

Moral markets in energy: Bridging the gap between policy, industry, and society

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To a layman, what are moral markets and why do companies or organisations transition to them?

Moral markets are sectors that emerge not only to address an economic opportunity but also to solve some social or environmental problems. This includes, for example, ethical fashion, organic goods, grass-fed meat, sustainable forestry, renewable energy, fair trade products, recycling and now, plant-based meat. These markets emerged to address some broader social or environmental challenge.

They differ from conventional markets in a couple of ways. One is that their products are considered superior, not from a functional or a cost-based perspective, but normatively superior. We think that fair-trade products are better than non-fair-trade products, not because we can tell a difference in taste, but because of the way farmers are paid.

The second difference is that these markets are promoted by actors that have moral considerations, typically NGOs and broader social movements that see these markets as opportunities to promote a social agenda. Policymakers may also support these markets because of their social or environmental benefits.

Now why do companies transition to moral markets? There are several reasons. Certainly, there are some entrepreneurs and companies that do so because it's consistent with their identity and who they are. They want to make a difference. However, there are also broader incentives that are provided either by governments or by social movements that make these markets more attractive or push companies to enter these markets.

What are some examples of social movements which have pushed actors towards moral markets?

In Europe, the environmental movement, both green parties but also environmental NGOs have been pushing for a cleaner energy sector.

Greenpeace, for example, has been very active. Since the 90s, they engaged in many campaigns, both in terms of going against nuclear energy or the oil and gas industry, but also supporting renewable energy. In the 90s they were touring countries with solar caravans to show people that solar energy works. In Germany, Greenpeace started an

energy cooperative. They produced several policy reports. And they were among the pioneers of the idea of feed-in-tariffs: that you can produce electricity in your home and feed it back to the electricity grid and get paid for it, which was a transformational policy.

Is it a good thing, necessarily, that social movements influence companies?

If you're a company that has a very consistent identity with the purpose of the movement, then the movement points to an opportunity that you might actually want to take on, right? So those companies are likely to join.

Finding the enemy to fuel the moral market

But what is interesting here is that activists try to push for change by finding the enemy that is responsible for the problem. The enemy in this case is those companies that are engaged in practices inconsistent with the goals of the movement, be it brown energy or unfair labor practices.

By identifying them as the enemy they also make it more likely that these companies will notice these opportunities as well. So, we have a situation where these markets are composed of firms that have very different identities and values. And this produces countervailing effects. From a resource or capability perspective, when you have diverse companies, they also bring diverse resources. That's usually a good thing.

But this diversity makes it harder for them to form a collective identity. How is a solar start-up or even an NGO like Greenpeace going to work with an oil company to support the market?

Is collective identity also related to the government support? Does it help these industries get policy support when operating among hostile incumbents?

When the industry is diverse, with very different companies coming in, it's difficult to show to the government that here, this is a new industry that you need to pay attention to, that needs protection.

So the composition and collective identity of the industry is extremely important because it sends a message to policymakers: we are a 'distinct industry' that you need to protect and support.

What has been the most successful policy example within moral markets?

There are several markets that have benefited from some kind of policy intervention. But when it comes to supportive policy, certainly the renewable energy industry has benefited substantially from feed-in-tariffs.

This policy has been extremely successful throughout the world, but especially in Europe in the early stages of the industry. Feed-in-tariffs spurred market adoption that led companies to invest and ensured industry take-off.

What aspects of the policy environment matter the most?

The level of support is really important, especially when you have a technology that is not yet ready to compete with alternative offerings. That's important and quite obvious. Another is the stability of the policies, which is again, straightforward. We know that investors like stability.

But one interesting twist, something that we show in recently published work, is that it's not enough to have a stable policy in the home country. We see that companies that had faced adverse experiences with feed-in-tariffs in the past tend to be very sceptical about investing in new countries, even if the policies there are stable. They perceive the policy tool itself as uncertain, even if the country they're considering investing in might have a very stable policy environment.

What should policymakers take from this?

It's not enough to have a stable policy environment in your own country. It's also important that other countries, especially neighbouring countries that have those same types of policies, also have a stable policy. This requires coordination at the European level, for example, or even a global level.

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