

Environmental Corporate Social Responsibility as a Collusive Device*

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Abstract

We formulate a model in which an industry association chooses whether environmental corporate social responsibility (ECSR) is adopted and then firms compete in the market. First, we consider emission cap commitment as ECSR. Under quantity competition, ECSR is adopted by the joint-profit-maximizing industry association because it serves as a collusive device, although ECSR is not adopted if firms choose it independently. By contrast, under price competition, individual firms voluntarily adopt ECSR but the industry association chooses a higher level of ECSR. These findings together suggest that industry associations have a stronger incentive to encourage firms to adopt ECSR than each firm working alone. Furthermore, ECSR can harm social welfare because it restricts competition. Next, we consider emission standard commitment (commitment to per-output emissions) which we find is less likely than emission cap commitment to restrict competition and is not harmful for consumers.

JEL classification codes: M14, Q57, L13

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