indicate preliminary empirical support for this model. We anticipate further research that examines the role of companies that first experienced external pressures when they were operating in pressure pluralist or other non-industry dominated policy networks; as well as research that compares firms operating in the same sector.

Given the complex world of corporate responses we suggest the following choices be made regarding methodology and operationalizing “corporate response”. First, data collection should be conducted on a qualitative comparative case study basis. Given the complexity of the way in which firms may respond to external pressures, and the variety of choices facing them, qualitative case studies are the most appropriate tool with which to uncover important nuances specific to individual cases (Dogan and Pelassy 1990; Johnson and Joslyn 1991). Attempts to quantify such studies could risk ignoring important information that only qualitative case studies can reveal. Second, we argue that future studies must be careful not to restrict their definition/operationalization of corporate social response. Some studies to date focus only on internal organizational change, and the presence or absence of committees and team processes over issue management. For example, Greening and Gray (1994) assert somewhat tautologically that only issue management structures can allow firms to be proactive to external demands. We disagree. In many cases firms respond quickly to external pressures without ever changing their internal structures — which may already be well suited to proaction and innovation. Certainly in the case of Canfor to follow, its response to Pulp Mill effluent concerns was eventually to change company policy and work with environmental groups, without ever having changed firm structure or adding an “issue management” team. Accordingly we argue that definitions of “firm response”, at least at this stage, must be kept open so that we can empirically study the different types of substantive responses each firm took. Such an approach recognizes that categorizing firm responses according “proaction”, “acquiescence”, “defiance” or “manipulation” is about the “approach” or “style” a firm takes, which may be manifest in organizational change/resistance or firm policy change/resistance.

Finally, must be aware that it is often difficult to place a firm's actions according to whether it was done as a result of “deeply ingrained values” or because a firm some a competitive advantage in doing so. Personal interviews can help to uncover motives, but often motives are mixed, again making exact placement difficult. We can look at the views of senior managers to see if they view greening as a constraint or competitive edge — but these views may simply be shaped by the industry they are in, and the profitable opportunities that exist. The easiest indicator of a “green” choice is when a company knowingly does some thing to improve environmental protection that will have a negative result on corporate profits (and of course there are limits to this because if a firms follows such goals it its ultimate conclusion, it would be out of business, and thus not helping to build a sustainable economy).

This paper has offered a model that permits social scientists to study the interface between the public policy making process, and private firm level policy choices. It was argued at the beginning that such strategies are particularly important in order to understand the effects of a shrinking state on private sector choices. While more empirical research has to be done, we envision that the model offered above may assist policy makers advising governments about the most appropriate policy tools for different goals. Government officials that want to encourage corporate innovation and proaction may take different policy choices than those who are focused on achieving a certain level of corporate compliance. It may well be accurate that “firms will acquiesce when institutional pressures are in the form of legal coercion” (Scott 1987; Oliver 1991; Jennings and Zandbergen 1995) but that “greening” and “innovation” occur when firms are not burdened with difficult and bureaucratic regulatory requirements (Sharma 1998; Sharma and Vredenburg 1998; Vertinsky and Zietsma 1998).⁴⁵ Although this model can be applied across sectors and policy areas, we have focused our examples on the way in which systems of governance affect sustainable (forest) firm initiatives. This is an important area because governments need to balance the desires for a “smaller, leaner” government, with equally important demands within civil society for environmental protection.

We should note that this paper has focused for the most part on understanding corporate responses, rather than environmental performance per se. Much of the existing literature (e.g. Porter and van der Linde 1995; Vertinsky and Zietsma 1998) argues that policies that encourage corporate

⁴⁵The issue of whether a proactive firm can be categorized as “green” is controversial. After all, a proactive firm in a limited regulatory climate might actually be doing less for the environment, than an “acquiescent” firm in a highly regulated environment.

innovation and flexibility will be best at facilitating the process of corporate greening. On the other hand, it could be argued that proactive steps that are simply taken to avoid more stringent regulations would lead to less improvement on environmental performance. Or, it may be as Sharma and Vredenburg (1998: 34) suggest, that a useful approach for policy makers is a combination of “raising the bar” only to a certain level, in order to encourage some firms to go beyond and innovate, thereby “pulling up” the other firms in the industry through voluntarism.⁴⁶

In this context, we must be careful not to over theorize about the effects of different policy choices on environmental performance. This paper has focused on firm responses to external pressures, which is but one component in understanding how firms achieve sustainable environmental protection. Some evidence to date (Tripp, Nixon, and Dunlop 1992; Environment Canada 1998) suggests that while non-legal/discretionary regulatory style along side a clientele-pluralist network may encourage innovation, this system of governance does less well at promoting firm compliance with state regulations.

Clearly more work has to be done to understand the important relationship between governance systems and firm responses (and the effects of this relationship on environmental performance). Organizational sociologists and business management scholars cannot afford to gloss over the role of the state. Similarly political scientists who study public policy need to expand their research agenda to better understand the importance consequences public policy making can have on private sector choices.

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⁴⁶Part of the problem is that these topologies are also influenced by strong normative beliefs that proactive firms do a better job of environmental protection, something which remains to be tested and which may or may not be supported by existing data. As a result of these normative influences, most topologies fail to accommodate the important role a “crisis” can play in moving a reluctant/reactive firm toward dramatic change (Greening 1992: 86).

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