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Why companies fail to respond to climate change: Collective *in*action as an outcome of barriers to interaction

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ABSTRACT

The urgent need to combat climate change is now globally accepted. Collective action at a global level is the key ability to respond to the threat of climate change. No individual company alone has the necessary resources and capabilities to tackle the unprecedented challenge of climate change. Companies need to engage in give-and-take exchange relationships with other companies to address climate change. Research on how companies interact with each of their counterparts to respond to the challenge of climate change is limited. Existing research on climate raises questions about 1) *how* companies interact in response to climate change and 2) *why* companies fail to craft collective responses to climate change? In an attempt to shed light on these questions, we use the network approach as a theoretical perspective to account for the ever increasing connectivity and interdependence in the business landscape and theorize on the consequences these phenomena may have for the study. The study is based upon an empirical investigation of public-private networks in Germany. Findings indicate that companies fail to collectively respond to climate change due to the multiplicity of interests of actors involved in the network which is aggravated by 1) economic reasoning; 2) weak actor bonds; and 3) differing perceptions of the rules of the game. As such, the present study contributes to our understanding of collective responses to the ever evolving challenge of climate change.

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1. Introduction

As climate change is now acknowledged as a global phenomenon (Oreskes, 2004; Meehl et al., 2007), there has been a corresponding call for action to be taken at the organizational level to mitigate the effects of this environmental challenge, as part of a wider scale plea for change to occur at governmental, individual firm and even individual level (Giddens, 2009). In this paper, we suggest that no individual company alone has the necessary resources and capabilities to tackle the unprecedented challenge of climate change (Veal & Mouzas, 2010). Companies thus need to engage in forms of *collective action* with other companies in networks of exchange relationships (Easton & Håkansson, 1996; Gnyawali & Madhavan, 2001; Håkansson & Ford, 2002; Ritter, 2000), to address climate change (Brown, 1996; Pendergraft, 1998). In this study we investigate a case where this form of collective action, centered on responding to climate change, broke down and did not happen. We ask *why* and investigate the barriers to collective action in business networks. In doing so, we develop a theoretical framework to unveil the causes for failure of collective action centered on business network literature. Specifically, we concentrate on investigating and answering the following questions:

1. *How* do companies interact in response to climate change?
2. *Why* do companies fail to craft collective responses to climate change?

To allow a thorough answer of these questions, we turn now to developing an understanding of where the current research has taken us to.

2. Previous research

2.1. Business networks in the context of climate change

In today's business landscape, companies find themselves embedded in networks of exchange relationships driven by processes of continuous interaction between individually significant and interdependent actors (Easton & Håkansson, 1996; Gnyawali & Madhavan, 2001; Håkansson & Ford, 2002; Håkansson & Waluszewski, 2002, 2007; Ritter, 2000). These exchange relationships are entered when actors perceive that value can be created and captured (Mouzas & Ford, 2009). Conflict in these exchange relationships is inevitable, particularly when actors' self-interests collide with collective interests of the organizations themselves, and of the wider societal groupings. The case of finding responses to climate change represents such a conflict. Self-interests, in this domain, are seen to motivate actors to free ride, where the best individual strategy may

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not result in a Pareto-optimal outcome (Nowak & Highfield, 2011). Common goods, such as a stable climate, are prone to contrary decision-making between self-interest and the best interest of the group. This is vividly demonstrated in the tragedy of commons, where individuals acting with self-interest independently behave contrary to the common good of all members, thus depleting common resources (Hardin, 1968). The tragedy of commons is inextricably linked with Olson's (1965) logic of collective action which suggests that rational actors will place the goals of the wider group of society over and above their individual goals.

However, there are difficulties inherent in engaging in collective action. Pendergraft (1998) argues for a link between a lack of collective action and the actual size of the collective. A similar congruence of thinking exists within the network literature where the interdependence of actors and the interactions between them is repeatedly highlighted as being increasingly problematic in direct relation to the size of the network and the number of actors involved (Ritter, Wilkinson, & Johnston, 2004). Indeed, we argue that similarities can exist in terms of the barriers to both collective action and interaction such as scale, diversity of interest and the differing perspective of actors (Olson, 1982) which are inherent in larger collectives or networks. As Olson puts it: "in the absence of special arrangements or circumstances […] large groups, at least if they are composed of rational individuals, will not act in their group interest" (1982, p. 18).

Pertinent to this study and our focus on climate change, previous research on collective action suggests that disagreement among individuals may occur because of the scarcity of resources and the basic human belief of a fixed-resource pie (Veal & Mouzas, 2010; Bazerman, Moore, & Gillespie, 1999). It is recognized that climate change represents such a case, since actors are not able to enlarge the planet and its resources are limited (Hardin, 1968). Here, we suggest that collective action is one possible outcome of business interaction. However, as we demonstrate in this paper conversely this may not always be the case.

Consequently, even the most ambitious climate change treaties have achieved very little, and, even more worryingly the increasing greenhouse gas emissions in the atmosphere continue to impose serious threats on natural, human and economic systems around the world, and would need to be reduced substantially over the coming years to stop climate disruption (IPCC, 2014; Stern, 2006).

It is important to consider some technical aspects of climate change in order to allow for a reliable investigation of interactions in response to climate change. Veal and Mouzas (2010) summarize the issue of climate change based on the Intergovernmental Panel on Climate Change Synthesis Report (IPCC, 2001) as following:

> *The Earth's climate system has demonstrably changed since the pre-industrial era. Human activities have increased the atmospheric concentrations of greenhouse gases and aerosols. An increasing body of observations gives a collective picture of a warming world and other changes in the climate system* (Veal and Mouzas, 2010, p.423).

A broad consensus about climate change science, i.e. that it is real and man-made, exists in the research community (Oreskes, 2004; Meehl et al., 2007; Veal & Mouzas, 2010). Furthermore, it is recognized that it is still feasible to stabilize CO_2 concentrations at acceptable levels (IPCC, 2014) and that the costs and risks resulting from contemporary inaction significantly exceed the costs of immediate climate change mitigation (Stern, 2006).

At the most basic level, responses to climate change can be either adaptation (responding) or mitigation (prevention). Both approaches are valid, since adaptation is necessary to handle changes that are already present and cannot be revoked, and mitigation is necessary to minimize long-term risks by stabilizing the atmospheric CO_2 levels (Stern, 2006). Of significance in this study are two considerations of climate change, as suggested by Veal and Mouzas (2010):

1. It requires collective actions in various areas embedded in the economy and everyday life of people
2. Mounting a successful response is limited to a timeframe of 20 to 50 years due to the long atmospheric life span and cumulative nature of CO_2, meaning that today's decisions can affect global climate changes for up to 50 years (IPCC, 2001)

We view these considerations in relation to climate change as being structural and physical constraints which are important contextual factors when investigating the barriers to consensus in climate change interactions.

This study uses the complexity driven by the two areas uncovered by Veal and Mouzas (2010) as the context in which interactions are and have to be made by organizational actors. Particularly, we aim to cut through this complexity by understanding how players get together in the game, to work together, to negotiate, to understand, and to listen. In order to achieve this outcome we need to uncover and understand what drives these actors in this global situation.

The global nature and requirement of collective action to develop responses to climate change constructs a global network of stakeholders who care about the issue. The actors in this global climate change network include governments, international governance bodies, companies, non-governmental organizations, and research institutions (GlobeScan, 2006). Although all actors have a similar ability to influence the network, it needs to be considered that:

> *Governments and international governance bodies have a high level of internal interaction and influence between actors, whereas companies, non-governmental organizations, and research organizations experience within their actor groups and hence influence each other less* (Veal and Mouzas, 2010, p.424).

Scholars seem not to have adequately addressed some of the most pressing questions about the appropriate responses to mitigate or adapt to climate change. Existing research on climate change has tended to focus on the operation of markets for carbon trading (e.g. Veal & Mouzas, 2011) and companies' individual responses (e.g. Okereke, 2007). However, there is a deficiency of discussion about how companies' as part of a wider network, may collectively respond (or not) to climate change.

The prevalence and significance of this gap becomes apparent when considering repeated calls for more in-depth research in this area. For example, Brett and Kopelman (2004) see the social dilemma of contributing to stop climate change as a topic where further study is required. Moreover, Veal and Mouzas (2012) request studies on markets for environmental governance that examine how cognitive and behavioral biases affect political and economic behavior (Bazerman, 1984; Hardie & MacKenzie, 2007; Leiserowitz, 2006; Sunstein, 2006; Tversky & Kahneman, 1981, 1986). Despite the rich contribution of behavioral approaches to our understanding of systematic biases and human errors, questions remain about the inherent barriers impeding collective action in business networks.

In order to account for the interdependence of actors, we adopt a network view on the activities of actors, rather than seeing them as individual and unitary (Welch & Wilkinson, 2004). It is this empirical lens which unveils the barriers preventing consensus in climate change interactions from being reached.

The network approach is used as a theoretical perspective to capture the ever increasing connectivity and interdependence in the business landscape. The network approach emphasizes that markets operate through complex institutional arrangements that enable exchange relationships among individually significant business actors (Easton & Araujo, 1994; Lazonick, 1991; Mouzas, 2006). These exchanges are possible through a process of interaction (Easton & Håkansson, 1996; Håkansson, 1982; Turnbull & Valla, 1986). Companies depend on the resources and capabilities of other actors to operate their business (Easton & Håkansson, 1996; Gnyawali & Madhavan, 2001; Håkansson & Ford, 2002). As a result markets can be considered as an interdependent array of companies involved in frequent and complex interactions

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