

The Governance of Corporate Responses to Climate Change: An International Comparison

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ABSTRACT

In response to pressures from governments, investors, non-governmental organizations and other stakeholders, many large corporations have adopted a variety of carbon and energy management practices, taken action to reduce their emissions and set targets to reduce their greenhouse gas emissions. Using the case of international retailers, this article examines whether, and under what conditions, non-state actors might be capable of assuming the governance roles that have historically been played by national governments.

This article concludes that external governance pressures can, if they are aligned, robust and of sufficient duration, have a significant influence on internal governance processes and on corporate strategies and actions. However, the specific actions that are taken by companies – in particular those that require significant capital investments – are constrained by the ‘business case’. That is, companies will generally only invest capital in situations when there is a clear financial case (i.e. where the benefits outweigh the costs, when the rate of return meets or exceeds company targets) for action.

That is, the extent to which external governance pressures can force companies to take action, in particular challenging or transformative actions that go beyond the boundaries of the business case, is not at all clear. This is particularly the case if the business case weakens, or if the opportunities for incremental change are exhausted. In that context, the power of non-state actors to force them to consider radical changes in their business processes and their use of energy therefore seems to be very limited. Copyright © 2016 The Authors *Business Strategy and the Environment* published by ERP Environment and John Wiley & Sons Ltd

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Introduction

CORPORATIONS MAKE A SUBSTANTIAL CONTRIBUTION TO GLOBAL GREENHOUSE GAS (GHG) EMISSIONS. IN RESPONSE TO pressures from governments, investors, non-governmental organizations and other stakeholders, many large corporations have adopted a variety of carbon and energy management practices, taken action to

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reduce their emissions and set targets to reduce their greenhouse gas emissions (Doda *et al.*, 2015; Böttcher and Müller, 2015). Against the backdrop of debate around whether the regulatory powers of nation states are in retreat or decline, these changes raise questions about whether, and under what conditions, non-state actors might be capable of assuming the regulatory roles that have historically been played by national governments. That is, can non-state actors such as non-governmental organizations and consumers encourage or incentivize companies to reduce their greenhouse gas emissions, and what sort of reductions might be achieved as a result?

These questions are of even greater importance given the 2015 Paris Conference of the Parties to the United Nations Framework Convention on the Climate Change, which committed governments to a goal of limiting global warming to less than 2 degrees Celsius (°C) compared with pre-industrial levels, and to pursuing efforts to limit the temperature increase to 1.5 °C.¹ While formally addressed to national governments, it is clear that governments will look to companies to deliver a significant proportion of the greenhouse gas emission reductions that will be required.

It is within this wider policy debate that this article examines the governance of corporate responses to climate change. The starting point is that, while some of the broad features of this new governance landscape are reasonably well understood, there are significant gaps in our understanding of how these governance processes work or of the generalizability of the findings from previous research on this topic. Its aim is to develop a more general understanding of the characteristics of the governance pressures and processes that are likely to be important influences on corporate performance on climate change, to understand how and why these differ between countries, and to assess the implications for public, private and civic actors interested in harnessing new forms of governance to ensure that corporations make a substantive contribution to the goal of reducing global greenhouse gas emissions.

Conceptual Discussion: Perspectives on the Governance of Corporations

Governance from the Outside

Within political science and related fields, governance debates have tended to focus on the changing role of national governments. Some have argued that the diminishing powers of nation states mean that non-state actors need to help to take decisions, to regulate behaviours or to deliver initiatives that are in the public interest (Falkner, 2003; Gouldson and Bebbington, 2007). Others have argued that what we are actually seeing is government innovation, with governments adopting new roles and introducing new policy instruments that mobilize and harness the governing powers of markets and civil society and that distribute the state's powers amongst different actors (Black, 2008; Jessop, 2004; Jordan *et al.*, 2005). It has also been argued that, rather than seeing a dismantling or weakening of the nation state, we are in fact seeing a reluctance (particularly among governments of a neo-liberal persuasion) to draw on their capacities for control, other than as a last resort when other forms of non-state governance have been shown to be unavailable or ineffective (Ayres and Braithwaite, 1992; Gouldson and Bebbington, 2007). While the analytical frames differ, the consequences are similar; rather than deploying their own scarce regulatory resources, governments are looking to social actors to engage in new modes of civic governance, and to industry and other market-based actors to deploy new forms of private governance. Given that such actions often need to be facilitated or enabled by the state, it could be argued that we are seeing the emergence of new hybrid forms of governance based on different forms of co-regulation with varying blends and forms of input from public, private and civic actors (Steurer, 2013). This, in turn, raises questions about whether private and civic actors have the inclination or the capacity to assume such roles, whether these changes are in the interests of corporations or the other actors subject to these new forms of regulation and whether these changes will deliver the public interest outcomes that are sought.

Of course, while important, the nation state is just one actor, and the actions taken or mediated by the state are just part of the wider governance landscape within which corporations exist. These processes of governance beyond government involve private or civic actors, or combinations thereof, looking to exert influence in some way (Falkner,

¹<http://unfccc.int/resource/docs/2015/cop21/eng/lo9r01.pdf>

2003). They may be delivered through formalized institutional arrangements such as trade associations that regulate their members, through private standards and voluntary codes that offer different forms of certification, through NGOs and consumer groups that develop new standards and league tables (Busch, 2013; Falkner, 2003; Levy and Newell, 2005; Pattberg, 2005, 2007), through business-to-business interactions such as investors seeking to influence the performance of the companies in which they invest or retailers seeking to influence the behaviour of their suppliers (Sullivan, 2008, 2011) or through civic arrangements where local communities negotiate controls directly with businesses (Gouldson, 2004). They may also be adversarial, for example where different groups contest the extent to which some actors have a 'social license to operate', or where they seek to create and amplify reputational risks for actors that do not comply with social expectations (Freeman *et al.*, 2010; Gunningham *et al.*, 2004; Power *et al.*, 2009).

These changes present considerable challenges to our ability to map and understand governance processes. Under 'old' governance conditions, power was concentrated in the state; as such, the articulation of power, for example through the application of rules and sanctions, could be relatively straightforward. In contrast, under 'new' governance conditions, power is diffused in wider networks, with multiple actors with varying capacities, diverse and often divergent interests and competing logics all seeking to exert influence in different ways (Knox-Hayes and Levy, 2011). This means that, rather than focusing on the potential for coalitions of actors with well-aligned goals to collaborate to secure influence over government policy-making, we now need to understand the ability of multiple actors in what can be fluid and uncoordinated networks to influence business behaviour. The analytical difficulties are compounded by the fact that businesses are unlikely to passively accept many of the governance interventions that they encounter; they can deploy a range of tactics that shape the governance conditions under which they operate.

Governance from the Inside

In its broadest sense, corporate governance refers to the systems through which corporate activities are directed and controlled (Cadbury Committee, 1992). In a narrow – and traditional – sense, it refers to the relationships between the owners and managers of a firm, and to the structures and systems used to take and implement decisions, monitor performance and ensure accountability (Monks and Minnow, 2011; in relation to climate change, see Galbreath, 2010). In this context, corporate governance is very much about the control of principal-agent problems and the control of corporate behaviour to ensure the maximization of shareholder value from corporate activities. In a wider sense, it refers to the relationship between wider stakeholders, including those in the public, private and civic sector, and the firm. In either the narrower or the wider sense, government regulations shape the context and establish the legal basis for the governance processes that apply to firms.

However, corporate behaviour and performance are not only governed by formal, legalized structures and systems. They can also be shaped, for example, by the resources of the firm, by the ways that they shape a company's competitive position and by the ways in which the firm interacts with its stakeholders. A firm's resources can be tangible (e.g. patents), intangible (e.g. tacit knowledge), transferable (e.g. by developing or buying in new expertise) or contextually specific (e.g. they are not easily imitated, replicated or transplanted) (Barney, 2001; Wernerfelt, 1984, 1995). Given that different firms generate and draw on different resource endowments in different ways as they seek to create and exploit new opportunities, this suggests that at least some of the conditions for corporate governance are highly specific and context dependent.

As well as economic or technological resources, firms may also have important political resources. Of particular relevance is their ability to shape the governance conditions that they encounter. Firms can create value for themselves by fostering brand loyalty and by building levels of trust and acceptance that protect the firm from reputational risks (Fombrun *et al.*, 2000; Gouldson *et al.*, 2007). They can also pre-empt, undermine, capture or curtail the influence of groups that seek to adopt initiatives or impose agendas that threaten the interests of the firm (Wrigley *et al.*, 2002), and they can seek to ensure that their own logics are embedded in the standards bodies and governance mechanisms with which they seek to comply (Knox-Hayes and Levy, 2011).

Furthermore, corporate activities can also be governed by the cultures and values that predominate within the organization as a whole or that exist within particular parts of the organization or in the individuals that work for it (Kotter and Heskett, 1992; Ravasi and Schultz, 2006). These cultures and values can guide the ways in which

the corporation and key elements within it perceive and respond to different pressures and opportunities. While these cultures and values are shaped by corporate leaders as they codify their image of the corporate culture in mission statements, codes of conduct and so on, they are also shaped by history, the values of employees and the prevalence and resilience of different sub-cultures within the organization (Schein, 2010).

Interactions between External and Internal Forms of Governance

External governance pressures and internal governance conditions do more than co-exist; they interact and co-evolve. For example, the introduction of government policies that create mandatory access to information can enable different forms of market or social pressure to be applied (Gouldson, 2004). Furthermore, external governance pressures might have a greater impact when they align and resonate with one another. Examples include business leaders and non-governmental organizations (NGOs) forming coalitions of interest (e.g. to lobby for strong international climate change policy), and consumer interest in energy saving being reinforced by high energy prices or media attention on climate change (Egels-Zanden and Hyllman, 2006).

External governance interventions can also influence internal governance processes. For example, mandatory disclosure requirements may result in previously private issues such as the behaviour of a firm being subject to external scrutiny and influence (Dean, 2009; Weiss, 1979). Similarly, external governance pressures such as government policy or investor pressure can encourage the take-up of particular forms of internal corporate governance (Gillan and Starks, 2003; Potoski and Prakash, 2004). Conversely, internal governance conditions can conspire to shape external governance conditions. Examples could be when the social values of employees change the ways in which a company behaves (Hemingway, 2005), when corporate cultures alter the ways in which a firm engages with its stakeholders (Andriof, 2002) or when business engagement with government influences the shape, form or direction of policy (Bouwen, 2004). Finally, external governance pressures will be mediated through internal conditions before they have an effect. That is, social pressures for corporate responsibility are detected, articulated and amplified or attenuated in different firms in different ways depending on the governance conditions within firms (Rothstein, 2003). This raises the prospect that different governance pressures may have the greatest impact where they align with each other, and therefore where they somehow resonate with or are amplified by receptive conditions within the individual or organization that is the target of the governance intervention.

The Evidence from the UK Retail Sector

Previous research conducted by the authors has focused on the governance factors that influence the climate change practices and performance of companies in the UK retail sector (Gouldson and Sullivan, 2012, 2013, 2014; Sullivan and Gouldson, 2012, 2013, 2014). This research points to five high level conclusions about the relationship between external governance pressures and internal governance conditions.

The first is that weak external governance pressures can, if they are aligned or of sufficient duration, have a significant influence on internal governance processes and on corporate strategies and actions. However, the specific actions that are taken by companies – in particular those that require significant capital investments – are constrained by the ‘business case’. That is, companies will generally only invest capital in situations when there is a clear financial case (i.e. where the benefits outweigh the costs, when the rate of return meets or exceeds company targets) for action. As a rule, the companies in the UK retailer sector expect the investments they make in energy saving and greenhouse gas emissions reductions to deliver financial payback periods of two or three years.

The second is that internal governance processes strongly influence the responsiveness of organizations to external pressures and the degree to which companies institutionalize their responses to these pressures within their businesses. For example, the UK supermarkets have used their target-setting processes to ensure that cost-effective energy saving technologies are deployed across their businesses, giving them a pipeline of energy saving, emissions reductions and performance improvements that they can expect to achieve year after year, even if they decide not to invest more time and resources in testing new technologies.

The third is that organizational cultures and capacities are shaped by previous experiences and approaches. Positive experiences, such as cost reductions or improved reputation as a result of actions on climate change, result in a greater willingness to extend the scope of action. In the case of UK supermarkets, one of the reasons they focused on reducing greenhouse gas emissions from their supply chains was that they already had made significant reductions in energy consumption and greenhouse gas emissions from their own operations, and they expected similar reductions to be achievable through their supply chains.

The fourth is that many of the required accountability mechanisms are missing or inadequate. For example, while most of the major UK retailers report on their greenhouse gas emissions and management practices, the variations in the scope, coverage and consistency of these disclosures continue to make it very difficult to compare corporate performance either over time or with other companies (Gouldson and Sullivan, 2007; Sullivan and Gouldson, 2012). This in turn makes it difficult for non-governmental organizations or other stakeholders to hold companies to account for the climate change commitments that they have made.

The fifth is that corporate responses influence external pressures. The evidence from the UK supermarket sector is that companies' responses – their management systems and processes, the actions they have taken, their communications – have enabled them to deflect or delay certain external pressures and to weaken others.

The Empirical Study: Climate Change Governance in an International Context

The international retail sector's response to issues of climate change provides a highly relevant case-study for examining the impact and influence of different forms of governance on corporate practice. The sector has a significant carbon footprint; for example, the US retail sector accounts for the largest energy bill and the second largest amount of greenhouse gas emissions in the entire commercial sector of the US Economy (RILA, 2012, p. 14). Furthermore, emissions from the sector's value and supply chains are estimated to be an order of magnitude higher than these direct emissions (SDC, 2008). While most of the sector's emissions are not directly regulated, these emissions are shaped by other economic, information-based and voluntary forms of policy. Furthermore, retailers are both the source and the objects of numerous other non-state governance pressures; they govern themselves, their supply chains and the choices and impacts of their customers, but they are also governed by market conditions, societal expectations, media representations, customer concerns, various private standards and voluntary codes and so on. The sector therefore provides important insights into the wider role that different forms of governance can play in influencing corporate practice and performance.

In this paper, we focus on the world's 25 largest retailers by turnover (see Table 1). The material presented below is based on a detailed content and data analysis of the information presented in these companies' sustainability (also widely referred to as 'corporate responsibility' or 'social and environmental') reports (or equivalent corporate publications) and their responses to the CDP (previously the Carbon Disclosure Project).² Our analysis covered publications from the late 1990s (when the first corporate responsibility reports were produced) through to the end of 2014. In total, we reviewed over 270 corporate responsibility, sustainability and climate-change-related reports, over 100 CDP responses, 25 corporate websites and many more country- and product-specific websites and materials. We supplemented this literature review with a series of some 30 interviews with retailers in each of the countries reviewed, with peak industry bodies, with non-governmental organizations and consumer groups, and with other stakeholders. These interviews focused on the drivers for corporate action on climate change and energy-related issues, and the manner in which these drivers had influenced internal governance processes and corporate actions on climate change. The desktop review and the interviews enabled us to determine when climate change and energy-related issues appeared on the corporate agenda, to track the evolution of companies' policies, actions and targets on climate change and energy-related issues, and to track companies' climate change and energy performance over time. In the sections below, we summarize the key findings for each of Australia, France, Germany, Japan and the USA, and compare these to the findings for the UK summarized above.

²<https://www.cdp.net/en-US/WhatWeDo/Pages/investors.aspx> [6 October 2015].

Rank	Company	Country of origin
1	Wal-Mart Stores	USA
2	Tesco	UK
3	Costco Wholesale	USA
4	Carrefour	France
5	The Kroger Co.	USA
6	Schwarz Unternehmens Treuhand (Lidl)	Germany
7	Metro	Germany
8	Home Depot	USA
9	Aldi Einkauf GmbH & Co.	Germany
10	Target	USA
11	Walgreen	USA
12	CVS Caremark	USA
13	Aeon	Japan
14	Groupe Auchan	France
15	Woolworths	Australia
16	Amazon.com	USA
17	Seven & i Holdings	Japan
18	Edeka Zentrale	Germany
19	Wesfarmers	Australia
20	Casino Guichard-Perrachon	France
21	Lowe's Companies	USA
22	REWE Combine	Germany
23	Best Buy Company	USA
24	Centres Distributeurs E. Leclerc	France
25	Safeway Inc.	USA

Table 1. Top global retailers 2012 (Deloitte, 2014, pp. G12–G13)

The United States

The pressures for US corporations to take action on climate change are relatively weak. US energy prices in the period 2005 to 2013 were typically one-half to two-thirds of those in Europe. Furthermore, the US government, notwithstanding the 2014 US–China climate change agreement (where the US committed to reducing its greenhouse gas emissions by 26–28% below its 2005 levels by 2025 (White House Office of the Press Secretary, 2014)), has long been seen as a laggard on climate change, both because of its reluctance to contribute to strong international action on climate change and because of its unwillingness to introduce domestic measures that would penalize US businesses (Sullivan and Gouldson, 2014). In their sustainability and other reports, US retailers have consistently argued, even in the wake of the most recent US commitments on climate change, that they have seen limited evidence that their performance on climate change is an important influence on where consumers choose to shop. They have, however, seen tangible consumer demand in relation to electrical and electronic products; many retailers now offer energy efficient products (e.g. consumer electronics) and energy saving products (with low energy light-bulbs being particularly popular), and proactively advertise the financial savings associated with the use of more efficient products.

The lack of strong regulatory or economic pressures to take action on climate change is reflected in the manner in which US retailers have managed their greenhouse gas emissions. While all emphasize the costs and benefits of energy-related investments, notably in their buildings and in transport, most do not provide a particularly well developed account of the relationships between climate change, energy and sustainability-related issues and wider business strategy. The primary focus of energy-related investments is on short-term financial returns, with the (US) Retail Industry Leaders Association (RILA) noting that most retailers expect energy-related investments to provide a two to three year payback (RILA, 2013, pp. 16–17).

This is also seen on the targets being set, with US retailers continuing to set relatively short-term targets, emphasizing efficiency improvements rather than absolute emissions reductions (Sullivan and Gouldson, 2014). This

emphasis is reflected in performance outcomes, with an analysis covering the period 2005–2012 indicating that the average greenhouse gas emissions from US retailers had increased by 0.05% per year; this compares with the UK supermarkets, whose average emissions had decreased by 2% per year (Sullivan and Gouldson, 2014).

US retailers appear to have paid relatively little attention to reducing supply chain emissions (RILA, 2013, p. 31). Where they have engaged with their suppliers, they have focused on those aspects that directly affect the retailer (e.g. product packaging), rather than on production processes or supplier energy management. This focus reflects lower US energy prices (i.e. reducing supply-chain-related energy and emissions is a lower priority for US retailers), the closer relationship between suppliers and supermarkets in the UK and the generally weak external governance pressures, which has meant that US retailers have faced much less pressure to take action on climate change.

Japan

One of the unique characteristics of the Japanese business community is the importance of business legitimacy and of being 'seen to be doing the right thing'. This often manifests itself in symbolic actions that enable companies to demonstrate their commitment to action. Given Japan's leadership role in international climate change negotiations, Japanese retailers have seen it as important that they demonstrate their commitment to taking action on climate change. Both Aeon and Seven & i (the two Japanese retailers in the list of the world's 25 largest retailers) have consistently highlighted tree planting and offsets (which allow them to demonstrate their commitment to their consumers) and participation in voluntary initiatives (which allow them to demonstrate their commitment to government) as core elements of their corporate strategies on climate change.

Beyond these, perhaps more symbolic actions, improving energy efficiency and reducing energy costs have been long-standing priorities. Both companies have managed to consistently improve their energy efficiency. They have also been clear that energy saving and emission-reduction-related investments need to provide commercial returns; both expect their energy efficiency and emission reduction investments to provide payback periods of between three and four years (Aeon, 2012; Seven & i Holdings, 2009).

Aeon and Seven & i have taken some steps to reduce their supply-chain- and value-chain-related emissions. They have calculated carbon footprints for a number of food products and household goods, and have committed to working with their business partners to reduce these emissions (Seven & i Holdings, 2011, p. 17; Aeon, 2010, p. 10). Both offer products that reduce customer energy use (e.g. functional underwear, which allows customers to lower their household temperatures, LEDs) and encourage customers to purchase carbon offsets to offset the carbon footprint of their shopping (see, for example, Aeon, 2010, pp. 15, 23; Seven & i Holdings, 2012, pp. 20, 35).

The 2011 Fukushima nuclear crisis and shutdown following the Great East Earthquake significantly changed the climate change policy debate in Japan. Both companies accelerated their efforts to improve their energy efficiency and reduce energy demand in the immediate wake of the Fukushima disaster. However, recent data from both Seven & i and Aeon suggests that, while both achieved short-term reductions in their energy consumption and greenhouse gas emissions, their energy use subsequently increased, with their emissions rising more quickly because of the greater proportion of fossil fuels in the generating mix.

Germany

The German supermarket sector is dominated by discount retailers, with cost being the primary point of differentiation between these retailers (Bleher, 2013; USDA, 2013). While German retailers have faced pressures similar to those faced by UK retailers (in particular in the period 2005–2007, when climate change was a very high profile political and media issue in Germany), these pressures have not been sufficiently strong to overcome the emphasis on price as the primary point of differentiation in the German retail market.

Unsurprisingly, improving energy efficiency in buildings and in transport has been the long-running (at least back to the mid-1990s) priority for all of the German retailers. Renewable energy has also been an area of focus, driven primarily by the generous incentives available to companies for the installation of renewables. While the data are limited, it appears that the German retailers have managed to consistently improve their energy efficiency or intensity, but have had mixed success in relation to their absolute emissions. For example, while Metro consistently improved its energy consumption per square metre of selling space by between 2 and 3% per annum over the period

2001–2013, its total operational emissions increased by 18% over the period 2006–2011 (Metro Group, 2004, 2006, 2009, p. 8, 2011, p. 6, 2013, p. 31). REWE reduced its total greenhouse gas emissions by 6.5% (i.e. approximately 1% per annum) between 2006 and 2012, and reduced its greenhouse gas emissions per unit of floor area by 31.8% in the same period (REWE Group, 2013, p. 59).

The importance of improving energy efficiency and costs is also reflected in targets being set by the German retailers. As one example, in 2013, Metro announced a goal of reducing its greenhouse gas emissions per square metre of selling by 20% by 2020 compared with a 2011 baseline (Metro Group, 2013, pp. 30, 31). In total, these sources accounted for almost 40% of Metro's carbon footprint (Metro Group, 2013, pp. 57–58). Metro acknowledged that the scope and definition of this commitment differed from Metro's previous commitment, which had included emission sources such as logistics, and explained this by noting that emissions from logistics were increasing at a disproportionate rate due to its expansion into countries such as China and Russia (where considerably longer transport routes are the norm) (Metro Group, 2013, pp. 57–58).

France

French retailers see climate change primarily as a regulatory compliance and operational cost issue, rather than a strategic value driver. There are various reasons: energy costs are a relatively small part of retailers' cost base, there is little direct pressure on the retailers to reduce their emissions, there is no overarching regulation of corporate entities, supply chain management and food safety, health and nutrition are seen as much more pressing business issue (not least because they are underpinned by regulation) and investors do not see climate change as a particularly important issue for the retail sector. This perception changed in the period 2006–2008, when, driven by media and political interest, climate change started to be identified as a major sustainability challenge. However, as these pressures abated, climate change moved back off the retailers' agenda.

The weaknesses in the external governance pressures are reflected in the relatively limited internal resources allocated by French retailers to climate change, in the emphasis on reducing building and transport-related greenhouse gas emissions and improving energy consumption, and in the lack of attention paid to supplier-related emissions and energy use. While these efforts have delivered benefits emissions have continued to rise. For example, over the period 2009–2013, Carrefour reduced the greenhouse gas emissions associated with store energy consumption per unit of sales area by approximately 7.5% per annum (Carrefour, 2014, p. 67), business growth resulted in Carrefour's energy consumption and greenhouse gas emissions increasing through this period (Carrefour, 2012).

Australia

The dependence of the Australian economy on the mining and minerals industries and on relatively low cost energy have been a huge influence on climate change policy in Australia and, in turn, on Australian corporate responses to climate change. The importance of not threatening or damaging Australia's international competitiveness was an explicit goal of Australia's climate change policies until the mid-2000s, with the government relying primarily on relatively weak voluntary measures to encourage business action on climate change (Sullivan, 2005, p. 97–131, 2006, 2008, pp. 100–116). Since the mid-2000s, however, climate change has been a major political issue, with successive governments adopting and then rescinding or amending climate-change- and energy-related legislation.

Energy prices have also been important. Historically, Australian electricity prices have been relatively low compared with other countries, with various studies suggesting that the rate of improvement in end use energy efficiency in Australia from 1990 through to the early 2000s was about half the OECD average (Commonwealth of Australia, 2004). However, after remaining broadly constant in real terms over the period 2002–2007, electricity prices rose by approximately 40% in the period to 2012, bringing Australian prices broadly into line with those in other OECD countries (ESAA, 2012; Carbon + Energy Markets, 2012).

Climate change is seen by Woolworths and Coles – the two Australian supermarkets in the world's 25 largest retailers – as an issue that they need to manage and understand, in particular in relation to their operations (buildings and transport). This emphasis is informed by rising energy prices, and the likelihood that climate-change- and energy-related legislation will eventually be implemented in Australia. Both companies have invested significant

resources in reducing their operational emissions and in improving energy efficiency. These investments are expected to achieve rates of return that are comparable to other business-related investments, i.e. between one and three years (Wesfarmers, 2012; Woolworths, 2012).

Discussion

When we look at the world's largest retailers, we see some striking commonalities: all of the companies face severe cost and competitive pressures; all have faced at least some pressure, notably in the period 2005–2007, to reduce their greenhouse gas emissions; all have established energy and climate change management systems and processes; all have taken action to improve their energy efficiency. We also see many differences. Most notably, the external governance pressures that these companies face, and the intensity (or perceived intensity) of these pressures, depend on their countries of operation, on their market positions and on their key stakeholders. As a consequence, companies have made different decisions about the importance of climate change to their business, they have taken different actions and they have assigned different levels of importance to the reduction of their supply chain-related emissions. Together, these commonalities and differences allow us to refine our analysis of how external governance processes, internal governance conditions and corporate strategies interact with and influence each other.

The Business Context Determines the Influence of External Pressures

Factors such as economic conditions, market structures (e.g. relationships with suppliers), market characteristics (e.g. whether retailers compete on the basis of price, on the basis of brand, on the basis of sustainability or on the basis of other factors) and corporate and business cultures (e.g. whether there is a culture of leadership or of conformance, whether there is a culture of collaboration with sector peers or with other actors such as government) are all important influences on the actions that are taken.

For example, the differences in the actions taken by the UK, the US and the Japanese retailers can, in part be explained by sector peer pressure. In the UK, corporate responsibility performance is an important competitive issue and this has, at least in part, influenced the decision by UK retailers to focus on climate change. In contrast, in the US, corporate responsibility performance is not an important competitive issue. On climate change, as with other sustainability issues, US retailers tend to be tentative and to wait to see what benefits or outcomes accrue to leadership companies, before looking to follow. Finally, Japanese retailers tend to cluster, with relatively little active differentiation on the basis of corporate responsibility. In practice, this means that if one retailer adopts a new innovation, others will tend to copy that innovation but not go further. It is interesting those Japanese companies with a more international focus (e.g. Fast Retailing – the owner of Uniqlo - which has a significant presence in Europe) have tended to mimic the behaviours of their competitors in these markets (e.g. placing greater emphasis on supplier engagement in their corporate responsibility reports).

The importance of context is also illustrated by the different approaches to supply-chain-related emissions adopted. The relationship between UK retailers and their suppliers is qualitatively different to the relationship between the US supermarkets and their suppliers. UK supermarkets have close and long-term relationships with, and significant influence over, many of their suppliers, in particular for own brand and agricultural products. In contrast, US retailers tend to have relatively little influence on their supply chains, and relatively little direct engagement with them (on issues such as environmental management). This is compounded by the fact that most of the US retailers have relatively small sustainability teams. This limits their ability to work closely with the companies in their supply chains.

Energy-Related Capital Investments Must Deliver Short-Term Financial Returns

The international case-studies confirm that the specific actions taken by companies will be constrained by the 'business case' for action. Across all of the markets studied, the evidence is that companies will only invest capital in

situations when there is a clear financial case for doing so; there is limited evidence that companies will invest capital in situations where the financial costs outweigh the financial benefits of such investments. One important consequence is that, when responding to external governance pressures, corporate leaders can make bold rhetorical statements or adopt ambitious targets knowing that these controls will ensure that only measures supported by a strong business case will actually be adopted (see, further, Gouldson and Sullivan, 2014).

The other important point about the business case is that global retailers have strikingly similar investment decision-making criteria, with capital investments generally expected to pay for themselves within three years. This points to the critical role of energy prices as, all other things being equal, higher energy prices should increase the number of projects capable of delivering these financial returns.

Furthermore, climate-change- and energy-related investments are generally required to compete for capital with other projects. This is important as, in the absence of an explicit preference or dedicated budget for climate-change- or energy-related investments, companies tend to prefer investments that enable business growth.

To Be Effective, External Pressures Must Align with Other Pressures

The analysis suggests that weak external pressures can have an important influence if they align with other – climate-change-related and non-climate-change-related – pressures on companies. That is, the effects may be synergistic and reinforcing.

The duration of external pressures is of particular relevance. The evidence from the country case-studies is that external pressures, even weak pressures, need to be sustained for a number of years in order for companies to develop their internal governance processes. If pressures are not sustained or not seen as long-term features of the business landscape (as has been the case in France, for example), companies will not shift from the view that climate change is primarily an operational and business efficiency issue, rather than a long-term strategic value driver.

However, even when external pressures are aligned, of reasonable intensity and duration, they still may not have a significant effect on internal governance processes and on corporate responses. This is illustrated by the French and German case-studies, where the pressures to respond to multiple sustainability-related pressures (France) or to be highly cost competitive (Germany) have swamped climate-change-related pressures.

Internal Governance Processes Determine the Responsiveness of Organizations to External Pressures

If management systems and processes are not well developed or if management sees climate change as an operational issue, they will tend to attenuate or dampen the influence of external pressures. For example, in the case of the French retailers, the fact that other sustainability issues are perceived as being of significantly greater importance than climate change has meant that the governance context can be described as relatively weak external pressures looking to influence relatively unresponsive organizations. The consequence is, unsurprisingly, relatively limited corporate action on climate change.

Conversely, companies with well-developed and responsive management systems and processes coupled with management recognition of climate change as a strategic value driver are more likely to respond effectively and quickly to external governance pressures. While internal governance processes are important in institutionalizing and ensuring the longevity of corporate actions on climate change, they can only play this role for a limited time in the absence of external governance pressures. Without ongoing external drivers for action, climate change inevitably reverts to being seen as an issue of business efficiency and cost reduction.

Corporate Responses Depend on External Governance Pressures and on Internal Governance Processes

The weaker the external pressures or the less developed the internal governance processes, the more likely it is that companies will set less ambitious objectives (either in terms of the greenhouse gas emissions that they seek to achieve or in terms of the urgency with which they look to take action). This is seen by comparing the responses of the French and German retailers with those of the UK retailers. While energy prices have been broadly similar

across the three countries, UK retailers have seen external pressures as being more intense and likely to be of longer duration than their French and German counterparts.

This also points to the importance of the governance mechanisms that are available to stakeholders. For example, corporate disclosures generally do not allow meaningful comparisons to be made between companies and often make it difficult to tell how well companies are performing against their own targets (Sullivan and Gouldson, 2012). Corporate reporting is also used by companies to frame debates in terms that suit their best interest, e.g. to present their performance in the best light, to emphasize relative (or efficiency) rather than absolute performance, to emphasize operational performance rather than wider supply chain and value chain-related impacts. These all have the effect of weakening the pressure that can be exerted by external stakeholders.

Conclusions

This paper reinforces the importance of considering external governance pressures, internal governance conditions and the levels and forms of interaction between these. It confirms that external pressures, internal governance conditions and corporate actions on climate change interact with and influence each other, and that it is therefore important to analyse these as a dynamic, interactive system rather than analysing each in isolation. The country case-studies also show that the specific details (the specific pressures involved, the manner in which they interact) vary according to context, with these variations driven by complex processes of influence, interaction and co-evolution over time.

This paper also reinforces the importance of paying attention to the alignment between diverse pressures and conditions as a key determinant of their collective strength and their ability to influence corporate behaviour. It suggests that policy-makers or other stakeholders seeking to govern or influence the climate change performance of corporations need to empower multiple actors, that these actors need to be enlisted and to engage with others to find areas of common interest (or alignment) and that they then need to act in a sustained and directed manner if they wish to effect significant changes.

While the material presented here points to the potential influence of external governance pressures and internal governance conditions, it also highlights the limitations imposed by the business case for action. The extent to which external governance pressures can force companies to take action, in particular challenging or transformative actions that go beyond the boundaries of the business case, is not at all clear. The evidence from the retail sector suggests that, at least in relation to their own operations, the companies in the sector have improved their energy efficiency and emission intensity and, to a lesser extent, reduced their greenhouse gas emissions. They have frequently done this in the absence of significant government regulation. This suggests that new governance arrangements that rely less on the state and more on the influence of private and civic actors can (under some conditions and to some extent) be influential. However, these improvements are dependent on a financial business case and are based almost exclusively on incremental change. Certainly the boundaries of the business case and the limits of incremental change can be extended through learning. However, if the business case weakens, or if the opportunities for incremental change are exhausted, then the scope for new governance arrangements to drive further progress is likely to be restricted. At present, there are very few signs that any of the retailers are considering radical changes in their business models, and none seem to see any alternative to business growth. The power of non-state actors to force them to consider such presumably unpalatable changes therefore seem to be very limited.

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