Firms' willingness to pay for certification leniency: Evidence from the global wood industry
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Abstract: Voluntary third-party certification is widely used to mitigate information asymmetries, often relating to negative production externalities, such as deforestation and forest degradation. However, the efficacy of certification may be limited by shopping for leniency, when firms choose among multiple certifiers checking compliance for the same certification label. This paper analyzes the risk of shopping for leniency and potential remedies within the context of FSC forest management certification. I scraped new panel data on forestries' certifier choices and audit results from 6500 public reports of FSC-audits worldwide. I measured differences in certifiers' leniency as the impact of the certifiers' identity on audit results, controlling for selection of forestries into the certifiers. I estimate forestries' valuation of that measure based on a nested logit demand model, also using new survey data on certification fees and accounting for endogeneity of prices. The results indicate that forestries are more likely to choose more lenient certifiers and less compliant firms even more. But other determinants of certifier choice counterbalance this effect, and heterogeneity among forestries is large. A counterfactual simulation suggests that suspending the least rigorous certifier may not improve the voluntary certification system in the short run. The negative effect on environmental compliance due to drop-out is likely to outweigh any positive effect of switching to more rigorous certifiers.