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Development of Incentives for Washington State's Sustainable Business Program

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Abstract

This paper presents key lessons learned during the development of an incentive package for the Washington State Department of Ecology's sustainable business program. The program targets small and medium-sized businesses and seeks to help participants adopt more sustainable practices. The program will use a tiered approach to incentives and incorporate both financial and non-economic incentives to encourage sustainable behavior. The paper presents a new framework for thinking about incentives and potential barriers to their implementation. The paper also recommends further research and work on two possible new systems related to incentives: voluntary financial assurance and the "Environmental Safety Rating" system. Finally, the paper presents the author's recommendations for regulators who are considering using incentives in environmental and sustainability programs.

[Incentives, Disincentives, Financial Assistance, Technical Assistance, Sustainability, Corporate Social Responsibility]

Development of Incentives for Washington State's Sustainable Business Program

Government programs frequently struggle with how to motivate people to change their behavior. Providing information about risks and dangers is essential for environmental programs, but is frequently inadequate to convince residents to adopt more eco-friendly practices. As a result, it has become more common for government agencies, businesses, and non-profit organizations around the world to look for new ways to encourage both employees and industry to "go green" and become more sustainable.

The following is a brief exploration of some of the lessons learned during the Washington State Department of Ecology's development of its sustainable business program, currently known as "Sustainable Washington." Preparation for the pilot of the Sustainable Washington program has been underway since mid-2007; outreach to participating firms is scheduled to start in late 2008 and run through the end of 2010. The Ecology team members who worked to create this program believe our experience can add to the current knowledge regarding the use of incentives in environmental, sustainability, and corporate responsibility programs.

This paper summarizes issues related to government incentives used to motivate sustainable business practices. First, it examines what incentives are, how they tend to be used in the current system, and some of the problems with their implementation. Next, the paper provides a brief summary of Washington's experiences in developing an incentive program and our research results. Finally, it presents some recommendations for future research and advice regarding program development.

What are Incentives?

When most people think about "incentives," they think of direct monetary benefits such as tax reductions or waived fees. It is easy to overlook that other types of "perks" can also have a financial effect on a business. Instead of focusing solely on direct payments or offsets, it is more important to think of incentives in a broader sense of rewards or motivators. Any product, service, or payment can be an "incentive" if the recipient views it as sufficiently worthwhile. The determining factor is whether the person receiving a benefit feels they received more than what they had to do in order to get that benefit. In other words, is the marginal cost to the firm less than the marginal benefit received? If the value of the incentive earned does not exceed the amount of work and investment required, the recipient will not be motivated to pursue the incentive. With no incentive, the business will have no objective reason to alter their behavior.

Ecology wanted to expand the concept of "incentives" to include much more than just financial rewards. All incentives—even those that are not inherently "economic"—affect the financial status of a business in some way. Saving time, effort, and aggravation all indirectly affect a firm's bottom line. When thinking about incentives for the Sustainable Washington program, we divided them into the following categories:

1. *Economic incentives*. These incentives directly affect a participant's bottom line. Examples of economic incentives include tax benefits, loan programs, government grants, equipment purchasing assistance, or insurance programs. These are the most traditional form of incentives.

2. *Regulatory incentives*. These incentives affect a participant's relationship with government. Examples of regulatory incentives might include exemptions from specific regulations, making government contact easier, or reducing waiting times for government services. Many environmental agencies have limited experience with this type of benefit as an "incentive," but do have experience with the concept in a regulatory framework.[1]

3. *Social incentives*. Social incentives affect the public's perception of a program participant. Examples of social incentives might include public recognition of participants, use of a program logo, or other positive credit on a compliance history. In the United States, this has been the most common type of incentive offered in environmental programs.

4. *Technical incentives*. These incentives affect how a participant handles technical issues. Examples of technical incentives could include individualized technical assistance, financial training, or assistance in dealing with lenders. This type of incentive has been mostly overlooked for environmental programs. Many regulators have failed to recognize that technical assistance can be helpful to all businesses, not just those that are in regulatory trouble.

5. *Other incentives*. The "other" category is for those incentives that don't fit neatly into one of the other categories. Examples of other incentives might include free advertising or the opportunity to participate in advisory groups. Like technical assistance, this type of incentive can be easy to overlook. These incentives are also the hardest to identify without asking program participants. Businesses will frequently have good ideas about what will motivate them to change their behavior, and those motivators will frequently fall into this miscellaneous category.

Ecology also focused on one other group of incentives—one that might fit into any of the categories above. We refer to that group as “third party” incentives. Third party incentives are those that the agency does not offer directly; instead, these incentives come from unrelated third parties. Examples of third party incentives might be a waiver of the joining fee at the local gym for a firm’s employees, reduced advertising rates in the local newspaper for program participants, or reduced insurance premiums for high-performing companies. In each of these cases, the sponsoring government agency does not actually provide the benefit—the unrelated party does. Why would a business agree to such an arrangement? Because it generates customers that might otherwise choose to give their business to a competitor. Third party incentives work just like a travel club card: the auto club doesn’t compensate the rental car company or hotel for the discount they extend to members; it makes financial sense for those rental car companies and hotels to offer a discount because it motivates customers to choose their establishment instead of the one next-door.

The Mainstream’s View of Incentives

While environmental agencies usually rely on the “command and control” methodology to effect change, using incentives in the environmental arena is not entirely a new idea. So why should the government provide incentives? Why not simply make the minimum standards more stringent? The answer is effectiveness. Command and control has been insufficient to protect the environment, so government is looking for new ways to achieve that goal.

Many programs throughout North America and the EU, such as the US Environmental Protection Agency’s “Performance Track” and the EU’s Eco-label programs, use incentives to encourage better environmental practices. However, the mainstream view of incentives is severely limited. Even experts in the field of pollution prevention have a limited concept of incentives. For example, the Pollution Prevention Resource Center in Seattle, Washington states, “There are several types of economic incentives but this [newsletter] article will discuss only the most well-known and tested of these: unit-based pricing, environmental taxes, and marketable permits” (PPRC 2004, p. 3). The problem with this statement is that neither unit-based pricing nor marketable permits are, in fact, incentives. Environmental taxes (as explained in the article) are also not necessarily incentives, although it is possible to structure them to play that role.

It is important not to confuse “incentives” with “disincentives.” The two are not the same thing, nor even two sides of the same coin. On the surface, they do seem related: one rewards changing behavior while the other punishes for failure to change. This apparent similarity is deceiving. Minimizing harm is not the same as providing a reward. Taking a pill might get rid of your headache, but it does not necessarily make you feel healthy and vital. Eliminating a disincentive just makes the headache go away; providing an incentive makes your whole day better.

Disincentives are a component of a command and control system, while incentives are focused more on voluntary compliance. From a regulatory perspective, voluntary compliance is highly preferable to forcible compliance. When an individual or business complies with a law because they are compelled to do so, government must be on constant guard for violators. Under a command and control model, government can achieve deterrence either by (1) setting the penalty for noncompliance sufficiently high (and defending that penalty when legally challenged), or (2) catching a sufficient number of violators to make fear of detection significant enough to force behavior change. In contrast, voluntary compliance relies of a different set of decision-making inputs. When government can adequately communicate the need for a particular rule or practice and why it is important, more people are likely to comply willingly. That willingness leads to a drop in the cost of enforcement because government can spend less time and fewer resources looking for violators. It is not required that government provide incentives to "sweeten the pot" for voluntary compliance, but incentives can encourage actual buy-in from those who might otherwise be motivated only by fear of detection.

The Problems with Incentives

In the United States, the use of incentives to encourage environmental improvements is inconsistent and sporadic. In many cases, incentives are limited to nothing more than public recognition. This is likely because there are a number of potential problems related to incentives and their implementation. Ecology found seven issues that proved to be the most problematic: legal restrictions, tying performance to a corresponding incentive, unnecessarily rewarding good behavior, rewarding equivalent effort from different businesses, creating negative inducements, public perception, and funding.

The first problem any incentive program must address is what government can legally do. Unfortunately, some of the best potential incentives may simply be impossible without legislative action. Washington State is a good example of how current law can restrict the availability of incentives. The Washington State Constitution contains three separate restrictions against lending the credit of the state or other political subdivisions. In practical terms, this means neither state nor local government agencies can use state revenue to give direct payments to businesses as an incentive. However, if an incentive can be structured so that the government is “purchasing” a benefit for the public good (such as cleaner air), it might be legal. Incentives that use funds from other sources, such as donations from private organizations or federal grant dollars, may also be legal. But incentives that cannot be structured in this manner will not withstand legal scrutiny.

The next potential problem related to incentives is how to tie a particular environmental outcome to a corresponding incentive. During the development of the Sustainable Washington program, Ecology was consistently challenged by the question, “Incentives for what?” The solution to this issue proved to be somewhat elusive, but we are continuing to refine our approach. For some environmental indicators, tying performance to an applicable incentive was fairly intuitive. A good example of this might be Ecology’s Hazardous Waste Generation Fee, a small but controversial fee charged to all businesses in the state that generate hazardous waste. We can create an incentive—reduction or elimination of the fee—that is directly applicable to the outcome we wish to encourage—reduction in the generation of hazardous waste. Unfortunately, other environmental outcomes like greenhouse gas emissions or solid waste generation don’t have corresponding fees or regulations that can be affected for purposes of an incentive program.

The next potential problem we addressed was, “How do we know we aren’t rewarding businesses for taking actions they would take even if there were no incentive?” With limited funds available for program implementation, it is important to give priority to changes that a participant would not otherwise make were it not for the incentive. Although we spent much time considering this question, we eventually decided it was not nearly as important as we originally thought. Because incentives should be given only for voluntary changes and not those required by law, we determined that those behaviors should all be entitled to the same compensation—even if the business were planning to make the change without the incentive.

The fourth issue we addressed was how to reward firms already performing at a high level. Say Company A is currently in compliance with all environmental regulations but not doing anything extra to protect the environment. Company B is likewise in compliance with all regulations, but is also an environmental leader and has already implemented many Best Management Practices (BMPs). Should the two companies receive the same benefits? Should the high performing company get incentives for the improvements they've already made? If not, why should the lower-performing company get incentives for taking those same actions? Eventually, we resolved this issue by creating tiers for both environmental performance as well as incentives (as is explained in more detail below). By creating different tiers in the program, Ecology can accommodate a variety of businesses at different levels of environmental sophistication. In this case, Company B would enter the program at a higher level and would be eligible for more incentives than Company A, but would have to do more to maintain that eligibility.

The fifth potential problem we addressed was how to ensure participating businesses continue to make environmental progress. The last thing we want to do is inadvertently create a negative inducement—that is, making an incentive so attractive that a business will allow its environmental performance to worsen in order to later "improve" and receive a reward for that "improvement." Again, we addressed this issue by "tiering" both the incentives and the environmental outcomes to be achieved. We also made the tiers cumulative so a business does not have any financial motive to allow their environmental performance to suffer. If they do, they will lose access to at least some incentives. The tiered structure motivates participants to always be on the lookout for new efficiencies and improved processes.

The sixth potential pitfall associated with incentives is accounting for public perception. For better or worse, what the general public and the environmental community think has a great deal to do with whether a program or idea will be successful. A program that is perceived as being too “business-friendly” will likely encounter opposition for being wasteful of the taxpayers’ money. A program that is perceived as being too “environmentally stringent” may also be subject to opposition for stifling entrepreneurship.

For example, the use of pollution and carbon credits has been slow to catch on in the United States. Although blame is most commonly laid at the feet of industry, use of pollution credits is also commonly opposed by environmental advocates. At a basic level, both conservative and liberal Americans are frequently uncomfortable with the concept of pollution credits—it feels like a method for the rich to exploit and pollute the environment at the expense of the poor. Business advocates see it as unnecessarily restrictive environmental regulation, and environmental advocates see it as too business-friendly. That combination makes a pollution credit system difficult to implement. Involving the public during the development of environmental programs may be an effective method for mitigating future public opposition. In the case of pollution credits, conspicuous public support for the concept from both business and environmental advocates would help the idea catch on.

Finally, perhaps the biggest challenge of all is paying for the incentives. Government programs cost money. Staff members need to be paid. Tax reductions reduce revenue. Loan programs experience defaults. It is important to balance the costs of administering an incentive program against the environmental benefit gained from that program. For example, say society incurs a long-term cost of $10,000 for every ton of hazardous waste produced in the private sector. The government implements an incentive program that results in participating businesses reducing their hazardous waste generation by 100 tons each year. If the program costs more than $1,000,000 annually (a very realistic amount), society is actually losing money. In this case, it would cost society more to avoid pollution than it would to simply deal with wastes generated. Creative solutions like third party incentives may be a successful strategy for dealing with shrinking budgets and limited resources.

Ecology's "Beyond Waste" Initiative

Beginning in 2001, Ecology adopted a new strategy for reducing hazardous and solid waste in Washington State. The agency's new "30-Year Vision for Beyond Waste" states: "We can transition to a society where waste is viewed as inefficient, and where most wastes and toxic substances have been eliminated. This will contribute to economic, social and environmental vitality." (Washington State Department of Ecology [Ecology], 2004, p. 3). In furtherance of this vision, in 2004 Ecology adopted an extensive Beyond Waste Plan that incorporated 64 specific recommendations (Ecology 2004, 57–9). To implement part of this plan, in 2006 Ecology's Hazardous Waste and Toxics Reduction Program began to develop a program to help businesses be more sustainable. The intent was to develop a program that would provide financial incentives and technical assistance to participating businesses. Ideally, the program would be equally attractive and helpful to all businesses in the state regardless of business size, industry, or location.

After working for almost two years, Ecology developed a unique program that uses existing regulatory authority to establish a new compliance-centered program. As a business successfully completes this compliance-focused phase of the program, it can easily transition into a “beyond compliance” phase. The entry level of the beyond compliance stage requires just a little more work than that which is already required by law. The beyond compliance stage would also offer incentives for doing that extra work.

Ecology initially designed a program consisting of two compliance-based “tiers” and five leadership “tiers.” Each tier required an increasing level of environmental performance. Each leadership tier also offered more financial incentives for improved environmental performance. There were no financial incentives offered in the compliance phase, but technical help was available to firms needing compliance assistance.

After working with a stakeholder advisory group consisting of representatives from business, government, and environmental advocacy groups, Ecology eliminated the bottom compliance tier and reduced the number of leadership tiers from five to three. The stakeholder group also strongly suggested that a single program would not be able to meet the differing interests and needs of both large and small businesses. As a result of this advice, Ecology abandoned the “single program” idea and instead focused primarily on the needs of smaller firms.

One other key message the stakeholder group clearly communicated was that participating businesses should not be eligible for a reward when merely complying with the law. While non-economic incentives, such as training or technical assistance, might be acceptable to help businesses come into compliance, businesses that are only doing what the law requires should not be entitled to any additional reward. The most interesting aspect of this message was that it was universally supported by all stakeholders, including business advocates.

In addition to conferring with a stakeholder advisory group, Ecology also worked with consultants to conduct additional research, including a series of small focus group meetings. Focus group participants were selected from auto body shops, cabinetmakers, and painters—industries that use large quantities of spray paint. Participants were randomly chosen from a list of businesses and assigned in groups of approximately six people. Unlike previous stakeholder outreach efforts, the focus groups took place without Ecology staff present. Only the consultants knew who participated and what each responded said. There was no direct link to any participant so they would feel free to discuss their true opinions—including any environmental problems they might have—without fear of inspections or penalties from Ecology. The contractor paid each participant $100 for their time.

The most common concern expressed by focus group participants was about exposure injuries to themselves, their workers, and their family members. More than one participant shared a personal story about how they were personally injured by toxic chemicals. Each of the focus groups expressed a consensus that avoiding injuries to their workers was of primary importance.

The contractors also observed an unexpected occurrence during the focus group meetings: industry competitors discussing their mutual problems and concerns. With no direction from the group facilitator, participants would share information and discuss various products and techniques. Many participants expressed their need for these types of discussions with others in their industry. To paraphrase the message that emerged from multiple focus groups: “I’d use the best product for the environment if I knew what it was. But I don’t have time to figure that out. Just tell me what I should use and I’ll use it.”

The input from our stakeholders was invaluable to the development of the Sustainable Washington program. The project would likely never have made it past the planning stage without the practical information the stakeholders provided. We learned three important lessons: keep it simple, limit incentives, and don’t try to be everything to everyone.

The “Fiscal Toolbox” Project

The Beyond Waste plan and its recommendations heavily emphasized financial incentives, so it was important than incentives be a significant focus of the Sustainable Washington program. It was also important that the program be expansive enough to encompass all the different aspects of potential incentives. As a result, we focused on developing the “Fiscal Toolbox.” The toolbox originally had five components:

1. *Financial products and assistance*. This includes access to group business insurance rates, group employee insurance rates, reduced cost financial products (such as low-interest loans and lines of credit), and bonding coordination and assistance. Other products that were to be investigated included an equipment purchase assistance program and an equipment grant program, both of which were intended to assist firms purchase more environmentally friendly, but more expensive, equipment. This component was of primary concern to Ecology’s managers and decision-makers.

2. *A financial training program*. The Sustainable Washington program would include a variety of trainings provided by Ecology staff, local business advocates and trade

groups, public-private partnership organizations, and lenders. Eligible businesses would be invited to sign up for the training programs of their choice at no or reduced cost. Ecology would conduct trainings on environmental fiscal issues and would collaborate with local Small Business Development Centers to provide general financial training to participating firms. Ecology would also work with banks and lenders to provide specialized training to interested participants. Possible classes might include "Triple Bottom Line," "Calculating Savings from Environmental Investments," or "How to Complete a Loan Application."

3. *The creation of a tax and incentives workgroup*. The workgroup would provide policy comments and advice to Ecology, prioritize possible incentives, develop legislative priorities, and recommend changes to Ecology activities. Members of the workgroup would come from businesses participating at the highest levels of the Sustainable Washington program. Workgroup members would provide policy advice directly to Ecology staff; work with Ecology to determine which taxes, incentives, or disincentives should receive attention; assist Ecology in developing legislative priorities and proposals; and making recommendations regarding Ecology-controlled activities, such as fees, inspections, and reporting requirements.

4. *Financial Assurance assistance*. This element would include one-on-one technical assistance from Ecology, reduced cost financial assurance mechanisms, and reduced environmental liabilities for participating facilities. However, this component received only limited attention during most of the program development work. More details regarding financial assurance and its use in a possible incentive scheme are provided below.

5. *Development of the "Environmental Safety Rating" system*. Very early in the program development work, we determined this toolbox component was simply too complex

to address in the limited time allotted. More details regarding this concept and its intended use are also provided below.

Comparison to Previous Stakeholder Research

While we found the results of the stakeholder research—especially the focus groups—surprising, the information collected was not actually new. Previous Ecology stakeholder research had shown business interest in information sharing and training, but this interest was largely ignored. In 2005, Ecology commissioned a research project that produced a final report entitled “Incentives for Industry.” The report included numerous stakeholder comments, many of which had to do with non-economic issues such as training and knowledge exchange. Unfortunately, the report and Ecology staff didn’t give those comments much attention, instead focusing primarily on comments about financial incentives such as tax credits, government loan programs, and fee reductions. It wasn’t until the Sustainable Washington focus groups clearly indicated that information and injury avoidance were the most important incentives that Ecology started to realize non-economic incentives might be equally or more important than financial rewards. It was this information that strongly shaped the actual incentives developed for the pilot of the Sustainable Washington program.

Sustainable Washington Incentives

For the pilot phase of the Sustainable Washington program, Ecology hopes to offer four types of incentives to participating businesses:

1. *Offset of the Hazardous Waste Generation Fee.* Ecology is required by law to charge a fee to all businesses in Washington State that generate hazardous waste. The fee is quite small—just $46 per year—but is a significant point of contention for business owners.

Many businesses, even those earning millions of dollars per year, are outraged that they are required to pay this fee.

In the early stages of program development, Ecology hoped we could waive this fee for businesses that participated in sustainability programs. Unfortunately, we soon discovered that the requirement to charge the fee came not from an administrative regulation (which could be changed relatively easily), but instead originated in a statute (which requires legislative action to change). We concluded that asking the state legislature to change the statute would not be an effective use of our time and would probably not be successful in the near future. We then began looking for ways to change the status quo without legislative action.

The solution turned out to be relatively simple. While the statute requires Ecology to charge the fee, it does not prohibit a corresponding offset for fees paid. We believe this is significant to using the fee as an incentive for program participation. Ecology is in the process of developing administrative regulations and procedures that would allow some sort of offset of the Hazardous Waste Generation Fee to businesses who voluntarily participate in the Sustainable Washington pilot program. This offset might take the form of a rebate of a previous year's fee or a voucher that could be submitted as a payment for a future year's fee.[2]

2. *Expansion of Voucher Incentive Program.* King County, Washington currently offers vouchers to eligible businesses who take steps to reduce the amount of hazardous waste they generate. We hope to expand this program to businesses that volunteer to participate in the Sustainable Washington pilot, regardless of which county they are in. Although the majority of eligible businesses are in King County, we believe many more firms in other counties would participate in the program if they had a similar opportunity to receive compensation for their

waste-prevention expenses. More information on King County's existing program is available at http://www.govlink.org/hazwaste/business/financial.html.

3. *I-CAR Training Credits.* I-CAR is the auto body repair industry's training entity. This non-profit provides training and certification for auto body repair employees. Ecology is working to finalize an arrangement where businesses participating in the Sustainable Washington pilot will receive free on-line training for their employees regarding an important new regulatory change. We believe businesses will want their employees to undergo the training even though it is not legally required. This is why Ecology believes the free training will be a significant motivator for businesses to choose to participate in the pilot.

4. *Expanded opportunities for technical assistance.* Finally, we plan to provide extensive technical assistance to firms that choose to participate in the Sustainable Washington pilot, at their request. Although Ecology currently has a small team of employees who provide free pollution-prevention engineering services, we plan to expand the number of businesses receiving these types of services (although each business will receive less personalized attention). Technical assistance for the Sustainable Washington pilot will primarily occur through workbooks and related "self-certification" materials.[3] Some businesses will also be randomly selected for a site visit from Ecology or local government personnel, and may receive personalized assistance at the conclusion of that visit if the firm is in violation of environmental regulations. Additional assistance regarding both compliance and BMPs will be provided through free workshops that all potential participants may attend, regardless of whether they eventually choose to participate in the pilot. At the conclusion of the pilot program, Ecology

plans to evaluate which assistance techniques were the most effective so we may expand those in the future.

The Other Good Ideas

The Sustainable Washington project, just like any other government endeavor, had constraints on time and resources. There were two ideas that we originally wanted to pursue, but did not have enough time to develop adequately: using financial assurance as an incentive, and developing the "Environmental Safety Rating" system. Although we were unable to develop these incentives for the Sustainable Washington project, we continue to believe they are worthwhile concepts and hope to develop them or collaborate in their development in the future.

Financial assurance is an obligation that has become relatively common in US environmental laws. The underlying concept is fairly simple: facilities that treat, store, or dispose of waste and companies that are cleaning up waste-contaminated sites estimate how much money will be required to close out their site. The company is then required to guarantee an equivalent amount of money will be available to finish the cleanup work should the company go bankrupt. The law provides a number of acceptable methods for ensuring those funds are available and prescribes exactly how the financial arrangements are to be structured. While many types of businesses are subject to financial assurance regulations, the most notable exception to this rule is businesses that generate hazardous waste—no financial assurance is required for these companies, even if they create tons of waste every year.

Financial assurance regulations have two distinct goals. The first goal is to ensure that the public does not have to pay for cleanup costs that should be borne by the company responsible for the waste. The second goal is deterrence. Because companies are required to create an accurate estimate of their eventual cleanup costs, financial assurance can motivate a party to adopt better environmental practices. Better environmental practices reduce the risk of contamination. Reduce the risk and you reduce the associated costs to manage that risk.

Ecology hopes to create an incentive based on voluntary financial assurance, specifically targeted at businesses that generate hazardous waste. Participants would develop an estimate of cleanup and closure costs, possibly with Ecology's help. They would then set aside enough funds to cover that cost in the event of business failure or a catastrophic event. In exchange for doing so, the business would receive benefits such as fewer regulatory inspections, reduced or waived government fees, and lower insurance premiums.

The major barrier to implementing this sort of program is quantifying the results. Just how much safer is a company that voluntarily guarantees their cleanup costs? Do companies that put up financial assurance really behave in a more environmentally friendly manner? We are unaware than anyone has ever asked these questions or conducted the necessary research to answer them, but believe that such a study would be a worthwhile.

The other good idea that was abandoned early on was the development of an "Environmental Safety Rating" system. The idea was to develop an objective, standardized methodology for evaluating a company's individual environmental risk. The higher the rating, the safer the company and the lower the risk of environmental contamination. Some factors that could be included are:

- How many workers were injured on the job in the previous year?
- Does the business generate hazardous waste? If so, how much?

- Does the business generate liquid waste, which is more likely to be spilled?
- Does the business treat their waste on-site, or do they send it to a third party for recycling or disposal?
- What is the business' credit rating? Does it pay its bills on time?

We hoped that a review of accident reports from both Ecology and other government agencies such as the state Department of Labor and Industries, state and local Health Departments, or the federal and state Departments of Transportation could help us find the factors and business practices with the strongest correlation to environmental contamination. Businesses that avoid such practices would receive a better rating. Businesses with high ratings might enjoy fewer regulatory inspections and reduced or waived government fees. More importantly, we hoped to develop a rating system that was sufficiently objective and trustworthy that third parties would rely on it. We hoped to create a system that banks and insurance companies would accept as legitimate and incorporate into their fee and interest rate determinations. For example, since a business with a high rating has a low risk of environmental contamination, an insurance company could reduce the premium for the company's pollution liability coverage. A business with a high rating might also be less likely to default on a loan, and should qualify for a better interest rate from their bank.

While we strongly believe the concept behind the "Environmental Safety Rating" system is valid, we quickly realized that it was not feasible in the short-term. We believe it would take extensive research and analysis to identify the relevant factors, weigh their respective importance, and quantify their overall effect. However, if such a system were developed it could act as a type of Rosetta Stone for the various environmental management and corporate responsibility programs currently available. It would also condense a significant amount of information into a number that is easy to understand and communicate.

Lessons Learned and "Takeaways"

Based on the research and work done over the last two years, I would make the following recommendations to anyone developing an environmental or sustainability program, especially one focusing on small businesses:

1. *Human health effects may be the most effective motivation for behavior change.* Business owners who are unconcerned about sustainability and corporate social responsibility issues might alter their behavior in order to prevent illness or injury to themselves, their employees, or their family members. Although information about human health effects is not typically part of environmental programs, it may be this information that will convince a business owner to change their behavior when other information fails to persuade them.

Incentives can be important to communicating human health effects from undesirable environmental practices. Business owners are no different from anyone else when it comes to performing an unofficial cost-benefit analysis. They will ask themselves if it is really going to reduce injuries if they spend the extra money for the fancier machine. A successful program may need to combine education about health risks, technical assistance to reduce worker injury, and financial incentives to purchase better equipment in order to achieve significant results. However, using worker injuries and other direct health effects can help regulators get their "foot in the door" with reticent business owners and to overcome the psychological resistance some will demonstrate.

2. *Programs to change behavior must be appropriate and relevant to the target audience.* Regulators and other organizations must give special consideration to ethnicity, socioeconomic status, business size, and typical industry practices. It is vitally important to remember that not all audience members are concerned about the same things or will be persuaded by the same arguments. For a program to be successful, it has to communicate to its audience in a way that the audience is predisposed to understand. This might require preparing materials and conducting workshops in multiple languages or defining problems and solutions very broadly so that many cultures and socioeconomic groups can find common ground.

Customizing incentives is crucial to attracting program participants and encouraging measurable results. Too often, regulators lump many different kinds of businesses together. Washington’s stakeholder work is a good example of why that doesn’t work. Small businesses are not simply smaller versions of big businesses. They are actually quite different. They have different concerns and are motivated by different rewards. While Boeing may be motivated by a tax cut, our research demonstrates small businesses would rather have an incentive that makes it easier, safer, and more efficient to do their work.

Businesses in different industries will also be motivated by different incentives. Free training about new air quality regulations or painting techniques may be a significant incentive for an auto body shop, but likely will do little to motivate an automotive repair shop. Businesses whose customers are primarily the general public will be motivated more by publicity and goodwill incentives than businesses whose customers are other businesses. A sticker in the window proclaiming a company’s participation in an environmental program may be a great motivator to a dry cleaning business trying to attract the “soccer mom” customer. That same sticker will do little to motivate an electroplating business because it has fewer competitors for its customers to choose from, and those customers may be less likely to inquire about environmental performance.

3. *Don't confuse "minimizing disincentives" with "providing incentives."* As noted above, incentives are not simply the opposite of disincentives. An effective incentive program will not only include a variety of incentives from a variety of categories, but will not confuse those incentives with reduced disincentives. Remember: minimizing a tax or other regulatory burden doesn't provide an incentive to do better things for the environment. If government wants businesses to change their behavior, government needs to be willing to compensate those businesses for the extra work and expense they incur. The alternative is relying on command and control—an approach that has already proved inefficient and of limited effectiveness.

4. *Internal communication and consensus is vital to program success.* While this may seem like an obvious point, it should not be underestimated. Any incentive program may involve numerous staff members, possibly from different sections or units of an organization. It is easy for details to "fall through the cracks" and for misunderstandings to arise. Establish a clear communication plan from the very beginning and make sure you follow it.

Communicating about the development and implementation of incentives can be challenging, especially when multiple agencies or portions of agencies are involved. "Turf wars" can develop if one entity perceives its authority is being infringed. An environmental program targeting multiple media (air, water, waste, energy use) will undoubtedly fall under the jurisdiction of multiple entities. Communication and coordination between those entities is crucial to program success. This may require new duties for some entities and the relinquishment of “the way we’ve always done it” from others.

5. *Don’t assume you know the obvious.* Why do businesses pollute? How do you motivate people to change their behavior? Are you really sure you know the answers to those questions? When taking on a project like Sustainable Washington, it is easy to fall into the trap of assuming you know more than you really do. Trusting conventional wisdom is certainly faster and easier than doing original research. Given limited time and budgets, sometimes you have to trust that you really do know the answers to all the key questions. Nevertheless, when the luxury of investigation presents itself, take advantage of the opportunity. You may find that you don’t really know everything you thought you did.

The development of incentives is one of the best examples of this principle. Ecology’s original stakeholder research on incentives, completed almost a year before the Fiscal Toolbox project started, contained essentially the same results as the more recent stakeholder work (Cascadia, et. al., 2005). Despite stakeholders expressing the desire for technical assistance and other educational incentives, Ecology’s focus was instead on financial incentives such as reduced taxes and fee waivers. Why? Because we “knew” that’s what business owners wanted.

When checking your assumptions, make sure you not only ask the right questions, but that you listen to the answers. If your assumptions are confirmed, that’s great. If not, you need to be willing to abandon those pre-conceived notions and adjust your plan accordingly.

Conclusion

If I could give environmental agencies just one lesson about the businesses they regulate, it would be that those companies aren’t trying to pollute our environment. Pollution is an unintended byproduct of the system in which we live. Business owners are just like everyone else. They breathe the same air, drink the same water, and want the best for their children. They don’t get up in the morning trying to think of new ways to poison our ecosystem.

What they do think of when they get up in the morning is, “How am I going to make payroll this week?” If you can’t help them answer that question, they probably don’t have time to deal with you. It’s not that you or your request is unimportant, it’s just that there are too many priorities that are *more* important. If you want business owners to change their behavior, make it fast and easy for them to understand what you want and why it’s important. That may mean you spend time doing some of the work for them. Just remember that in the end, you will spend less time cleaning up a mess.

The other thing to keep in mind is Newton’s third law: every action has an equal and opposite reaction. For regulators, that means remembering that each time you ask a company to change its behavior, something else is going to have to change as well. Even filling out a short form means someone has to take time out of their day to do it. It frequently means something else gets sacrificed. The owner who is struggling to make ends meet and is spending each night after supper at the kitchen table trying to pay bills is a person who does not have time to fill out yet another form or learn a new way of doing their job (much less develop an Environmental Management System or perform a cost-benefit analysis).

If you want a business owner to do something that benefits society, then you need to consider that maybe society should offer something in return. An incentive program may be the best way to do so. Providing a variety of incentives allows a business to choose the compensation that best meets their needs and helps them be more sustainable. Including disincentives in the mix may also be appropriate, given the program's goal and individual circumstances. Be clear about what you want, why you want it, and how it is important to society.

Ecology is still learning about incentives, but the work performed over the previous two years has been invaluable. We hope to expand our incentive program in the future to make it more robust and responsive to those it serves. We also hope the environmental gains made by program participants lead to both healthier citizens and a cleaner environment that everyone can enjoy.

References

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Footnotes

1 Some examples might be conditional exemptions from Hazardous Waste regulations for small generators, variable permit fees, or streamlined permitting for Brownfield redevelopment.

2 Any final incentive will be subject to legal review from the state's attorneys as well as public comment before any final rules are adopted.

3 Firms participating in the Sustainable Washington program will be required to certify that they are in compliance with all applicable environmental regulations. Firms that are not in compliance must provide a "Return to Compliance" plan and timeframe. The self-certification materials will include technical information about legal requirements and best practices. The materials will be mailed directly to all potential participants.