

## **Understanding leadership initiatives**

The value of leadership-oriented voluntary environmental initiatives in  
the field of climate change

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## **Abstract**

Voluntary environmental initiatives are a growing method of environmental collaboration between businesses, non-government organisations and governments. They are also increasing in their importance as a way of implementing policies that improve environmental performance beyond regulatory requirements. This study examines the characteristics of a set of VEIs in the field of climate change that purport to be working with companies that are leading their competitors in tackling greenhouse gas emissions. It compares and contrasts the approaches of the VEIs, and looks in more detail at one of them to identify how the VEI fits with the companies' business strategies, and what could be done better. It identifies areas where VEIs in the field can face limitations on their effectiveness.



## Executive Summary

As the complexity of environmental problems and their interrelationships with society are becoming more appreciated, so has the fact that neither markets nor governments acting alone can bring about sustainable development. As a result, over the last decades, there has been a growing trend towards the development of voluntary environmental initiatives (VEIs) whereby companies, often in cooperation with governments, environmental groups and other social actors, undertake non-mandatory actions to improve their environmental performance. Through bringing together these important actors in the environmental field, VEIs have significant potential to contribute towards goals of sustainable development and environmental improvement. They also have potential to contribute strongly to the individual business strategies of the companies themselves.

The great attractiveness of the *win-win scenario* of improved environmental and economic performance that these VEIs can offer makes them powerful tools, but also means that they can be abused through providing a smoke-screen for business-as-usual operations while also giving member companies promotional advantages through membership and increasing their influence with governments. For these reasons it is important that the motivations and operations of the initiatives be understood. Such understanding can increase the credibility of those initiatives which are making real and genuine contributions to environmental performance, and provide lessons for other initiatives which are seeking innovations in their own programs.

The threat of climate change has been a priority on the environmental agenda for over a decade. Since industry is the primary source of greenhouse gas emissions, and efforts to curb emissions will have major impact on energy prices and production methods, it has been a major concern for businesses and this has spawned a large number of voluntary initiatives. These are very varied, and include voluntary industry-government agreements on greenhouse gas reductions such as the German *Declaration on Global Warming Prevention* and the *Greenhouse Gas Protocol Corporate Accounting and Reporting Standard* (the GHG Protocol) developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI). Other initiatives have also developed which bring together businesses claiming to be leaders in the field of environmental responsibility. These initiatives include: *Business Leadership Initiative on Climate Change*, *Partnership for Climate Action*, *Climate Savers*, *Climate Leaders*, *The Climate Group* and the *Business Environmental Leadership Council*.

The aim of this thesis is to increase the understanding of how this particular set of voluntary environmental initiatives operate and to examine in more detail the operations of one of them (the Business Leaders Initiative on Climate Change – BLICC) to understand how it brings benefits to the businesses that participate in it. The Research Questions are:

*How do leadership-oriented voluntary environmental initiatives in the field of climate change operate to bring value to their member businesses?*

*How does BLICC compare to the other initiatives and what lessons can be learnt from them?*

The research is carried out in three phases. Phase One involves the establishment of a conceptual context in which the work of academic writers in the fields of business strategy, voluntary environmental initiatives and networking are reviewed in preparation for application to the initiatives being studied. Phase Two involves developing descriptions of the initiatives involved through available literature and interviews with managers, and a more in-depth study of BLICC through a series of interviews with companies involved with the initiative. Using this knowledge, the initiatives are compared and contrasted to each other to build up an

understanding of the range of approaches that exist. Using the knowledge of the BLICC members, some common themes are developed regarding BLICC and their approach to it. Phase Three is the analysis and conclusions phase where the conceptual context is applied to the initiatives studied, conclusions are drawn and the research questions are answered.

The comparison of the initiatives reveals that there are several strong characteristics that they have in common. These include a focus on sharing of best practices and encouraging contact between members. The promise of publicity for the businesses' environmental proactivity by the coordinating agencies is also a common element, to varying degrees. Differences also abound. Membership of the initiatives was not exclusive and all of the VEIs had members which were also members of other VEIs. However, three VEIs which were much smaller than the others did not have members in common. Some of the initiatives focused on public policy issues, while others focused exclusively on GHG emission accounting methods. Most were more flexible and included public policy issues as well as best practices in industrial processes.

Of the BLICC member companies interviewed, it was revealed that their main interests in their group was in learning from the other companies, but that there were particular issues on which they preferred to focus, such as transport and renewable energy. Communications issues were also important, involving the communication to the public of their own efforts, and with regulators. BLICC's small size, its variety of membership, focus on action were also important for them. They did not participate in other initiatives of this intensity and the role of the initiative in obtaining broader corporate commitment to environmental goals was valued. They stressed the need for the group to retain its forward momentum and continue to deliver progress.

In Phase Three, it was shown that the initiatives could provide strategic advantages to the businesses in differing degrees, depending largely on the intensity of their interaction. However, the benefits to the businesses of being associated with well known environmental NGOs, which is the case in some of the initiatives, was important, and hard to emulate for those which did not have them as coordinators. Further, while the initiatives promoted the proactive approach of their companies, the actions of the initiatives were not classified as 'proactive' according to one academic framework. It was concluded that the initiatives were supportive of related proactive initiatives, but that the organisers should be cautious that the initiatives did not become too little proactive for the purposes of the companies. A wide range of networking benefits for the initiative members was identified but these benefits were not as dominant in the case of the initiatives with more limited subject-matter coverage and less involvement in agenda setting by member businesses. Corporate political strategy was seen as a significant element of the motivation for participation in the VEIs, and the initiatives were significant elements of a wider shift in international political views regarding the costs of reducing GHG emissions. In reviewing general benefits and drawbacks of the VEIs, they were regarded to have varying degrees of flexibility and that the win-win approach they pursued was a significant factor in the bargaining between the VEI organisers and member businesses. Compared to potential drawbacks of VEIs, these ones studied were found to have relatively few.

BLICC was seen to be relatively advanced in its methods compared to the other VEIs. Although it lacked the credibility advantage of being associated with a well-known NGO, its more intense approach to cooperation, and greater participation in agenda-setting by companies indicated potential to achieve a lot more in terms of innovations and improvements in GHG emissions for member businesses. It was postulated that the lack of

leadership by a well known NGO meant that the membership of the group was important in maintaining credibility as a proactive VEI and should be monitored carefully in this respect.

In terms of general conclusions, the benefits of having wide-ranging dialogue in the VEIs was emphasised, as was the need for involvement in the VEIs beyond environmental staff to increase the chances of real innovations that went beyond GHG accounting and engineering practices. Deeper dialogue is regarded as essential if substantial changes to business patterns are to be achieved in ways that contribute more to sustainable development beyond just incremental improvements. So for VEIs in general, it was concluded that they risk missing significant opportunities if their dialogue is too tightly focused on subject matter and participants. Further, if they remain static in terms of their operations they risk becoming redundant as political, technical and economic progress occurs and companies seeking to remain ahead of the curve move forward onto new issues without them.



# Table of Contents

List of Figures.....	III
List of Tables.....	V
<b>1 INTRODUCTION.....</b>	<b>1</b>
1.1 BACKGROUND TO THE RESEARCH.....	1
1.2 RESEARCH QUESTIONS .....	2
1.3 JUSTIFICATION FOR THE RESEARCH .....	2
1.4 OUTLINE OF THE THESIS.....	3
1.5 DEFINITIONS .....	3
1.6 LIMITATIONS AND SCOPE.....	4
<b>2 METHODOLOGY.....</b>	<b>5</b>
2.1 INTRODUCTION.....	5
2.2 METHODOLOGICAL APPROACH.....	5
2.3 THESIS STRUCTURE.....	5
2.3.1 <i>Fieldwork Phase</i> .....	6
2.3.2 <i>Analysis and interpretation of data phase</i> .....	8
2.4 JUSTIFICATION FOR THE METHODOLOGY .....	8
<b>3 LITERATURE REVIEW - CONCEPTUAL CONTEXT .....</b>	<b>10</b>
3.1 INTRODUCTION.....	10
3.2 ANALYSING VOLUNTARY ENVIRONMENTAL INITIATIVES .....	10
3.2.1 <i>Types of Voluntary Environmental Initiatives</i> .....	10
3.2.2 <i>Benefits and drawbacks of voluntary environmental initiatives</i> .....	11
3.3 BUSINESS STRATEGY AND THE ENVIRONMENT.....	13
3.3.1 <i>General Theory</i> .....	13
3.3.2 <i>Corporate strategy and VEIs</i> .....	16
3.3.3 <i>Corporate strategy and climate change</i> .....	22
3.3.4 <i>VEIs as networks</i> .....	28
3.4 CONCLUSION .....	29
<b>4 ANALYSIS OF DATA.....</b>	<b>31</b>
4.1 INTRODUCTION.....	31
4.2 STAGE 1 – UNDERSTANDING THE VEIS .....	31
4.2.1 <i>Introduction</i> .....	31
4.2.2 <i>The initiatives</i> .....	31
4.2.3 <i>Comparisons and contrasts</i> .....	41
4.2.4 <i>Conclusion</i> .....	43
4.3 STAGE 2 – BLICC AND ITS MEMBERS.....	43
4.3.1 <i>Introduction</i> .....	43
4.3.2 <i>BLICC member companies</i> .....	44
4.3.3 <i>Discussion and summary</i> .....	52
<b>5 CONCLUSIONS AND IMPLICATIONS .....</b>	<b>55</b>
5.1 INTRODUCTION.....	55
5.2 ANSWERING THE RESEARCH QUESTIONS .....	55
5.2.1 <i>The Value of VEIs</i> .....	55
5.2.2 <i>BLICC compared – and implications</i> .....	72
5.3 RECOMMENDATIONS FOR BLICC .....	75
5.4 IMPLICATIONS FOR VEIS AND THEORY.....	76
<b>BIBLIOGRAPHY .....</b>	<b>78</b>

<b>ABBREVIATIONS.....</b>	<b>83</b>
<b>APPENDIX A – UNEP CATEGORIES OF VOLUNTARY INITIATIVES .....</b>	<b>84</b>
<b>APPENDIX B - LIST OF INTERLOCUTORS.....</b>	<b>85</b>

## List of Figures

Figure 2-1	Outline of research phases.....	7
Figure 3-1	Framework for strategies for participants in international VEIs.....	17
Figure 4-1	The GHG Protocol.....	35
Figure 5-1	Framework for strategies for participants in international VEIs location of climate change VEIs.....	66



## **List of Tables**

Table 3-1	Characterisation of strategies for VEI participation.....	18-19
Table 3-2	Climate change strategies.....	25
Table 3-3	Compiled benefits of VEIs.....	30
Table 4-1	Overview of leadership-oriented voluntary initiatives.....	32-33
Table 4-2	BLICC member companies.....	45



# 1 Introduction

This thesis was written to fulfil the requirements of the degree of Master of Science in Environmental Management and Policy at the International Institute of Industrial Environmental Economics in Lund, Sweden. Research and writing was carried out between June and September 2004. The research focuses on leadership-oriented voluntary environmental initiatives conducted by businesses in the field of climate change. It aims to identify the characteristics of a set of initiatives in this field and to analyse them by comparing and contrasting their operations. It then takes a second step to examine one of the initiatives (the Business Leaders Initiative on Climate Change (BLICC)) in more detail to gain an understanding of how the cooperation relates to the companies involved and their business operations. Conclusions are drawn at two levels: regarding the nature of voluntary agreements in this field generally and regarding the initiative studied in depth. The results are therefore intended to be a contribution towards general understanding in this field of voluntary environmental initiatives, and a contribution towards the development of BLICC itself.

This chapter provides an overview of the thesis. It describes the background to the research, introduces the research question and lays out a justification for the research. It provides a chapter outline of the thesis, defines some important terms and concludes with a discussion of its scope and limitations

## 1.1 Background to the research

As the complexity of environmental problems and their interrelationships with society are becoming more appreciated, so has the fact that neither markets nor governments acting alone can bring about sustainable development. As a result, over the last decades, there has been a growing trend towards the development of voluntary environmental initiatives (VEIs) whereby companies, often in cooperation with governments, environmental groups and other social actors, undertake non-mandatory actions to improve their environmental performance. Through bringing together these important actors in the environmental field, VEIs have significant potential to contribute towards goals of sustainable development and environmental improvement. They also have potential to contribute strongly to the individual business strategies of the companies themselves.

The great attractiveness of the *win-win scenario* of improved environmental and economic performance that these VEIs can offer makes them powerful tools, but also means that they can be abused through providing a smoke-screen for business-as-usual operations while also giving member companies promotional advantages as a result of their membership as well as increasing their influence with governments. For these reasons it is important that the motivations and operations of the initiatives be understood. Such understanding can increase the credibility of those initiatives which are making real and genuine contributions to environmental performance, and provide lessons for other initiatives which are seeking innovations in their own programs.

The threat of climate change has been a priority on the environmental agenda for over a decade. Since industry is the primary source of greenhouse gas emissions, and efforts to curb emissions will have major impact on energy prices and production methods, it has been a major concern for businesses. Indeed, at the World Economic Forum in February 2000, government officials, CEOs and civil society representatives voted climate change as the most important issue confronting mankind (Sundin & Ranganathan, 2002). As is detailed more fully in this thesis, the perception and response of businesses to this threat has been very

varied. Most noticeably, was the rise and fall of the Global Climate Coalition which argued strongly first with scientific consensus regarding climate change and then against the costs of climate change policies (Levy and Egan, 2003). Reflecting the importance of the issue, and the need to have industry on board, climate change has in the last decade spawned a large number of voluntary initiatives. These are very varied, and include voluntary industry-government agreements on greenhouse gas reductions such as the German *Declaration on Global Warming Prevention* and the *Greenhouse Gas Protocol Corporate Accounting and Reporting Standard* (the GHG Protocol) developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI). Other initiatives which have developed include some which bring together businesses claiming to be leaders in the field of environmental responsibility. These initiatives include: *Business Leadership Initiative on Climate Change*, *Partnership for Climate Action*, *Climate Savers*, *Climate Leaders*, *The Climate Group* and the *Business Environmental Leadership Council*.

## 1.2 Research questions

The research questions for this thesis have been formulated bearing in mind the issues described above, particularly the growing importance of voluntary environmental initiatives, their potential influence with policy makers, the government and their members and the need to understand them better.

Thus the research questions are as follows:

*How do leadership-oriented voluntary environmental initiatives in the field of climate change operate to bring value to their member businesses?*

*How does BLICC compare to the other initiatives and what lessons can be learnt from them?*

The objectives stemming from these questions are as follows:

Identify the potential costs and benefits of voluntary environmental initiatives.

Describe, compare and contrast the main leadership-oriented voluntary environmental initiatives in the field of climate change and how they realise these costs and benefits.

Describe how the members of BLICC fit the work of the initiative into their business operations.

Use this knowledge of this field of voluntary initiatives to further potential approaches that BLICC could take.

## 1.3 Justification for the research

A UNEP discussion paper in 2000 (UNEP, 2000) noted that the number of voluntary initiatives (VIs) have grown rapidly since their official endorsement in Agenda 21 in 1992. That document stated that VIs can have considerable advantages in meeting the challenges of sustainable development through causing long term cultural changes in companies, improving dialogue and trust between stakeholders, and providing more flexibility in meeting goals in a rapidly changing and complex environment. However, serious doubts are often raised about their roles, their effectiveness, their legitimacy, the role of the stakeholders and their ability to remain independent.

Diversity makes it difficult to generalise in any analysis of VIs. UNEP identifies five broad categories of VI, including several subcategories within each and acknowledges that flexibility and diversity cause both benefits and problems for VIs (UNEP, 2000, p. 4). A table of these categories with examples of each is attached at Appendix A. In its 2000 Discussion paper, UNEP collated several “next steps” based on the desire to increase the relevance, credibility and effectiveness of VIs in the future. These included the development and dissemination of “common criteria or key elements of successful voluntary initiatives”, review the progress of VIs and benchmark best practices, “better understand how international level initiatives strengthen or weaken the motivations or ‘drivers’ for voluntary initiatives” and help coordinate and strengthen interaction between the initiatives (pp. 14-16).

The disparate nature of VEIs has been one of the barriers to obtaining a systematic understanding of their functioning and in setting meaningful guidelines. By looking at one particular type of initiative, acting in a particular field, there are significant lessons to be drawn by comparing how the different initiatives approach a particular problem. Realistic conclusions are then possible about best practice in this particular case and whether there are conflicts inherent in the structure of the initiatives that can or cannot be overcome. Following this, application of these lessons to one particular initiative provides a useful test for the guidelines, as well as useful guidance for the members of the initiative themselves.

## 1.4 Outline of the thesis

The thesis is set out according to the following schema. It generally follows recommendations for PhD thesis structure as set out in Perry (1994):

Chapter 1: Introduction: explanation of the background to the research, introduction of the research question and justification for the research.

Chapter 2: Methodology: description and justification of the methods used in conducting the research.

Chapter 3: Conceptual context - Literature review: documentation of the potential benefits and costs of voluntary environmental initiatives from literature in the fields of voluntary initiatives and business strategy, particularly strategic environmental management and corporate political strategy, and networking.

Chapter 4: Analysis of data: presentation of the information obtained in the research.

Chapter 5: Conclusions about the research problem based on the research and discussions of implications for theory and practice.

## 1.5 Definitions

At this stage it is helpful to clarify the meaning of several terms as they are used in this thesis.

**Voluntary initiative (VI):** this term is used in its general sense in this thesis to refer to any actions undertaken by businesses that are not mandated by government regulation. They may be unilateral or involve other businesses or actors. Some writers use the term more narrowly to include only collective actions in the environmental or social field. Where this occurs, in the discussion below, this is made clear.

**Voluntary environmental initiative (VEI):** this refers to voluntary initiatives which focus on environmental aspects.

**Voluntary agreement:** this term refers to a form of voluntary initiative in which businesses enter into specific, written undertakings with other actors (e.g. government authorities or non-government organisations) relating to their performance in a particular field e.g. greenhouse gas emissions. Voluntary agreements are not part of this research, but as the term is used often and could be confused with VIs, it is included here to make the distinction clear.

**Leadership-oriented voluntary environmental agreements:** this is the term devised in this thesis to group together the voluntary environmental initiatives which are the subject of the study. The term refers to VEIs which are selective in their membership to focus on encouraging policies and practices that are at the forefront of innovation in the particular environmental field in which they operate. A more detailed description of the selection criteria and the meaning of the term in the context of this thesis is provided in Chapter Two.

## 1.6 Limitations and scope

As explained above, the wide variety of forms of VEIs makes it very difficult, if not impossible, to make meaningful generalisations about them. Therefore the setting of limitations and the understanding of these is essential for findings to possess any validity. This is the justification for the major self-imposed limitation of the thesis. Thus, the VEIs to be examined are: cross-sectoral, primarily business-focused initiatives which purport to be operating at the forefront of innovation with regard to climate change-related developments. Their degree of participation with governments, non-governmental organisations and other groups varies. The selection criteria are described in more detail in Chapter Two. Lessons learnt will be therefore strictly applicable only to these sorts of initiatives, and no attempt will be made to test them against other sorts of initiatives.

## 2 Methodology

### 2.1 Introduction

This chapter describes the methodology used in this thesis. It first explains the methodological approach taken in the study, and then describes the phases of the research setting out how each phase was carried out. Following this, the research methodology is discussed and justified.

### 2.2 Methodological Approach

This thesis takes a qualitative research approach to increase understanding, in a holistic way, of the operations of a particular set of VEIs. Qualitative research focuses on understanding the world as it operates, studying phenomena as they exist in their own settings and as they relate to the phenomena around them (Denzin & Lincoln, 2000, p. 3). Further to this, the particular methodological approach taken is that of a *case study*, and more precisely, an *intrinsic case study*.

A case study is described by Yin as:

*An empirical enquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used* (Yin, 1994, p. 13).

In this case, what is being studied is the particular case of leadership-oriented VEIs which operate in the field of climate change, as described in more detail in the discussion below on selection of the studied initiatives. In addition to this case, a more detailed case study is included, i.e. that of BLICC. This represents a sort of *case study within a case study*.

The case study can be labelled an *intrinsic case study* according to Stake's definition (Stake, 2000, p. 437) where the focus is primarily on an understanding of the case itself. The idea is not that the study is "theory-building" or that the case represents other situations enabling generalisation, but that there is a genuine interest in understanding more fully the case at hand. Nevertheless, this does not mean that generalisable conclusions will not be possible as the boundary between intrinsic case studies and case studies focused more on generalities is fuzzy. Hence, where they suggest themselves, attempts are made to draw conclusions that have wider application in the field of study of VEIs.

As a case study, the research is able to draw on multiple sources and methods to increase the understanding of the case in question. Thus in this study multiple sources are used such as company and VEI-sourced literature, academic literature and interviews. In order to increase the understanding of the VEIs, a multiple set of frameworks are applied to them to allow views of the VEIs from multiple perspectives. These are the various frameworks set out in the Chapter Three, i.e. the "Conceptual context". This process can be viewed as *triangulation* which is described as "a process of using multiple perceptions to clarify meaning, verifying the repeatability of an observation or interpretation" (Stake, 2000, pp. 443-444). Thus the process of triangulation in this case allows for an understanding of the multiple ways in which VEIs operate and relate to their members, coordinators and society.

### 2.3 Thesis Structure

Planning and research for this thesis occurs in three phases: The first phase establishes the conceptual context by which to judge the characteristics of the VEIs examined. This is

described in more detail in Chapter 3. The second phase is the fieldwork phase involving the examination of the VEIs themselves and the companies. The third consists of the analysis and interpretation of the data collected in the first and second phases. The results of this are presented in Chapters Four and Five. An overview of the process is set out in Figure 2-1 *Outline of Research Phases*, below.

### 2.3.1 Fieldwork Phase

The fieldwork phase focuses firstly on increasing the understanding of the operations of the VEIs and, secondly, of one of them in particular. This allows for study of the phenomena at two levels. The first is at the level of the organisations themselves i.e. the VEIs and their characteristics. The second level is how one of them, BLICC, operates, and the relationships between the member companies and the organisation itself. The fieldwork phase is therefore divided into two stages for the separate study of these. These are set out in more detail below.

#### 2.3.1.1 Stage 1 – Understanding VEIs

The purpose of this stage of the fieldwork phase is to describe and understand the main characteristics of the VEIs that focus on working with businesses and claim to be at the forefront of their industry with regards to dealing with GHG emission issues. The initiatives were identified through monitoring of climate change-related news, discussions with individuals involved in the field and other literature. For instance the *New Academy Review*, Spring 2004 edition (Anonymous, 2004) contains a good, but not exhaustive list and description of 21 different networks relating to climate change. Due to the variety of the networks, and large variations in memberships and aims, it is impossible to attempt to compare all of them. For this reason, a conceptual template was applied to select the ones that most closely compare to BLICC, the initiative to be studied in more detail. The conditions set in this template were that the initiatives must satisfy the following conditions:

- Climate change – the initiatives must work only in the field of climate change, and not on only one aspect of climate change e.g. cooperation such as the *Coalition for Environmental Responsible Economies* (CERES), the *World Business Council on Sustainable Development* or the *Global Compact* are too broad, and more focused networks such as the *European Network for Green Electricity* (EUGENE), *e<sup>5</sup>*, the *Climate Neutral Network*, the *Chicago Carbon Exchange* or the *GHG Protocol* are too narrow
- Business-focus – the initiatives must be focused on businesses and their work to improve their GHG emissions e.g. NGO networks such as the *European Environmental Bureau*, or the *Climate Action Network Europe* (CAN Europe) are excluded

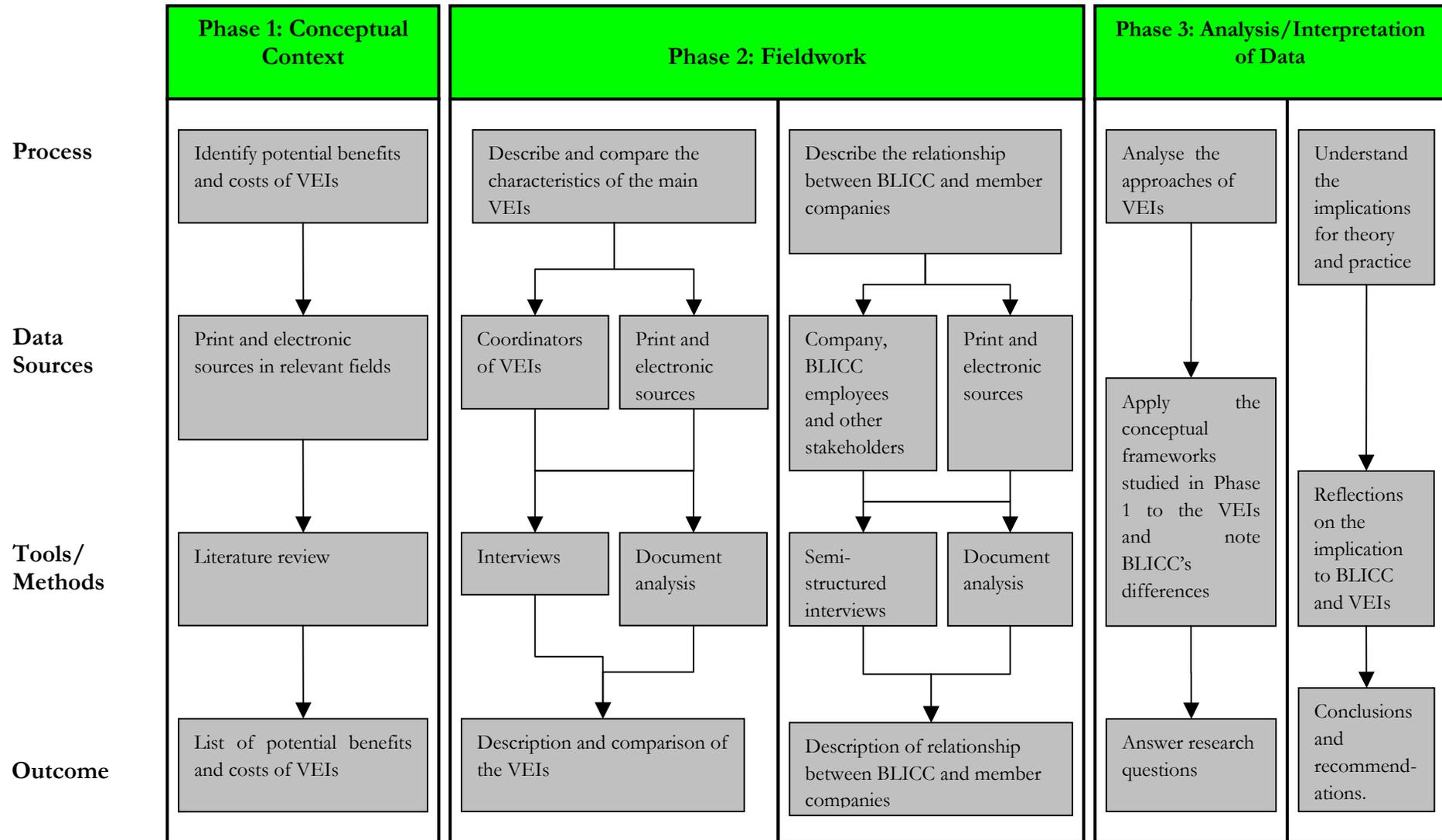


Figure 2-1 Outline of research phases

- Leadership orientation – the initiatives must be only open to companies which are leaders in the climate change field and which are interested in making reductions beyond that required for their industry generally
- International – the initiatives must involve international companies
- Cross-sectoral – the initiatives must not be limited to one particular industry

This resulted in the identification of the six initiatives to be studied.

After identification of the initiatives, descriptions of them were built up to allow a detailed understanding of how they operate as well as the differences between them. Sources for this information were the websites of the initiatives involved, telephone interviews of the managers of the initiatives, news items and academic journal treatment. The details of the managers interviewed are included in the list of interlocutors at Appendix B. To improve understanding of the operations of the initiatives and the issues faced, similarities and contrasts are noted, along with conclusions relating to these issues.

### **2.3.1.2 Stage 2: Understanding BLICC**

The second stage represents a more detailed analysis of one of the initiatives, *viz.* BLICC, and how it operates with regards to its member companies. This incorporates descriptions of each of the member companies and how they relate to BLICC, including their reasons for joining the initiative, what their priorities are in the field of climate change, how BLICC assists with this and what they expect from BLICC. Information was gathered from semi-structured interviews with the companies' BLICC contact persons along with company websites and other published information. Interviews were primarily carried out by telephone since the offices of the BLICC member companies are spread between several countries, and during the time in which the research for this thesis was carried out there were no meetings of the initiative held. A list of all interlocutors is included in Appendix B. Following the descriptive part of the section, common themes regarding the businesses' relationships and approaches to BLICC are noted and discussed.

### **2.3.2 Analysis and interpretation of data phase**

The third phase consists of the analysis and interpretation of the data. In this phase, the research questions are answered by applying the theories described in Phase One (the conceptual context), regarding the benefits and drawbacks of the collaboration, to the VEIs studied. For the first question regarding the contribution of VEIs to society and the member companies, analysis is conducted at both the organisational level, using the knowledge of the different VEIs, and the intra-organisational level, using the more in-depth knowledge of BLICC. For the second question, regarding BLICC itself, relevant lessons are drawn from the discussion and analysis of the first questions and the lessons are summarised.

After the research questions are answered, the lessons learned are applied to BLICC and to the field of VEIs generally in the form of recommendations for BLICC and implications and recommendations for theory.

## **2.4 Justification for the methodology**

A case study approach is appropriate in this study because of the complex nature of the issues being studied and the impossibility of drawing neat boundaries around the phenomena.

Further, the case study approach offers a holistic view of a phenomenon and contributes to our understanding of the complexities that govern social interactions by using a variety of evidence to build up a fuller picture (Patton & Appelbaum, 2003, p. 63).

Yin (1994, p. 1) supports this stating that a case study approach is appropriate

*...when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real life context*

Yin's parameters describe the context of this thesis well. The social and environmental interactions that make up the phenomena of VEIs are multitudinous and difficult to measure or describe in any single way given the variety of interests, actors and contexts involved. As they are a relatively new and developing phenomenon, there is little written or other recorded data on them, and so several sources of evidence are required to build up a full picture of their operations. Thus, the desire to understand their operations, in relation to existing theory influences the phrasing of the research questions that are both expressed as "how" questions.

## 3 Literature Review - Conceptual Context

### 3.1 Introduction

This chapter establishes the conceptual context for examining the VEIs and businesses being studied in the thesis. It does this by looking at frameworks for understanding voluntary initiatives which have been established in the academic literature in the fields relating to voluntary environmental initiatives, strategic environmental management and networks. The objective is first to set out the range of VEIs that have been identified and then the benefits and drawbacks of VEIs. Once this has been established, a deeper examination of the possible motivations for businesses for joining VEIs is made using literature from the field of business strategy.

### 3.2 Analysing Voluntary Environmental Initiatives

In order to understand a set of VEIs it is useful to be able to set them in the context of other VEIs and to understand how they compare in terms of the general benefits and drawbacks of that they offer. This section sets out the general theoretical treatment of VEIs in the most relevant academic literature. This understanding for the wider context and generic issues raised is used when analysing the individual VEIs being studied in the later chapters.

#### 3.2.1 Types of Voluntary Environmental Initiatives

Understanding the range of possible VEIs that exists helps in understanding the parameters that govern their characteristics, as well as the context in which particular VEIs operate and potential alternative approaches. Furthermore, which category a particular VEI, or set of VEIs, fits into can help understand the dynamics of the VEIs being studied by casting them in a comparative light with other VEIs in the same category.

UNEP has identified five categories of voluntary initiatives (UNEP, 2000, pp. 4 - 5). A table presenting these is set out in Appendix A, but a brief treatment of each category follows below:

**A** *Industry initiatives:* where businesses themselves set their own goals and agendas along with monitoring and reporting protocols. These can be limited to individual companies, industry sectors or they can be cross-sectoral. Examples are the *World Business Council for Sustainable Development* and the chemical industry's *Responsible Care* program.

**B** *Government initiatives:* where governments set the goals and monitor performance. These goals are usually set in negotiation with industry and other stakeholders. Participation by companies is not mandatory. These include eco-labelling systems and environmental management systems.

**C** *Joint government/industry (and tripartite) initiatives:* where government and industry negotiate goals between them as well as other details such as performance measures and reporting. Where these also include employees as an equal partner they are *tripartite* initiatives. The Dutch government has entered into several such agreements to affect industry environmental performance. These also can be industry specific or cross-sectoral.

**D** *Third-party or multi-stakeholder initiatives:* where parties which are not government or businesses develop an initiative and run it. Businesses and industry representatives are often involved in the third party, or associated with it. This includes

independent standards organisations such as the International Standards Organisation (ISO) or NGO-led initiatives such as the WWF *Code of Conduct or Arctic Tourism*.

**E** *UN and other international initiatives:* where the UN or other international organisations are behind the initiative, working with businesses, governments and other social actors in establishing norms, implementing standards and monitoring performance. These include the *Global Compact*, *OECD Guidelines for Multinational Enterprises*, and FAO codes of conduct.

### 3.2.2 Benefits and drawbacks of voluntary environmental initiatives

This section reviews the generic potential benefits and drawbacks of VEIs that have been identified and discussed in the literature. Gibson (2000) compiles a list of the attractions and doubts about VEIs and these are set out below. It is important to note that, due to the flexibility of the concept VEI and the fact that each one can be unique, generalisations are very difficult to apply – regarding both positive and negative aspects, so that each of the drawbacks and benefits discussed below may not apply to all VEIs.

#### 3.2.2.1 Benefits of VEIs

According to Gibson (2000), the benefits of VEIs stem mainly from the flexibility and efficiency gains that derive from their ability to use a wider range of motivating factors, and to meet goals in a greater number of ways compared to regulatory approaches where governments seek to impose standards.

- A** *Flexibility:* VEIs can be more flexible than regulatory arrangements since they can encourage some companies to go beyond mere legal standards. This can also be a precursor to bringing the tighter VEI standards into law at a later stage
- B** *Efficiency:* Where VEIs allow businesses to meet objectives in their own ways, without specifying the ways in which they reach them, this can mean that the businesses will meet them in a time and way which is most efficient. This can also save money for governments if they are not involved in monitoring performance and enforcing the standards. Of course setting such objectives without specifying ways to reach them can also be achieved with mandatory objectives.
- C** *Win-win approach:* With their approaches allowing flexibility and efficiency, VEIs can produce results that improve the financial and environmental positions of businesses. This can encourage other businesses to follow suit, or create pressure for already-committed businesses to go further in their environmental efforts.
- D** *Broader range of pressures:* Compared to regulation, VEIs can employ a broader range of pressures to encourage improved environmental performance. This can include through motivation of customers, employees, neighbours, other businesses within an industry or suppliers.

#### 3.2.2.2 Drawbacks of VEIs

Despite the advantages that can be available with the use of VEIs, there are also drawbacks which mean that any individual VEI cannot be viewed simply as an initiative which promotes

improved environmental and economic performance. Gibson (2000) lists these “reasons for doubts” as follows.

- A *Performance measurement:*** Lack of performance data and a tendency to exaggerate achievements mean that it is difficult to determine the effectiveness of the VEIs compared to other options, or to measure their performance in absolute terms.
- B *Free-riders:*** Not all businesses, and sometimes not all divisions of a firm, will participate in VEIs. Where the VEI's effectiveness depends on its inclusiveness, e.g. an industry-wide initiative, its value is diminished by businesses which do not participate, yet still gain advantages by association with the businesses that have participated.
- C *Limited to “low-hanging fruit”:*** It cannot be known with certainty that a voluntary approach will go beyond the first and easiest environmental improvements. A mandatory approach may be necessary if more expensive improvements in environmental performance are necessary.
- D *Regulation replacement:*** VEIs may be used by regulators as an alternative to regulatory regimes merely because they are cheaper, without considering the other costs. Once in place, governments can reduce monitoring activities or remove legal requirements completely. This could undermine the reasons for the success of the VEIs since the “threat of regulation” is a significant motivator for businesses to take pre-emptive voluntary steps (Gibson, 2000, p. 7).
- E *Lack of transparency:*** VEIs can reduce the participation of other social actors, thus leading to less public scrutiny of performance than well-constructed regulatory regimes.

Business collaboration in the form of VEIs can also be regarded as a defensive response to outside pressure as a way of businesses “teaming up” to increase their power vis-à-vis their attackers to resist change and promote their own version of “business as usual” incremental improvements which he calls “eco-modernism” (Welford, 1997, p. 33).

### 3.2.2.3 Discussion

Gibson concluded (2000, p. 8) from his review that *motivational issues* were central to both the attractions of, and doubts about, VEIs and that the key issue was the adequacy of motivations to act responsibly. This fits well with Welford's critique of the potential drawbacks of business collaboration since the approach he describes rests on the motivations of businesses to resist challenges from “attacking environmentalists” (Welford, 1997, p. 32).

This means that in any consideration of a VEI, the motivation of the members of the group must be an issue that is considered since VEIs could exist to promote higher standards in the most efficient ways, or they could be an attempt by members to resist, or divert pressures for change. Each VEI must therefore be able to demonstrate that it does provide positive environmental advantages if it is to avoid being seen as merely a defensive response to external pressures. The potential problems listed above must be addressed in some way by each VEI if they are to establish this credibility.

Gibson also notes that the key to “inducing ecologically and socially responsible behaviour” (2000, p. 11) is to use approaches that play on as many of the positive motivations as possible and integrating them, along with other tools and players in mutually supportive ways. Because of the complexity of the systems being dealt with, and the wide range of players and rivers, there is no single system that can be designed to utilise this. Therefore any system designed to exploit the motivators must be “flexible and adaptable in ways best provided by a multiplicity of bodies working more or less together and adjusting as they go” (Gibson, 2000, p. 13). This need is something which must be borne in mind when considering the characteristics of the VEIs in this study.

### 3.3 Business Strategy and the Environment

One of the motivating factors for businesses to enter into VEIs, is the economic advantage that can be gained. The aim of this section is to investigate this aspect in more depth i.e. to examine how companies can derive economic benefits from cooperating in VEIs. The literature examined can be broadly described as that in the fields of strategic management, as well as literature relating to networks.

#### 3.3.1 General Theory

That businesses can make money out of improving their environmental performance is now a well-established proposition. Porter and Van der Linde (1995) argue the case that pollution should be regarded as resource inefficiency and that high environmental standards, if set the right way, can promote innovation and efficiency to increase the competitiveness of businesses. Hawken, Lovins and Lovins (1999) take this idea further to show in more detail ways that this can be done: through radically increasing resource productivity to reduce waste production and resource depletion, mimicking biological processes to eliminate waste completely, focusing on service instead of goods production and investing in natural capital, i.e. the Earth’s natural ability to produce more resources. However, just having good environmental performance is not necessarily enough. King and Lenox (2001) have shown that, while there is evidence of an association between financial gain in companies and pollution reduction, a causative connection cannot be established. They conclude that differences between businesses could be more important in determining the relationship between decreased environmental harm and increased profit. In particular they point to the capabilities of each business and its strategic position as being potentially more important than mere environmental performance and suggest that “*When does it pay to be green?* may be a more important question than *Does it pay to be green?*” (King & Lenox, 2001, p. 113).

The question of how it can pay to be green is examined in detail by Reinhardt (2000). He supports King and Lenox’s finding, stating that “there is no one-size-fits-all environment strategy”. Reinhardt also makes the important point that obtaining a strategic advantage through improved environmental performance is really no different from any normal business problem whereby environmental issues offer certain challenges and opportunities for business managers to exploit and/or overcome. Further, the way in which a business’s operations are impacted by environmental issues varies considerably. Physical environmental conditions are one influential aspect in this relationship, along with the operations of the business itself, but they also include the actions of third parties such as government interventions (e.g. in privatising social costs through pollution charges), the influences of related businesses and the work of environmental groups (with both legal and illegal interventions). All of these factors can vary widely in each individual case (Reinhardt 2000, pp. 4-7). The process of development of this debate is described in Orsato (2001) along similar lines.

Reinhardt's approach is of particular interest in this context because several of the methods he describes have implications for the strategic work of business cooperation, such as VEIs. Reinhardt outlined five potential ways in which businesses could obtain value through environment-related concerns. These are outlined below.

### **3.3.1.1 Environmental Product Differentiation**

Environmental product differentiation is where a business creates products that impose fewer burdens on the environment, or produces them in ways that are less burdensome. This quality allows them to charge a higher price and as such it is a form of product differentiation, as set out by Porter as one of his two forms of creating strategic advantage (Porter, M. E., 1998). This approach requires three conditions if it is to succeed. First, customers must be willing to pay more for environmental characteristics, second, there must be credible information available about the characteristics of the products, and third, there must be barriers to imitation of the way in which the differentiation is achieved so that it is not immediately copied by competitors. Without this last characteristic, companies will compete on the basis of price instead of the environmental characteristic.

### **3.3.1.2 Reducing Internal Costs**

Reducing a business's impact on the environment by increasing its efficiency is one of the major and simplest means of achieving a competitive advantage using environmental systems. This can be done by reducing inputs, reducing outputs and/or using more efficient processes. It is important to note that long term approaches can also make larger savings than relatively tightly focused examinations of how to do the same thing but more efficiently. Reinhardt (2000, pp. 92-100) notes the importance of flexibility of operations for companies to find and adopt new ways of doing things, along with the need for good information flows which allow decision-makers to see the real costs of processes and other activities. This includes information about environmental performance, which, of course requires that it is measured in the first place.

### **3.3.1.3 Managing Competitors**

Businesses can work with other businesses or government and non-government organisations to establish standards and force other businesses to follow suit. According to Reinhardt (2000, p. 46) this can be done in two ways. The first way is by the businesses establishing organisations which "act like regulatory agencies" (p. 46). This has occurred where all businesses in one industry agree to act collectively on certain environmental standards. While the new standards may raise costs, because all have acted together, it may not have a large impact on businesses' competitive positions except where some are able to meet the standards more easily, achieving a first mover advantage. The second way is by one or more businesses working more closely with governments and environmental organisations to place pressure on competitors to meet standards which those businesses have already met i.e. raising the bars for competitors.

These collective action approaches allow businesses to respond to pressures for making environmental improvements and overcome pressures to reduce costs by compromising on environmental performance. Success in this field depends on the structure of the industry, the capabilities of the firm itself and the political circumstances in which it operates. As this approach is where voluntary initiatives and networks for sustainable development can play a strong role, it is worth focusing more attention to this approach.

### **3.3.1.3.1 Creation of private regulatory bodies**

Cooperation between businesses in an industry to create a private regulatory body can be done where businesses are concerned about pressure to improve their environmental standards but want to avoid the possible disadvantages of acting unilaterally or the uncertainty of waiting for government regulations to introduce new standards into the industry. Further, unlike government regulation, industry-made rules may be changed more easily if circumstances change. Strategically, costs of compliance can vary within an industry, and in many cases costs of compliance with the rules are fixed, giving larger firms an advantage over smaller due to economies of scale. On the other hand, it is in the interests of the leading firms to ensure that costs are not so onerous that a large number of businesses defect and make the new industry standards meaningless.

Reinhardt (2000, pp. 52-55) lists six “necessary conditions” for private regulation to be successful in an industry. These are as follows: funding for start-up costs of the new regime must be available - usually through very large companies bearing costs; they must be compatible with other social rules, for instance competition laws; it must be in the interests of enough players in an industry to avoid the possibility of a blocking coalition; all important competitors in an industry must be included; credible mechanisms for standard setting, monitoring and enforcement must be set, and; there must be a cost advantage available to the architects of the scheme.

### **3.3.1.3.2 Raising the bar for competitors**

Where it may not be possible to act collectively as an industry, businesses can seek to influence governments to introduce regulation in certain fields. This can be done in cooperation with environmental groups. Adoption of higher standards or specific technology specifications can benefit certain businesses and work against others, while benefiting the environment. Although classified as “rent-seeking behaviour” this does not mean that the action is done purely with self-interest at heart, it could merely be because particular industries are not structured in a way that makes industry-wide self-regulation possible, or that the nature of the environmental problem requires a cross-sectoral approach. Climate change measures are potentially an example of the latter.

Reinhardt (2000, pp. 65-66) states that there are three general necessary conditions for the successful use of this approach. First, there must be a competitive advantage obtainable under new regulations if a business is to pursue the approach. Second, the promoters of the change must be able to convince the government, customers and other industry members of the need for the changes to the rules. Third, there must be a regulator with adequate jurisdiction to impose the conditions effectively. This will vary with the nature of the problem – e.g. local environmental problem such as NO<sub>x</sub> emissions might be able to be addressed by local regulations, but carbon emission regulations must be taken within a much broader framework if they are to have any effect on the problem. Similarly, the impact of trade, and effects of imports from jurisdictions with differing standards must be taken into account.

### **3.3.1.4 Redefining Markets**

There are certain circumstances under which businesses can achieve several objectives concurrently i.e. reducing costs, improving environmental performance at the same time as managing competitors and/or achieving product differentiation. This requires a redefinition of the market in which the business competes by changing the system by which they provide value to their customers. The ability to make a difference in this field can be considered as one of the most important if companies are to make real progress towards sustainable

development since it can mean real changes to the way business is done, involving both the supply and demand side. Welford (1997, p. 33) hails this need “to do businesses differently” as the “real challenge facing industry”.

Reinhardt asserts that the successful examples of this approach have involved the “redefinition of property rights within the commercial system” (p. 107). Often this means that businesses redefine their operations to view themselves in terms of the services they offer customers rather than just as seeing themselves as purveyors of physical products. As with other sources of differentiation, businesses involved in this field must be able to create value that is not easily imitable if they are to sustain their advantage.

An important aspect to consider in this field is the business’s relationships with stakeholders. A profound change in the way a company does business is likely to have large impacts on all stakeholders and a significant amount of work is required to anticipate these and include these in calculations. This highlights the need for the business to have an excellent grasp of environmental and economic information of its own systems and that of its stakeholders as well as the legal and political contexts. It also may require work in persuading customers of the benefits of the new approach, which could include them sharing the reduced costs, or through accepting the broader environmental arguments. Engagement with stakeholders at a broader level through opening up debate to a diversity of opinions is also a necessary component of achieving real sustainable development since it includes more elements of society in the consideration of goals (Mayhew, 1997, p. 90).

### **3.3.1.5 Managing Risk and Uncertainty**

The management of risk is an important cost in most businesses, through insurance and contingency preparations and environmental risk is a large element of this. Risk manifests itself through the risk of causing damage to the environment, the risk of financial harm due to environmental actions or the risk of legal liability in the case of environmental damage. Tools for managing risk are often price-based ones such as insurance and hedging, but this is difficult in the case of many environmental risks where probabilities and impacts are uncertain. Thus “command and control” mechanisms are common where management specifies actions to be taken (e.g. through adoption of an environmental management system). Pay and promotion incentives can also be used to encourage awareness and risk-lowering approaches.

Importantly, managing risk can be viewed as a way of creating value. As reduction of risks can be seen as saving costs in the long run, it definitely has a cost-related element, but also this can be part of a broader approach to influencing competitors (e.g. through promoting industry standards) or differentiating products by producing in ways that lower environmental risk or producing products which offer less risk of environmental damage.

### **3.3.2 Corporate strategy and VEIs**

This section examines the ways in which VEIs can be used by businesses to gain strategic advantage to business members. VEIs can be employed in several ways to assist companies use environmental issues to gain strategic advantage. Just as the strategies that companies can use varies depending on several factors, so too can the approaches that VEIs take to environmental issues vary, depending on the nature of the environmental issues and the concerns of the member businesses. Christmann and Taylor (2002) have shown how businesses can use VEIs strategically, and the parameters businesses should use as guidance in choosing the characteristics of VEIs to be associated with. Their framework sets out four

different approaches to environmental issues which firms can take and then relates them to the characteristics of the VEIs they should join.

Christmann and Taylor suggest that a business’s selection of which approach to favour should be guided two considerations: first, the strategic importance of the environmental issue to the firm and second, its capacity to address the issue. The four general approaches they label as: *proactive*, *accommodative*, *reactive* and *defensive/capability building*. Figure 3-1 sets out the matrix guiding the strategy which the firm should take and Table 3-1 describes the characteristics of the way this should relate to the VEI characteristics and these are described briefly below.

		Firm-level capability to address environmental issue	
		<i>Strong</i>	<i>Weak</i>
Strategic importance of environmental issue	<i>Central</i>	<b>PROACTIVE</b>	<b>DEFENSIVE and/or CAPABILITY BUILDING</b>
	<i>Peripheral</i>	<b>ACCOMODATIVE</b>	<b>REACTIVE</b>

Figure 3-1 Framework for Strategies for Participants in International VEIs

Source: Christmann and Taylor (2002), p. 127

Christmann and Taylor recommend that businesses associated with VEIs with a *proactive strategy* where those businesses face environmental issues that have central strategic importance to them and where they have a high degree of capabilities and resources to deal with the issue. The aims of such VEIs should be to lead the industry in efforts to address the environmental problems, and establish benefits to the businesses through increasing their reputation and raising competitor’s costs. This approach epitomises Reinhardt’s case for gaining competitive advantage through environmental attributes, since the five ways he describes are all ways of taking a proactive approach. As described by Christmann and Taylor, the VEIs using this approach assist companies achieve greater environmental product differentiation, through enhancing stakeholder knowledge of their actions, and assist them in managing competitors by setting new standards and thus raising the bar, or establishing private regulatory bodies. Engagement with the VEIs at an early stage also allows the businesses to influence the VEIs’ operations from the beginning.

Table 3-1 Characteristics of Strategies for VEI Participation

	Proactive Strategy	Accommodative Strategy	Defensive Strategy	Capability-Building Strategy	Reactive Strategy
<b>Strategic Stance</b>	<ul style="list-style-type: none"> <li>• Anticipate stakeholder requests</li> <li>• Lead industry effort to address them</li> </ul>	<ul style="list-style-type: none"> <li>• Conform to stakeholder expectations without taking a leadership position in the industry</li> </ul>	<ul style="list-style-type: none"> <li>• Fight against addressing the environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on building capabilities to address environmental issue</li> </ul>	<ul style="list-style-type: none"> <li>• Do the minimum required to maintain a 'licence to operate'</li> </ul>
<b>When to get involved in a VEI</b>	<ul style="list-style-type: none"> <li>• Early, in formative stage</li> </ul>	<ul style="list-style-type: none"> <li>• Late, once VEI requirements are established</li> </ul>	<ul style="list-style-type: none"> <li>• Early, in formative stages</li> </ul>	<ul style="list-style-type: none"> <li>• Early or late</li> </ul>	<ul style="list-style-type: none"> <li>• Late, only when required</li> </ul>
<b>Goals of Participation</b>	<ul style="list-style-type: none"> <li>• Influence VEI requirements: design a credible VEI with effective enhancement mechanisms that is accepted by relevant stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Signal environmental responsibility</li> <li>• Potentially learning</li> </ul>	<ul style="list-style-type: none"> <li>• Influence VEI requirements: design a VEI with weaker requirements with the goal to pre-empt more stringent requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Learn best practice</li> <li>• Set challenging goals</li> </ul>	<ul style="list-style-type: none"> <li>• Fulfil minimum stakeholder requirements to maintain legitimacy</li> </ul>
<b>Which type of VEI to join?</b>	<ul style="list-style-type: none"> <li>• VEI with representation of many stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• VEI that is accepted by relevant stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Private-sector (business or industry) group with similar defensive motivations</li> </ul>	<ul style="list-style-type: none"> <li>• VEI that encourages information exchange</li> </ul>	<ul style="list-style-type: none"> <li>• Whichever is required by stakeholders</li> </ul>
<b>Benefits of Participation</b>	<ul style="list-style-type: none"> <li>• Increase reputation for environmental responsibility</li> <li>• Potential competitive</li> </ul>	<ul style="list-style-type: none"> <li>• Increase reputation for environmental responsibility</li> <li>• Potentially learning and</li> </ul>	<ul style="list-style-type: none"> <li>• Potential to avoid future more stringent requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Learning</li> <li>• Gain credibility with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain license to operate</li> </ul>

	benefits by raising competitors' costs through new stringent requirements	building capabilities		<ul style="list-style-type: none"> <li>• Protect reputation</li> </ul>	
<b>Costs and Risks of Participation</b>	<ul style="list-style-type: none"> <li>• Negotiation costs</li> <li>• Costs of potential free riders</li> <li>• Uncertainty about VEI's requirements and VEI's acceptance by stakeholders</li> <li>• Potentially increased scrutiny by stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of complying with VEI requirements and possible certification costs</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation costs</li> <li>• Potential negative effects on reputation</li> <li>• Risk of VEI not being successful in avoiding more stringent requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of building capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of complying with VEI requirements and possible certification costs</li> </ul>

Source: Christmann and Taylor (2002), p. 128



Further, one characteristic of this approach is the need to engage with many different stakeholders to ensure that the strategy does anticipate their demands. This assists knowledge of the business's impacts and operational setting, which can also promote capacity for market redefinition and reduce risk and uncertainty – particular due to the stronger engagement with potential critics. Christmann and Taylor note, however, a potential catch in this case since the greater involvement with stakeholders on one environmental issue can lead to greater scrutiny with regards to other environmental issues. Thus it is difficult for a business to follow a proactive strategy in one field and less proactive strategies in others.

Where an environmental issue is not of such central strategic importance to a business, but it still has strong capabilities to address it, Christmann and Taylor suggest that managers should consider VEIs which take an *accommodative strategy*. This approach means that the businesses

can meet high expectations regarding environmental performance but “without taking a leadership position” (2002, p. 130). It effectively means that the environmental issue is not considered important enough to be able to achieve significant strategic advantage from, and so the company is taking a relatively safe approach that meets but does not exceed expectations regarding the issue. Additionally, the VEI could also be used by the businesses to improve their capabilities in dealing with the issue in case they decide to become more proactive in the future.

There are two possible general strategic approaches that Christmann and Taylor identify where an environmental issue has a high strategic importance to a business, but that business does not have a high capability to deal with it. These are *capability building strategy* or a *defensive strategy*. If the business is in that situation, it could face an immediate threat to its competitiveness if it does not act, but the issue could also lead to competitive advantage in the future if it increases its ability to deal with the issue.

The *defensive strategy* is one embodiment of Welford's (2000) critique since it involves businesses in similar positions forming coalitions to promote their own interests. They can do this by pre-empting government action by promoting their own agendas and influencing government opinion. There are risks involved with this approach though, such as reputation risk for companies involved and as a result they are often formed at industry-wide level, or by groups of trade associations to avoid individual companies becoming associated with them. These VEIs can work to resist attempts by other businesses to gain competitive advantage through their environmental capabilities, such as in the ways canvassed in the proactive strategy. They can use their power to resist attempts to set up the conditions that enable environmental differentiation or attempts at increasing environmental standards by arguing against the validity of the science behind them, or highlighting the costs of doing so. The *Global Climate Coalition* is cited as one example of a VEI with this strategic approach.

Companies in the same position could also choose a *capability-building approach* where they aim to build up their capabilities in the field and use them in the future to gain competitive advantage. This can be a more costly approach in the short term than its alternative because of the need to invest in improvements and research, but it can lead to longer term advantages due to the increased capabilities. Christmann and Taylor (2002, p. 131) note that where businesses already have established a degree of environmental differentiation based on their reputation, this approach would be preferable to a defensive approach to avoid losing the benefits they have established on other environmental issues. The ability to exchange information and learn best practices from other companies are important characteristics of such VEIs. The Partnership for Climate Action, established by US NGO Environmental Defense is cited as an example of this approach.

Christmann and Taylor state that “pursuing defensive and capability-building strategies simultaneously might be the best overall strategy for firms to use” (2002, p. 132) since a dual approach allows for businesses to increase their capabilities in addressing important environmental issues while simultaneously resisting pressure to take action. A defensive approach can impose “moderately stringent” standards on its members to reduce criticism while focusing on improving capabilities as well to further divert attention from the fact that they may not be meeting more stringent demands of some stakeholders. Again, this embodies Welford’s criticism of VEIs which use incremental improvements to divert pressure for more fundamental change.

Where an environmental issue does not offer any potential for a business to exploit it for competitive advantage, and the company has little capability to do so, it is possible to pursue a *reactive strategy*. This approach is essentially passive whereby businesses do the minimum required to maintain their effective licence to operate and they only do this where it is made absolutely necessary through regulatory and/or stakeholder pressure.

Christmann and Taylor’s approach highlights the fact that firms become involved with VEIs for strategic reasons which vary depending on the environmental issue, the industry in which they are involved, and the capabilities of the firm. Other strategically-related issues include: which VEI to become involved with, timing (e.g. whether to get involved at an agenda-setting stage or after the set-up costs have been met), in what way to become involved, and whether to take a collective approach (e.g. a cross-industry initiative could adversely affect the reputations of industry leaders).

### **3.3.3 Corporate strategy and climate change**

This section increases the focus on the relationships between businesses and climate change to examine the literature on corporate strategy and climate change. First it looks at factors behind differing corporate responses to climate change and then to discussion of corporate political strategy and climate change.

#### **3.3.3.1 Factors determining corporate response**

Hoffman (2002) goes beyond the analysis presented above to examine the reasons behind the differing responses that companies have to climate change. As with King and Lenox (2001) and Reinhardt (2000) (above), Hoffman argues that the challenges posed by climate change present both threats and opportunities, and how these are met depend on characteristics of the businesses themselves. He asserts that there are four main areas where the characteristics of businesses will determine their response to climate change and therefore their ability to improve their environmental performance in this field and/or use their performance strategically. These are outlined below.

- A *Capital asset management cycle:*** Achievement of emission reductions can require significant investments in capital. For businesses with relatively low capital costs, or those about to replace capital, these changes can be much easier than for companies which have heavily invested in capital stock or with a high commitment to current stock they possess. The position that they hold in their replacement cycle can therefore make a significant difference in the cost of making reductions in the short to medium term. Just this fact alone could significantly influence the strategic approach that is of interest to them. For instance if there is a low commitment to current capital (either it is cheap compared to output, or about to be replaced anyway) newer technology could have significant effects on emissions.

This could increase the attractiveness of a proactive approach to enable the business to take advantage and lock in the gains that it has over its competitors by promoting its improved profile, or setting standards that others will find it harder to reach. Businesses with high replacement costs will see more benefit in resisting change and taking a more reactionary approach. If there is some lead-up time, then a capability-building and/defensive approach could also be attractive to bide the time.

**B *Market competencies:*** This refers to each business's internal ability to increase profits or reduce its costs in ways that also reduce emissions. Hoffman identifies six ways to do this which reflect Reinhardt's approach.

- a. *operational efficiency* – i.e. *reducing internal costs* (c.f. Section 3.3.1.2) through lower energy costs, improve material yield and resource utilisation rates such as through more efficient transport
- b. *risk management* – i.e. through both contributing less to global warming and decreasing the risk of not meeting future regulatory requirements which can lower corporate insurance premiums (c.f. Section 3.3.1.5)
- c. *capital acquisition* – i.e. reduce costs of capital investments in new sites, facility construction and when starting up or redesigning manufacturing lines and products by increasing the efficiency of current capital. This is another form of *reducing internal costs* (c.f. Section 3.3.1.2)
- d. *market demand* – i.e. enhance market share by appealing to end-use customers and up-front suppliers or vendors due to the environmental characteristics of the product. Reinhardt referred to this as *environmental product differentiation* (c.f. Section 3.3.1.1)
- e. *strategic direction* – i.e. expose information and create insights by identifying changes in consumer preference, media attention, community concerns and regulatory trends as well as identifying hidden costs through enhanced measurement efforts, and identification of new resources. Reinhardt referred to this as *redefining markets* (c.f. Section 3.3.1.4)
- f. *human resource management* – i.e. increase workplace productivity by increasing the attractiveness of the business as a place to work through motivation of staff by engaging them with environmental goals. This is essentially another form of *reducing internal costs* through increasing resource productivity (c.f. Section 3.3.1.2)

**C *Global competitiveness:*** The position of competitor companies, in particular those which may not be bound by emissions regulations, will have a strong bearing on the ability of the business to adopt new technologies which may cost more. The less the ability of the business to distinguish its products from others, the bigger will be this problem.

**D *Managing institutional change:*** Changes in emissions regulations, including introduction of carbon markets introduces more complexity for the management of businesses and the ability they have to deal with this will impact strongly on their ability to take advantage of new opportunities. This includes managing

relationships with stakeholders such as governments, the press and the public, as well as other aspects that could change like consumer habits, tax structure, broader health effects of climate change, technology changes and competitors' actions. This also relates to Reinhardt's concept of managing competitors (c.f. Section 3.3.1.3).

Hoffman's analysis adds some climate change flesh to the bones of Reinhardt's five ways of creating competitive value using environmental attributes. They highlight the potentially wide-ranging impact of climate change-related measures on a business and point to the varied nature that responses can take as well as the variety of benefits that can accrue when it comes to climate change-related measures.

Hoffman (2003) argues that the strategic advantages to be gained by setting reduction targets means that even companies which are "agnostic" about the scientific provenance of climate change are setting them. He also stresses the significance of changes in the market place that will occur as a result of the need for businesses and economies to adapt to the need to reduce emissions and that businesses which resist change will be excluded from the ongoing political debate and left behind as the new markets and regulations develop.

The unclear nature of this shift in market structure also means that it is important for businesses to be well-informed and up-to-date on developments in regulations, technology and the concerns of the public and customers. Hoffman points out that this gives high importance to the ability of companies to engage with these groups (e.g. scientists, policy-makers, NGOs and consumer groups) so that they are aware of their concerns, and so that they are able to provide input into the development of new trends.

### **3.3.3.2 Actual corporate responses**

Kolk and Pinkse (2004) have recently investigated the actual responses of a range of major companies to climate change focusing in the actions they have taken and their perceptions of threats and opportunities as revealed in their responses to the Carbon Disclosure Project. Their findings reinforced the view that business responses to climate change vary between businesses and their situation. In some cases this could be generalised. For instance energy-intensive companies viewed potential changes to government regulations as a risk, while financial companies regarded this as an opportunity. Similarly, climate instability due to climate change was regarded as a greater threat by financial institutions (exposed to insurance claims) and food and beverage companies (due to effects on agriculture). However, more companies focused on the business opportunities through new technologies and demand and cost changes. They also found that "the overwhelming majority of respondents" had "taken actions" with regards to the measurement of emissions and target setting (p. 308) although only half went beyond accounting for gases other than carbon dioxide. Once measuring was carried out, most companies then had drawn up management plans involving targets, whether they be absolute, relative, or related to just energy or fuel consumption. In some cases, emission indicators were used for internal decision-making such as for investment decisions, or in trading.

In terms of actual steps aimed at reducing emissions, Kolk and Pinkse found that most companies focused on improvements in production processes and only some were looking at improving their products or developing new ones. Whether companies had taken steps that affected their supply chains depended largely on the industries involved. Most service industries did not take these into account, while most companies in heavy manufacturing

(automotive, chemical, metals, mining and electronics) stated that they took responsibility for the emissions caused by use of their products. However, the approach that companies took in doing this differed. Some monitored suppliers, some used environmental management criteria, and some enforced their own standards while others sought to more actively engage suppliers.

Kolk and Pinkse set out a matrix to classify the different approaches to climate change they observed. The dimensions related to the “strategic intent” of the companies’ climate change policy (i.e. whether it was for innovation towards new process or products or compensation for emissions) and, on the other axis, the level at which they cooperated to implement this strategic intent. This matrix is represented below at Tale 3-2.

Table 3-2 Climate Change Strategies

Organisation	Strategic Intent	
	Innovation	Compensation
Internal (Company)	Process improvement	Internal targets, control and trading
Vertical (Supply chain)	Product development	Supply chain targets, control and trading
Horizontal (Beyond the supply chain)	New product/market combinations	External market mechanisms

Source: Kolk and Pinkse (2004)

Kolk and Pinkse concluded that companies are increasing the extent of their climate change strategies beyond the internal company focus (i.e. from the internal to the horizontal) but that whether they are aiming at innovation or compensation “remains a much more open question” (p. 312). The degree to which they will be able to increase their focus on compensation depends very much on the development of the market infrastructure surrounding emission markets and offset projects. They also concluded that, while companies within the same sector took similar approaches to target-setting and internal measures the approach they took at the broader levels was much more distinctive.

### 3.3.3.3 Corporate Political Strategy

While Kolk and Pinkse (2004) note that business climate change strategies have changed during the last decade with an increasing emphasis on market-based strategies, and less emphasis on non-market, or political strategies, the importance of political strategy can still not be ignored. Indeed, as described above, one of the ways Reinhardt (2000) described to reconcile shareholder value and environmental performance is through managing competitors. This requires that the company pursuing an approach would gain a competitive advantage under a new system, that the company can convince others that the regulatory changes are workable, and that competitors cannot escape the new regime, e.g. through trade (Reinhardt 2000, pp. 65-66). It is within these spheres that corporate political strategy operates. Given the relatively controversial and global nature of climate change science and policies, not to mention the scale of its impact on economies, the role of businesses should not be ignored. This includes the importance of business alliances as a tool in corporate political strategy.

Levy and Egan (2003) give a useful overview of the development of international corporate political strategy in the field of climate change negotiations during the last decade. Their “Neo-Gramscian approach” (see also (Levy & Newell, 2002)) allows a deeper understanding of the interests at play in the wider political/social sphere and how businesses have sought, and are seeking to continue, to exercise influence. It is necessary first to explain some terminology.

To paraphrase Levy and Egan (2003), the dominant beliefs regarding climate change, its impact and the necessary measures to be taken, are a field of continual competition between competing interests. Different social groups have competing interests, but there are also splits within these groups. Furthermore, alliances between the social groups are continually changing and reforming in a “protracted war of position” (2003, p. 825). In this context, popular beliefs themselves are material forces, and so language, or terminology, is an important weapon in this competition since language can change popular beliefs which can then impact materially in many ways such as through consumer actions, shareholder valuations and regulations.

An *historic bloc* is a *hegemonic social structure*, or a dominating alliance of different social groupings. The power of an historic bloc rests on three pillars: the economic, the discursive and the organisational and they are displayed through economic dominance (economic pillar), laws and the consensus of broader society (organisational) and through the structure, ideology and language of the institutions themselves (discursive). As the relationships between actors, and their interests are constantly changing, and never in harmony, there is constant change in these structures, and the membership and power of an historical bloc. In particular, institutions of civil society are a key source of stability as they are most influential in representing particular interests, or states of affairs as being in the general interest. Social consent is thus important in establishing a particular hegemony, and so understanding the compromises and alliances between social groups is essential to understanding the power relationships in the historical bloc.

Levy and Egan state that applying this framework to corporate political strategy shines a unique spotlight on issues that do not normally arise when traditional approaches are taken:

*This neo-Gramscian framework offers a number of unique insights, such as the importance of coordinating economic, discursive and organisational strategies, the potential for weaker groups to outmanoeuvre their rivals, and the significance of civil society in corporate political strategy. Overall it suggests a strategic conception of power, that recognises the complex relationships between structures and agents (p. 809, original emphasis).*

Corporate political strategy can therefore be seen as the process of establishing an historical bloc that suits the self-defined interests of the business. This can be achieved through building coalitions of other businesses, government agencies, NGOs and other actors such as policy-makers. The following section describes the evolution of the discourse on climate change and the role of businesses in this. It provides an understanding of the role of business cooperation in the political sphere and therefore how businesses can operate beyond their own boundaries to manage their competitors.

The increasing understanding of the threat of climate change during the 1980s emerged as a threat to the hegemony of major global industries, and in particular US motor car and oil industries because it threatened their dominance in all three pillars (Levy and Egan 2003, pp. 815-815). At the economic level, oil and coal companies, and those dependent on the use of these fuels were threatened with the potential of increasing global controls on the use of

carbon-based fuels. The language of the need for constraint in the use of fossil fuels began to become more widespread and, in response, some presented the pro-carbon control arguments as an ideological opposition to suburban living and private automobiles (Levy and Egan 2003, p. 815). At the organisational level, public awareness of the threat of climate change strengthened the hand of companies promoting alternative energies, as well as regulatory agencies and environmental NGOs.

A major response of the threatened industries was to form the *Global Climate Coalition* (GCC) in 1990 which fought against the growing consensus on climate change on the three levels. At the discursive level, the GCC argued against the science of climate change in policy debates and funded research and promoted findings that questioned the scientific evidence behind climate change. It also did this by supporting “grass roots” organisations that represented other interests e.g. the Global Climate Information Project. The money and organisational effort that went into these had a significant influence in the US Congress and government which was strongly influenced by the argument of the high cost of taking action to reduce carbon emissions, and the uncertainty of the science behind estimates of the effects.

During the 1990s, the historical bloc opposing emissions controls began to falter as another bloc began to emerge:

*A number of relatively minor developments combined to open up some of the tensions in the historical bloc opposing mandatory emissions reductions. Industry was forced into a series of accommodations which are laying the foundation for a more stable field configuration. The emerging historical bloc is based on new organisational forms advocating for industry action on climate change, the win-win discourse of ecological modernism, and a reconsideration of economic interests accompanied by modest investments in low emission technologies* (Levy and Egan 2003, p. 818).

The “minor developments” included the increasing scientific consensus on the impacts of climate change, largely through the work of the Intergovernmental Panel on Climate Change (IPCC) and the anti-emission control lobby’s alienation of itself by continuing to argue against that consensus. This continued denial encouraged defections from the bloc by major companies such as BP, Shell and European car manufacturers. Additionally, the bloc leader, (the GCC) was undermined by groups advocating compromise such as the Pew Center on Global Climate Change and is now “deactivated” (Global Climate Coalition, 2004). Alternative energy businesses also increased in power and promoted their own interests in increasing carbon emission controls such as through the Business Council for Sustainable Energy.

Defecting companies adopted the win-win language of “it pays to be green” which was being advocated by certain business school academics, and in so doing increased their influence with European governments and opened the way for access to alternative technology funding. The final agreement on the Kyoto Protocol, which envisages significant flexibility, and new opportunities for trading, and investment made this even more attractive. According to Levy and Egan, organisations such as the Pew Center, and collaborative exercises between environmental NGOs and businesses provide a “channel for policy influence for member companies” and a “vehicle for legitimising the new position” (p. 822).

It is this new historical bloc as a coalition of certain strong business interests, with some major NGOs, government regulators and other institutions both domestic and international, using the win-win discourse that has supplanted the older one in purporting to represent business interests. Academics such as Reinhardt, Hoffman, Kolk and Levy (see reference list) are significant contributors to the power of this bloc in framing the language of the dominance of

the bloc. For companies seeking to be pro-active in the field of climate change, and to gain strategic advantage from it, participation in, and reinforcement of the bloc is an important exercise of corporate political strategy. This aspect will be applied to the organisations in question in the next chapter.

### 3.3.4 VEIs as networks

Another approach to understanding the interaction between businesses and other organisations that constitute VEIs is through the lens of *networking*. Bearing this in mind, the academic literature focusing on networking, or inter-organisational cooperation can also shed light on the VEIs as a phenomenon. This section reviews academic literature on networking in the field of sustainable development to draw out the major aspects that contribute to our understanding of VEIs.

At a general level, inter-organisational learning is a central value that networks bring to their participants (Lei, Slocum, & Pitts, 1997). The ways in which companies achieve this learning, and manage the interaction, establishing “cooperative advantage” has become a significant field of study. However this field is primarily concerned with intra-industry collaboration or collaboration between companies connected in the value chain.

There has also been some development of the idea of “partnerships for sustainable development”. Hartman, Hoffman and Stafford (1999) provide an overview of the field and the benefits of these “partnerships” which they define as “voluntary collaborations between two or more organisations with a jointly-defined agenda focused on a discrete, attainable and potentially measurable goal” (1999, p. 255). They regard these as important in setting new sustainability paradigms. For instance, promotion of systems views of industries, enabling more innovative thinking and proactive solutions could be major benefits. The voluntary approach often taken means that consensus must be achieved between many stakeholders, taking into account social considerations as well. This can be particularly useful in complex problems such as climate change. The concept of “collaborative leadership” is also relevant as it requires organisations or individuals with credibility and entrepreneurial initiative to create the right circumstances for a successful partnership.

Halme and Fadeeva (2001) identify several areas of contribution to businesses from sustainability networks in the tourism field. Although this involved one industry only, the relatively varied nature of that industry means that there are some lessons applicable to cross-sectoral networks. They distinguish between the benefits at the level of sustainability and, separately in general and benefits to the individual participants. At the level of sustainability, this is divided into the three field of economic, environmental and social. They are summarised below.

*Economically*, the networks provided educational advantages through inter-member learning such as educating managers in new, money-saving techniques, business strategy and management. The fact that the networks gave prominence to the sustainability agendas of the businesses involved also had image advantages for the companies. Coordination of products was also possible.

*Environmentally*, the resource savings through better resource management and improved techniques that were encouraged and spread within the networks represented the main benefits. Education of customers to encourage more environmentally-conscious behaviour was also seen as a benefit along with coordination of supplies to make deliveries more efficient.

*Socially*, the benefits appeared to apply mostly at the local level due to development of local industries. This does not appear to have any relevance in the case of geographically separated companies.

At the more ad hoc level, the authors noted benefits in motivation to the people involved in the networks and greater personal satisfaction for all employees in working towards identified sustainability goals, a sense of belonging, greater awareness among participants about sustainability issues and increased information flows about these issues. Although these sorts of benefits are not intrinsically due to the fact that they are working within networks, the participants' emotional advantages were due to the fact that they were working towards goals which had been set out by the networks.

Cardskadden and Lober (1998) identified improved employee morale, company image and relationship with government as the major advantages of increased stakeholder engagement in the field of wildlife habitat enhancement in one U.S. program as well as the benefits to the program due to corporate involvement.

Rondinelli and London (2003, p. 62) point out that alliances with non-profit organisations can be a source of information and knowledge about creative ways to rethink operational activities, identify new products and marketing opportunities, and address stakeholder concerns. It can also strengthen community relations, encourage better access to political and strategic information, and improve environmental programs, obtain alternative sources of scientific information, boost employee morale, reputation with customers, proactively influence external suppliers, distributors and contractors.

Starik and Heuer (2002) list several reasons, which they derive from other authors, for the existence of what they call "cross sectoral, inter-organisational environmental interactions". First, the level of complexity of the natural environment and the interactions of human society with it are so high that many different approaches are required. This is obtained by having many different organisations with different skills sets, resources and responsibilities. Second, there is significant scope for organisations to learn from each other where they are working cross-sectorally. This applies across business sectors but also across public, private and non-profit sectors. Third, the multiplicity of effects of environmental issues can require actors and cooperation in multiple areas as a "multilateral eco-centric approach". At a practical level Starik and Heuer also note the benefits for organisations to join these groups where they have already been established because they do give benefits and start-up costs have already been borne. Less quantifiable reasons also include expectations of society, "elite leadership interests", and specific competencies the organisations are looking for or wanting to share.

### 3.4 Conclusion

This chapter has attempted to set out the range of academic literature relating to VEIs, networking, corporate strategy, climate change and connections between them. It has been intended to establish the conceptual context by which to assess the VEIs that will be examined in the next section.

Table 3-3 sets out a summary of the major aspects identified in this study of the conceptual context.

Table 3-3 Compiled benefits of VEIs

Benefits	Firm Level	Group Level	Society Level
<b>Economic</b>	<p>Marketing of highlighted products</p> <p>Progressive image for companies</p> <p>Learning from partners about cost reduction potential</p> <p>Risk management benefits</p>	<p>Influence on regulators and lobbyists in members' favour</p> <p>First mover advantages</p> <p>Improve members' access to strategic information</p> <p>Pooling resources for lobbying and stakeholder relationship purposes</p> <p>Discovering potential for business-business strategic collaboration</p>	<p>Promote practical and effective environmental regulations</p>
<b>Environmental</b>	<p>Learning from partners about individual environmental improvement techniques, innovations and technologies</p> <p>Reduction of operational environmental risk</p>	<p>Development of greenhouse gas accounting skills base</p> <p>Decreased environmental burdens</p> <p>Education of customers in the area of climate change</p> <p>Greater information flow between actors in the field</p>	<p>Development of best practice in greenhouse gas accounting and other environmental systems</p> <p>Encouragement of other businesses to follow example</p>
<b>Social</b>	<p>Improved relationship with stakeholders</p> <p>Motivation of employees</p> <p>Meeting of societal expectations</p> <p>Social leadership interests of individual</p>	<p>Institutionalised and ongoing relationship with stakeholders</p> <p>Leadership in historic bloc role of discourse determination</p>	<p>Promotion of long term, systems-based approaches to solving complex problems</p> <p>Development of understanding between business, government and non-government groups</p>

## **4 Analysis of data**

### **4.1 Introduction**

This chapter presents the information uncovered during the research component of the thesis. It is divided into two sections. The first section focuses on describing and understanding a range of comparable VEIs involving companies that profess to be leaders in the field of responding to the challenges of climate change. The selection criteria are explained in more detail in Chapter Two of this thesis. The second part of the chapter focuses on one VEI in particular and examines its operations and the relationship between the participating companies and the initiative itself.

This chapter focuses primarily on describing the initiatives and understanding the VEIs and businesses studied, including looking at their differences and similarities. More detailed analysis, using the conceptual context established in Chapter Three is carried out in Chapter Five.

### **4.2 Stage 1 – Understanding the VEIs**

#### **4.2.1 Introduction**

In this section, several of the major leadership-focused climate change initiatives are examined. The purpose is to understand the ways in which these initiatives operate, by comparing their operations to each other and determining their differences.

#### **4.2.2 The initiatives**

Table 4-1 sets out the initiatives which will be studied in more detail in this section. They can loosely be described as leadership-oriented business initiatives as described in the definition section. While it is not intended to be an exhaustive list of such groups, it does aim to capture the main ones operating at an international level which have information available in English. It is important to note that these are not the only groupings which are operating in this field for example the Global Compact and the World Business Council for Sustainable Development also have programs which touch on climate change issues. The aim here has been to examine groupings that are specialised on climate change, and no other issues. Thus, the broader cooperative initiatives have been excluded as have more narrowly focused initiatives. This is explained in more detail in Chapter Two

Table 4-1 Overview of leadership-oriented voluntary initiatives

Name of Initiative	Business Environmental Leadership Council	Partnership for Climate Action	Climate Savers	Business Leaders Initiative on Climate Change	Climate Leaders Program	The Climate Group
<b>Coordinating Organisation</b>	Pew Centre on Global Climate Change	Environmental Defense	WWF and Center for Energy and Climate Solutions	Respect Europe	US EPA	Own secretariat
<b>Description of coordinating organization</b>	Non-profit research and policy organization	US NGO	International NGO and division of a non-profit organisation	Consulting company	Government agency	Non-profit special purpose secretariat
<b>Head office</b>	Washington DC	Washington DC	Washington DC	Stockholm	Washington DC	London
<b>Year Established</b>	1998	2000	2000	2000	2002	2004
<b>Companies</b>	38 “primarily Fortune 500 companies”	7 companies: Alcan, BP, Entergy, Ontario Power Generation, Shell, Suncor Energy, DuPont	7 companies: Johnson & Johnson, IBM, Nike, Polaroid, Collins, Lafarge, Sagawa Express	6 companies: IKEA, Stora Enso, Interface, DHL Nordic, McDonald’s Europe, Maersk Nordic and Baltic	Over 50 companies	Unclear – at least 7 companies, plus around 10 governments (national, regional and local)  Companies: BP, Shell, NorskeCanada, Lafarge, DuPont, Swiss Re, Marks and Spencer
<b>Membership commitment</b>	Goal setting Absolute or relative reduction Demonstrated global leadership Share practices Participate in policy	Individual reduction agreements Goal setting beyond industry curve Absolute reduction Inventorisation Monitoring	Individual reduction agreements Goal setting beyond industry curve Absolute reduction Inventorisation Monitoring	Goal setting beyond industry curve Absolute or relative reduction Inventorisation Monitoring Publication	Work towards individual reduction agreements (after joining) Eventual goal setting beyond industry curve Absolute or relative reduction	Endorsement of principles specifying need to reduce and display global leadership Share practices Participate in policy development

	development	Publication Share practices Participate in policy development	Publication Share practices Participate in policy development	Share practices Participate in policy development CEO involvement	Inventorisation Monitoring Share practices Participate in policy development	CEO involvement
<b>Described benefits of program</b>	Best practice sharing Networking Role in policy development Publicity	Best practice sharing Expert assistance Role in policy development	Best practice sharing Networking opportunities Expert assistance Publicity	Best practice sharing Expert assistance? Networking Role in policy development Publicity	Best practice sharing Expert assistance Networking Publicity	Best practice sharing Expert assistance Networking opportunities Business/ government interaction Publicity
<b>Main policy focus</b>	Government climate change policy	GHG target setting and government climate change policy	GHG target setting and internal emission reduction	GHG management, internal emission reduction, and customer activism	GHG target setting	Networking
<b>Funding</b>	Charitable donations to Pew Center No payment by member companies	Grants and general membership of ED No payments by member companies	General membership of WWF No payments to WWF by member companies, but pay CECS for services	Annual membership fee of around €25,000-30,000	Government source	Annual membership fee of US\$15,000 plus donations from charitable organisations
<b>Use of GHG Protocol</b>	Not specified. Some members use it	Not specified. Some members use it	Yes	Yes	Yes	Not specified. Some members use it
<b>Degree of interaction</b>	Quarterly, plus workshops and conferences	Not frequently	Annually	Around three times per year	Six monthly	“Strategically-timed”



#### 4.2.2.1 Business Environment Leadership Council

The Business Environment Leadership Council (BELC) was formed in 1998 at the establishment of the Pew Centre on Global Climate Change by former US Assistant Secretary for Environmental Affairs, Eileen Claussen. It was the first such grouping focusing solely on Climate Change and, along with the WBCSD and other organisations began the undermining of the GCC's claim to be the representative industry voice on climate change policy (Levy and Egan 2003, p. 822). BELC's membership is described as a "group of leading companies worldwide that are responding to the challenges posed by climate change" (Pew Center on Global Climate Change, 2004b). An element of BELC which is given a strong emphasis is a joint statement of beliefs in which the companies accept that the science of climate change is certain enough to justify action, that businesses should act to set emission reduction goals, while investing in new processes and products, support for the Kyoto Protocol as a "first step" and that "reasonable policies, programs and transition strategies" in the US can "make significant progress in addressing climate change and sustaining economic growth".

BELC consists of 38 "primarily fortune 500 companies" which work with the Centre in formulating policy and identify "practical solutions". Members hold quarterly meetings, as well as participate in workshops and conferences and are given the opportunity to "review and comment on all Pew Centre work. The Centre maintains its independence from the companies by accepting no money from them (Pew Center on Global Climate Change, 2004a). Companies are expected to have set reduction targets, and to agree to the beliefs

*Figure 4-1 The GHG Protocol*

The *GHG Protocol Corporate Accounting and Reporting Standard* is a "voluntary best practice standard for compiling and reporting on a GHG inventory" (Schmitz, 2004, p. 44). It was developed in collaboration between the World Resources Institute and the World Business Council for Sustainable Development in a process that involved a wide variety of stakeholders from the business, government and NGO world. It was first published in 2001 and has been revised and extended since (WRI & WBCSD, 2004a)

mentioned above. They are characterised as implementing "proactive and innovating measures" in addressing climate change, including through setting emission reductions targets, innovative energy supply and conservation measures and in the field of waste management, emissions trading and carbon sequestration. Although many members use the GHG Protocol accounting methodology (WRI & WBCSD, 2004c), this is not a specified requirement of participation.

The Pew Center is a non-profit organisation which carries out climate change policy research, analysis, and education activities for senior managers. It derives its funding from donations from charitable organisations and individuals and emphasises strongly that it receives no financial assistance from the BELC member companies. The policy focus of the Pew Center is on public policy, and progressing of the public debate, particularly with law-makers, and has produced no work related to business processes and strategy. No assistance is given to companies related to their meeting of targets or ways to decrease emissions (Ericsson, 2004).

Although there are no statements promising publicity to the companies, the membership of the companies in BELC and their commitments to reducing GHG emissions has been

highlighted regularly in speeches by the CEO and in advertising promoting climate change policies.

#### **4.2.2.2 Partnership for Climate Action**

The Partnership for Climate Action (PCA) was set up by US environmental NGO, Environmental Defense, in 2000. Environmental Defense is a US non-profit organisation with a strong focus on working with experts, lawyers and scientists to achieve cost-effective and fair solutions. It has a membership base of 300,000 which is the prime source of the organisation's funding (Environmental Defense, 2004). Although this is not stated in its website, PCA does not accept money from member companies (Holliday, 2004).

The PCA's stated primary purpose at its establishment was to "champion market-based mechanisms as a means of achieving early and credible action on reducing greenhouse gas emissions that are efficient and cost effective" (Environmental Defense, 2000). The major reason for business interest in it originally was for the lobbying of governments on the benefits of market mechanisms such as "cap and trade" instead of emission taxes at a time when this was being discussed in international negotiations (Holliday, 2004).

Companies which join the PCA are required to negotiate an absolute GHG emission target and agreement with Environmental Defense and commitment to this target, along with public declaration of the limit is the first required commitment for joining the partnership. Some of the companies are listed as uses of the GHG Protocol methodology in this respect but this is not a specified requirement of the VEI. The other commitments consist of: emissions measuring and reporting; use of "innovative strategies" in working with other PCA members, customers and suppliers to reduce emissions through demonstrations and products; to exercise leadership in the field through collaboration, public communication and sharing experience and technology. Members also sign on to a statement of belief in the potential for market mechanisms and that using them would place them "ahead of the curve" in the global market (Partnership for Climate Action, 2004a).

Environmental Defense promotes the PCA on the basis of several advantages that it can give to companies. These are: multi-sectoral membership, cooperation with an environmental NGO which gives PCA a stronger voice, and its reliance on "credibility, experimentation and learning". It also promotes its knowledge-development role, for member companies and policy makers (Partnership for Climate Action, 2004a). These are achieved through the best-practice sharing between members (for which the multi-sectoral and multi-national nature of the members are seen as an advantage), and the expert assistance of Environmental Defense GHG accounting. The role of the group in testing policies before they are implemented as regulations, this "working ahead of the curve" is also promoted as an advantage.

In its public documentation, the PCA presents work that it has produced which include a report on common elements of a GHG management program with examples from member companies (Partnership for Climate Action, 2002), comments on US regulatory policy, case studies and background information on Clean Development Mechanism (CDM) projects and technology transfer, emission trading and GHG reduction investment returns (Partnership for Climate Action, 2004b). They also partly sponsored work at the Boston University School of Management on the business-related reasons for reducing GHG emissions (Hoffman, 2003).

In practice, the work of the program focuses mainly on establishment of GHG emission targets and putting in place effective management and accounting systems and distinguishes itself from the Climate Savers program by the fact that it "is not an efficiency program"

(Holliday, 2004). Members do not meet frequently, discussions occur in telephone conferences and primarily relate to GHG emission regulation and accounting issues. There is little, if any discussion of process-based efficiency measures or other ways to reduce emissions (Holliday, 2004).

According to the manager of the program (Holliday, 2004) the PCA is the most stringent of the US climate change programs as it requires absolute emission targets. This, together with uncertainty regarding US Government GHG policies, is behind the fact that the organisation has relatively few members. This is also related to the fact that of the seven, four are Canada-based, since few large US-based businesses have seen any advantage in making stringent commitments while Canadian companies are required to make reduction commitments by law. Holliday also stated that groups such as PCA “might be reaching their ‘use by’ dates” since they focused on helping companies introduce GHG emission accounting and management which was now becoming relatively well established.

Environmental Defense makes no undertaking to promote publicly the membership or the commitments of the members generally, although details of their commitments and forecasts are included in the PCA website.

#### **4.2.2.3 Climate Savers**

Climate Savers (CS) was formed by the World Wildlife Fund (WWF) in 2000 (Fialka, 2000) and claims to be the first and most demanding environmental NGO-business partnership in the field of climate change. It distinguishes itself by saying that it is the “first performance-based initiative requiring a multi-year Green House Gas reduction target and strategy that requires independent verification of baseline and progress”, the uniqueness of the WWF as a partner and its focus on energy use (World Wildlife Fund, 2004b).

Businesses which join are expected to be environmentally committed and to “develop and adopt innovative climate and energy solutions” (World Wildlife Fund, 2004a). On joining, each company is required to establish an individual Climate Savers Agreement with the WWF, committing to an absolute GHG emission reduction goal and agreeing to external verification by WWF partner, the Centre for Energy and Climate Solutions (CECS). The methodology that is required is the GHG Protocol which WWF has been involved in developing (WRI & WBCSD, 2004c). Member companies also undertake to share information and conduct other outreach operations about the projects they are carrying out.

In return the WWF, offers value in three main areas: knowledge, publicity and an enhanced relationship with WWF itself (World Wildlife Fund, 2004c). Through its partnership with the CECS, it offers companies assistance in developing GHG accounting or mitigation plans including through technical advice on how to reduce emissions in production processes. The WWF also undertakes to communicate the efforts of the companies to the public, policy makers and the business community. This includes advertisements promoting the membership of the group. For instance advertisements have been placed in the Wall Street Journal, and the New York and Washington DC public transport systems (Banks, 2004) along with newsletters and “recognition events”. WWF highlights the value of being involved at an early stage because of the positive press benefits of setting GHG reduction goals while it is still novel enough to obtain press interest (World Wildlife Fund, 2004b).

The WWF also emphasises the value of a relationship with itself, as a pre-eminent worldwide environmental NGO with 5 million members. It highlights the cooperation that has developed in various countries with member companies, and the links they build up with

WWF members, including the fact that member companies are regularly highlighted in WWF membership newsletters and magazines (World Wildlife Fund, 2004c).

The initiative also promotes corporate learning and information transmission by organising an annual symposium bringing together business leaders and technology and policy experts. These meetings usually have about 100 companies attending, which include the CS members. Topics of discussion have ranged from energy conservation to carbon accounting and communications strategies. WWF puts together the symposium based on feedback from participants. The symposium represents the only opportunity for members of CS to have formal contact with each other and WWF has found a continual desire for more time for networking between the companies (Banks, 2004). In addition to the symposium, WWF organises occasional expert consultation telephone conferences on technical issues.

No membership fee is charged although companies must pay for the costs of the auditing (World Wildlife Fund, 2004b). WWF places considerable emphasis on this aspect to illustrate that they are not being paid to promote companies.

WWF stated at the announcement of the program that the program was “an effort to show that companies can voluntarily achieve world-wide cuts in emissions that equal or exceed those called for under the Kyoto treaty to combat global warming” (Fialka, 2000). They have been used since by WWF to support its campaign for ratification of the Kyoto Protocol by illustrating that Kyoto targets are economically viable, for instance in advertisements and newspaper contributions (Duncan, 2002). The program coordinator (Banks, 2004) stated that WWF’s motivations in starting the group in 2000 was due partly to frustration with the slow progress it was seeing on the part of government policies and in international negotiations and a desire to increase its influence through working with businesses. The businesses themselves were primarily interested because of their desire to get an early start in recording their emission reductions in order to gain credit for them when reduction regulations were introduced.

Because of its concern with independence as an environmental organisation, WWF has no interest in policy dialogue between the member companies and itself. The company practices are used as best practice case studies for the WWF’s broader lobbying purposes. The annual symposium includes policy experts for briefing purposes, but no mechanism exists for feedback into the WWF’s own policy-formulating processes (Banks, 2004).

#### **4.2.2.4 Business Leaders Initiative on Climate Change**

Like PCA and CS, the Business Leaders initiative on Climate Change (BLICC) was formed in 2000, but unlike them, is based in Europe rather than the US. BLICC was formed by companies which were members of a corporate social and environmental responsibility group called Respect Table as members became aware of the need to try to influence the EU regarding its developing climate change policies and legislation (Bergmark, 2004).

Respect Table focuses on corporate citizenship issues and aimed at encouraging dialogue between them and NGOs, academics and political leaders, building competence regarding “proactive corporate citizenship” and building action agendas based on these. Members pay an annual fee (Respect Europe, 2004c). Respect Table also conducts other programs with different themes such as human rights and workplace diversity. It is run by a privately-owned consulting company called Respect Europe which describes itself as a values-driven consultancy that inspires and assists the business community to become responsible corporate citizens (Respect Europe, 2004b, p. 41).

BLICC styles itself as an “international programme for industry leaders committed to reducing the impact of business-related Greenhouse Gas (GHG) emissions” (Respect Europe, 2004d). BLICC’s mission is to be a “value-based programme for the exchange of knowledge and business-related experience in a proactive collaboration with a range of societal actors to promote and lead business actions to combat climate change at a global level and support a socially, ecologically and economically stable society” (Respect Europe, 2002). Its main aims focus on learning and communication aspects, aiming to bring together stakeholders, including EU and US governments, civil society, experts, employees and businesses to generate dialogue, increase transparency and share best practices in the fields of customer activism, renewable energy and transportation. BLIC currently has six members but expands by several more in the second half of 2004.

The benefits of the program which BLICC promotes in its literature focus on the learning and networking aspects of the program. The website states that participants find access to climate change technical and policy professionals, opportunity for political dialogue in the EU and US, a valuable peer network of business leaders and an established measurement and reporting procedure (Respect Europe, 2004e). This literature also emphasises a two-level approach by the program which means that it focuses on reporting of emissions in a systematic way and “helping to facilitate development of innovative new business practices” (Respect Europe, 2004e).

BLICC’s literature states that there are five elements to the program: monitoring and reporting using the GHG Protocol; target setting to challenge other companies and governments to participate in their efforts; tools for change through education, training and sharing best practice, verification and accountability through annual reporting of emissions and communication of the results of the program and the efforts of the members. Other elements of the program literature emphasise the business benefits of joining through resource savings, employee motivation and increasing members’ profiles in the field of corporate citizenship including to “add value to the relation with governments, customers and branding”(Respect Europe, 2002, p. 6).

The action agenda of BLICC focuses on three priority areas: stimulating customer activism, transportation and renewable energy. These have been the focus of the information sharing and discussions of the Working Group meetings.

The engagement required by the companies is high compared to other programs. Working group meetings are set at least three times annually (Respect Europe, 2004a), and have even been monthly in the past (Respect Europe, 2002, p. 6). This degree of engagement and the size of the group are behind claims by the organisers that intimacy and trust are important elements of the BLICC program. It is also claimed that the main difference with other groups is the action-focus on the group. These actions include improving member companies’ GHG accounting and particular programs jointly conducted by members (Han, 2004). The action-focus is also highlighted by the customer activism part of the program. “Customer activism” is described as a way for companies to “expand their circle of responsibility” to encourage customers to actively take on emission reduction actions themselves. The main project in this respect is an “Energy Saving Bulb campaign” in which member companies have sought to encourage customers, employees and other stakeholders to exchange two incandescent bulbs for two low wattage fluorescent bulbs (Respect Europe, 2003, pp. 1 and 11).

There are no numerical emission reduction target requirements for the companies to join, however, new membership is subject to approval by the existing members and often are invited to join by one member. The fact that there is a considerable membership fee (€25,000-

30,000 pa) and significant resource commitment expected of members means that only companies that are particularly committed to gaining benefits from the program and learning are interested in joining. According to Han, the intensity of the program also means that a certain degree of turnover can also be expected in member companies if they find they have no more to learn from the program. In this sense it can be viewed as more of an educational course. A challenge for the program is to find a suitable agenda once the learning curve has plateaued for members. The agenda is set by the member companies and ongoing workload and presentations are largely made by the company participants themselves (Han, 2004).

The policy engagement that has been conducted by the program has been related primarily to the example set by the companies as expressed through their communications efforts of their actions and personal connections with former EU Environment Commissioner Margot Wallström. The latter has built up connections between the member company CEOs and the Commissioner herself. Wallström has engaged relatively closely with the organisation because of this connection, and has been supporting, including through highlighting the achievements of the group in speeches (see for example Wallström (2003)).

At the communications level, proactive promotion of the companies and their achievements by the group has not been a major priority. While communication with stakeholders, including the public, government and customers is important, this has been mainly confined to annual reports and conferences, along with more focused contacts with the European Commissioner. Companies themselves have been largely responsible for promoting their own activities in the field, which has been assisted with input from BLICC (Han, 2004).

#### **4.2.2.5 Climate Leaders**

Climate Leaders (CL) was established in 2002 by the US Environmental Protection Agency (EPA). It was presented as a component of the Bush administration's climate change policy which had been announced earlier that month (US Environmental Protection Agency, 2002). The EPA describes the program as a "voluntary industry-government partnership that encourages companies to develop long-term comprehensive climate change strategies and set greenhouse gas (GHG) emissions reduction goals" (US Environmental Protection Agency, 2004a). It has 55 participants (US Environmental Protection Agency, 2004b)

Companies which join the program must commit themselves to GHG reductions, for all their US operations, that are considered "aggressive for the sector" by the EPA, and then report their performance to the EPA (Kerr, 2004, p. 129). The inventory protocol is "largely based on" the GHG Protocol of the WRI and WBCSD (US Environmental Protection Agency, 2004b). In return, the EPA assists companies to establish inventories and development management plans. The EPA also promises "high-level recognition" through placement of articles and advertisements, speeches and best practice promotions, as well as opportunities for participation in policy discussions and exchange of information between peers (US Environmental Protection Agency, 2004b). Other advantages that the program promotes are the ability to establish a "lasting record of the company's accomplishments" through their GHG reporting, and to be in a better position for future climate change policies (Kerr, 2004, p. 131).

The main focus of the program is therefore setting challenging GHG reduction targets, but this is not a pre-condition of entry since most members have still not established targets – only 21 of the member companies have announced reduction goals (Kerr, 2004, p. 131). These targets can also be either absolute or relative. The work of the program tends to focus on the establishment and monitoring and reporting of these targets. The program

coordinators offer free advice to member companies on establishing inventory management programs but it does not work with companies on how to achieve reductions since other government programs exist to fulfil this function. Interaction between business members is not a large part of the program, and meetings are carried out six-monthly (Cummis, 2004).

#### **4.2.2.6 The Climate Group**

The Climate Group (TCG) is the newest of the initiatives under examination and the most diverse in terms of its membership. It was set up in 2003 as a non-profit organisation to bring together international businesses, governments and NGOs which are committed to leadership in the field of climate protection and GHG emission reduction. Its aim is to connect expertise from a diverse field of actors in the field of GHG reduction to enable cross-sectoral learning, cooperative participation in policy development and jointly promote the benefits of addressing climate change (The Climate Group, 2004a).

The Climate Group is run by a specially-created secretariat, funded by some member governments and charitable organisations as well as annual membership contributions of US\$15,000 per annum. In addition to the networking benefits mentioned above, it offers members publicity for their leadership role, and support for “key questions” from the group’s helpdesk (The Climate Group, 2004b). Members must agree to a set of principles which oblige them to: engage at CEO level, contribute by sharing of information and experience and pay the annual fee. Total membership is unclear, but in July 2004 it included at least seven companies, plus around ten governments (national, regional and local). The timing and frequency of meetings is relatively flexible and specified as “strategically-timed meetings and events” (The Climate Group, 2004a).

The group secretariat itself has no real expertise role and acts largely as a hub, providing links between members or assisting direct enquirers to relevant experts (Whitley, 2004).

#### **4.2.3 Comparisons and contrasts**

This section analyses the group of initiatives by comparing and contrasting them. It enables an understanding of the range of approaches to the issue of climate change and ways in which companies and other social actors interact in doing this. This section does not attempt to apply the conceptual context as outlined in Chapter Three. This aspect will be applied in Chapter Five. This section focuses on comparing the programs and drawing any possible conclusions from that.

Looking first at the items that the initiatives have in common, the most obvious aspect is the fact that all have a somewhat strong focus on sharing best practices and encouraging contact between members. Publicity is also a factor highlighted by all of the initiatives apart from PCA. Given the specifications for selecting these initiatives as subjects of examination, it is somewhat surprising that there is not a higher degree of commonality. However, as will be discussed below, it is possible to divide the group of initiatives up into smaller divisions which show a much greater degree of conformity.

In contrasting the initiatives, there are several immediately apparent differences that distinguish some from others. Size alone allows for a quick distinction into two types of initiative – those with around seven member companies (PCA, CS and BLICC) and those with more than 20 members (TCG, BELC and CL). Other characteristics also align with this distinction suggesting that it could be meaningful. Notably, while there are companies which are members of more than one of the initiatives (BP is a member of four while Shell, Interface

and DuPont are members of three), there are no examples where a company is a member of more than one of the smaller trio. These initiatives also place a higher demand on their members in terms of commitments. Both CS and PCA require commitments to absolute reduction targets, the managers of both admitted that this was a major reason for their difficulty in attracting more members. In the case of BLICC, although membership does not require commitment to absolute reduction targets, its membership is selective, based on the wishes of other members and membership requires a high commitment from companies in terms of staff time and finances. This suggests that the commitments required of member companies by each of the smaller groups precludes participation in more than one of them i.e. they are mutually exclusive.

There are also interesting differences between the three members of the more intense group. First, two are run by large environmental NGOs (WWF and Environmental Defense) and one is run by a consulting company (Respect Europe). This relates to a significant difference in funding as well, since the two NGO-based groups emphasise strongly that they receive no payments from the companies whereas BLICC is funded solely by its member companies. There are also contrasts with the policy-making relationship and agendas of the groups. While CS strenuously asserts that member companies do not have an influence over WWF policies and offers no scope for bringing member companies in contact with policymakers, PCA and BLICC take a more collaborative approach. Both PCA and BLICC stress the value of companies coming together to strengthen their voice on policy issues.

There is also a difference in the breadth of issues on which the smaller three initiatives focus. While all three have a focus on learning, GHG emission accounting and target setting, CS and BLICC include more issues. PCA focuses almost solely on GHG accounting issues and government policies regarding this, but CS and BLICC go further. CS aims to share best practice on GHG reduction methods, as does BLICC and BLICC has extended its reach to have companies working together on projects including customer activism. The three also show a great range in the actual interactions between the companies. BLICC has the most intense degree of member interaction while CS has the least. Similarly, they all take different approaches to publicity. CS promotes this aspect as one of the major benefits of the program, whereas publicity is not a role that PCA takes on actively. In the middle, BLICC promotes some role for this, but not in as dominant a way as CS.

An interesting point in common that the three have is that they all began in 2000 and the reasons given for their origination relate strongly to political issues. PCA and CL are both attributable to efforts by the NGOs and member companies to make statements about GHG emission reduction policies at an important time in international negotiations over the Kyoto Protocol. For BLICC, although there has been no direct connection with the Kyoto Protocol negotiations, influence at the EU level regarding climate change policies and legislation was also a motivating factor, and the Kyoto Protocol discussions must have encouraged their interest at that time.

The larger three initiatives (BELC, CL and TCG) have less in common. While they all have larger membership and less stringent membership requirements, in some ways they are more different from each other than they are from the more intense initiatives. CL, for instance operates very much like the three stricter initiatives, but with less strict requirements regarding targets and is actually modelled on the PCA and CL initiatives. Its main difference lies in the fact that member companies can join before establishing emission reduction targets and that absolute emission reduction targets are not required. This looseness enables them to have a high membership level but also makes it more similar to BLICC which has no clear membership prerequisites.

TCG and BELC are similar in the sense that the main commitment for membership is to a set of political principles. Although there is a requirement that they have credentials in the field of GHG emission reduction, detailed monitoring of emission reduction programs and work with GHG accounting is not part of the work of the groups. The initiatives are mainly focused on public policy issues and represent a way for the member businesses (and other organisations in the case of TCG) to participate in broader policy discussion, including international and national policies. BELC presents an opportunity for influence both through organised contacts with policymakers but also through influence on the policy papers of the Pew Centre itself. While TCG has no role in policy-writing, contact with government members of the group is a strong characteristic of the initiative. One important difference is that BELC is Washington-based, with a strong focus on national and state policies, while TCG is based in London and has an international focus, with meetings planned all over the world.

In the case of BELC and TCG, the importance of the political commitment appears to lie with the political utility of having large companies signing up to it. In the case of BELC, this provides a strong tool for the Pew Centre in the US debate on climate change policies. The frequent citing of the companies in the speeches of the centre's CEO is evidence of that since they are used as support for the Pew Centre's policy position. In the case of TCG, although it is relatively new, the secretariat does not have the backing of a large non-profit policy research organisation but the policy-influencing intention of the group also appears strong as it states that one of its key activities is "catalysing a new political momentum on climate change".

With regards to membership of the three larger initiatives, there is a high degree of commonality of membership. BP is a member of all three, while Shell, Dupont, Interface, Lafarge are in two. The fact that businesses are members of more than one of these suggests that commitment to them is not overly onerous and that the overlap of their concerns and foci is not large, thus making membership of one rendering membership of the others meaningless. This can be seen in the case of TCG and BELC which focus on policy influence in different arenas (US and international), and for the CL which is more like the smaller initiatives in its focus on GHG accounting methods.

#### **4.2.4 Conclusion**

Table 4-1 summarises most of the information presented in this section. This survey of the characteristics of the initiatives shows that there is a degree of variety between them despite the overall similarity of purpose that they possess. The meaning and implications of these are discussed in Chapter Five of this thesis where the conceptual context is applied to the knowledge of the initiatives.

### **4.3 Stage 2 – BLICC and its members**

#### **4.3.1 Introduction**

The aim of this section is to describe and understand the businesses which are members of BLICC, why they are members, their approach to GHG emission reduction and their expectations of the initiative in relation to their business strategy. This information was obtained by reference to the companies' own publications, references in academic journals and other publications as well as open-ended interviews with persons involved with BLICC in the companies. It is followed by a summary and discussion of BLICC's approach. As with the above section, analysis at this stage is limited to the facts as presented in this chapter. Further analysis using the conceptual context set out in Chapter Three is carried out in Chapter Five.

### 4.3.2 BLICC member companies

As presented above in Section 4.2, six companies are members of BLICC. The member companies are listed, together with important details in Table 4-2. All of the businesses in the list are addressed below with the exception of McDonald’s Europe which did not respond to our attempts to make contact.

#### 4.3.2.1 DHL Express Nordic

DHL calls itself the “world’s leading express and logistics company offering customers solutions from a single source” (Respect Europe, 2004b, p. 3). It is part of the global network Deutsche Post World Net and its competitive advantage lies in its broad product range and ability to meet all of the transport needs of its customers (Bruno, 2004). The company is relatively unique among logistics companies in its global sweep and so faces no directly comparable competitor, however competition arises from local operators and specialist operators in all parts of the world. Examples of these are UPS for parcels internationally and Green Cargo in Sweden for rail shipments.

The nature of demand in the logistics business places considerable importance on quality, particularly in the form of reliability of delivery times. As a result, customers are prepared to pay more for quality in this form. There is also an interest in environmental issues and DHL research indicates that 70 percent of customers choose transport systems bearing environmental impacts in mind (Bruno, 2004).

As a result of this interest, DHL has developed a set of add-on services which allow customers to choose a better environmental performance for their logistics service. These services, called the *Go Green Concept* offer minimised emissions through use of alternative fuels and rail, emissions offsetting through investment in a carbon sequestration project or specific solutions to reduce packaging requirements (Respect Europe, 2004b, p. 14).

##### 4.3.2.1.1 GHG Emissions

DHL’s GHG emission targets focus on its major source of emissions which are from transportation. Its major target is to “reduce by at least 8 percent the CO<sub>2</sub> emissions per tonne km on DHL’s transport operations by 2012...” with additional targets relating to increasing the capacity tenfold, and doubling the sales, of its Green Tonnage program by the end of 2004, and tightening its environmental demands on sub-contractors (Respect Europe, 2004b, p. 8).

Table 4-2 BLICC Member companies

Company	Core Business	Turnover	Number of Customers	Employees	Countries Operating	Scale of Operations
DHL Express	Express and logistics	Global: €16.4 billion	Global: 2 million	129,500, and 6,650 in Nordic region	Nordics: 4 Worldwide: 220	Worldwide: 75,000 cars, 250 airplanes Regional: 6,600 vehicles and 90,000 pick-up and deliveries per

						day
<b>IKEA</b>	Home furnishing retail	€11.3 billion	310 million visitors	76,000	Retail operation in 22	165 stores
<b>Interface</b>	Carpet and fabric	€776 million	10 million per day	5,100	Manufacturing in 7	Annual production: 32 million m <sup>2</sup> carpet, 20 million m fabric
<b>McDonald's Europe</b>	Food service	US\$5.875 billion (revenue)		260,000	42	Over 6,000
<b>Maersk Nordic and Baltic</b>	Shipping and logistics	Global: €12.1 billion Regional: €0-5 billion		Global: 18,000 Regional: 1,250	More than 100 Regional: 7	300 container vessels, 950,000 containers
<b>Stora Enso</b>	Paper, packaging, forest products	€12.2 billion		43,000	40	Annual production capacity 15.7 million tonnes of paper and board and 7.4 million m <sup>3</sup> of sawn wood products

Source: Adapted from BLICC (2004b, p. 5)

Pressure for good corporate and social responsibility comes from DHL's owner which is a German public company facing significant shareholder pressure to be active in the field. DHL Express Nordic has been at the forefront of many of the innovations being introduced or tested by its owner corporations, both as a testing ground and as a source of new ideas (Bruno, 2004).

DHL's particular challenge relates to the fact that 90 percent of the CO<sub>2</sub> emissions of its product (goods delivery) comes from its suppliers (i.e. its delivery sub-contractors), since the bulk of its deliveries are handled by sub-contractors (Respect Europe, 2004b, p. 28). So while the company could obtain relatively low GHG emission figures by limiting its accounting to emissions directly produced by the company, this would not accurately reflect the real emissions caused by the company's services. Hence, management and influence over suppliers, and accounting for their emissions is a key challenge for DHL.

DHL regards the fuels and road taxation systems, and the management and condition of the rail systems as the major barriers to improving the environmental performance of their industry. Since, as long as road freight is cheaper than rail freight, the ability of the companies to reduce emissions substantially, without a major change to fuel technology, are limited.

#### **4.3.2.1.2 Relationship with BLICC**

DHL Express Nordic's main interest in joining BLICC was educational. Its main requirement was to improve its capabilities in the field of GHG emission accounting and it saw opportunities in the BLICC approach to increasing its knowledge in this field by sharing experience with other companies and working with experts in the field. Since management of suppliers and tracking of their emissions is important for DHL, improving DHL's methods in this aspect has been a major focus (Bruno, 2004).

Membership was also seen as an advantage from the point of view of the environmental and social responsibility section of the company because it reinforced corporate environmental goals by increasing the profile of the goals and making apparent the commitment of senior levels of the company. This has served to strengthen the influence of staff working in the environmental field within the company more broadly (Bruno, 2004).

The company sees further opportunities for BLICC in the communications field. This relates to both communication to policy-makers of member company views on regulations, as well as communication to the public of the work of the BLICC members.

For the former, it was considered that opinions of BLICC member companies could be quite influential on policymakers if they took the right approach. While BLICC had established contacts with the European Commission at a senior level, this had relied primarily on personal connections and had not been established formally at a functional level. Further, any messages being sent had relied primarily on the good examples set by the companies and little else. There was scope for establishing an agenda for BLICC in this field and working at it systematically. However, it was acknowledged that agreeing on an agenda might be difficult given the variety of the companies represented in BICC (Bruno, 2004).

Regarding public communication, DHL considered that BLICC had "a certain credibility", and that DHL had received nothing but positive reactions to their work with BLICC, but the program was actually not well known and BLICC and the member companies needed to increase their exposure to present their work more proactively (Bruno, 2004).

#### **4.3.2.2 IKEA**

IKEA is an international home furnishing retailer based in Sweden. Its vision is expressed as “a better everyday life for the many people” and its business approach is to provide a wide range of functional home furnishings at low prices (IKEA, 2004). According to IKEA literature, these low prices are achieved by a high degree of focus on resource efficiency through economies of scale and waste minimisation at both the production and sales ends of the IKEA chain. Products are sourced and manufactured globally, in large quantities, and distributed and sold globally. Waste minimisation is achieved through efficiencies in design and manufacturing as well as in transportation since products are designed to be shipped and sold disassembled in compact packaging (IKEA, 2003a).

The environmental concerns of the company are expressed as being an extension of its vision by including more than customers in its definition of “the many people” including those who are affected by its environmental impact (IKEA, 2003b, p. 6). Despite this strong approach to the environment, it is estimated that less than 1 percent of IKEA’s customers are actively concerned about social and environmental issues (Bergmark, 2004). In terms of public image, on this basis, the implementation of strong environmental and social standards are to minimise the risk of environmental damage or employment practices that are regarded as unacceptable and would then impact on the company’s reputation. Despite the relatively low direct interest today, IKEA expects this to increase in the future as customers become more aware of environmental and social impacts of their actions and impose higher standards on companies with which they do business (Bergmark, 2004). IKEA regards its positioning now at the forefront of standards in these fields as placing it favourably to meet increasing standards in the future.

With this in mind, IKEA has worked with international environmental and social organisations such as WWF, UNICEF and Save the Children to establish acceptable standards for forestry and labour conditions (IKEA, 2003b, p. 10). These organisations have acknowledged IKEA’s sincerity and progress in pursuing responsible conditions in these fields (IKEA, 2003c).

##### **4.3.2.2.1 GHG Emissions**

IKEA has several direct and indirect GHG emission reduction targets although none are absolute. Its target most closely connected to GHG emissions relates to transport and commits it to reducing CO<sub>2</sub> emissions by 15 percent per transported cubic metre for goods transported in Europe in financial year 2005 compared to financial year 2001. Other targets have different measures and relate to increasing the share of rail transport for inbound goods, increasing the share of IKEA stores served by “well-functioning public transport”, increasing customer usage of public transport and increasing renewable energy usage (Respect Europe, 2004b, p. 8).

IKEA reports the emissions of all its stores, distribution centres, fully-owned production units as well as European, North American and inter-continental goods transports. It also makes estimates of GHG emissions due to customer travel, which was considered to be the largest source of emissions in its 2003 report, at 54 percent of emissions. Goods transportation is the next largest source, at 28 percent. IKEA’s targets thus relate to reducing the emissions from its major sources, however a significant area lacking measurement and targets is that of IKEA suppliers of which there are 1600 in 55 countries (Respect Europe, 2004b, p. 34). IKEA admits that this aspect will be a difficult one to handle from both the point of view of calculation of emissions, and enforcement of improvements. IKEA are cautious about

applying more conditions to their already strict code of conduct on suppliers. Nevertheless, it is expected that “this may change in the future” (Bergmark, 2004).

IKEA considers climate change an important area to tackle because it is so difficult. It is complex to measure and, for IKEA, which is dependent on transport due to its global manufacturing and sales approach, transport emissions are a very difficult thing to solve. The company has attempted a great deal in the past to make transport efficient, such as through packaging and product design and increasing the use of trains but is finding it difficult to do more (Bergmark, 2004).

#### **4.3.2.2 Approach to BLICC**

Learning was an important aspect for IKEA becoming involved with BLICC. In particular IKEA needed to know more about GHG emission accounting and reporting methods and this was a major focus of the group. The company still considers there to be much to learn from others in other areas and for this reason have been active in encouraging other companies to join in sectors that they are keen to learn from. Stora Enso, for example joined as a direct result of IKEA’s approach to it. IKEA considers it important that BLICC has representatives from a wide selection of sectors.

The reduction of transport emissions is another area which IKEA wants to focus on and IKEA was very supportive of obtaining the membership of the two logistics companies to increase their focus on and learning about this issue.

IKEA’s motivation for being part of BLICC was also focused on influencing government policy at the EU-level. As IKEA sees its major challenges to improving its GHG emission profile as transport and energy, it has been interested in influencing EU policies to encourage efficiency and better integration of the rail systems as well as encouraging governments to play a stronger role in promoting alternative energies.

IKEA also viewed the small size and action-orientation of BLICC as a major advantage of the group and a strong reason for their continued support. While IKEA works with other groups on particular issues, such as UNICEF and WWF, it was wary of becoming a member of large groups that achieved little (Bergmark, 2004).

#### **4.3.2.3 Interface**

Interface is a global carpet manufacturer and carpeting service provider. It also produces chemicals and other interior fabrics. The company is a leader in its field of carpeting and services, calling itself “the largest commercial carpet manufacturer in the world” and “the worldwide leader in the modular carpet segment” (Respect Europe, 2004b). With its corporate vision to become the “first company that, by its deeds, shows the entire industrial world what sustainability is in all its dimensions... by 2020” (Interface, 2004) it has become something of a model company for the principles of natural capitalism and environmental claims and performance are key aspects of its external image. The company’s operations, philosophy and plans were highlighted extensively as examples in Hawken, Lovins and Lovins’ *Natural Capitalism: the next industrial revolution* (1999).

The company’s founder, Ray Anderson is an active speaker on the issue of sustainable development. His thoughts are set out in his book *Mid-course correction: toward a sustainable enterprise* (Anderson, 1998) which illustrate his commitment to establishing the company’s independence of non-renewable resources and becoming a truly sustainable company.

Interface's source of competitive advantage is regarded as the uniqueness of its carpeting products and services. This includes innovations in carpet production and carpeting services, increasing the efficiency of production, delivery and replacement as well as the durability of the carpets (Hawken et al., 1999, pp. 139-141). As well as general service and production methods, Interface also offers carbon offsetting services for its products under its *Cool Carpets* program whereby customers can pay to offset the GHGs produced during the lifecycle of the product they purchase (BLICC, 2003, p. 13). Carbon emissions due to work-related employee travel are also offset by the company under its *Cool Fuel* program.

#### **4.3.2.3.1 GHG Emissions**

Interface's targets focus on renewability of its energy sources rather than GHG emissions. Overall, the company aims to "use 10 percent of renewable energy sources by 2005, and 100 percent renewable energy sources by 2020", while it has a renewability intensity target of "reducing non-renewable energy use of production by 15 percent by 2005 compared to 1996 levels". It also has an intensity-based GHG emission reduction target for US facilities, which is to reduce them by 15 percent per unit of production between 2001 and 2010. This was set as part of its membership of the Climate Leaders program (Respect Europe, 2004b, pp. 8 & 35).

Interface reports all emissions under Scopes 1 and 2 of the GHG Protocol, but is still developing methods to calculate the major Scope 3 emissions which arise primarily from transport of products.

#### **4.3.2.3.2 Relationship with BLICC**

Interface's main intention in joining BLICC was from the learning perspective through sharing of best practices and the potential for networking with other progressive companies in the field. The responsible officer at the company regards the cross-sectoral nature of the initiative as its main strength which allows for a higher degree of frankness compared to other groups which involve potential competitors (Blamey, 2004).

For Interface, there are limitations on BLICC's effectiveness due to the initiative's current relatively limited geographical scope. This is because it is primarily the northern European offices of companies that have become involved which limits the breadth of experience sharing and the applicability of the lessons. Further, there is a feeling that Interface is a few steps ahead of BLICC and most members which can limit the learning that Interface obtains. Interface considered it important that BLICC continued to deliver outcomes that were relevant for each member company and directly contributed to their goals if companies were to remain part of the initiative (Blamey, 2004).

Interface also has a strong interest in dealing with transport-related emission reductions more effectively, such as through logistics planning methods and looks to BLICC to assist with this. Interface finds that its ability to influence its suppliers in this field is relatively limited due to a weak bargaining position.

Interface also regards promotional aspects as a potentially important role for BLICC in order to promote the activities of the companies. The challenge in this respect, however, is for BLICC to come up with new achievements to promote in order to maintain ongoing publicity.

#### **4.3.2.4 Maersk Nordic and Baltic**

Maersk Nordic and Baltic is a subsidiary of AP Møller-Maersk A/S, a global shipping and logistics company. Maersk Nordic and Baltic offers “integrated logistics and transport solutions, with a high priority on safety, security, quality and environmental awareness” (Respect Europe, 2004b, p. 4). The company’s competitive advantages derive from its integration with the Maersk Group which gives it access to a worldwide network of shipping liners and offices and the cost competitiveness it can therefore achieve through economies of scale. This is supported in the Baltic and Nordic region by the fact that Maersk is the only shipping company that loads onto ships within the region, thus minimising the need for road transport to ports outside the region (Johansson, 2004a).

Maersk feels its major pressures for improving its environmental performance from governments and from the demands of major customers. In particular, customers with a large consumer exposure, like major retailers such as McDonalds have shown a great deal of interest in Maersk’s environmental performance and many submit questionnaires and carry out inspections of Maersk. One of Maersk’s responses to this has been to work with the association *Business for Social Responsibility* and its *Clean Cargo* program which establishes guidelines for shippers and carriers that are hoped to ease the questionnaire demand. At the same time, Maersk has worked with the Swedish organisation NTM (Network for Transport and Environment) to develop an emission calculator for the transport industry in Sweden (Johansson, 2004b).

#### **4.3.2.4.1 GHG Emissions**

Maersk does not have any formulated targets relating directly to its GHG emissions, although it does have a target to increase the share of train transport relative to road transport by 2 percent by 2004. Other targets relate to reducing truck NOx emission and printer paper usage (Respect Europe, 2004b, p. 8). It is a new member of BLICC (from 2003) and so there is no reporting history and its tracking system is still under development. Nevertheless, its emission figures are known and they show that 99 percent of the group’s attributable emissions are due to emissions from sea transport. Efforts have therefore been focused on increasing the fuel efficiency of ships and incorporating the latest technology (Respect Europe, 2004b, p. 36).

#### **4.3.2.4.2 Approach to BLICC**

Maersk’s interest in joining BLICC was primarily from the educational point of view. BLICC was seen as offering an “open forum for discussions with other stakeholders – including to some extent competitors” and this was the major reason for joining (Johansson, 2004a). In particular, the approach of sharing experience and best practice between companies with significant experience in the field to promote new ideas, was a crucial part of this. The small size of the group was seen as an advantage in this respect and it was thought that membership of about ten companies would be ideal.

Innovation and product development is also a part of this and Maersk has undertaken a project with IKEA aimed at identifying the GHG emission savings by using sea transport for short haul travel instead of road transport.

Maersk expressed a desire for a future priority of improving communications directed at the public, customers and policymakers to promote the efforts of the member companies. The current format, of a yearly report setting out the work of the group members in the field was not viewed as reaching the right people. It was thought that part-yearly reports, or smaller brochures might be more likely to reach the correct target audience (Johansson, 2004b).

#### **4.3.2.5 Stora Enso**

Stora Enso is a multinational corporation producing paper, packaging and forest products. It is headquartered in Finland and owns production operations in over 40 countries (SAM Research Inc, 2003). A significant characteristic is that it has been the leading company in the Forest Products and Paper industry sector on the Dow Jones Sustainability Index (DJSI) for the last two years, receiving the highest possible scores in environmental and corporate social responsibility reporting (Stora Enso, 2004). The company regards its competitive advantage as deriving from its product quality – competing with other forest product and paper producers but also packaging producers (Bresky, 2004). It supplies publishers and printers as well as packaging, joining and construction industries globally. It produces from facilities in Europe, North America and Asia (Respect Europe, 2004b, p. 5).

As Stora Enso supplies mainly businesses and not end-consumers, it has faced a significant number of enquiries regarding its environmental performance from businesses, however few were willing to pay more for better performance. Stora Enso has no other active environmental group membership – although it is a founding member of the Chicago Climate Exchange which is a business-led enterprise establishing a prototype carbon traders market (Bresky, 2004).

##### **4.3.2.5.1 Targets**

Stora Enso has no GHG emission targets, but instead, has a series of energy-related targets. These consist of: continually reducing energy consumption per produced unit for all processes and product lines, improving utilisation of bio-fuels knowledge better where there is potential, and improving wood procurement processes (Respect Europe, 2004b, p. 8).

Stora Enso was an early innovator in improving its environmental performance which has given it advantages in technology over competitors. This leads to a squeeze when they are forced to come up with new reductions, since the company's base-line is lower. However, this means that in the long run it has a good technology base and an advantage in that field. For instance the company's Scandinavian mills cooperate extensively with local communities for provision of local heating (Bresky, 2004).

The fact that Stora Enso's processes are highly energy intensive means that energy use is a constant focus of their company due to its impact on costs, which translates easily to a focus on GHG emissions. Further, the fact that it owns extensive forests provides added interest due to the carbon sequestration possibilities. Conversely, its involvement in forest ownership and exploitation makes it exposed to pressure from environmental NGOs since forestry is a very visible issue (Bresky, 2004).

##### **4.3.2.5.2 Approach to BLICC**

Stora Enso joined BLICC when approached by IKEA around two years ago. The work receives strong support from the company's Deputy CEO. In joining, the company's main interest was the potential to learn from other leading companies through information sharing. They have found that the learning potential has been limited to a degree by the fact that the issues facing an energy-intensive company are different to those facing less energy-intensive ones. Thus, Stora Enso is interested in seeing representatives of more comparable industries joining BLICC and the group establishing a bigger presence on the international stage.

BLICC's potential as a communication channel was also rated as important by Stora Enso. Although their major channel for contact with governments was through their industry

representatives, they regarded it as useful to have other organisations to convey their ideas. Stora Enso regarded BLICC and Respect Europe as “part of the NGO world” and as serving as a more politically acceptable way of channelling views to opinion- and policy-makers than from individual companies or industry groups. But, while acknowledging it is “good to get another organisation to convey your ideas” (Bresky, 2004), and that the potential to influence the views conveyed by BLICC and Respect were an important reason for joining, this came with some drawbacks since single companies had less control over the final message that was sent when they were cooperating in a diverse group.

Stora Enso was also interested in a more wide-ranging debate within BLICC that went beyond emission reduction and trading. For them, an interesting topic would involve how businesses should deal with the need to reduce production and consumption to sustainable levels, such as through “changing our way of living”. They also regarded the issue of renewability as important and would like to see an increased focus on that. Stora Enso also regarded BLICC as important in its relationship with environmental groups as it provided visible proof of the company’s commitment to GHG emission reduction (Bresky, 2004).

### **4.3.3 Discussion and summary**

This section draws out common themes from the issues presented in the above section. The aim is to note some common issues regarding the BLICC member companies and summarise the major points that they made regarding initiative.

#### **4.3.3.1 BLICC Members**

There are several points worth noting about the membership of BLICC and their approach to GHG emission reduction that are apparent from the above descriptions. First, all of the member companies are large multinational firms with relatively strong reputations in the field of corporate environmental and/or social responsibility. The strength of these reputations means that they have interesting experiences to share with each other, and that they benefit by being associated with each other. It is interesting to note in this respect that their profiles, and indeed, potentially their environmental credentials, would all be higher than BLICC or Respect Europe, and so the real promotional value they derive could be more to do with their association with each other than with BLICC itself. This relationship differs from the other small initiatives such as PCA and CS where companies associate themselves with the well known environmental NGOs WWF and Environmental Defense.

Despite the reputations of these companies, none have established absolute GHG emission reduction targets and so would be unable to join the two more demanding initiatives run by the environmental NGOs. Indeed, some of the companies do not even have targets involving GHG emissions (Maersk Nordic and Baltic’s targets relate to share of train transport relative to road, NOx emissions and paper usage). On the other hand, it could be said that this does not mean that more direct GHG emission reduction targets will not be set, as this is difficult to do before full accounting mechanisms are established. Derivative targets could be just as meaningful, and perhaps even more so. Almost all companies acknowledged the difficulty of fully inventorying their emissions, but that they were still continuing to work on this.

#### **4.3.3.2 Value of BLICC**

This section lists the main aspects of BLICC that member companies found of value, and some notes of caution as raised by them.

**Learning:** the opportunity to learn from other companies was cited by most companies as the prime reason for joining BLICC. The main field of learning was GHG emission accounting followed by best practices of other member companies in other fields.

**Issue focus – transportation:** the fact that discussions and sharing between the companies focused on issues that several found of particular importance and difficulty in addressing emerged as an important aspect. Primarily this involved transportation as a difficult issue that several companies wanted to improve their ability to deal with.

**Communication:** the potential for the member companies to come together as a relatively influential group, working with an organisation that was respected in the field of corporate responsibility (if not actually an NGO) for the purpose of communicating to other parties was regarded as an important, and underutilised capacity. This involved three target audiences: policymakers, customers and the public. In the case of policymakers, issues raised were the need to establish a proactive agenda and build up a more formal policy dialogue relationship. In the case of customers and the public, the messages involved promoting the work of the companies in addressing GHG emissions in ways that were absorbed by the target audiences, with new information on a frequent basis. Again, the position of BLICC as a third party was seen as an advantage in portraying a message about the companies which gave the messages more credibility than if they did it themselves.

**Variety of membership:** the fact that the membership of BLICC was cross sectoral, involving businesses from several fields was seen as an advantage since it increased the breadth of experience and increased the potential for frankness since members were less likely to be competitors. There was a general agreement on the need for greater variety of membership.

**Small size:** intimacy as a result of the small size of the group was considered important by most, although, as noted above, for the sake of variety, an increase from the current membership was desirable.

**Action focus:** the fact that the group produced outcomes relevant to members, and focused on real actions was considered important. It was not enough to talk and share experiences.

**Uniqueness:** although most members had extensive dealings with NGOs and business groups in other fields, none were involved in any to the extent that they were with BLICC.

**Corporate commitment:** membership of BLICC, and activities conducted under it could serve an important purpose of ensuring wider corporate commitment to environmental goals by making plain the commitment of senior management.

Two notes of caution can also be derived from comments made by members. These are set out below:

**Maintain momentum:** as members are interested in promotion of their actions, and need to continually improve their performance in reaching their goals, there is a need to continue to deliver new outcomes to improve performance and create new achievements to promote to outsiders.

**Maintain relevance:** companies will only be members as long as the issues being discussion and the actions carried out are relevant to them. This means that there must be a degree of

'fit' between the member companies, to ensure that they have experiences and capabilities that are of interest to others, and that the learning process is maintained.

#### **4.3.3.3 Conclusion**

This examination of the member companies of BLICC and their relationship, and expectation of the initiative shows that there is a high degree of conformity in terms of what the companies derive from it. This relates to the desire to learn best practice from other leading companies in a way that has enabled them to focus on their main priorities, in detail without the inhibition of other competitors being involved. This indicates a fundamental benefit of small, cross-sectoral VEIs. These aspects will be examined in more detail in the following chapter.

## 5 Conclusions and implications

### 5.1 Introduction

The purpose of this chapter is to apply the knowledge built up in the earlier chapters to answer the research questions and draw meaningful conclusions and recommendations that are relevant for the field of study of voluntary environmental initiatives and for BLICC itself. The approach taken is to answer the two research questions separately, applying the conceptual context outlined in Chapter Three to the VEIs, using the detailed knowledge of BLICC and its interactions with member companies. This serves to increase the understanding of their operations by applying already established frameworks and discussing their implications. The second research question is answered by drawing on the preceding discussion of the first research question. Implications for theory and practice follow these two sections and are used, respectively, to discuss the implications for the fields of study concerning VEIs (whether this be VEIs, networking or corporate strategy), and implications and recommendations for BLICC itself, when examining practice.

### 5.2 Answering the research questions

The research questions are as follows:

*How do leadership-oriented voluntary environmental initiatives in the field of climate change operate to bring value to their member businesses?*

*How does BLICC compare to these initiatives and what lessons can be learnt from the other initiatives?*

These are answered separately below by applying the frameworks outlined in Chapter Three to the facts and relationships identified in Chapter Four.

#### 5.2.1 The Value of VEIs

As explained in Chapter 3 a way of better understanding complex social phenomena is to use a process of triangulation to examine the phenomena from different approaches. This is the way that this section seeks to increase the understanding of the VEIs in question. That is, by examining them using different frameworks and at different levels i.e. comparing the VEIs and examining one in more detail. The following treatment examines the VEIs systematically using the frameworks outlined in Chapter Three.

##### 5.2.1.1 VEI categories

A first and relatively simple approach to analysing the VEIs is the use of the UNEP categories as set out in Section 3.2.1, and Appendix A. This reveals that the VEIs studied fall under three different categories. These are set out below.

Most of the VEIs would be categorised as *Third-party or multi-stakeholder initiatives* under the UNEP system. This is where non-government, non-business organisations develop and run an initiative with businesses, involving governments in usually only limited ways. In the VEIs studied this would include Climate Savers (WWF), Partnership for Climate Action (Environmental Defense) and the Business Environmental Leadership Council (Pew Centre for Climate Change). The UNEP categorisation identifies four types of initiative in this field, one of which is “Environmental NGO” and so all of these would fit relatively neatly within that category.

A second category of initiative are *Government initiatives* where a government organisation is responsible for running the initiative, including setting goals and monitoring results. This would obviously include the US EPA's Climate Leaders Program. The obvious type of initiative under this category would be *Challenge Programmes*.

The question of where BLICC fits into the categories is more problematic. As it is run by a consulting company, it does not fit clearly into the category of *Third party or multi-stakeholder initiatives* like the NGO-run initiatives and so technically it would fall within the category of *Industry initiatives*, which are described as where “[i]ndustry has exclusive management responsibilities including defining the goals to be reached” (UNEP, 2000, p. 5). In the case of BLICC, assuming that Respect Europe is classified as “industry”, since it is neither a non-profit organisation nor a government agency, then this must be the case. It is interesting to note the potential conflict between this fact and the fact that some member companies see it as a form of window into the NGO world.

One of the UNEP sub-categories of for the industry initiatives category is called *Select companies* which includes the WBCSD as an example, and this would be where BLICC would fit. By analogy with the WBCSD, this indicates that Respect Europe should be compared with the WBCSD secretariat. The similarities share between BLICC and this example suggests that the Climate Group should be classified under this category as well.

The fact that these groups fall under different UNEP categories clarifies some of the differences that exist. One of the major issues is that of agenda- and goal-setting. The categories above depend largely on which sort of organisation controls the agenda and sets the goals of the initiatives, and it can be seen to reflect the case in the initiatives studies. In the case of the Third party initiatives, control by environmental NGOs means that the role of the businesses is very much to follow the agenda set by the NGOs. This places them in a position of following the lead of the NGOs and agreeing to the measures and requirements that they set out. While the member companies have input into what they might like to discuss, this is finally determined by the NGOs which, as in the case of WWF or Environmental Defense have clear agendas of their own to follow. The member companies will derive some benefits from these as promised by the NGOs, but their lack of input also limits their ability to benefit from the programs. Conversely, the fact that they are following agendas set by environmental NGOs and not set by the businesses themselves can have certain benefits in terms of credibility of the environmental goals, and thus there would be benefits in promoting their membership. This is obviously so in the case of the initiatives run by the WWF and the Pew Centre. In the case of the government initiatives, there would be potential NGO-like benefits here, although much would depend on the credibility of the government agency running it.

In contrast, members of the industry initiatives have a much greater say over the agenda and goals of the initiatives, but lack the benefit of the credibility that derive from signing onto the agenda of an environmental NGO. Any credibility that would derive would thus stem from the goals and agenda that they create for themselves or by association with each other, i.e. by joining with companies that already have established credibility in this field. Since the first of these is a difficult issue to portray simply and quickly to establish credibility, it means that the membership of these industry initiatives must be a very important aspect for retaining their value to members. This is a theory already hypothesised regarding BLICC and its value to members in Chapter Four. By extension, it would also apply to The Climate Group.

### 5.2.1.2 VEIs, environment and business strategy

In this section, the approaches of the VEIs are considered with regards to the ways in which they assist member companies obtain strategic benefit from improving their environmental performance in the area of GHG emissions, or, more simply, how the VEIs help it pay for their members to be green. The frameworks discussed in Chapter Three will be applied systematically and their implications are discussed. More attention is paid to BLICC since there is a more detailed knowledge of that VEI and the motivations of its member companies.

The first framework to consider is Reinhardt's "five basic ways to reconciling shareholder value and environmental performance" (Reinhardt, 2000, p. xi). These are considered and discussed one-by-one below. As Hoffman's variables fit within Reinhardt's framework, his analysis is used in the section as well.

#### 5.2.1.2.1 Environmental product differentiation

Environmental product differentiation is where businesses can differentiate their product based on the environmental characteristics of its production and/or use is an area where there is some contribution of the VEIs to their member businesses. This corresponds to Hoffman's (2002) variable regarding *market demand* and a business's ability to enhance market share by appealing to customers and other related business based on environmental characteristics. A classic example of this would be where the VEI allowed members to use some label on their products, but this does not occur in any of the cases. Even WWF, which does follow the practice of allowing companies to display their panda logo in certain cases does not grant this right to Climate Savers members automatically, and does not allow them at all to use it on their products (World Wildlife Fund, 2004b). However there are more indirect ways of doing this, such as by associating companies more generally with good environmental performance, which can result in the environmental reputation of the firms being associated with the products they are selling. The value of this benefit would be an important factor in attracting companies to VEIs which promise to actively advertise and promote the commitments and membership of the companies, as occurs in nearly all of the VEIs studied.

At the company level, looking at BLICC member companies, it can be seen that some of the companies distinguish certain products based on their environmental performance. DHL's green product portfolio is a prime example of this where customers can pay more for certain environmental guarantees regarding the emissions of the logistics services they purchase. Interface's *Cool Carpet* program is another example. Apart from these, though, the use of environmental product differentiation by BLICC member companies is more generic and, if anything, based on the companies' overall environmental performance and reputation. Therefore, as with the other VEIs, the only benefit offered by way of product differentiation for the companies is through the device of their membership and the promotion involved with that.

One aspect to consider in this context is how membership of the VEIs contributes to these elements of environmental product differentiation. For instance, Interface's and DHL's programs exist independent of their membership of BLICC and there is no evidence that BLICC membership contributed to those programs at all. It is possible to speculate, though, that the processes involved in BLICC, through improving carbon accounting procedures and assisting in extending the coverage of their carbon accounting systems can improve the efficiency of these products. This could occur through the best practice sharing aspects of the program or through any external policy effect making renewable energy more accessible or impacting in the competitiveness of rail transport. In any case, the mere fact that membership of BLICC allows the companies to highlight that they have these programs assists in

promoting the company on environmental grounds. A similar argument would hold for the other members which do not have specific “green” products” which are seeking to promote their own green credentials. Thus, by regularly highlighting the actions of the members in the field of GHG emission reduction, an element of environmental product differentiation is achieved in the sense that they can build on each member company’s reputation in the environmental field and that this can be passed on to the products the companies are selling.

Porter (1998) makes the point that for a strategy based on product differentiation to succeed, people must be prepared to pay more for it, there must be credible information available about the product’s characteristics and that there must be barriers to other companies to imitate the differentiation. VEIs can support companies’ abilities in some of these ways. In terms of willingness to pay, the approach taken by the VEIs to encourage understanding of the problem of climate change and the need to address it can promote public awareness and willingness to take steps such as by being sensitive to the GHG emissions of the products they use. Active NGOs such as WWF play an important role in this respect which thus feeds into the benefits of the companies in creating a distinction for themselves based on their GHG profile. Even though all of the VEIs have, to some degree, an awareness creation role, the extent to which this reaches potential customers can vary. The activities of BLICC in the field of “customer outreach” is another example of how the companies can work to increase the value of their product differentiation by making their own customers and staff aware of the issue and therefore more likely to appreciate the efforts made by the companies.

The VEIs can also contribute to credibility of information through their value as independent third parties. Well known NGOs such as WWF and Environmental Defense have obvious advantages here and would play an important role in boosting the credibility of the claims of their member companies. Other less known organisations such as the Climate Group and Respect Europe would have to go further to demonstrate their credibility, particularly since they are not NGOs and would have less value to contribute in this field. One way that this could be improved would be to emphasise more requirements of independent assessment and validation by members of their GHG accounting.

Porter’s third condition, that the differentiation not be easily imitable, is an interesting issue to consider because it could lead to some conflict between the intentions of the member companies and the VEI organisers. This is because it is in the interests of businesses to establish characteristics that are not easily imitable, while the VEI organisations are interested in promoting the activities and encouraging other companies to follow suit. This is not so relevant in the case of the VEIs with the larger membership bases, such as The Climate Group, Climate Leaders and BELC, but in the smaller ones where there is a higher degree of commitment and sharing of information, this could be a relevant conflict.

One key to understanding this is evident in the characteristic that these VEIs require member companies to be relatively advanced in their performance with regards to GHG emission reduction and the VEIs function to assist the companies maintain this advantage by encouraging continued improvements in performance. The performance levels of the companies add weight to the political message that the VEI organisers such as WWF and Environmental Defense are interested in promoting (i.e. that of the potential for GHG emission reduction) and this is why there is a strong emphasis on the fact that the member companies are leaders in their field. Elements of the programs also assist them to continue to be leaders in their field by promoting learning from each other. In the case of BLICC, this learning interaction, and therefore the mutual reinforcement of the leadership position of the companies, occurs more strongly than in the other VEIs because of the greater intensity of the interactions between the companies. Nevertheless, all VEIs, including BLICC, have programs

to publicise best practice with the expectation that other companies will learn from this. In these cases, the difficulty of imitability derives from the fact that the member companies are ahead of their competitors and working with other like-minded companies to improve their position. The fact that the VEIs are cross-sectoral reduces the likelihood of competition, and thus imitation, and indeed, this was an expressed preference in the case of BLICC where it was stated that not having direct competitors as members meant that companies could cooperate more intimately.

#### 5.2.1.2.2 Reducing internal costs

Reducing internal costs is Reinhardt's second method and corresponds to Hoffman's approach of *operational efficiency* and this role can be plainly seen by the information sharing characteristics of the VEIs. All of the VEIs have as one of the requirements on member companies that they share practices with other members and make them public. Publications and websites of the VEIs have as a strong element the promotion of "best practices" in certain fields by their member companies. Energy efficiency is a key component of reducing GHG emissions and many of the shared experiences involve this.

In the case of BLICC, the experiences shared by the companies in the annual reports and in workshop meetings support this factor. Several of the members have introduced energy-saving lighting policies, while Stora Enso has extensive experience with working with municipalities in combined heat and power collaborations using bio-fuels. The importance that many of the members place on reducing transport emissions, and experimenting with ways to do this cheaply as well as searching for innovations to improve measurement of emissions from energy use in transport illustrate that this role is a strong one within BLICC.

#### 5.2.1.2.3 Managing competitors

Managing competitors is the third value-creating approach that Reinhardt describes and this is an important area for cooperative approaches by businesses. It corresponds with Hoffman's (2002) variable regarding a company's ability to *manage institutional change*. The first of the two ways in which businesses can do this appears to be less relevant in the case of the VEIs studied in this case. That is, the *creation of private regulatory bodies* which involves cooperation between businesses in one industry to set new industry standards. All of the VEIs studied were by definition cross sectoral and so there appears to be little relevance in this case.

The second way of managing competitors has relevance in this case – and this is through *raising the bar for competitors*. This can be done by influencing governments to introduce standards that may favour the companies in question. As will be seen from the discussion of corporate political strategy below, political influence has been a major reason for the establishment of the VEIs and the long-term impact on political discourse is one of the major effects of the work of the VEIs. However, there does not appear to be a strong focus in the VEIs to achieving strategic advantages for their members in this way. The major political message that the VEIs appear to send relates to the demonstration effect of their commitments to voluntarily make GHG emission reductions and show how these can be profitable. This can be directed towards government and other businesses. But as expressed by the manager of Climate Savers at the time of starting of the three more intense VEIs in 2000, one of the major concerns of those involved was to demonstrate to industry and governments that significant GHG emission reductions could be made with no costs and that carbon trading mechanisms were preferable to environmental taxes (see Section 4.2.2.3).

The message to be derived from the demonstration that GHG emissions can be made easily is ambiguous. It can be viewed as an indication that regulation is not needed to achieve significant GHG emission reductions, but it can also be interpreted to indicate that governments can take steps to make such cuts mandatory for all companies or to establish systems to encourage similar reductions. This would favour businesses which are more advanced in reducing their emissions. A factor in favour of this potential is the fact that many of the VEIs promise increased interaction with policymakers. This is promised very publicly by all of the VEIs except Climate Savers, Partnership for Climate Action and Climate Leaders. There is therefore capacity for some benefit to be gained in this way, although it does not appear to be a direct focus for the VEIs.

In the case of BLICC, interaction with governments is viewed as an important element of the program and there is a focus on conveying policy messages to governments. As expressed by some of the members, there is a strong wish to work to encouraging policies which favour renewable energies and systems which support this such as promoting rail transportation. This is expressed in BLICC documentation elsewhere as well, such as the CEO Statement of the BLICC #3 report: “we are working to promote a policy agenda highlighted by proactive direction and far sighted thinking, with governments creating incentives to act in a sustainable way” (Respect Europe, 2004b, p. 1). Such policies would reward companies which had made early moves to adopt these systems, but it does not appear to be a way of directly raising the bar for competitors. All these issues considered indicate that there is an indirect role for VEIs in raising the bar for competitors. In addition, the cross-sectoral nature of the VEIs means that any influence they have in their fields is generic.

#### **5.2.1.2.4 Redefining markets**

Reinhardt’s fourth way of reconciling shareholder value with environmental performance is through redefining markets. This involves moving away from focus on production and provision of goods to a focus on service provision (Reinhardt, 2000, p. 121), or a “service and flow economy” (Hawken et al., 1999, p. 10). Since the VEIs studied are cross-sectoral and comparison of them involved only the structure and operations of the VEIs themselves rather than the actions and plans of the member companies (apart from BLICC which is considered separately) it is impossible here to examine any real occurrences of market redefinition or “servicising” of a market to which they may have contributed. However it is possible to examine the degree to which the VEIs have contributed towards conditions that assist companies move towards these approaches by looking at the way they operate.

As set out in Section 3.3.1.4, for a business to make such a significant transition to redefining its market along service-based lines it must have a strong grasp of several aspects of its current industry. This includes the nature of the demand of its products and potential services as well as the economic and environmental characteristics of its own systems. Strong contacts with customers to convince them of the benefits of change are also useful. The question to then consider is whether and/or how the VEIs contribute to this knowledge and these relationships.

The first area where many of the VEIs contribute is that of knowledge of the environmental aspects of their firm – or in this case, GHG emissions. All of the VEIs studied except The Climate Group and BELC offered assistance in the field of carbon inventorying and target-setting to companies that became members. Reinhardt points out that “firms with expertise in environmental cost accounting are more likely to succeed with design-for-environment initiatives” (2000, p. 126) and it is the carbon accounting that identifies exactly where emissions are derived from, thus assisting member companies in this field.

Another important area for businesses wanting to transform their markets is the relationship with their stakeholders since changing the nature of their business will impact strongly on customers, suppliers and distributors. It is necessary to understand their roles and economic situations to know how they will be affected and to predict how they will react. Regulators and other stakeholders such as NGOs might also have impacts which could be helpful or counterproductive to the intentions of the companies. In this field the performance of the VEIs appears to be less uniform.

BLICC, The Climate Group and Climate Savers profess a role in bringing together wider ranges of parties such as governments and other stakeholders with the businesses. However the intensity with which they undertake this varies. Climate Savers' annual conferences and The Climate Group's more frequent but larger conferences do not have the potential to offer the opportunities for more intense interactions of BLICC's smaller more frequent meetings.

Most of the VEIs studied promise the opportunity for establishing relationships with regulators, although not in the case of Climate Leaders and Climate Savers where the policy influence is envisaged to go only one way - from US EPA and WWF respectively, to the member companies. Additionally, all offer the potential for some sort of business-to-business interaction, although this is less in the case of Climate Leaders which has few meetings and there is no necessary relationship between the businesses which are members to ensure that the networking they undertake will give them a better understanding of the situation with their related businesses such as customers and distributors. In addition to these areas, Climate Savers and Partnership for Climate Action offer direct relationships with the mass-based environmental NGO world and therefore offer some extra knowledge and input in this field.

A further important factor if VEIs are to be able to increase companies' abilities to redefine markets is the degree of involvement by company leadership in the discussions of the VEIs. If discussions are confined to environmental officers in each business, it is less likely that any discussions of the strategic nature of the business and their relationship with the environment will have much of an impact on the entire firm, let alone preparing any grounds for redefinition of an entire market. Therefore if the VEIs are to have any potential to encourage this sort of redefinition, involvement must expand beyond environmental staff to include senior managers with more strategic responsibilities and authority. Reviewing the VEIs it is clear that there are stark differences in the approach to this. Only The Climate Group and BLICC require commitment by senior staff to involvement in meetings.

In the case of BLICC, its more active approach to stakeholder involvement and its more strategic approach to membership appears to serve these purposes much better than many of the other VEIs. This is because it does work with assisting members in GHG emission accounting as do many others, but BLICC also undertakes to "generate dialogue between industry peers and stakeholders" (Respect Europe, 2004d) and is this sort of dialogue which can increase understanding of a business's role and relationships in ways that can lead to better design of services and products in the sense that Reinhardt discusses in addition to sustainable development interests that Welford (1997) and Mayhew (1997) describe. Further, the relationships that have developed in BLICC between companies that are connected to each other in their supply chains augments this stakeholder dialogue to enable the participants to understand more fully the entire chain of production and the GHG implications of their activities.

Within BLICC it is possible to point to cases where companies have been involved in redefining markets. Interface's carpeting services are the classic example, highlighted in Hawken et al (1999), but there are other examples as well which are highlighted in the best

practice sharing reports. Stora Enso's work in providing power and heat to local communities from its pulp and paper facilities waste is one example, along with DHL's work with customers to tailor product packaging to their exact requirements to minimise waste and maximise reuse. IKEA's approach to selling furnishings is another area that has really redefined its market and resulted in significant environmental savings through sales of unassembled furniture, which can significantly increase transport efficiency.

There are therefore many examples of the individual BLICC members carrying out market-redefining activities. While these are not necessarily related to their membership of BLICC the particular benefit gained from BLICC is the ability for sharing these experiences in a more intense and issue-focused way. Whether any benefits in this are derived from this approach will be hard to measure, however the pieces seem to be assembled. This potential for sharing and development is less present in the other VEIs.

#### ***5.2.1.2.5 Management of risk and uncertainty***

The management of risk and uncertainty is the fifth of Reinhardt's five ways. There are several sorts of risk which are touched on in 3.3.1.5 above and include risk of environmental damage, or legal liability or other financial harm due to the company's impacts on the environment. The last can include through loss of good will through environmental practices which are deemed unacceptable, such as being targeted by environmental groups.

The VEIs can be viewed as contributing significantly in this field since their main focus is at decreasing GHG emissions, which are a form of environmental damage. One way in which they do this is through their operations to improve knowledge of their members' GHG emissions and assist with ways of enhancing their control and management of their emissions. Assistance with the understanding of government policies and regulations, as well as sharing best practices on technical issues between the companies can also help to reduce both sorts of risk by increasing each business's capabilities to meet requirements and improve their processes, thus avoiding accidents and decreasing risk.

In addition to expanding knowledge at the operational level about technical and legal issues, the broader dialogue enabled in some of the VEIs can be viewed as risk management. In this way it fits with Hoffman's (2002) variable of strategic direction of firms through identification of shifts in demand through stronger knowledge of trends. The relationship which is made possible with stakeholders can increase mutual understanding between the groups and therefore reduce the chance of surprises at later times, along potential problems to be met earlier. Partnership for Climate Action and Climate Savers are strong examples of these because of the relationships they allow to be built between active NGOs and member companies. Climate Leaders does this to some extent between its members and the US EPA, while the broader stakeholder approaches of BLICC and The Climate Group can open the way for opportunities in these fields to be pursued as well with wider ranges of stakeholders.

Business risk is another area which is also important to consider. Where businesses are trying to change their processes to reduce emissions, they must be able to predict how this will affect related businesses and customers, and so a dialogue on these issues with potentially affected parties is important. The need for dialogue in this way is touched on in the section above on redefining markets, where companies must understand the needs and economic systems of related businesses if they are to redefine their market. In this case, although there may not be such revolutionary changes as converting to service- from goods-production, any internal change in processes brings with it the risk of impacting on other companies. Therefore,

dialogue with related businesses, to include technical changes can be important to reduce the risk of adverse business outcomes where changes are made.

The consideration of the benefits of the VEIs in this field ties in closely with the consideration in the preceding part on redefining markets as both relate to increasing the business's understanding of its own environmental aspects and impacts and the relationship with stakeholders.

#### **5.2.1.2.6 Conclusion and summary**

In conclusion, it can be seen from the above that the VEIs studied can make contributions in all five of Reinhardt's ways of "reconciling shareholder value and environmental performance". As was demonstrated above, environmental product differentiation is made possible through the role that the VEIs have in promoting the environmental credentials of the member companies. This is carried out actively in some cases such as Climate Savers and BELC, moderately in the case of BLICC, and mostly passively, if at all in the case of Partnership for Climate Action. The organisations behind the VEIs can also play roles in supporting other necessary conditions for this differentiation by promoting public awareness of the need for customers to differentiate and acting as sources of credible information to back up the differentiation information. Well-known NGOs such as WWF and Environmental Defense are better placed than other to carry out this role, while less well-known VEI coordinators will have to work harder. The third necessary condition, that of non-imitability can be problematic since part of the role of the VEIs is to actually spread knowledge and encourage other companies to imitate the leaders. So member companies must use the opportunities presented by their relationships in the VEIs to continue their forward progress to remain ahead of the curve. If VEIs do not promote this last aspect enough, and focus on spreading current practice without encouraging improvement, they could lose their attractiveness for members.

The role of reducing internal costs is perhaps a central one for all of the VEIs because of the central role they all give to sharing best practices. The role of managing competitors appears to be an important though passive result of the work of the VEIs. Relationships with policy-makers is highlighted by some of the VEIs, but not all, but even in those cases (Climate Savers and Partnership for Climate Action) political messages play an important role for the VEIs, whether directly from the companies, or via the coordinating NGOs. Benefits in the policy field appear to primarily be in shoring up their first mover advantages, by encouraging favourable policies.

Redefining markets and management of risks and uncertainty are closely related in the case of the VEIs since they play the same role in relations to both. This is through the knowledge sharing and dialogue processes that most of the VEIs possess. Dialogue with each other, related businesses, governments and other stakeholders first enable information sharing to reduce risks, but also enable the extensive knowledge and dialogue of production and demand systems that is required for significant changes in the companies' markets. This aspect is also necessary for fundamental changes necessary for achieving real sustainability. The approaches of the VEIs differs in practice regarding this, with the ones promoting greater and more intensive dialogue more likely to achieve real progress in this field. More dialogue-focused VEIs such as BLICC and The Climate Group offer more potential in this field. Similarly, the internal company involvement required also varies. While dialogue across a spectrum is necessary, so is the inclusion of a range of parties within companies to increase the likelihood of broader policy changes. VEIs requiring commitment beyond the environmental managers, such as the Climate Group and BLICC have greater potential here as well.

### 5.2.1.3 VEIs and Environmental strategy

Applying the framework developed by Christmann and Taylor (2002) allows for a broader assessment of the approach of businesses to environmental issues and to relate their assessment of the importance of the environmental issue and their ability to deal with it to the characteristics of the VEI they should join. This section considers the framework which is described in Section 3.3.2 and examines how the VEIs and their approaches fit into it. It is important to note that this consideration relates to strategies for dealing with environmental issues rather than ways in which environmental issues can be incorporated into business strategy, which is the area that was described above.

A starting point is to consider that all of the VEIs profess to be operating at the leading edge of the curve in terms of GHG emission reduction and policies. Christmann and Taylor's framework (Figure 3-1 and Table 3-1) implies therefore that the strategies being taken by the VEIs are most likely to be *proactive*. This implies that for the member companies, their ability to address climate change issues are strong, and climate change, or GHG emissions issues are of central strategic importance to them.

This aspect of centrality of concern can be assessed by a brief examination of the businesses which are listed as members of the VEIs. First, since climate change and GHG emissions relate very closely to energy consumption it is quite likely that the issue would be of fairly central concern to many businesses. Just looking at the names of the companies listed in Table 4-1 shows that the businesses represented are from a wide range of industries but that they do not include companies with relatively low energy or goods transport requirements such as financial services companies. The centrality of concern can therefore be assumed.

With this assumption in place, there are three potential strategic stances for VEIs to take: *proactive*, *capability-building* or *reactive*. Of these three, the reactive strategy can be ruled out because of its focus on companies doing "the minimum required to maintain a 'licence to operate' (Table 3-1) as it seems well established that the companies are doing more than this. The real question to consider then is which of the two strategies *proactive* or *capability-building*, are followed by the VEIs.

Reviewing the definitions of the two remaining strategies, it appears that *capability-building* presents the closest fit with the ways that the VEIs describe themselves. In particular, the focus on sharing best practice, setting challenging goals and encouraging information exchange appear to be lifted directly out of the VEIs' descriptions of themselves. Indeed Christmann and Taylor (2002, p. 131) describe Partnership for Climate Action as an example of a *capability-building* VEI. Other characteristics associated with VEIs pursuing this strategy, according to Christmann and Taylor, are the potential to gain credibility with stakeholders and protecting participant's reputations. The only cost listed is that of the cost of building capabilities.

VEIs with the strategic stance of *capability-building* are said to be appropriate to businesses where the environmental issue is of central strategic importance and companies have a weak capability to address it. With this in mind it is appropriate to consider why companies which profess to be in leadership positions in the field of handling GHG emissions are members of VEIs which do not fall into the *proactive* classification in Christmann and Taylor's framework, since, due to their industry leading positions, their capabilities to address the environmental issues must be relatively good. First, some of the characteristics of *proactive* VEIs listed in Table 3-1 could fit with the VEIs studied. Anticipating stakeholder requests, leading industry efforts as well as reputational benefits of Christmann and Taylor's *proactive* category fit with the characteristics of the VEIs studied in this thesis. An important aspect though, is their

assumed goal for *proactive* VEIs which is “to create a credible self-regulation scheme that is accepted by the relevant stakeholders” (Christmann & Taylor, 2002, p. 129). This does not appear to be the goal of the VEIs studied and nor was it an expressed wish of any of the BLICC member companies that were studied.

This lack of any interest in the VEIs in taking an informal regulatory approach was noted above when considering Reinhardt’s approach to gaining shareholder value through managing competitors by “establishing private regulatory bodies” or “raising the bar for competitors”. Several possible reasons for this could be suggested. First, it is difficult for cross-sectoral VEIs to establish standards since such standard setting usually occurs within industry sectors. Second, it could be that the issue of dealing with GHG emissions and establishing accounting and management procedures is so new that even companies at the forefront of innovation and developments in this field feel that they have a long way to go before they move beyond taking a *capability-building* approach. If this is the case then there could be a natural progress from one strategic VEI to another. There is some evidence to support this in the VEIs studied, since both the manager of the Partnership for Climate Action and BLICC commented on the difficulty regarding the future of the groups once the members had established their GHG emission accounting systems and learnt all that had to be learnt regarding their system. This suggests there is a need for the VEIs to move on to more advanced or proactive goals.

A third explanation for the fact that the VEIs take a *capability-building* approach whereas the positions of the companies suggest they should take a *proactive* approach is that the companies actually are taking a proactive approach elsewhere but that in these VEIs they are choosing to emphasise learning i.e. they are doing both. In this respect, it is worth noting that the VEIs that focus on GHG emission accounting and management mostly use the GHG Protocol as the basis for their reporting. As seen in interviews with BLICC members, a large aspect of their ongoing work was continuing the application of the GHG Protocol to their emission measurements. The businesses involved with implementing this from the early stages of its development, which includes being early adopters and users of the standard, are in effect following a *proactive* strategy. Indeed, several of the companies involved in the VEIs studied have been closely involved in the development of the GHG Protocol (e.g. BP, Shell, IBM, Nike, Ontario Power Generation, Alcan, DuPont, Johnson and Johnson, Larfarge as well as WWF, the Pew Centre, US EPA and WWF) (WRI & WBCSD, 2004b, pp. 104 - 111). This approach is analogous with Christmann and Taylor’s example of General Motors’ involvement and early adoption of the Global Reporting Initiative. Involvement in the development stages of these initiatives allows the businesses to influence the standards in ways that benefit the businesses themselves and can be viewed as a form of private regulatory body.

Bearing the above in mind, it appears that for the businesses involved in VEIs that assist them in implementation of the GHG Protocol, they are using a VEI with a capability-building strategy to assist them in their proactive strategies in a relationship of mutual support as set out in Figure 5-1. This potential to be a part of two VEIs which are mutually supportive yet fall into different strategic categories was not addressed in Christmann and Taylor’s treatment of their framework, but it is worth considering their advice to decision-makers to be aware when selecting VEIs that the strategy that the VEIs are taking is “consistent with the overall environmental strategy of the firm” (Christmann & Taylor, 2002, p. 133).

As an example of a potential problem, the possibility is cited of a company following a *defensive* strategy through VEI membership in one environmental field and a *proactive* strategy in another field which could open them up to strong criticism from the stakeholders they are in close contact with in relation to the *proactive* approach. Since the differences between the

*proactive* and *capability-building* approaches are less, and this example is slightly different in that the businesses are participating in two VEIs relating to the same environmental issue, not different ones, the potential for conflict does not seem to be analogous. The VEI membership in this case appears to be mutually supportive, but, as noted above, there is something of a time limitation to this mutual support. That is, once the GHG Protocol is well established and the proactive companies have achieved their aims in applying it to their systems, VEIs which focus on assisting companies develop their capabilities in this field will no longer be useful for those proactive companies.

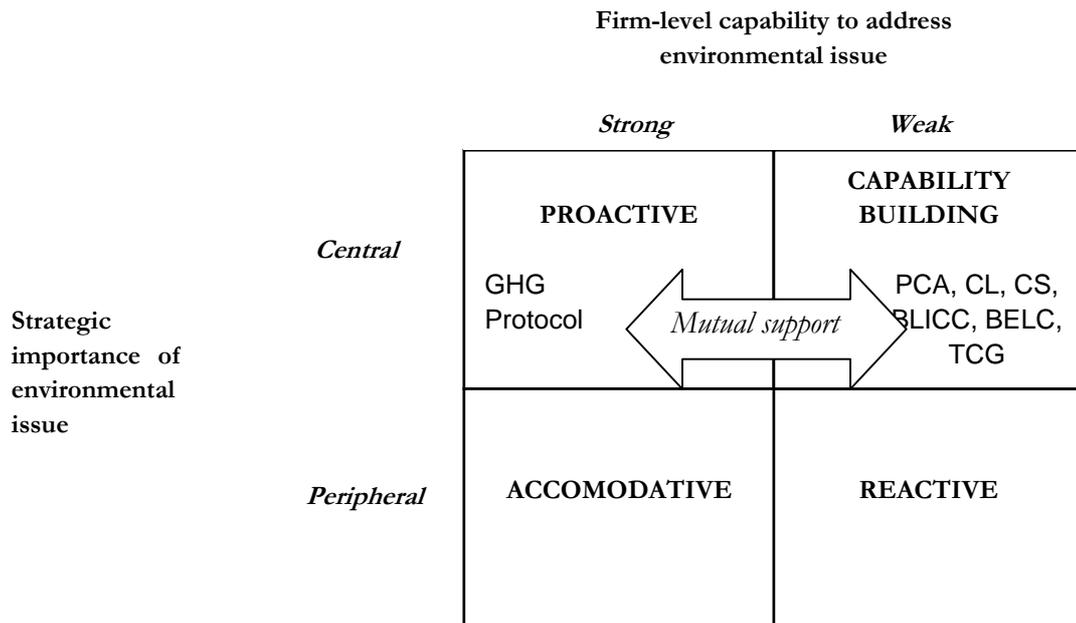


Figure 5-1 Framework for Strategies for Participants in International VEIs – location of Climate Change VEIs

Source: Adapted from Christmann and Taylor (2002), p. 127

Relating this to the VEIs studied, it explains the sentiments touched on with regards to BLICC and Partnership for Climate Action that coming to terms with the learning curve was a difficult one for the groups. Those VEIs which focus mainly on learning about GHG inventories and target establishment will inevitably face difficulties as they become irrelevant for their members. Their options will be either to move their focus elsewhere, such as BLICC to focus on issues of particular interest to members, or to risk becoming redundant if they maintain their narrow focus. This could be the reason behind the difficulties faced by Climate Savers and Partnership for Climate Action in attracting more members.

#### 5.2.1.4 VEIs, corporate strategy and climate change

Relating the knowledge of VEIs developed above to the recent survey of Kolk and Pinkse (2004) reveals that the VEIs tend to focus on the internal aspects of climate change policy, focusing primarily on process improvement and internal targets, control and trading which Kolk and Pinkse found was the most common and simplest of the responses that firms could take. In the VEIs studied in this thesis, this is reflected in their focus on goal setting and inventory establishment strategies. Moving beyond the internal focus to vertical (supply

chain) and horizontal (beyond the supply chain) required more intense work with related businesses and potential markets, i.e. stakeholders. And as has been discussed above, the degree to which the VEIs have allowed for enhanced relationships and dialogue with stakeholders has varied significantly.

In the case of BLICC, there appears to be evidence of some of the strongest attempts to apply vertical and horizontal cooperative approaches through the ongoing work in the focused fields of transportation and energy. Since the vertical and horizontal approaches require close contact and good knowledge of the conditions of related businesses and other stakeholders, deeper relations are required than relatively infrequent meetings at environmental manager level, which most of the VEIs prioritise.

### **5.2.1.5 VEIs, corporate political strategy and climate change**

As revealed in the discussions of the VEIs as well as the interviews with BLICC members, corporate political strategy is an important aspect of the functioning of the VEIs. As set out in Section 3.3.3.3, corporate political strategy operates within the sphere of *managing competitors*, as Reinhardt describes it. Although there was little evidence found that businesses were working through the VEIs to directly influence regulators to implement laws that favoured them over other firms (Section 5.2.1.2.3) this could be attributable to the fact that their standard-setting approach is taken through reinforcement of the GHG Protocol, and the VEIs studied are more focused on *capability-building* (Section 5.2.1.3). However, as argued in Section 5.2.1.2.3, the VEIs and companies involved are creating political messages to shift policies in directions that make it easier for them to implement GHG reductions. While this may not intentionally discriminate against other companies it does favour those which are early movers in adopting those technologies.

So it is this general influence over the direction of government policies that the VEIs are able to exert through their contribution to building a new hegemonic social structure, supporting the need for urgent action to address global warming, promoting the language of win-win climate solutions and in favour of policies that support renewable energies and market-based mechanisms. As pointed out by Levy and Egan (2003, p. 822) the Pew Centre on Global Climate Change is an example of the groups that undermined the former hegemonic power structure which had argued against proof of climate change and argued that mitigating actions were too costly.

As well as the Pew Centre, all of the other VEIs have played similar roles in encouraging this change in discourse. The principle that businesses sign onto in joining many of the initiatives are a way of defining this new discourse. Most of the VEIs require members to sign onto statements that assert their agreement with the science supporting the seriousness of climate change and the position of the Kyoto Protocol as a good first step. This is a direct refutation of the position of the Global Climate Coalition. All of the initiatives also require member companies to share practices, and use these to demonstrate publicly the potential for win-win solutions to reduce GHG emissions. Indeed, the role of this message was made explicitly by the managers of Climate Savers and Partnership for Climate Action who noted the political significance of the year 2000 when both were being set up. It was in November 2000, in The Hague that the most significant aspects of the Kyoto Protocol were due to be agreed i.e. regarding market mechanisms, carbon sinks and compliance (Bodansky, 2001) and so there was significant concern in the business world at the possibility that carbon taxes would be given a strong role. Holliday (2004) and Banks (2004) confirmed that businesses were concerned at the potential lack of provision of flexibility mechanisms in the final agreement, in favour of domestic measures through taxation, and so voluntary initiatives uniting major multinational

companies and demonstrating strong emission reduction commitments could provide a strong lobbying voice in favour of flexibility mechanisms.

Business leaders were also using other fora at the time to demonstrate the extent of their concerns regarding the threat of climate change and the need for government action. In February 2000, at the World Economic Forum, government officials, CEOs and civil society representatives had voted climate change as the most important issue confronting mankind (Sundin & Ranganathan, 2002). During that meeting, a panel of business and NGO representatives, including Shell, WBCSD and Greenpeace agreed on the value of the Kyoto Protocol, the necessity for governments to set up regulatory frameworks to allow for faster reductions of emissions, promote reliable trade of emissions, encourage alternative energy development and use (World Economic Forum, 2000).

Business leaders are not the only parties seeking to send messages through the VEIs, though. The messages of the coordinators should also be considered, i.e. WWF, Environmental Defense, the Pew Centre and the US EPA have strong interests in demonstrating to other companies the potential for decreasing emissions, and this is a major part of the deal that they undertake with their member companies in assisting them to remain ahead of their competitors in implementing GHG emission inventories, management systems and in promoting best practice technologies. The Climate Group also has a strongly expressed intention to influence international political dialogue by bringing together influential forces in the field.

In the case of BLICC, it is more difficult to ascribe to it an agenda independent of its member businesses because of its different structure. Nevertheless, it appears that there is a strong convergence between the collective will of the businesses involved in BLICC and that of the businesses involved in the NGO-led initiatives. Where there are differences, they do not seem to relate to the political messages that are being sent.

In conclusion it is clear that the political role of the VEIs can be very strong, at both the levels of regulations concerning the member companies directly, but also, and perhaps more significantly, in terms of their influence on the progress of the global debate regarding climate change, its importance and the measures necessary to combat it. This global debate sets the tone for government regulation and it is early movers such as the VEI members which are in a position to take the greatest benefits.

#### **5.2.1.6 VEIs and networking benefits**

Turning to the literature on networks, the strongest identified benefits from this approach are in the field of education i.e. in increasing the skills and knowledge levels of the businesses involved in the VEIs. Best-practice sharing is one of the few described benefits of the programs that are held in common, but in addition to this, all except BELC offer expert assistance as one of the benefits of their program. Connected to this is the promise of networking opportunities which is also a strong item in most. The potential for benefits from greater collaboration between the companies is indicated in the desire of Climate Savers members for more time to interact with each other in meetings, but also the added advantages derived from the higher degree of interaction that BLICC maintains which lead to more in-depth cooperation, sharing of experiences and development of new ideas.

Rondinelli and London (2003) highlight the potential benefits of alliances with non-profit organisations, which all have some application in the context of the VEIs studied. However,

the differing intensities of the relationships between the VEIs coordinators and their member companies may impact on the extent of the benefits derived. Rondinelli and London discuss creativity benefits which can be derived from business-non-profit interaction, such as rethinking operational activities, identifying new products and marketing opportunities.

The range of VEIs studied illustrates that differing degrees of interaction between businesses and non-profits can occur, but also that businesses can seek interactions on one environmental issue in more than one way. This is evidenced by the fact that most companies are members of more than one VEI. As with the VEIs organised by Environmental Defense and WWF, for the sake of maintaining their independence, the NGOs are wary of associating themselves too closely with business interests and so there are some stiff lines drawn between them and their interactions. This seems to be particularly the case with Environmental Defence's Partnership for Climate Action, although in the case of WWF, the local cooperation between WWF and member companies around the world could have benefits in this area. Whether new products, or creative ways to rethink operational activities have been identified from the interactions in the VEIs (apart from BLICC) is not known but the information sharing and contacts made during the interactions promoted by the VEI membership means that there must be strong potential for success in this field. The cross sectoral nature of all of the VEIs can increase the variety of information available and the potential learning outcomes.

These potential benefits are demonstrated by the opinions of BLICC members on what they gain from their membership. Learning was the strongest common motivator for their membership, but also the window given into the NGO-world by the work of Respect Europe, the coordinator. The BLICC businesses also emphasises the benefits of the cross-sectoral approach since it enabled franker discussions without the threat of loss of competitive advantages with direct competitors through sharing trade secrets. The intimacy of the interactions stemming from the size of the membership was also an important factor for companies which works to increase the intensity of the interactions. For BLICC, the on-going focus on particular issues that were prioritised by the companies was seen as particularly interesting for the members. This approach which is more intense than that of the other VEIs increases the learning potential as well. This supports the cases of Starik and Heuer (2002) that it is the complexity of the natural environment and the interactions of people with it, in this case, climate change, which means that a variety of approaches are needed to deal with problems. The varieties of approaches brought by companies from different sectors, combined with the views of other stakeholders, and more intense, issue-focused interactions therefore can produce innovative results that are of advantage to members and more likely to lead to real changes in the way they do business.

The communications focus of the VEIs also relates to Rondinelli and London's benefits. This was noted as an important aspect for many of the VEIs, as well as by the member companies of BLICC. Rondinelli and London noted the potential for improving reputation with customers, influencing suppliers and encouraging better access to political and strategic information. Increased communications work achieves this, along with the developed dialogue that some of the VEIs possess.

In BLICC's case, its more intense approach to networking between the companies increases the benefits of its approach in most of these fields. As noted, creativity and the learning benefits are boosted through increased levels of dialogue, and also by including more than just environmental managers in this dialogue. Unlike the other smaller VEIs, involvement of CEOs is a major advantage that BLICC possesses. On the other hand, the visibility of the organising institution has a potential to reduce some of the external communications benefits. Association with programs endorsed by WWF, the Pew Centre and Environmental Defense

can bring with them immediate recognition advantages, not least by the large memberships of the mass organisations. For Respect Europe, this lack of recognition amongst the public means that there is a need to work harder to achieve the same benefits.

### 5.2.1.7 VEI benefits and drawbacks

#### 5.2.1.7.1 VEI benefits

Section 3.2.2 outlines general benefits and drawbacks of VEIs as set out in Gibson (2000). This section aims to discuss each of these in relation to the VEIs studied taking into account the aspects drawn out from the literature in the application of the conceptual context to the VEIs studied above.

With the relatively wide range of approaches taken by the climate change initiatives studied, it does appear that *flexibility* has been a relevant issue in this case. The VEIs are all aimed at encouraging companies to go beyond mere legal requirements regarding GHG emissions and providing benefits to the companies for this. The flexibility is most obvious when it comes to the approaches to targets taken by the different initiatives. First, each of the initiatives have different membership prerequisites, some stronger than others, but all of them based on a demonstrated commitment to going further than industry peers. Climate Savers and Partnership for Climate Action require individually-negotiated absolute reduction agreements with each company, while the others are less stringent, requiring more general commitments to principles (e.g. BELC, the Climate Group and BLICC), the understanding that a reduction agreement will eventually be reached (Climate Leaders). The rewards offered in each case also differ, varying from publicity to access to information. The fact that some companies have joined some of the initiatives and not others indicates that the variety that has resulted from the flexibility has increased the potential to engage companies on GHG emissions since different companies are attracted to different initiatives.

One interesting consideration is the issue of the less flexible initiatives which require companies to enter into absolute GHG emission reduction agreements (Climate Savers and Partnership for Climate Action). The difficulty in meeting this stringent prerequisite for joining was cited by WWF and Environmental Defence managers as a reason for the low membership numbers. This indicates that the lack of flexibility in this one area reduces the ability for companies to join and to therefore gain any of the other benefits of joining, despite the arguable advantages of there being companies which have set such strong and well-publicised goals.

The variety of approaches taken also demonstrates the value of *efficiency*. A large proportion of the work of most of the initiatives is the sharing of best practices in ways to reduce GHG emissions, which means that companies are pursuing different ways to go about achieving reductions and looking for new ways to do so, in a cost-effective manner. Sharing ideas in this way, rather than maintaining secrecy about the lessons learnt in attempting to reduce GHG emissions means that the companies can pursue the most efficient approaches possible.

Certainly from a public expenditure point of view, there are no public funds being spent on these initiatives, apart from the costs of running the US EPA Climate Leaders program. This means that the associated reductions and other environmental benefits deriving from the groups are achieved efficiently from a government funding point of view.

The ability to utilise mutual advantage to gain benefits for the companies and benefits for the environment, i.e. the **win-win approach**, is really central to all of the initiatives. At the most obvious level this occurs in the bargain made between the environmental NGOs and the companies that sign up to the GHG emission reduction agreements. In the case of Climate Savers and BELC, companies which join have effectively bought an undertaking by well-known NGOs to promote their companies as responsible in the field of climate change at the cost of either signing emission reduction agreements (in the case of Climate Savers) or signing onto a set of principles (in the case of BELC). A similar bargain, but involving a government entity occurs in the case of Climate Leaders. However these are not the only offers to members in the bargain, since the Partnership for Climate Action offers less by way of publicity, but it does offer assistance to the companies in carbon accounting and policy analysis. BLICC appears to sit half-way between these in this scope, offering primarily mutual learning advantages, but also communications advantages. The Climate Group's promises also involve both elements.

On the other side of the bargain, there are obvious benefits to the environment through encouraging better and more efficient ways to reduce GHG emissions, but there is also an element of leveraging involved which can be clearly seen in the case of the NGO groups Climate Savers and BELC. In these cases, the high profile of the publicity undertakings, the efforts by WWF and the Pew Center to highlight the achievements and the context in which they are done, demonstrates the policy advantages to the NGOs of having companies sign on to their agendas. In this way, by promoting the undertakings of the companies, they have achieved significant political advantages in their arguments encouraging businesses and governments that GHG emission reductions can be done relatively easily.

Use of a **broader range of pressures** to encourage improved environmental performance is the last of Gibson's listed benefits and this relates closely to the win-win approach. In this sense, the advantages offered by the VEIs which are not possible through a regulatory approach are a range of positive pressures that they can offer member businesses. In particular there are the publicity benefits of being associated with the groups organising the programs. These were covered in the above discussion of the win-win approach.

#### 5.2.1.7.2 VEI drawbacks

Gibson's first listed drawback is the **difficulty of performance measurement** for VEIs. Indeed, this is one thing which makes it difficult to judge the outcomes of the VEIs included in this study. As the VEIs are primarily designed for information exchange and learning, as well as the political goals of the members and coordinators, it is difficult, if not impossible to measure any definite outcomes. To measure GHG emission reductions of the companies is relatively meaningless since this does not measure the contribution of the VEI to that reduction. Even in the case of Climate Savers and Partnership for Climate Action, where absolute emission reduction goals are negotiated, it cannot be known how much of this would not have been achieved anyway by the businesses involved.

The problem of **free riders** seems to be relatively limited in the case of the VEIs studied, and was not a concern that was raised. This is most likely due to the relatively small size of most of the groups, ensuring a high degree of visibility to each member. In the case of BLICC, the high degree of commitment for members, in time and funding ensures that free riders do not become involved. However, in the case of the larger VEIs, i.e. The Climate Group and Climate Leaders, this could be more of a problem. For instance, in the case of Climate Leaders, there are many companies which are considered members but which have not

reached agreements on reducing their emissions. If this sort of discrepancy were to continue it would open up the opportunity for free riders.

That the VEIs might be restricting their activities to *low hanging fruit* is another common problem. However, this problem arises primarily where the VEIs are setting themselves up as alternatives to regulatory arrangements to govern entire industries. In the VEIs studied, there is no attempt to establish minimum standards, but rather to set up potential goals with higher standards than most companies. As discussed above, the demonstration value of the achievements of these businesses is an important political tool for demonstrating to businesses and government what is possible to achieve. For the VEIs to maintain their credibility and influence with regulators they must stay ahead of most other businesses and reach higher and higher fruit.

Nevertheless, this is an issue that regulators must be aware of, since groups portraying themselves as proactive in the field will have a strong influence on what regulators will perceive as possible in terms of GHG emission reductions when they are considering what should be made mandatory.

This consideration also relates to the potential for VEIs to become *regulation replacement*. Again, though, the nature of the VEIs as focused on proactive companies rather than seeking to include entire industries would seem to preclude this danger as the VEIs are not seeking to establish any regime.

*Lack of transparency* is also potentially a problem where the VEIs are setting up in lieu of regulation. As this is not the case here, then this issue does not apply in this way. Nevertheless, lack of transparency can be a problem in authenticating the claims of the member companies. In the VEIs in question, apart from the Climate Group, this element is taken on by the use of the GHG Protocol as a standard accounting tool as a way of increasing transparency of accounting methods.

In conclusion, Gibson's comments on the need for flexibility and adaptability on the part of VEIs, particularly with regard to motivations, are relevant in this case. As touched on above, it is the lack of flexibility of the Climate Savers and Partnership for Climate Action which is regarded as a main reason for their inability to expand. The VEIs which are more flexible and adaptable will be able to move with their members to adjust to their changing needs, as learning curves move (as highlighted in the case of BLICC) and as political, regulatory and scientific developments occur. This will enable them to employ different motivations as circumstances change.

Ensuring this ongoing adaptation can also limit the potential for drawbacks since it requires ongoing commitment by members, so reducing free-riders, and enables movement forward beyond low hanging fruit to tackle the higher ones by introducing new motivators. The transparency provided by the common use of the GHG Protocol among most of the VEIs is an interesting example of how VEIs can be mutually supportive and build on each ones own particular area of effectiveness.

## 5.2.2 BLICC compared – and implications

This section seeks to answer the second research question: *How does BLICC compare to the other initiatives and what lessons can be learnt from them?*

A detailed comparison of BLICC was conducted in parallel with the consideration of the VEIs above. This section summarises the main points of contrast of the group, with a particular focus on the distinctive elements of BLICC. Implications of these are discussed to derive the lessons for BLICC.

It is first useful to note the elements that BLICC has in common with the general characteristics of the other VEIs. The starting point here is that BLICC, like the others is a leadership-oriented business initiative where businesses work together and with another organisation to find ways to reduce their GHG emissions. In particular, as discussed in Section 4.2.3, it has some characteristics in common with the smaller VEIs like Climate Savers and Partnership for Climate Action, but also some important differences. Its broader approach to agenda setting which gives greater control to member businesses gives it some common features with The Climate Group. Further, as with The Climate Group, it is not run by an organisation with a wide spread reputation which can assign it broad external credibility.

As revealed in the discussions in Section 4.2.3 and 5.2.1, there are several distinctions that make BLICC unique among the other VEIs studied. These are summarised and considered below along with their implications.

***Agenda-setting by member companies*** – As it was discussed above, BLICC is technically not a Third-party or multi-sector initiative, but an industry initiative. Members have a stronger say over the agenda than in the NGO-led VEIs. This does not mean that NGO-like aspects are not employed, and Respect Europe is seen by its members to be closely associated with the NGO world. This aspect has good and bad implications. On the one hand, it means that BLICC lacks the *prima facie* credibility stamp that the third party initiatives can bring, but on the other hand, greater control of the businesses of their agenda means that they can identify those areas they are most in need of focusing on and developing. This can significantly increase the returns of VEI in terms of the learning processes, encouraging a higher degree of collaboration and development of innovations, product development, and GHG emission reductions.

The fact that BLICC is not lead by an NGO can also increase its ability to engage with a wider variety of NGOs since an environmental NGO-led VEI might have difficulty working closely with a VEI led by another group.

***Greater flexibility and adaptability*** – Related to the ability of member companies to set influence the group's agenda is the fact that BLICC is one of the more flexible and adaptable of the VEIs. This gives it strong advantages in relation to its ability to progress to new issues, and employ new motivating factors as conditions evolve. This can include changing membership, involving new stakeholders, or expanding or narrowing focus according to the demands of the members and situations. In contrast, the NGO-led VEIs, and those with narrower issues on which they focus face limitations on their ability to adapt as time progresses.

***Reduced visibility*** – WWF, Environmental Defense, the US EPA and the Pew Centre bring with them immediate recognition and credibility to the groups they are leading. Further, the strict guidelines that they follow regarding funding and the relationships between the members and the coordinator, such as the ways in which they conduct dialogue on policy, which is more one-sided in the case of some of the NGO-led VEIs adds to the credibility of those VEIs since there is less likelihood for them to be influenced by their members. In contrast, BLICC does not have the capacity to bring with it such recognition. Additionally, the funding system

and agenda-setting relationship means that Respect Europe, its coordinator, cannot play the same role as the coordinators of most of the other VEIs.

**Membership dependency** – The fact that BLICC is not led by a well-known NGO or other agency means that it is dependent on its membership for its credibility. Further while reputation is a strong starting point for businesses, they must also be able to continually demonstrate their credibility in order to maintain it. This means that the performance of each of the members is important. Furthermore, this requirement to perform does not stop with just climate change related measures, due to the negative impact that a company's action in one field can have on its reputation in other fields. Therefore, the member businesses must be relatively clean in all aspects of their work, and relatively proactive if they are to avoid compromising the advantages that they gain through advancing their own reputation in climate change issues and building up a reputation for BLICC.

**Control over membership** - The current members of BLICC have primary control over membership and have been actively involved in the past in recruiting more. In addition to the consideration of the dependency of the membership for the group's credibility, what must be also borne in mind the benefits in building up the relevant expertise in the group to allow more meaningful and productive discussion and cooperation and to evolve over time in a directed way. This potential to use membership strategically is a particular benefit of BLICC.

**Issue and action focus** – In addition to the focus on carbon accounting and best practice generally that the other VEIs take, BLICC works in more detail in several other areas (transport, customer activism and renewable energy). Such a focus works with the other aspects to encourage real innovation on issues through intensifying the potential for learning, communications and experimentation. It also contributes to the ability of the group to make real progress towards fundamental changes in the way business is done in the sense of redefining markets. This is a requirement for reaching meaningful sustainable development.

**Intensity of interaction** – BLICC meetings tend to occur more frequently than other VEIs, with greater member involvement and with more ongoing work programs. This supports the other issues to make the VEI more productive for the companies. This higher demand on participation means that it is important to ensure that the work of BLICC is relevant for members which means that they must have control over the agenda and ensure it is one that provides outcomes for them

**Broader involvement** – Only one other VEI requires involvement by CEOs in the work of the group. Enlargement of the pool of involved people, particularly to include those with responsibility for the strategic direction of businesses, substantially increases the potential for innovation and substantial change in environmental and economic performance. Limitation to environmental managers can effectively reduce the group's focus to work in the environmental management and accounting field.

On the whole then, BLICC is a relatively unique VEI in this field and certainly in comparison to the other VEIs studied. It is essentially an industry initiative with many elements in common with third party initiatives. This brings with it both benefits and drawbacks, as discussed above, of which it is important to be aware. Many of the positive characteristics which it has, relating to its flexibility are connected with the fact that the VEI coordination is responsive to the needs of its members and, due to the customer-client relationship, is required to produce outcomes that are of value for the member businesses. In the case of the NGO and government-led VEIs, this lack of agenda-engagement limits the pressure for progress and results and thus benefits that are attainable. In the case of the other industry

initiative, a larger and more varied membership base limits the degree of engagement possible. Nevertheless, the others have advantages in other areas and this does not mean that they should be dismissed as ineffective.

### 5.3 Recommendations for BLICC

The following recommendations are made taking into account the consideration carried out in the last two chapters. In assessing their utility, the limitations of this study, as set out in Chapter Two must be borne in mind. As such then the recommendations can only be really seen as ideas that might merit further investigation.

***Formulation of a membership policy*** – The importance of the members of BLICC to establishing and maintaining its ongoing credibility and their need to maintain this, means that the initiative is very susceptible to suffering in this area if just one company does not meet the standards of the others. While there is no suggestion that this has caused a problem in the past, as membership expands, this risk will grow higher. A clear set of standards for members could prevent standards lowering from their current ones by ensuring high standards in the fields that are important to the group. This policy could be related to real measurements of GHG emission levels and history of innovation and reduction but it must also extend to other issues because of the potential for proactive work in one field to increase the attention paid in others.

***Investigate a more formal policy dialogue process with regulators*** – High level contact between members and regulators is a useful aspect, but BLICC members commented that there was no ongoing dialogue at working level with the European Commission and other regulators. Institutionalised policy dialogue, such as via regular meetings or submissions ensures ongoing input into policy and avoids risks of loss of contact due to personnel changes.

***Promote NGO engagement*** – The characteristic that BLICC lacks is its association with a well-known NGO. While this also leads to some benefits, there is also value in the instant credibility and recognition that well-known NGOs bring. BLICC has dialogue with some NGOs, but this is not very apparent in its public documentation. There would be benefit if this was highlighted more, and if there was some way of institutionalising relationships with NGOs to ensure an ongoing dialogue and mutual support this would enhance the credibility of initiative while increasing the benefits that come from dialogue involvement with NGOs.

***Ensure forward momentum*** – Although BLICC can avoid defining itself into a dead end as is the risk of some of the other VEIs, due its broader agenda, this is a risk that should not be overlooked. VEIs which operate at the leading edge of innovation must continue to push their agendas forward to maintain their status. This is particularly important for an initiative that has to establish its reputation through action rather than association. This could include changing the nature of the VEI if it has moved beyond the status of *capability-building* to that of *proactive*. This is required if the VEI is to remain relevant to members and to retain its value to them and it could involve new and different relationships with stakeholders and ways of operating. One way this is being done is through the reinforcement of the GHG Protocol, but that is only one aspect of the issue relating to reducing GHG emissions. Other areas could involve trading, CDM or technology and emission standards.

***Ensure broad involvement within member companies*** – As set out above, this is present in BLICC to a greater extent than in many of the others, but the importance this aspect has means it is an aspect that should be given priority. Broad staff involvement has the potential

to increase innovation from new areas, and also spreading the message regarding the environmental priority.

**Promote achievements** – The value of having their achievements promoted by third parties is a major benefit for many businesses involved with these VEIs, as can be seen from the degree to which the VEI coordinators promote it. As set out in Chapter Four, BLICC members saw scope for more focus on this element.

## 5.4 Implications for VEIs and theory

There are several implications and recommendations that can be drawn out from the discussions above. These are discussed individually below.

The first issue stems from the concept of flexibility and adaptability. As discussed above, there are major benefits of VEIs generally, and there is potential for their benefits to be lost if VEIs are structured too narrowly. There are several reasons for this. First, because they miss out on an important opportunity for further ongoing and wider dialogue between the NGOs and their member companies which can result in more significant advantages to members and the environment through more wide ranging changes than carbon accounting and engineering issues.

Second, they need to move forward to keep up with the agenda. It is easy to see the importance that political-level coalitions between NGOs and progressive companies had in affecting the discourse on climate change science and policy in 2000, but once that has been achieved there is more to do. Thus the bargains between NGOs and businesses that trade assistance in accounting and publicity for emission reductions and policy endorsement could be becoming outdated. Now that scientific consensus is effectively established around climate change, and emission trading schemes are being established in most developed countries, this debate has been, or is close to being won. The next challenge is to make real changes to the system of production and value in economies to become carbon independent and more sustainable. The big changes that this entails will require more fundamental dialogues between business and stakeholders such as governments and NGOs.

Furthermore, VEIs which aim to attract and maintain a membership which is ahead of the curve in terms of innovation and dealing with environmental issues must be flexible and willing to move ahead with regards to the issues they encompass. That is, as the curve of innovation moves, and what was once considered proactive becomes more normal, VEIs which have not moved on with their proactive companies will lose the attractiveness that they had for the companies which are members. This is because the issues that they focus on may no longer be relevant for their members and as the members become more proactive, they most also associate with VEIs that are equally proactive.

For these reasons, the value of a hands-off approach to VEIs and agenda setting by coordinators has its limits in terms of the advantages that can be derived from such VEIs and risks being outdated. It highlights the need for them to be active and engaged at many levels and promote dialogue on several fronts.

Another factor that becomes evident regarding theory from the above is the potential for VEIs to be mutually reinforcing. The relationship in this case between the GHG Protocol, (an industry initiative), with the VEIs studied (both third party and industry initiatives) which

focus a lot on learning how to implement in the Protocol is the example. This shows how VEIs with differing strategic intents (proactive and capability-building) can also operate together.

At the level of theory, this study serves more as a demonstration of how the principles apply than as a source of new theory. It shows how that the VEIs studied can assist companies in several ways to gain value via environmental improvements. This varies mostly in degree between the different ones studied, but generally, the more intense the work that the businesses do together, the more potential for gain in that field since in the end it is up to the businesses themselves to make the actual changes that result in gains due to their environmental credentials. It also demonstrates that political engagement, and gains through raising the bar for competitors can take place at broader levels thorough long term influence on social discourse, in addition to direct policy-level influence, and that this broader role is a significant one for these VEIs studied.

Significantly, this study also points to the importance that VEIs not remain static if they are to ensure continued relevance and applicability for their members, their coordinators and for society as a whole.

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## **Abbreviations**

AGO	-	Australian Greenhouse Office
BLICC	-	Business Leaders Initiative on Climate Change
BELC	-	Business Environmental Leadership Council
CL	-	Climate Leaders
CS	-	Climate Savers
DJSI	-	Dow Jones Sustainability Index
ED	-	Environmental Defense
EPA	-	Environmental Protection Agency
IIIEE	-	International Institute for Industrial Environmental Economics
IPCC	-	Intergovernmental Panel on Climate Change
PCA	-	Partnership for Climate Action
TCG	-	The Climate Group
UNEP	-	United Nations Environment Program
US	-	United States
VEI	-	Voluntary environmental initiatives
VI	-	Voluntary initiatives
WBCSD	-	World Business Council for Sustainable Development
WEF	-	World Economic Forum
WRI	-	World Resources Institute
WWF	-	Worldwide Fund for Nature

## Appendix A – UNEP Categories of Voluntary Initiatives

Category	Management responsibility	Types	Examples
1. Industry initiatives	Industry has exclusive management responsibilities including defining the goals to be reached. Government has no formal role. Third parties may have advisory roles.	Individual company	Numerous corporate examples (e.g. waste reduction / pollution prevention pays programs). Case studies of member companies are provided by, among others, WBCSD and ICC, on their websites or in publications.
		Select companies	World Business Council on Sustainable Development (WBCSD), Global Environmental Management Initiative (GEMI)
		Industry-wide : • Cross-sector	ICC Business Charter for Sustainable Development ('90), Keidanren and Voluntary Environmental Action Plans ('91), Developing Environmental Leadership Towards Action Programme in Maghreb developing countries (Swiss Sustainable Business Associates '96)
		• Industry-specific	Responsible Care (Canada '85, 44 other countries since), American petroleum STEP ('90), Int'l Hotels Environment Initiative ('93)
2 Government initiatives	Government has ultimate management responsibility, from setting goals to monitoring results. Industry and third parties are likely to be consulted in the design of the program.	Regulatory relief	USA Project XL ('95), National Environmental Performance Track (2000)
		Challenge programmes	USA 33/50 (1991), Climate Wise ('94), Persistent, and Bioaccumulative and Toxic Pollutants Initiative ('99), EU EMAS ('97) French Glass Packaging Agreement, Australia Greenhouse Challenge
		Eco-Labeling	European environment product labelling programme, Energy Star Office Equipment (USA, Japan, Thailand, Australia)
		R&D / innovation	USA Partnership for a New Generation of Vehicles
		Technology upgrade	USA Energy Star ('90) and Small Business Partnerships ('96), China Green Lights
3. Joint government / industry initiatives	Government and industry negotiate goals and "co-manage" the initiative, sharing responsibilities for implementation and monitoring. Third parties may have limited advisory role.	Covenants / negotiated agreements	Netherlands Long Term Agreements ('95)
		Tripartite agreements (govt, industry, trade union)	Brazilian Tripartite Agreement on Benzene ('95)
		Official government endorsement	The European Cement Association - Voluntary Initiative to Reduce CO2 Emissions (Netherlands '92; Germany '95, France '96).
4. Third party or multi-stakeholder initiatives	Third party parties (non-government, non-business) develop and run the initiative. Individual companies and industry associations may be members of the organisation, or involved in other ways. Government likely to be limited to indirect or informal roles.	Independent standard organisations	ISO 14000 ('96), Forest Stewardship Council ('93), Marine Stewardship Council ('96), Sustainable Fisheries Initiative ('99)
		Responsible investment	CERES Principles ('89)
		Trade union initiatives	Swedish Confederation of Professional Employees: TCO 6E ('95)
		Environmental NGO	WWF Code of Conduct for Arctic Tourism ('95), WRI Climate Change Initiative
5. UN and other international initiatives	UN or other intergovernmental organisations act as international catalysts, working with business, governments and other society groups in design, implementation and monitoring.		Global Compact for the New Century ('99)
			UNEP Financial Initiative ('92), UNEP Insurance Initiative ('95), UNEP Tour Operators Initiative ('99), Global Reporting Initiative ('98)
			FAO Code of Conduct for Responsible Fisheries ('95), FAO International Code of Conduct on the Distribution and Use of Pesticides ('86)
			OECD Guidelines for multinational enterprises (revised 2000)

Source: updated from UNEP Industry and Environment review, "Voluntary Initiatives", January 1998.

Source: (UNEP, 2000, p. 5)

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