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Understanding the Governance of Corporations:

Linking theory and practice through an examination of the factors shaping UK supermarket strategies on climate change

Andy Gouldson and Rory Sullivan

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Understanding the Governance of Corporations: Linking theory and practice through an examination of the factors shaping UK supermarket strategies on climate change

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Abstract

This paper starts from the premise that our understanding of the extent to which, and of the conditions under which, we might rely on new or neoliberal forms of governance beyond the state to deliver particular public interest objectives is limited, especially when they seek to instigate changes in corporate behaviour. In response, we briefly explore some of the key elements of debates on 'governance from the outside' where public, private and civic actors engage in activities that seek to shape the behaviour or performance of a corporation, and 'governance from the inside' where the behaviour of a corporation is shaped by, for example, its structures and systems, resources and opportunities and cultures and values. We hypothesise that the ability of a particular set of governance conditions to change the behaviour or performance of a business will be shaped by the strength and alignment of a) the range of external governance pressures surrounding the business and b) the internal governance conditions within that business. We then consider the reasons why firms within one key sector (UK supermarkets) have responded to one key issue (climate change) in recent years. We argue that a specific set of governance conditions brought about a step change in the UK supermarkets' approach to climate change in 2007/8, and that this has triggered a period of improvement in their climate-related performance. However, we suggest that this process of improvement is bounded by the presence of a business case that simultaneously supports incremental change and constrains the potential for more transformative change. We conclude by suggesting that if the business case dries up, then governance conditions are likely to be characterised either by collective inaction or by socially-led governance, with its influence being determined by whether the diverse forms of social pressure that are central to it are stronger and better aligned than any associated forms of business resistance. We argue that this has significant implications for our understanding of the extent to which new or neoliberal forms of governance beyond the state can be relied upon to ensure that corporations - or indeed other actors - might help to deliver public interest objectives.

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Introduction

Numerous academic studies have charted the changing landscape for governance – with many claiming that capacities to control, coordinate or steer different forms of social and economic life are no longer concentrated in the nation state, but are instead diffused upwards to the global scale, downwards to the local level and outwards to non-state actors (see Jessop, 2004; Stoker, 1998; Kooiman, 2003; Bache and Flinders, 2005; Jordan, Wirzel and Zito, 2005; Black, 2008). Consequently, it is argued that social and economic activities are increasingly being governed through what have been termed polycentric networks that operate across multiple scales and in diverse arenas and that combine different forms of public, private and civic action (Paavola et al, 2009; Ostrom, 2010).

Within this paper, we argue that whilst some of the broad features of this new or neoliberal governance landscape are reasonably well understood, we know surprisingly little about the ways in which different forms of governance interact and exert influence over specific actors. We argue that this is particularly true when we consider the diverse influences that conspire to govern corporate behaviour. As a consequence, we suggest that our understanding of the extent to which, and of the conditions under which, we might rely on new forms of governance to deliver particular public interest objectives is limited, especially when they seek to instigate changes in corporate behaviour. Given the significance of the 'governance turn' (Kohler-Koch and Rittberger, 2006) in academic debate, the apparently increasing reliance of many societies on new forms of governance, and the central function that corporations play in many societies, we suggest that this is a significant shortcoming.

In response, in this paper we seek to make both a conceptual and an empirical contribution to our understanding of the influence of different forms of governance, particularly as it relates to the governance of corporations. Conceptually, we briefly explore some key elements of different debates on governance, and we argue that it is useful both to draw a series of distinctions between different governance forms and to examine the ways in which they interact if we are to understand the influence of new forms of governance more fully. To illustrate the importance of these interactions, we focus on the forms of governance that exist both around and within corporations. We then propose a simple conceptual framework or heuristic that helps us to consider the ways in which, and the extent to which, these external and internal governance forms conspire to shape corporate behaviour. We then apply this conceptual framework in an empirical evaluation of the climate and carbon related activities of corporations, in this case UK supermarkets. From this, we identify the characteristics of the external and internal governance forms that are the most important influences on corporate behaviour, and we discuss the implications for any public, private and civic actors that are interested in the extent to which new forms of governance can be relied upon to ensure that corporations help to deliver public interest objectives.

Our analysis finds that new forms of governance beyond the state can be effective, to an extent, as long as the changes they demand coincide with a 'business case' for change. In such circumstances, governance conditions can be seen to be business-led. However, we conclude that if the business case dries up, then governance conditions are likely to be characterised either by collective inaction or by socially-led governance, with the latter's influence being determined by whether the diverse forms of social pressure that are central to it are stronger and better aligned than any associated forms of business resistance. By highlighting the extent to which, and the conditions under which, we might rely on new or neoliberal forms of governance beyond the state to deliver public interest objectives, we contribute to both theoretical and empirical discussions on governance.

Understanding Governance

- Governance from the Outside

Within political science and related fields, debates on governance have tended to focus on questions about the changing role of national governments. The question of whether the regulatory powers of nation states are in retreat or decline – for example in the face of globalisation and neo-liberalisation, or recession and austerity - has been the focus of much debate. Some have argued that rather than shrinking in the face of such challenges, governments have innovated, for example through the introduction of new policy instruments that seek to mobilise and harness the governing powers of markets and civil society (Jordan, Wurzel and Zito, 2005), or through initiatives that ‘decentre’ the state by rescaling its powers across different levels and by distributing them amongst different actors (Jessop, 2004; Black, 2008). However, there are certainly instances where the powers of nation states are being diminished, and in such instances it is frequently argued that there is increased dependence on non-state actors to help to take decisions, to regulate behaviours or to deliver initiatives that are in the public interest (c.f. Falkner, 2003; Gouldson and Bebbington, 2007). Whether private and civic actors have the inclination or the capacity to assume such roles has also been hotly debated, and whilst many question the potential for particularly civic actors to take-up the governing roles that have been left unoccupied by government, at least in some settings we can see the emergence of stronger and more vibrant private and civil society organisations and their active engagement in new forms of governance (Falkner, 2003).

Of course, in many settings we have not seen a complete or even, arguably, that substantial a dismantling of the state, and many traditional forms of state-centred governance still prevail. But it has long been argued that governments (particularly those of a neo-liberal persuasion) are reluctant to draw on their capacities for control, and that they sometimes apply them only as a last resort when other forms of non-state governance have been shown to be unavailable or ineffective (see Ayres and Braithwaite, 1992; Gouldson and Bebbington, 2007). Rather than deploying their own scarce resources therefore, such governments first hope to see social actors engaging in new modes of civic governance, or industry and other market based actors deploying new forms of private governance. As sometimes such actions need to be facilitated or enabled by the state, Steurer (2012) suggests that in many contexts we are witnessing the emergence of new hybrid forms of governance based on different forms of co-regulation with varying blends and forms of input from public, private and civic actors.

Whilst emphasis is often placed on the changing role of the state, others emphasise the new private or civic governance measures that exist beyond the boundaries of the state in what have been termed ‘pure’ governance regimes (see Jordan, Wurzel and Zito, 2005). Falkner (2003) examines these processes of ‘governance without government’ and the ways in which private actors, or combinations of private and civic actors, create institutional arrangements that structure or direct actions in some way. Such institutional arrangements can include trade associations that regulate their members, private standards and voluntary codes that offer different forms of certification and NGOs and consumer groups that develop new standards and league tables (Falkner, 2003; Pattberg, 2005, 2007; Levy and Newell, 2005; Busch, 2013). They include more direct forms of business to business regulation, for example where investors seek to influence the performance of the companies they invest in or where large retailers seek to manage the behaviour of their suppliers, and civic arrangements where local communities negotiate controls directly with businesses (Gouldson, 2004; Pfeifer and Sullivan, 2008). And they include new forms of stakeholder influence, for example where different groups contest the extent to which some actors have a ‘social license’ or a ‘license to operate’, or where they seek to create and amplify reputational risks for actors that do not comply with social expectations (Freeman et al, 2010; Gunningham et al 2004; Power et al, 2009).

These changes create considerable challenges, both practically and for our understanding of the processes and influence of ‘new’ forms of governance. Under ‘old’ governance conditions, power was concentrated in the state and so the articulation of power, for example through the application of rules and sanctions, could be relatively straightforward. But under ‘new’ governance conditions, power is diffused in wider networks, with multiple actors with varying capacities, diverse and often divergent interests and competing logics all seeking to exert influence in different ways (Knox-Hayes and Levy, 2011). Where in the past theory has focused on the potential for coalitions of actors with well aligned goals to collaborate to secure influence over government policy making (Sabatier and Jenkins-Smith, 1999), we now have to understand the ability of multiple actors in what can be fluid and uncoordinated networks to influence business behaviour. But we also know that businesses are unlikely to be the passive targets of governance interventions – they can clearly deploy a range of tactics to shape the governance conditions under which they operate. In this apparently new world of polycentric governance, the opportunity structures for all actors, and the strategies that they deploy to create and exploit them, have certainly become more diverse and complex.

- Governance from the Inside

While much has been written about these various forms of ‘governance from the outside’, surprisingly few links are made between the broader debates on governance outlined above and the mainstream debate on corporate governance. This may be because wider debates on governance tend to be led by political scientists and related disciplines, whilst debates on corporate governance tend to be in the domain of business and management studies. Whatever the reason, this presents a divide or at least a disjuncture in the debate on governance that we seek to address in this paper.

In its broadest sense, corporate governance refers to the systems through which corporate activities are directed and controlled (Cadbury Committee, 1992). More specifically, it refers to the relationships between especially the shareholders and managers of a firm, and possibly also wider stakeholders, and the structures and systems used to take and implement decisions, monitor performance and ensure accountability (Monks and Minnow, 2011). Corporate governance can therefore be interpreted narrowly as referring to the essentially private relationship between the owners and managers of a firm or more broadly as the relationships between a firm and its wider range of stakeholders, including those in the public, private and civic sectors. In either instance, there is some blurring of the boundary between broader forms of governance and narrower forms of corporate governance, and because of the role that government regulations play in shaping the context or establishing the legal basis for corporate governance between private, hybrid and traditionally state-based forms of governance.

Traditional conceptions of corporate governance therefore place particular emphasis on the ownership and management structures of companies, and on the systems that are in place to manage and monitor performance and to generate the data needed to enable shareholders and to a lesser extent stakeholders to hold the company and its managers to account. From a shareholder perspective, corporate governance is very much about the control of principal-agent problems and the control of corporate behaviour to ensure the maximisation of shareholder value from corporate activities.

But it is clear that corporate behaviour and performance are not only governed by such structures and systems. Corporate activities are also shaped by the resources of the firm and the ways that they shape a company's competitive position and the ways in which it interacts with its stakeholders. Resource based views of the firm suggest that such resources can be tangible (e.g. patents) and intangible (e.g. tacit knowledge), and that they can be transferable (e.g. by developing or buying in new expertise) or contextually specific (e.g. they are not easily imitated, replicated or transplanted) (Wenerfelt, 1984, 1995; Barney, 2001). As different firms generate and draw on different resource endowments in different ways as they seek to create and exploit new opportunities, at least some of the conditions for corporate governance are highly specific and context dependent.

Whilst such a resource-based view tends to emphasise the economic or technological resources of a firm, it is clear that some key political resources also have great value. The ability to shape the governance conditions experienced by the firm is one such political resource. Firms can create shareholder value for themselves by fostering brand loyalty and by building levels of trust and acceptance that protect the firm from reputational risks (Fombrun et al, 2000; Gouldson, Lidskog and Wester-Herber, 2007). They can also exert influence in ways that pre-empt, undermine, capture or curtail the influence of groups that seek to adopt initiatives or impose agendas that threaten the interests of the firm (see for instance Wrigley et al 2002). And they can seek to ensure that their own logics are embedded in the standards bodies and governance mechanisms that they seek to comply with (Knox-Hayes and Levy, 2011).

More broadly, corporate activities are also governed by the cultures and values that predominate within the organisation as a whole or that exist within particular parts of the organisation or in the individuals that work for it (Kotter and Heskett, 1992; Ravasi and Schultz, 2006). These cultures and values can guide the ways in which the corporation and key elements within it perceive and respond to different pressures and opportunities. These cultures and values are obviously shaped by corporate leaders, by codifying their image of the corporate culture in mission statements, codes of conduct and so on. Indeed, Schoenberger (2000) argues that the dominant cultures of corporations are also the cultures of the dominant – corporate cultures represent an articulation of power, and they are centrally involved in accepting some forms of change and rejecting others. However, it is also important to note that some aspects of the corporate culture may be beyond the reach of senior leaders, being shaped by history, the values of employees and the prevalence and resilience of different sub-cultures within the organisation (Schein, 2010).

- Interactions between External and Internal Forms of Governance

Of course, we can expect different forms of external and internal governance to interact and to co-evolve in various ways. One form of external governance is likely to influence another – for example when governments mandate access to information that then enables different forms of market or social pressure to be applied (Gouldson, 2004). And different forms of external governance might have a greater impact when they align and resonate with one another – as could be expected where business leaders and non-governmental organisations (NGOs) form coalitions of interest (e.g. to lobby for strong international climate change policy) or when consumer interest in adopting energy saving measures is reinforced by high energy prices or media attention on climate change (see Egels-Zanden and Hyllman, 2006).

External governance interventions can also influence internal governance processes – for example through forms of governmentality where requirements for the disclosure of information on performance render previously private issues such as the behaviour of a person or a firm amenable to external scrutiny and influence (Weiss, 1978; Dean, 2009) or where external governance pressures such as government policy or investor pressure encourage the take-up of particular forms of internal corporate governance (Potoski and Prakash, 2004; Gillan and Starks, 2003). Conversely, internal governance conditions can conspire to shape external governance conditions – for example when the social values of employees change the ways in which a company behaves (see Hemingway, 2005), when corporate cultures alter the ways in which a firm engages with its stakeholders (see Andriof, 2002) or when business engagement with government influences the shape, form or direction of policy (see Bouwen, 2004). Finally, we might expect external governance forces to be mediated through a range of internal conditions before they have an effect, for example as social pressures for corporate responsibility are detected, articulated and amplified or attenuated in different firms in different ways depending on the governance conditions within firms (see Rothstein, 2003). This raises the prospect that different governance pressures may have the greatest impact where they align with each other and where they somehow resonate with or are amplified by receptive conditions within the individual or organisation that is the target of the governance intervention therefore.

There are echoes of the discussion on advocacy coalition frameworks here – where emphasis is placed on the potential for policy change to be brought about where stakeholders with broadly aligned values and interests and complementary resources form coalitions to exert influence in different venues (see Sabatier and Jenkins-Smith, 1999; Weible, 2007; Knox-Hayes, 2012). However, the venues and opportunity structures that diverse actors and coalitions are using in their attempts to influence corporate behaviour have been much less thoroughly studied than those that have been used to influence government policy.

It is clear from the discussion above that governance can be seen and studied from a range of perspectives. As outlined above we see extensive and well-established but largely separate debates on governance and the changing role of state and non-state actors, and on corporate governance, but we contend here that there is a general requirement for a fuller understanding of the ways in which (and the conditions under which and the extent to which) different forms of governance interact and exert influence. Such research is key if we are to develop a well-informed understanding of the extent to which we can rely on different forms of governance to deliver particular forms of change. Our aim in this paper is to conduct such an examination, with a focus on the external and internal forms of governance that conspire to shape corporate behaviour and performance on climate change. To guide such an examination, in the next section we propose a simple conceptual framework that acts as a heuristic for the subsequent empirical analysis.

Understanding the Interaction Between Different Governance Forms

The preceding discussion has drawn distinctions between 'governance from the outside' – i.e. where public, private and civic actors engage in activities that seek to shape the behaviour or performance of an individual or organisation, and 'governance from the inside', i.e. where behaviour is shaped by, for example the structures and systems, resources and opportunities and cultures and values of organisations. The discussion has also highlighted the potential for external and internal governance processes to interact in different ways, and it has emphasised that governance interventions may have the greatest influence where different external governance pressures align with each other, where they somehow resonate with or are amplified by receptive conditions within the individual or organisation that is the target of the governance intervention.

Such arguments can be simplified or abstracted further to consider the governance conditions under which changes in corporate behaviour or performance are most likely. With a focus on the governance of corporations, we hypothesise here that the ability of a particular set of governance conditions to change the behaviour or performance of a business will be shaped by the strength and alignment of the range of external governance pressures surrounding the business on the one hand, and the strength and alignment of the internal governance conditions within that business on the other. We define strength as the relative power and influence of a particular intervention or framework, and alignment as the level of resonance or synergy between different interventions or frameworks.

In Figure 1 below, we propose a simple heuristic framework that can be used to structure an examination of the validity of this hypothesis. By distinguishing between strong and well-aligned and weak and poorly aligned governance pressures both around and within the business, we propose four distinct sets of governance conditions.

Where strong and well-aligned external governance pressures meet with similarly strong and well- aligned internal or corporate governance conditions, we hypothesise that *collective action* is most likely. We define collective action as a situation where public, private, civic and other actors are working together or, more generally, where each is taking actions that reinforces and supports the actions of others, and where these actions align with what business sees as its own interests. Such conditions could be realised, for example, when a business is the target of multiple pressures from different sources that are all pushing for a particular type of change in its behaviour, and when that business is willing to change as the pressures somehow resonate with its culture and values, where there are appropriate structures, systems and resources in place to deliver change, and where it recognises an opportunity or some benefit from changing.

Conversely, when both external pressures and internal conditions are weak or are not well aligned, we predict that *collective inaction* is more likely to occur. We define collective inaction as a situation where public, private, civic and other actors are not working together or, more generally, where each is taking actions that conflict with the actions of others, and where business does not see that its interests are well served by taking action or responding positively to these pressures. Conditions such as these might occur when a business encounters a range of external pressures that are weak or contradictory, and when that business is either unwilling to respond because its cultures and values render it unreceptive, because it lacks the structures, systems and resources needed to respond or because it doesn't recognise any opportunity or benefit from changing.

Where external pressures are strong and are well-aligned, but internal conditions are weak or are poorly aligned, then we predict a phase of *socially-led governance* based on social pressures that are either ignored, resisted or partially accepted by business. We define socially-led governance as a situation where public, private, civic and other actors are working together or, more generally, where each is taking actions that reinforces and supports the actions of others, but where business sees that its interests are not best served by taking action or responding positively to these external pressures. The outcomes of these governance conditions will depend on whether the social pressure is stronger than any business resistance. These conditions might emerge where a business encounters pressure to change from a range of sources, but is either unwilling to respond as the pressures contradict its values, because it is unable to change because it lacks the systems, structures or resources needed to change or because it does not see any benefit from changing.

The mirror image of this occurs when external governance pressures are weak or are poorly aligned, but where internal governance conditions are strong and are well aligned. Here we predict a phase of *business-led governance* based on processes of change that are driven by pressures or conditions that emerge from within business, but that are ignored, resisted or partially accepted by social actors. We define business-led governance as a situation where public, private, civic and other actors are not working together or, more generally, where each is taking actions that conflict with the actions of others, and where business sees that its interests are best served by proactively taking action even in the absence of external pressures. The outcomes of these governance conditions depend on whether the self-interest of business is stronger than any social resistance that it might encounter. Such conditions might arise where a business has a strong cultural commitment to a particular form of change, where it has the structures, systems and resources needed to change and/or where it has a strong interest in changing.

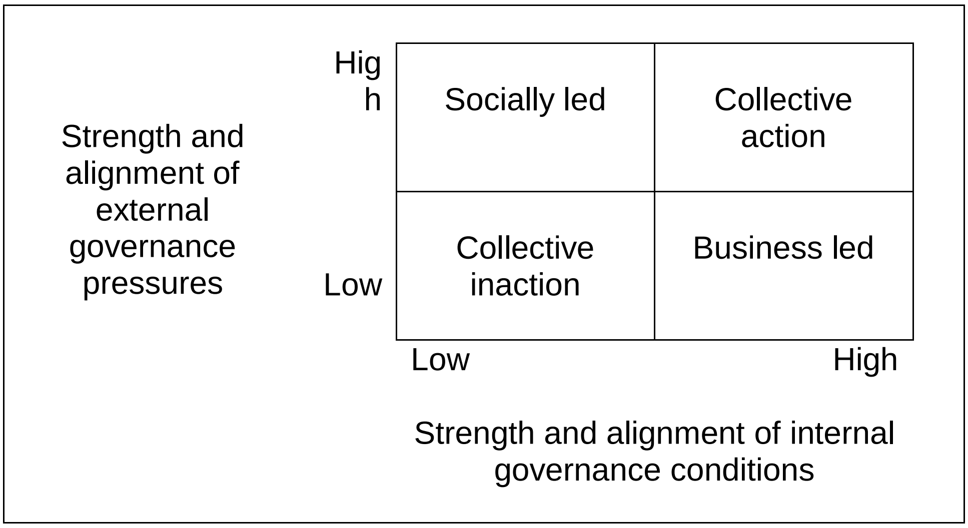

Figure 1

This creates the prospect that we can characterise particular sets of governance conditions, and start to understand their influence, according to the strength and alignment of external governance pressures on the one hand and internal governance conditions on the other. The value of the heuristic depends on analysts being able to identify and distinguish between stronger and weaker, and more or less well-aligned, governance pressures and conditions both around and within corporations. In the empirical analysis below, we apply the heuristic based on the qualitative results of interviews with corporate managers, with a focus on the reasons why firms within one key sector (UK supermarkets) have responded to one key issue (climate change) in recent years.

The Empirical Study

The UK supermarket sector's response to issues of climate change provides a highly relevant case-study for examining the impact and influence of different forms of governance on corporate practice. While the sector has a significant carbon footprint – it has been estimated that UK supermarkets' direct greenhouse gas emissions account for 0.9% of the UK's greenhouse gas emissions, and that emissions from the sector's value and supply chains are an order of magnitude higher (SDC, 2008) – most of the sector's emissions are not currently governed by traditional forms of regulation or emissions trading in the same way as corporations of a comparable size or impact in other sectors. They are however shaped by other economic, information-based and voluntary forms of policy including the UK Climate Change Levy (which encourages companies to reduce their energy consumption or use energy from renewables through imposing a tax on electricity, gas and solid fuel usage), Climate Change Agreements (where participating firms receive significant reductions in their Climate Change Levy payments in return for meeting energy saving or carbon reduction targets), and the CRC Scheme (where companies are required to monitor and report on their energy usage and to offset their emissions). And of course, UK supermarkets are both the source and the objects of numerous other non-state governance pressures – they govern themselves, their supply chains and the choices and impacts of their customers, but they are also governed by market conditions, social expectations, media portrayals, customer concerns, various private standards and voluntary codes and so on. The sector therefore provides important insights into the wider role that different forms of governance can play in influencing corporate practice and performance. The other noteworthy characteristic of the sector is that its views on and approaches to climate change and energy management underwent a step change in/around 2007. As we discuss below, these changes can be traced to distinct changes in the internal and external governance contexts of the firms in this sector, and this allows us to explore and analyse the relative influence of the governance interactions and relationships discussed above.

Given this focus, we set out to explore what UK supermarkets have done on climate change in recent years, and to understand the external pressures and internal conditions that led them to respond in that way. Our analysis of the climate change strategies and performance of the UK supermarket sector involved two stages. The first was to conduct a detailed content and data analysis of the information presented in companies' corporate responsibility (or equivalent) reports, annual reports, company responses to the Carbon Disclosure Project and other published materials covering the period 2000-2010. We reviewed 70 corporate responsibility (or equivalent) reports, over 40 CDP responses and the information provided by these companies on their websites and in other communications such as their annual reports. The second was to conduct a series of in-depth interviews with the corporate responsibility managers (or equivalent) and other operational managers of six of the nine main UK supermarkets (Asda, Co-Operative, Marks and Spencers, Sainsburys, Tesco and Waitrose[1]). These interviews focused on the drivers for corporate action on climate change and energy-related issues, and the manner in which corporate actions and targets have developed over time. We also conducted seven interviews with non-governmental organisations and consumer groups to identify the actions they had taken to encourage corporate action on climate change. Our approach therefore adopted a bottom-up approach by evaluating corporate behaviour and performance before exploring the key governance factors and conditions that shaped corporate behaviour and performance. The results of our analysis are presented below.

- The Evolution of Governance from the Outside

Interviews with the corporate responsibility (or equivalent) managers in the UK retailers revealed a consensus that the period 2005-2007 was critical in terms of how they and their organisations thought about climate change. A number of those interviewed pointed to this period being the time when climate change moved from being an operational or energy management-type issue to a strategic business issue receiving significant board and senior management attention. Our interview results suggest that a number of different factors combined to make this period a climate change 'tipping point'.

[1] The other three companies – Morrisons, Aldi and Lidl – declined to participate in interviews.

First, there was a growing scientific and public consensus about the importance of climate change as an environmental and an economic issue (see Sullivan and Pfeifer 2009). This period saw the publication of the fourth Assessment Report of the Intergovernmental Panel on Climate Change and the Stern Review on the Economics of Climate Change, along with the release of Al Gore's film *An Inconvenient Truth*. The higher profile of climate change in scientific and policy debates was also reflected in the results of consumer surveys. Whereas in its 2003 response to the Carbon Disclosure Project, Marks and Spencer had noted that its customers had stated that employment conditions, ethical trading, the responsible use of technology, sustainable raw materials, and animal welfare were the major social, ethical and environmental issues that were of concern, in its 2007 response it stated that it had seen a significant increase in customer awareness and concern about climate change. Similar findings were reported by other retailers (see, for example, Co-operative Group 2007: 71; 2008: 66). By actively monitoring and seeking to align themselves with the values and priorities of their customers, the supermarkets can be seen to be protecting their 'social license' and managing the reputational risks that emerge when major organisations ignore or are out of step with the concerns of their key stakeholders (Freeman et al, 2010; Gunningham et al 2004; Power et al, 2009).

Second, the press coverage on climate change moved from a position of apathy or hostility to the idea that climate change is a business issue to one where there was a reasonably broad acceptance of the scientific predictions and of the need for business to be part of the solution. Correspondingly, climate change moved from the science or environmental pages to the business pages and, perhaps most significantly, climate change was routinely covered in business publications such as the *Financial Times* (Pfeifer and Sullivan, 2008). As well as changing levels and forms of coverage in the mainstream media, enhanced access to information and the growth of the internet and new media outlets enabled NGOs to adopt new campaigns that could be potentially much higher profile, with greater reach and at lower cost. Again therefore this changed the profile of the reputational risks encountered by the supermarkets.

Third, the introduction of the EU's Emission Trading Scheme was seen as a definitive statement of governments' intent – both within the European Union and beyond – to take action on climate change (see, for example, Pinske and Kolk, 2007; Sullivan 2008; Sullivan and Pfeifer 2009). There was a sense that governments were determined to address the issue of climate change, and that some sustained and meaningful response from the business sector would be required. By acting proactively and supporting the development of various voluntary codes and standards, the supermarkets seem to have pre-empted government action and retained the ability to design and comply with their own governance conditions.

Fourth, electricity and energy prices, in part because of emissions trading (Sullivan and Blyth, 2006) and in part because of wider market forces, rose significantly. The combination of higher electricity prices and the clear sense that governments were willing to take action to regulate other sources of greenhouse gas emissions resulted in the supermarkets paying much more explicit attention to energy saving and greenhouse gas emissions abatement than they had in the past (see, for example, Co-operative Group, 2006; 2008). Their response to higher energy prices was also enabled by relatively easy access to funds to invest, at relatively low interest rates. This highlights the governing power of markets – the influence of other governance signals can clearly be amplified or attenuated (Rothstein, 2003) depending on the extent to which they are coincident with or are contradicted by the governance signals that come from markets.

Fifth, corporate cultures and industry peer pressure played an important role in defining the sector's overall response. The 2007 commitments by, first Marks and Spencer (to make its UK and Republic of Ireland operations carbon neutral by 2012 and to work with its customers and suppliers to help reduce their emissions (Marks and Spencer 2007)) and then Tesco (to reduce its own carbon footprint and to work with its suppliers and other organisations to deliver significant greenhouse gas emission reductions across the supply chain (Leahy 2007)) created pressure on other retailers to follow suit. This pressure was increased by some of the companies in the supermarket sector aggressively marketing their social and environmental credentials. In its 2007 Sustainability Report, the Co-operative Group noted that 2006 had seen a dramatic increase in the range of business sectors attracting attention for their environmental performance and that, the food retail sector in particular had started to aggressively compete on the basis of environmental performance and had initiated a range of commitments and targets to reduce environmental impact (Co-operative Group 2007). The 2007 John Lewis Partnership CSR report made a similar observation, noting that '…the last year has seen a flurry of CSR activity in the retail industry, as many companies have sought to champion their green credentials to customers and others' (John Lewis Partnership 2007: 1). A number of our company interviewees pointed to the need to be able to able to keep pace with their competitors as an important driver for action. This did not necessarily mean that they would adopt a leadership position, but it did mean that they needed to ensure that their actions and, perhaps more importantly, their communications mirrored those of their competitors.

- The Evolution of Governance from the Inside

When we look at governance conditions inside the UK supermarkets, the dominant theme that emerges concerns the relationship between conventional corporate governance factors (e.g. responsibilities, objectives and targets) and the cultures, resources and capacities of these companies. There are a number of different aspects to this relationship.

The first is that leadership positions, corporate cultures and governance and management structures have evolved, with a clear increase in the mid-2000s in the level of senior management attention focused on climate change. At or around this time, the supermarkets established board-level committees on corporate responsibility and/or explicitly assigned overarching responsibility for corporate responsibility to a named board member (usually the CEO) or senior manager. Within this, climate change was generally presented as one of, if not the most, important of the issues within the company's approach to corporate responsibility, with companies setting demanding, long-term targets for their performance on climate change, supplementing these with clearly defined responsibilities for the delivery of these targets, improved performance monitoring and regular senior management reviews of these performance outcomes. Many of the company interviewees stressed the importance of target-setting processes, explaining that the setting of targets creates organisational expectations and accountabilities (internally and externally) for the delivery of these targets. Powerful leaders therefore play a key role in creating the cultures and the systems that govern the day-to-day realities of corporate decision-making (Schoenbeger, 2000).

The second, reflecting the discussion about the resource-based view of the firm presented above, is that companies explicitly developed their organisational resources and capacities to enable them to work towards their targets. In the specific case of climate change and energy management, when companies take action to reduce their emissions or improve their energy efficiency, the options that are available to them reflect the technological or organisational approaches that are available and their own internal knowledge, skills and capacities. Companies that have experimented with energy saving technologies and have tested different approaches to energy saving and emissions management are likely to have a greater range of tested and proven options available to them. In the case of the UK supermarket sector, the large supermarkets have dedicated significant time and resources in developing green stores and intensively testing a wide range of energy saving technologies. This testing and pursuit of efficiency has enabled them to develop significant competence and knowledge in energy management, as well as detailed cost curves for a whole variety of technologies and approaches. Such experimentation has also meant that there is a consistent trajectory of energy saving, emissions reductions and performance improvements that these companies can expect to achieve year after year, even if they decide not to invest more time and resources in testing new technologies.

An interesting point that was raised by a number of company interviewees was that their company's views on climate change reflect their historic approach to and experience with energy efficiency and greenhouse gas emissions reduction efforts. A number of the companies interviewed commented that one of the reasons why they were focusing on greenhouse gas emissions from their supply chains was the fact that they already had made significant reductions in energy consumption and greenhouse gas emissions from their own operations, and that they expected similar reductions to be achievable through their supply chains. That is, it is clear that organisational cultures and capacities are shaped and influenced by previous experiences and approaches, with positive experiences more likely to result in a greater willingness to extend the scope of action. This highlights some key issues relating to the dynamics of corporate governance; history and past experiences play an important role in shaping future behaviours.

Finally, conceptions and interpretations of the business case for action provide an overarching frame of reference (or boundary condition) for company action on climate change. In our interviews with companies, the point that was made most clearly and consistently was that the actions taken by companies on climate change (in particular, those that involve significant capital investment or significant organisational resources) must be underpinned by a clear and robust business case. This applies irrespective of the specific commitments that the company has made to taking action on climate change. Moreover, the retailers generally expect the investments they make in energy-saving and greenhouse gas emissions reductions to deliver rates of return that are similar to other capital investments (in most cases, providing payback periods of two or three years). This focus on the financial costs and benefits does not mean that companies do not get other benefits from these actions (e.g. PR benefits from badging energy saving programmes as climate change initiatives). However, these benefits are usually ancillary to the primary driver for action.

This is a critically important point – when responding to the wider range of governance pressures, corporate leaders can make bold rhetorical statements or adopt ambitious targets knowing that other corporate governance structures are in place that will ensure that only measures supported by a strong business case will actually be adopted. It seems therefore that new forms of governance will only be influential if their demands can be made to coincide with business self-interest.

- Interactions Between External Pressures and Internal Conditions

Our research identified a number of important interactions between internal and external forms of governance.

First, when we look at internal governance conditions, our research confirms that having the internal capacities and resources to respond and having an openness to taking action are important preconditions for the types of actions that we have seen companies taking. However, this does not mean that companies will be fully responsive (e.g. in this case, becoming ‘zero carbon businesses’ or seeking transformative change within the business). In practice, companies willingness and ability to take action is constrained by the limits of the business case for action. When the limits of the business case are encountered, it is reasonable to expect that the corporations will start to question and challenge rather than accept and respond to the prevailing governance conditions.

Second, when we look at external governance, it is clear that there was alignment between a whole series of pressures – scientific evidence, media coverage, public opinion, energy prices, public policy action etc. – in the period 2005 to 2007, which was the key period when the climate change strategies of the supermarkets were transformed. When discussing the reasons why their company decided to take action on climate change, our interviewees pointed to the aggregate pressures that they faced at this time as convincing them that they needed to take action. While individual interviewees pointed to different pressures as being of greater or lesser importance, there was a general sense that, at this point, the need for them to take action on climate change was seen as ‘inevitable’ and that the pressures were seen as ‘long-lasting’ and ‘only going in one direction’. This highlights that the potential for coercive state intervention remains an important driver of voluntary corporate action. To some extent, governance interventions beyond the state take place in what Héritier and Lemhkuhl (2008) term ‘the shadow of hierarchy’.

Third, the accountability mechanisms relating to corporate carbon management have evolved, most notably through the development of the Carbon Disclosure Programme. Knox-Hayes and Levy, (2011) note the competing logics for carbon disclosure, with NGOs seeing the CDP as a mechanism that can be used to enhance transparency and accountability and drive down carbon emissions, but corporates seeing it as a mechanism for risk management. As variations in the scope, coverage and consistency of carbon disclosure and reporting continue to make it very difficult to compare corporate performance either over time or with other companies (Sullivan and Gouldson, 2012), it would seem that the NGO logic has been undermined. In the absence of state intervention to mandate carbon reporting in a form that stakeholders could use more readily, corporate leaders can continue to make bold statements on carbon performance knowing that it is very difficult to hold them to account.

Finally, it is clear that temporal aspects are hugely important. That is, analysis of internal and external governance must account for how these governance regimes and their interactions evolve over time. While companies highlighted the period 2005 to 2007 as the point where external governance pressures triggered action, the fact that much of this pressure (e.g. higher energy prices, on-going policy action, sustained consumer interest) was sustained helped to convince companies that this was a phenomenon that could not be ignored. It also forced them to develop their internal capacities and resources, and these have also shaped their response to the external pressures. For those seeking to bring about change, this emphasises the impacts that can be secured when multiple governance signals come together in a moment or a period of alignment. However, it is far from clear whether levels of coordination between multiple actors with diverse views are sufficient to bring about such moments of alignment.

- The Impacts of Changing Governance Conditions on Corporate Performance

In terms of performance, each of the retailers has achieved consistent improvements in its energy intensity (i.e. their energy use or emissions per unit of turnover), typically of the order of 2 to 3% per annum since the late 1990s/early 2000s (Sullivan and Gouldson, 2013). However, the step-change in the level of attention being paid to climate change and energy/carbon management in around 2007 identified above has not led to a corresponding step change in their absolute levels of performance (i.e. their total levels of energy use or carbon emissions). Efficiency gains have continued at a steady pace, and company managers expect that the business case for further efficiency improvements will be sustained and that they will be able to deliver further improvements in energy efficiency over time (Gouldson and Sullivan 2013). However, from the information provided by these companies, it is not clear that these efficiency gains will run ahead of business growth over the longer-term so that they deliver absolute reductions in carbon emissions (Gouldson and Sullivan 2013; Sullivan and Gouldson, 2013).

Discussion

- *A Critical Analysis of the Evolving Influence of New Forms of Governance*

When we look at the evolution of UK supermarket's responses to climate change, we see that there has been an evolution over the period 2000 to 2012 with four distinct phases being evident, each with different governance characteristics. Based on qualitative appraisals of the relative strength and alignment of external governance pressures and internal governance conditions, we can chart the changing governance context using the heuristic introduced above (see Figure 2).

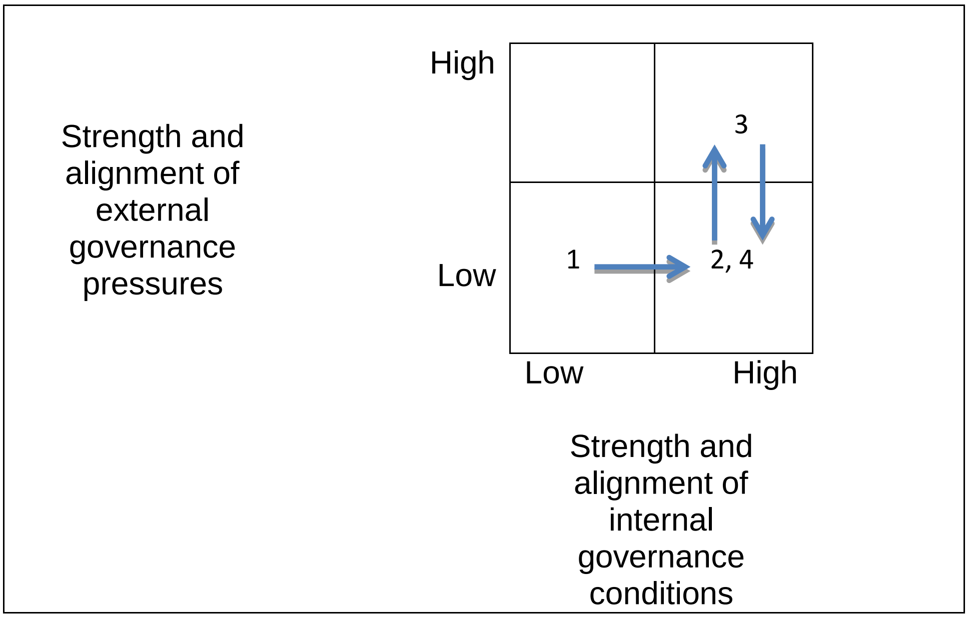

Figure 2

In the first phase, from 2000 through to 2005 or 2006, external governance pressures were relatively weak, at least when compared to what they would become later. Government policies on climate change had yet to impact significantly on the supermarket sector, private (e.g. investor or business to business pressures) were not pronounced, civic (e.g. customer and NGO) pressures were only occasionally influential. In the absence of substantial external pressures, levels of alignment between different pressures were not important; the different pressures neither reinforced nor contradicted each other. Within the companies, internal governance conditions were developing slowly – with companies building some of the capacities and resources that they needed to effectively manage their greenhouse gas emissions and energy use. Energy prices were increasing, and so corporate capacities and resources were drawn upon to the extent that there were commercial reasons for companies to take some actions to reduce their energy and fuel use. There was a degree of resonance between different internal conditions therefore. We therefore characterise this phase of collective inaction as being equivalent to position 1 in Figure 2.

In the second phase, in the short period from 2005 or 2006 to 2007, we see a rapid change in the external pressures for action and, albeit perhaps lagging by a year or two in some cases, companies' internal capacities and resources. Significant external pressures in the form of a stronger scientific consensus that action on climate change was necessary, backed up by the economic case for action presented by the Stern Report, led to rising public concerns, NGO campaigns and media coverage and a sense that significant and sustained government intervention was inevitable unless business acted. Within the supermarket sector, some chief executives and boards adopted targets and a rhetoric that empowered managers to take action and other chief executives rapidly followed suit. Capacities to manage energy continued to develop, relatively cash-rich companies had money to invest and energy prices continued to rise so that the business case for investment strengthened. Businesses therefore had strong and well-aligned internal governance conditions that were receptive to the stronger and better aligned external pressures. The rapid emergence of this set of conditions led to a tipping point in governance arrangements, which we characterise this move to business-led governance as being equivalent to a shift from position 1 to position 2 in Figure 2.

From 2007 through to 2008 or 2009, external pressures for action gradually strengthened, with the prospect of an international agreement on climate change and the UK government adopting mandatory carbon reduction targets. Social and hence customer concern grew, NGOs introduced a number of influential campaigns and media coverage of climate change was high. External pressures were therefore strengthening, and there was a degree of alignment between different pressures that reinforced their significance. Internally, the profile of climate, carbon and energy issues was maintained, with different companies setting broader and more demanding longer-term targets. Capacities for change had continued to develop and viable options for further improvements in energy efficiency were still readily available. With relatively high or volatile energy prices, corporate action was still possible within the constraints of the business case for action, and with low interest rates and relatively buoyant stock markets companies felt confident in investing. We characterise this shift to more collective action as involving a shift from position 2 to position 3. However, even in what would seem to be the most favourable governance conditions, there was little evidence that companies were considering options to substantially reduce their absolute emissions by radically transforming their business models.

Since 2009 or 2010, in particular since the failure at Copenhagen Conference of the Parties to the United Nations Framework Convention on Climate Change in 2009 to negotiate a successor treaty to the Kyoto Protocol, we have seen the governance context change again. In interviews, company representatives noted that the external pressures encountered by companies have been reduced by the failure to reach a global agreement on climate change in 2009 and by controversies around climate science that have been amplified by sceptical media coverage. While the impacts of the failure to reach a global agreement on climate change have thus far been mitigated by the UK’s pre-existing commitments to mandatory carbon reduction targets, recession and the pre-eminence of concerns about competitiveness have created a sense that targets may be weakened in time. Public concerns about climate change remain significant, but longer-term environmental concerns are competing for attention with shorter-term social and economic concerns. The external governance pressures have therefore weakened to some extent, and they also appear to be less coherent or consistent, with some level of dissonance between competing priorities.

Within companies, of course the financial crisis has made companies more reluctant to invest. But energy prices have remained high and seem likely to rise further in the coming years, and the continued availability of relatively low risk options for reducing energy bills means that the business case for investment has been sustained. Companies have maintained their public commitments, although these have at times been reintegrated into broader corporate social responsibility initiatives, with a particular focus on actions that enable them to drive down costs. Internal governance conditions therefore continue to be quite strong and comparatively well aligned. We therefore characterise this return to business led governance as involving a shift from position 3 to 4.

Looking forward, it is hard to predict how strong or well-aligned the external governance pressures that shape supermarket behaviour on climate change will be, but it seems more likely that the pressures from public policy will be weakened rather than strengthened. Internationally, there is little prospect of a global agreement on climate change in the near future, and domestic government in the UK is, for now at least, dominated by concerns about austerity, competitiveness and over-regulation. While companies continue to compete with each other on their approaches to corporate social responsibility, there are some signs that the focus is changing, with each company identifying different aspects of the corporate social responsibility agenda on which they wish to lead. That is, the business-to-business pressures on climate change specifically, although perhaps less on wider corporate responsibility, seem to be weakening. NGOs have been put under severe pressure in the last few years, with membership and funding levels and hence capacities to mount sustained campaigns falling, but with some signs of more coordinated campaigning across different NGOs. It is also relevant to note that, mirroring the actions of companies, some NGOs have moved away from having a sole or primary focus on climate change, towards a focus on wider sustainability-related issues. Socially, substantial sections of public and customer opinion are driven by cost rather than ethical concerns. And at this stage in the issue and attention cycle, it seems that media coverage of climate change will be at relatively low levels for some time to come, with high levels of climate scepticism in some parts of the press. In aggregate, therefore, external pressures seem likely to weaken and to continue to be characterised by mis-alignment between competing priorities.

The internal governance conditions for corporate action on climate change seem to be more favourable. Supermarkets have made public commitments that they would find it hard to withdraw; however, this needs to be qualified by noting that the limitations in corporate reporting make it extremely difficult for stakeholders to hold companies to account for their performance (Sullivan and Gouldson, 2012).

Moreover, supermarkets have already developed the structures and systems needed to deliver sustained improvements in energy efficiency. High and volatile energy prices seem likely to be maintained, interest rates are low, and corporate resources for investments in relatively low risk options are becoming more readily available. The technological and behavioural options that they need to operationalize their strategies are still readily available, even in those corporations that have already made substantial improvements in performance. For now, it seems that even in the absence of strong and well aligned external pressures, internal governance conditions and particularly the business case for action will continue to be favourable, and this will enable sustained progress with energy efficiencies and carbon intensities through business-led governance.

However, these governance conditions show few signs of being able to deliver substantial cuts in absolute emissions, or the more radical changes in business models that may be needed to make this happen. And if the business case for change dries up – if energy prices drop, interest rates rise, or options for improving energy efficiency encounter structural limits or diminishing returns – then the main form of governance that is driving change at present will be lost.

- *Significance for Conceptual Debates on Governance*

These findings have significant implications for broader theoretical debates on the influence of new or neoliberal forms of governance beyond the state. They illustrate how the 'governance turn' (Kohler-Koch and Rittberger, 2006) is taking place in practice. To an extent they show how new forms of governance are emerging that do not have recourse to the coercive powers of the state (Stoker, 1998). But they also show how companies commit to new forms of governance in the shadow of hierarchy as they seek to pre-empt and avoid government policy (Héritier and Lemhkuhl, 2008). Echoing aspects of the literature on advocacy coalition frameworks (Weible, 2007; Knox-Hayes, 2012), they highlight the importance of capacities for coordination in complex and fluid polycentric governance arrangements and the opportunities for influence at key moments in time when coalitions are formed and different governance forces align. They show how private standards and voluntary codes can open up new governance opportunities and that the impacts of such standards and codes could be enhanced through the actions of an enabling state, for example were it to require mandatory carbon reporting (Sullivan and Gouldson, 2012). But, following Knox-Hayes and Levy (2012), they also show the impacts of such programmes can be reduced when they come to reflect or be captured by the logic of the corporations that they seek to influence. They show how companies seek to align themselves with the values and expectations of their key stakeholders, and they offer some insights into the importance of the social license and the influence of reputational risks on corporate behaviour (Gunningham et al 2006; Power et al, 2009).

They also show how corporate leaders can shape the corporate cultures, structures and systems that in turn shape their response to wider governance pressures. They show how corporations retain the power to accept and comply with some governance arrangements, or to reject and challenge others (Schoenberger, 2000). They suggest that corporations are unlikely to be the passive recipients of governance interventions, particularly those that may threaten their interests, and that instead we can expect them to actively seek to shape the governance conditions that they operate in so that they work in their favour (Wrigley, Guy and Lowe, 2002).

Perhaps most critically, the analysis has shown that corporate leaders can make bold rhetorical statements that appease those calling for major change, knowing that only measures supported by a strong business case will actually be adopted and that they frequently operate in the absence of clear accountability mechanisms. Under these conditions, business led governance equates to business control of their own governance arrangements. Such governance arrangements may not be completely ineffective – they can deliver gradual advances in efficiency, but in this case at least there are very few signs that they could deliver radical or transformative changes in business behaviour.

Conclusions

The material presented in this paper highlights the need for a new way of thinking about the influence of different forms of governance, particularly on the behaviour of corporations. It stresses the need for research on governance to consider both external governance pressures and internal governance conditions, and to examine the levels and forms of interaction between these. It also stresses that attention needs to be paid to the alignment between diverse pressures and conditions as a key determinant of their collective strength and influence. This suggests that policy makers or other stakeholders seeking to govern or influence the activities or the performance of another actor or group of actors need to empower multiple actors, that these actors need to engage with others to find areas of common interest (or alignment) and that they then need to act in a sustained (over time) and directed (i.e. aligned messages) manner if they wish to effect significant changes.

It is, however, also important that the conclusions here should be qualified by recognising that the influence of governance interventions on corporate actors are likely to be limited by the boundaries of the business case for action. The extent to which external governance pressures can force companies to take action, and particularly challenging or transformative actions, beyond the boundaries of the business case is not at all clear. The evidence from the UK supermarket sector to date shows that, at least in relation to their own operations, supermarkets have achieved improvements in their energy efficiency and emissions intensity and, to a lesser extent, in their greenhouse gas emissions. They have frequently done this in the absence of significant government regulation. However, these improvements are dependent on a business case and are based almost exclusively on incremental change. Certainly the boundaries of the business case and the limits of incremental change can be extended through learning. But if the business case dries up, or if the opportunities for incremental change are exhausted, then the scope for further progress is likely to be restricted. At present, there are very few signs that any of the retailers are considering radical changes in their business models, and none of them seem to see any alternative to business growth. The power of non-state actors to force them to consider such presumably unpalatable changes would seem to be very limited.

If the business case for further change is sustained, then this would seem to suggest that future governance is likely to be either business-led or based on some level of collective action where external pressures resonate with receptive business conditions. But if the business case is absent, then future governance is likely to be characterised either by collective inaction or by socially-led governance, with its influence being determined by whether the diffuse and diverse forms of social pressure are stronger and better aligned than any associated business resistance.

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