



Universiteit Utrecht

*Regulatory shaming:  
what do we know about the effects of disclosure of sanctions?*

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## Background: Reputation matters for firms

- Firms care for reputation of responsibility / fear negative publicity
- Reputational damage can result in loss of clients; investors; employees; community support
- Social license; stakeholder relations
- Can regulators use reputation as an incentive for compliance?



## Overview

- Shaming, and regulatory shaming
- Examples
- Working mechanisms and conditions
- Empirical evidence for compliance effects
- Empirical research in the size of reputational damage
- Conclusion

# WALL OF SHAME

balloonsblow.org





# Can regulators use reputation as an incentive for compliance?

Strategic use of publicity on individual firms as an enforcement tool

Regulatory shaming:

'Any intentional publication, by regulatory agencies in the executive branch, of information regarding companies' misbehavior that is designed to convey a normatively negative message to the public, for a regulatory purpose' (Yadin 2019)

## From regulatory disclosure to regulatory shaming: a continuum



- Transparency and Right-to-Know
  - Information-based regulation
  - Naming and shaming: social norms; intentionally punitive
- Naming offenders can trigger shaming by third parties

# Transparency at EPA

- Next Generation Compliance Strategic Plan 2014-2017

The screenshot displays the EPA's Enforcement and Compliance History Online (ECHO) website. At the top left is the EPA logo with the text "United States Environmental Protection Agency". A blue navigation bar contains "Environmental Topics", "Laws & Regulations", and "About EPA", along with a search bar labeled "Search EPA.gov". Below this is the "ECHO" logo and the text "Enforcement and Compliance History Online". On the right side of the header, there are links for "ECHO Gov Login" and "Contact Us".

The main content area features a "Quick Search" section. On the left, a vertical sidebar contains a "Quick Search" button and four menu items: "Search Options", "Analyze Trends", "Find EPA Cases", and "Data Services". The "Quick Search" panel itself has a header and a "Search By" section with two tabs: "Location" (selected) and "Facility Name/ID". Below the tabs is a text input field with the placeholder "Enter city, state, and/or zip code" and a "Search" button. A link for "More Search Options" is located below the input field.

Below the search interface, there is a descriptive paragraph: "Use EPA's Enforcement and Compliance History Online website to search for facilities in your community to assess their compliance with environmental regulations. You can use ECHO to:"

- Search for Facilities



# OSHA News Release - Region 1

U.S. Department of Labor

June 1, 2018

## **U.S. Department of Labor Cites New Jersey Renewable Energy Company Following Fatality at New Hampshire Power Plant**

**CONCORD, NH** – The U.S. Department of Labor’s Occupational Safety and Health Administration (OSHA) cited EWP Renewable Corp., doing business as Springfield Power LLC, for 25 safety violations after an employee suffered fatal injuries after he was pulled into a conveyor at the company’s Springfield plant in November 2017. The Mount Laurel, New Jersey, company faces \$125,460 in proposed penalties.

OSHA inspectors found that the conveyor and other machinery lacked required safety guarding, and employees were not trained in lockout/tagout procedures to prevent equipment from unintentionally starting. OSHA also cited Springfield Power for fall hazards; electric shock and arc flash hazards; and lack of adequate emergency evacuation, fire prevention; and hazardous energy control programs.

“This employer’s failure to protect employees resulted in a tragedy that could have been prevented if training was provided and machinery was appropriately guarded,” said Rosemarie O. Cole, OSHA New Hampshire Area Director.

The company has 15 business days from receipt of its citations and proposed penalties to comply, request an informal conference with OSHA’s area director, or contest the findings before the independent [Occupational Safety and Health Review Commission](#). View the citations [here](#), [here](#), and [here](#).

Under the Occupational Safety and Health Act of 1970, employers are responsible for providing safe and healthful workplaces for their employees. OSHA’s role is to ensure these conditions for America’s working men and women by setting and enforcing standards, and providing training, education, and assistance. For more information, visit <https://www.osha.gov>.

###

“This employer’s failure to protect employees resulted in a tragedy that could have been prevented if training was provided and machinery was appropriately guarded,  
Cole, OSHA New Hampshire Area Director.



## News Releases

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### News Releases from Region 04

# EPA, DOJ and Alabama Take Action to Address Clean Water Act Violations at the Kronospan, LLC Facility in Eastaboga, Alabama

11/09/2020

Board's publicly owned treatment works (POTW). Kronospan will also develop and implement a pretreatment compliance training program and develop certain standard operating procedures for its facility. Kronospan estimates it will spend approximately \$350,000 to provide this injunctive relief, which it will complete in less than three years.

ADEM Director Lance LeFleur welcomed the announcement of the proposed settlement. "This agreement will hold Kronospan accountable for unauthorized wastewater discharges while ensuring the company meets state and federal regulations," **LeFleur said**. "More importantly, it brings relief to the local public wastewater treatment system that has been adversely impacted by the discharges, and protects water quality in Choccolocco Creek. I want to thank the EPA and the Department of Justice for working with ADEM and Kronospan to resolve a serious environmental problem" **said LeFleur**.

## Working mechanisms: shaming and compliance

1. General deterrence: fear of reputational damage
2. Specific deterrence/repair: shareholders and stakeholders exercise pressure
3. Reminder and reassurance towards complying firms: regulatory legitimacy
4. Moral education: expressing shared expectations about appropriate behavior



# Conditions

- Information on violations reaches the audience
- Offending behavior generates public disapproval and response
- Offenders care about their reputations
- Offenders have the capacity to comply



Corporate report

## Current list of deliberate tax defaulters

Updated 16 September 2020

### Details first published 19 March 2020

Name	Business Trade or Occupation	Address	Period of Default	Total amount of tax/duty on which penalties are based (£)	Total amount of penalties charged (£)
McStones (UK) Ltd	Public house and restaurant	Formerly of Bagot Street, Abbots Bromley, Rugeley, WS15 3DB	1 May 2013 to 30 Sep 2018	176,115.49	118,877.92
Palms Palace Ltd	Restaurant	Formerly of 84 Edgware Road, London, W2 2EA	1 Aug 2012 to 31 Aug 2016	1,275,455.33	803,536.84



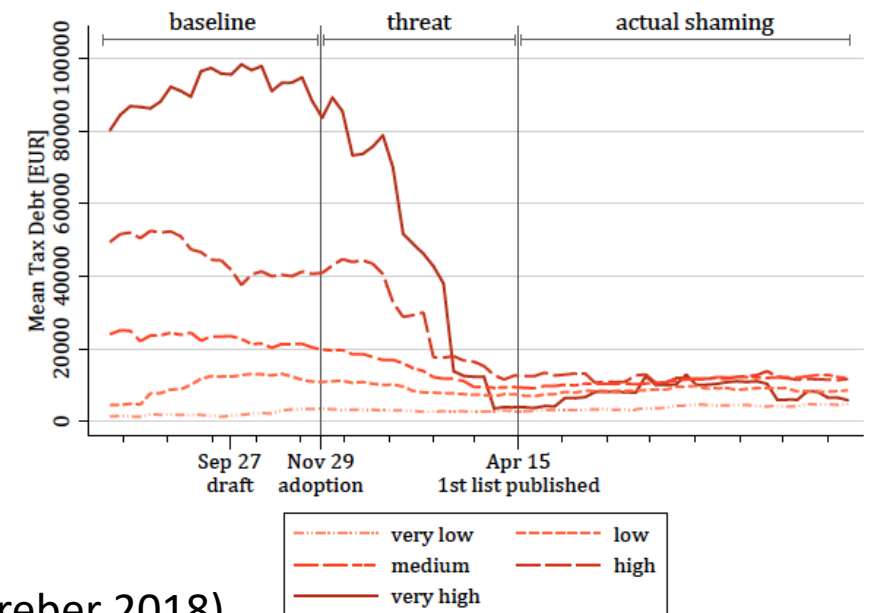
HM Revenue  
& Customs

# Compliance effect: the evidence -1

Tax shaming: natural experiments

- Norway: 2001: introduction digital tax database: +3% (Slemrod et al 2013)
- Slovenia: 2012: business tax debtors: +8.5% (Dwenger & Treber 2018)
- US: informing neighbors stimulates compliance smaller debtors (Perez-Truglio & Troiano 2018 )

➤ Warning; repair time; capability matter



Source: Dwenger & Treber 2018)



## Compliance effect: the evidence 2

Food hygiene: improvement of firms sensitive to shaming (Bavorova et al 2017)

EPA Toxic Release Inventory: Media coverage reduces toxic emissions by 29% compared to firms not receiving publicity (Campa 2018)

OSHA press releases provide general deterrence to peer firms: 1 press release = 40 OSHA inspections!

- Deterrence works independent from consumer/citizen effect
- Media coverage matters



## Does shaming induce reputational damage?

- Studies find significant reputational sanctions for corporate fraud and bribery (Desai et al 2006; Armour et al 2011; Johnson et al 2014; Gatzert 2015; Sampath et al 2018)
- Reputational sanctions for environmental violations are insignificant
- (Karpoff 2005; 2012; Armour et al 2011; Groening & Kanuri 2013).
- Not all sparks light a fire: Reputational sanctions are unevenly distributed between types of offenses and types of firms (Karpoff 2012; Carberry et al 2018; Doronbantu et al 2017).
- Media coverage and framing of the message are more important than severity or frequency of offenses (King & Soule 2007; Breitiger & Bonardi 2017 )

## Procedural safeguards

Prevention of disproportional reputational damage

- Timing
- Neutrality
- At tension with expectations of a 'moral' message



## **Conclusion: naming and shaming as a compliance strategy?**

- Shaming is likely to positively influence compliance
- Working mechanism: threat of reputational damage. for those sensitive to shame
- Media publicity increases the effect
- A powerful, but unpredictable and risky instrument – its power is also a weakness



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# *Thank you!*

De informatie in deze presentatie is met zorg samengesteld,  
maar er kunnen geen rechten ontleend worden aan de inhoud.