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The Future of Companies in the Fight against Climate Change: possible risks coming from the recent Environmental Social Movements

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INTRODUCTION

Recently, there has been growing concerns about how humans are impacting on our planet: the debate on *environmental sustainability* and *climate change* has become increasingly popular in the last few years, putting at the spotlight the negative effects of our lifestyle on the fragile equilibrium of the natural environment. For this reason, it is now safe to say that this topic is currently high on the agendas of the vast majority of institutions and political leaders in many countries around the world. This recent upsurge in attention can be attributed to several factors, which are partially interconnected: for instance, the new political negotiations concerning the environment – such as the *2015 Paris Agreements* and the subsequent annual UN climate change meetings, known as *Conferences of Parties* or *COPs* – have engaged a large part of public opinion. This is also due to the unsuccessful previous attempts at international bargaining tables, which generated a great media clamour because of their acknowledged failure (the clearest example is the *Kyoto Protocol* fiasco).

Moreover, the growing democratization of information – due to the increasing availability of both *cost-effective* and *user-friendly* information technologies – has helped the activity of traditional environmental Non-governmental organizations (NGOs) – such as *Greenpeace*, *350.org* and the *World Wide Fund for Nature (WWF)* – but not only. In fact, the proliferation of social media has also empowered individual activists, which now seem to become very influential opinion leaders, thanks to their propensity to translate the complex technical information – coming from the scientific community – into clear motivational messages to the general public.

To give an example, it is easy for us to recall the names of some of the today's most influential personalities in the world, such as *Greta Thunberg*, the young environmental activist founder of the *Friday's for Future* movement in support of the environment, or actor and environmentalist *Leonardo DiCaprio*, recently designated by the United Nations as *Messenger of Peace with a special focus on climate change*. Or again, former US President *Barack Obama*, now committed to raising awareness on climate change by training future political leaders through its *Obama Foundation*; and *Bill Gates*, the

founder of Microsoft, now full-time devoted to philanthropy and environmental activism through his *Bill & Melinda Gates Foundation* and his personal blog *GatesNotes.com*, where he often contributes to the climate change debate with the dissemination of information and suggestions to take concrete action.

However, despite all the efforts, these renewed concerns have not been translated yet into a credible global plan for a significant reduction of greenhouse gas emissions and for the promotion and establishment of a new sustainable development lifestyle (United Nations Environment Programme, 2020). Indeed, the major efforts to reach an agreement at the international environmental negotiations – involving the world's major institutions and most governments – have so far failed. There are many reasons for this, but the most significant lie in the practical difficulties of imposing and enforcing a fair distribution of duties among the countries involved in such negotiations. As a consequence, this inertia has resulted in the individualism of national governments, with clear cases of *free-riding* that have undermined the environmental targets agreed so far.

All this has worsened the effects of climate change: in fact, the most recent report of the *International Panel on Climate Change* has finally established – for the first time – that mankind and its industrial activity have an undisputed central role in the climate change phenomenon (IPCC, 2021a). Concerning this, the *UN Secretary General – António Guterres* – has also added that "we are coming to a point of no return" on climate change, due to the current absence of massive global green investments to "reverse the trends" on our GHG emissions (Milman, 2021).

In such an alarming framework, the efforts of environmental organizations and activists/opinion leaders – on raising awareness and urging the need to take immediate action – seem to be only extremely frustrating and ineffective attempts to encourage *politicians, institutions, companies* and even *private citizens* to achieve a general target (the drastic global reduction of greenhouse gases and the adoption of a more sustainable lifestyle), but without setting out a clear path towards sustainability.

While this framework is quite worrying, because of the inertia and idleness that seem to pervade human nature when it comes to deal with this macro topic, the recent IPCC (2021a) findings also tell us that both the problem and the possible escape strategy lie in

our hands: in this respect, IPCC Working Group I co-chair, *Valérie Masson-Delmotte*, seems to share this same view, as she has recently stated – at the IPCC Working Group I press conference for the presentation of the 2021 report – that “We now have a much clearer picture of the past, present and future climate, which is essential for understanding where we are headed, what can be done, and how we can prepare” (IPCC, 2021b).

Within such a scenario, the United Nations already established – in 2015 – the *United Nations 2030 Agenda*, which introduced a list of *17 Sustainable Development Goals (SDGs)* aimed at being universally applicable in the pursuit of sustainable development (United Nations, 2015). Among these, the United Nations had explicitly dedicated one of these targets to the fight against climate change: more specifically, the *UN SDG 13* states that the mission is to “Take urgent action to combat climate change and its impacts” (United Nations, 2015, p. 23). This is particularly relevant, because these *Sustainable Development Goals* are now being increasingly adopted by companies and institutions as a benchmark for their sustainability reports: for this reason, they may represent the only means to try to monitor the real commitment of organizations in achieving ambitious targets: in fact, a company (or institution) that clearly and transparently puts – on paper – its commitment to address climate change should somehow be bound to respect it.

Unfortunately, this does not always seem to be the case and many reasons may be attributed to that. Some of them will be addressed in this thesis, in order to identify possible paths in the global fight against climate change.

A first main reason is that the definition of the *UN SDG 13* seems to be very broad and general: this seems to be quite inevitable, given that the declared target of taking action against climate change can easily encompass several stakeholders. But this also makes perfect sense, as the magnitude of the climate change phenomenon involves many different players, each of whom has its own interests that should be analyzed and studied, in order to produce a more in-depth and detailed framework. For instance, *local governments* and *politicians* often seem to be influenced by the domestic sensitivities of local citizens, who exercise power through their right to vote, and often lead politicians – in search of short-term electoral gain – to take positions that are not forward-looking.

Furthermore, the power of citizens has increased in recent years, thanks to the availability of technological devices and social media, which have made it possible to increase the transparency of available information and made it easier for them to organize collective actions: for instance, modern environmental movements can organize through social networks in order to target companies they consider to be unsustainable, for example by calling for a *boycott* and/or attacking the public image of those companies. This may have critical negative implications in terms of companies' profitability. Moreover, this may ultimately stir public opinion and put pressure to governments and institutions.

As a matter of fact, the increasing *transparency of information* has hit different markets within the same wave, leading companies to unprecedented overexposure. And this phenomenon may intuitively increase again in the near future. As a direct consequence, nowadays it is quite easy for us to become immediately aware of the actions and choices that firms make on a daily basis, thanks to the massive dissemination of instant news and information that everyday fill our lives. In practical terms, this means that all the issues that once concerned only a few professionals and insiders (like the *sustainability theme*) are now potentially accessible to everyone.

The majority of people – who do not have the necessary knowledge/skills to understand such complex issues – may still have access to much, perhaps too much, information. As a result, the lack of in-depth expertise, combined with an overload of available information, makes it increasingly difficult for people to discern genuine information from *fake news* or *biased information*. This can pose a serious threat to companies and the overall social welfare, because people are potential *activists* and *voters*, and can therefore influence both corporate decisions on environmental sustainability (for instance through *boycotts*) and the composition of governments (through their *right to vote*).

Under these circumstances, it seems clear that an effective solution to respect the recent *2015 Paris Agreements* – thus limiting the global average temperature rise within 1.5 C above pre-industrial levels and drastically reducing greenhouse gas emissions, with the aim of bring them to zero over the next few decades – can only be found by involving the great multitude of actors who play (or can potentially play) an active role towards environmental sustainability. Among them, the most interesting for us to explore are

companies, focusing in particular on their relationship with the rest of society, including *environmental activists*.

Therefore, given the vastness of the topic and the many players involved, it has been decided to adopt – on this thesis – only the point of view of companies, analyzing what role could they play in complying with sustainable goals on climate change and what could happen to them if they do not succeed in such attempts and start being targeted by activists.

We have chosen companies for different reasons: the first one is to avoid a loss of focus when adopting different perspectives of other entities. The second reason is that – in the afore-mentioned landscape – companies play a crucial role, as witnessed by the great attention given to them at the recent *Sustainable Development Impact Summits* organized by the *World Economic Forum* (2021): according to the current *WEF* agenda, companies involvement in the search for sustainable solutions is perceived to be vital if we want to reach the targets of both reducing greenhouse gas emissions and mitigating the effects of global warming, given that “companies have the scale, flexibility, resources and expertise to achieve ambitious climate goals” (Ekholm, Figueres & Topping, 2020).

We can claim that companies are *versatile* and *flexible* entities, with dynamic capabilities, given that they already know how to rapidly adapt to changes in consumers’ needs. Furthermore, they may ultimately possess the right skills and creativity to anticipate or even set the future trends concerning environmental sustainability. For this reason, it is likely to assume that companies may be able to not only influence their prospects, but also *educate* them towards the adoption of a more sustainable lifestyle as citizens. This means that it is reasonable to hypothesize that the impact of companies in the current environmental sustainability debate could ultimately produce a social benefit for the whole society.

At this point, it is worth emphasizing that this thesis does not intend to offer a list of technical actions to explain how companies should effectively reduce their emissions, in order to respect governmental impositions. In fact, we can easily assume that this would be a topic related to the specific operations functions of individual companies, which should already be aware of the list of possible technical measures (and related costs) to

be implemented. Moreover, it is also reasonable to state that any technical proposals would vary not only from sector to sector, but also between companies within the same sector.

Conversely, the following thesis aims to highlight what could happen to companies that do not adequately engage in the fight against climate change in the first place, or do not appear to do so in the eyes of society as well.

Concerning this last topic, the growth of recent bottom-up social pressures regarding new environmental sensitivities – combined with the inefficiency of governments and global institutions – may represent an imminent risk for companies in terms of losing legitimacy towards society: a loss of credibility could easily escalate into a serious threat from modern environmental social movements, which could target even the individual companies, with potentially deleterious effects that do not seem to have been studied in depth so far.

This scenario will be analyzed starting from Baron's (2001) contribution in the study of *Private Politics*, a definition that encompasses the analyses of all the peculiar forms of interaction between companies and other stakeholders, such as the environmental activists. Then, this will be followed by a study of the most recent contribution on private politics made by Egorov & Harstad (2017) in their paper *Private Politics and Public Regulation*, in which they analyze — through a game theoretic model — the outcomes of a possible interaction between firms and activists, also with the presence of the public regulator.

The goal is to raise the question of whether this remarkable growth in the massive availability of information and the use of social media (with the consequent social environmental movements related to them) can be rightly considered as useful for the overall environmental sustainability cause. Or, on the contrary, if it can lead to potential distortions in the interaction between companies and the rest of society: this is the case of *greenwashing*, where companies exhibit ambiguous attitudes towards sustainability, by faking their actual commitment in the mere attempt to please consumers/activists.

This may ultimately generate a loss in the social welfare that would further weaken the already complex and fragile fight against climate change and its negative effects on our life.

In this direction, an analysis of recent *B-Corporations* – namely those hybrid organizations that have obtained an external certification for their demonstrable sustainable commitment – will be carried out, in order to discuss whether it is a valid profitable strategy for companies to change their business model and seek to obtain such a certification, given that it may help them both resist actual pressures from environmental activists and seriously combat the effects of climate change as well.

This thesis takes a multidisciplinary and original approach towards the climate change phenomenon: initially, it is offered a general political and economics overview of the major players involved, in order to understand how companies fit into this complex framework. Then, the managerial point of view of companies is adopted, with a study of the most recent forms of environmental activism as a possible threat: this analysis has been conducted both through a theoretical business perspective and through the application of game theory. Finally, the thesis examines some empirical studies, to explore more in depth the recent global environmental movements and the possible corporate solutions, that could help companies both to defend themselves against such mobilizations (in the imminent future) and to contribute – at the same time – to the fight against climate change.

The structure of the thesis is organized as follows: the first chapter initially introduces the theme of climate change, outlining the fragility of the major global attempts at international negotiations established so far, starting from the *COP3 Kyoto Protocol* and moving on through the *COP21 Paris Agreements*, in order to finally reach the current post-Paris debate. Then, it follows a reflection on the differences among major governments and institutions towards environmentalism. Subsequently, the role of companies in the fight against climate change is deeply explored, analyzing the instrumental value of the *Stakeholder Theory* (Freeman, 1984) and the *Corporate Social Responsibility*.

The second chapter describes the non-typical market interactions between firms and consumers, which are at the basis of Baron's (2001) studies on private politics. The perspective of companies is finally adopted here, starting from an analysis of the recent phenomenon of *Greenwashing*, understood here as a degeneration of the concept of Corporate Social Responsibility that companies might use as an improper instrument to cope with the increasing pressure from environmental activists. Consequently, the relation between companies and activists are deeply explored: in particular, thanks to the insightful contribution of Egorov & Harstad (2017), it is analyzed the role of

environmental NGOs acting between the firm and the regulator in a *war-of-attrition* game. The aim is to investigate whether companies should worry the power of the activists, as they seem to be able to help – or even replace – the regulator in the role of local watchdogs against companies' unsustainable behaviors (including the greenwashing phenomena).

In the third and last chapter, the theme of environmental activism is explored more in depth: the topic of modern activism through the use of social media is analyzed, through the observation of some real cases of modern activism, including the recent global *Friday's For Future* movements. Finally, a focus on the recent Certified *B-Corporations* is presented, in order to analyze whether becoming such hybrid organizations can represent a valid tool for companies, not only to avoid being targeted by activists, but also to translate the fight to reduce GHG emissions in a competitive setting, de facto without the need for a strong collaboration among countries at a global level.

CHAPTER I

CLIMATE CHANGE AS A GLOBAL CHALLENGE FOR COMPANIES

1.1. The fragility of the actual climate negotiations: from the Kyoto Protocol's failure to the uncertainty of the post-Paris Agreements

Nowadays, there is a vast consensus among experts that it has now become impossible to avoid the debate concerning climate change or delay any real commitment (United Nations Environment Programme, 2020; International Resource Panel, 2019; IPCC, 2021). As a matter of fact, the evolution of our lifestyles has generated an uncontrolled increase in greenhouse gas (GHG) emissions, which have ultimately contributed to a dangerous rise in global temperatures: as a consequence, this has dramatically exacerbated atmospheric phenomena – such as *floodings*, *desertifications* and *glacier shrinkage* – that are causing serious losses in biodiversity (International Resource Panel, 2019). Furthermore, such phenomena are bound to get even worse if no significant change in our behaviours and attitudes will be made towards climate change (International Resource Panel, 2019). In addition, the increasing life expectancy and the growth in the world's population – which is currently 7.7 billion people but expected to grow by 2 billion already by 2050, according to a recent United Nations World Population prospect (2019) – significantly contributes to worsening this already alarming scenario.

Moreover, according to a recent study published by New York's Institute for Policy Integrity (Beltrone & Sylvan, 2021) – which surveyed 738 of the most influential economists from all over the world – the issue of climate change may generate global costs for more than \$1.7 trillion a year by the middle of this decade, and these costs are expected to escalate exponentially, reaching about \$30 trillion a year by 2075. Thus, in addition to the climate emergency, there is the risk of a potentially catastrophic financial emergency in the upcoming years, caused by the unsustainable growth of the overall economic output.

In such a critical scenario, global governments and institutions have so far made several attempts at major international negotiations. The most significant are the *Kyoto Protocol* and the *Paris Agreements*.

THE KYOTO PROTOCOL

The first major international environmental negotiation for the global reduction of greenhouse gases was the *Kyoto Protocol*. Established in 1997 at the *Conference of the Parties (COP3)*, it has been joined by more than 160 countries, but formally entered into force only in 2005 with the adherence of Russia.

The Kyoto Protocol was the global attempt to reduce carbon emissions by the agreed common target of 5% with respect to countries' own 1990 emission levels (Cramton *et al.*, 2017a). This agreement was based on an international *cap-and-trade* system: a mechanism in which countries set their initial “caps” – which are specific carbon emission limits, quantified in tons of CO₂ emitted – and then negotiate them as polluting permits with other players involved. In this way, the negative externalities produced by each country would have been internalized into the logic of a shared market for carbon. According to Cramton *et al.* (2017a), this trade of polluting permits would have finally established – right through the market – a universally shared *global carbon price*, that would have made each country bound to pay the same price for its own carbon emissions. This solution would have finally led countries to both reduce their own emissions (Cramton *et al.*, 2017a) – reaching the levels originally targeted – and to address, at the same time, the problem of the overuse of a *public good* (in this case our *atmosphere*), without the payment of an appropriate price for the emissions dumped into such an atmosphere (Cramton *et al.*, 2017b).

Unfortunately, the Kyoto Protocol – as well as the subsequent minor regional cap-and-trade attempts (Gollier & Tirole, 2015) – has now been widely considered as a failure (Cramton *et al.*, 2017a). As a matter of fact, at the end of the Kyoto Protocol's negotiations, countries were basically split into two different groups: the first group – generally referred to as the group of more *developed* countries – was basically the only one that was subject to the afore-mentioned responsibility of cutting emissions by 5%

with respect to the 1990 levels. Conversely, *developing* countries refused any sort of emission targets, as they did not agree on the mechanism to how allocate the permits (Cramton & Stoft, 2009). For this reason, they basically ended up not having any kind of obligation whatsoever, generating political tensions with *developed countries*: for instance, the United States – which is one of the world's largest emitters of greenhouse gases – refused to ratify the protocol and withdrew from it already in 2001, triggering a chain of further departures from the agreement.

The main reason was exactly that fast growing economies – such as *China* and *India*, other two of the world's biggest polluters – were still considered as developing countries and had basically no constraints in such agreements at all (MacKay *et al.*, 2015). But this was not the only reason. In fact, the outcome of such a negotiation created an unfair balance even among more *developed* countries: the reference point of the 1990 emission levels was too favorable for those who emitted more at that time, as they would have had the right to emit more compared to the low-emitting countries of the past (Cramton *et al.*, 2017a).

This failure in the negotiations led countries to decide their individual national caps on their own (MacKay *et al.*, 2015). As a result, this produced different national emission targets that were too generous and too easy to reach: the reason was that they were based only on countries' self-interests, therefore not aligned to any collective goal. Ultimately, this generated an inefficient carbon pricing, which resulted to be too low than expected: this means that it is still more convenient for countries not to invest in green technologies and in the reduction of their negative externalities, but to buy permits to keep emitting greenhouse gases instead (Cramton & Stoft, 2012).

This dramatic scenario also showed us another crucial factor that weakened the Kyoto Protocol: the absence of a binding international authority able to credibly enforce the rules of the game and protect the principle of reciprocity as well (MacKay *et al.*, 2015).

THE PARIS AGREEMENT

In 2015, a total amount of 195 countries – covering 95% of global carbon emissions – joined together in the annual Conference of Parties (*COP21*) to sign in Paris an agreement to follow-up the failure of the Kyoto Protocol. This agreement focused on the declared mission of reducing global carbon emissions, to prevent a rise in global temperature to more than 1.5 °C above pre-industrial levels (Laurent, 2017).

Unfortunately, the overall result of the Paris Agreement potentially appears to be even weaker than the Kyoto Protocol, despite the fact that this new negotiation apparently solved the unfair division of responsibilities – between developed and developing countries – by treating all countries equally. In fact, the Paris Agreement is just a *pledge-and-review* system, in which countries are only asked to check and adjust – every five years – their own individual and self-declared commitments to reduce greenhouse gas emissions (Cramton *et al.*, 2017a).

The fragility of this new agreement is underlined by the fact that the overall Paris negotiation does not even display any sort of attempt to reach a shared carbon price through a reciprocal global commitment (Cramton *et al.*, 2017b). Moreover, as under the Kyoto Protocol, even in this case there is no enforcement mechanism of any kind, while the only possible action to try to sanction misbehaving countries is a weak “blame and shame” mechanism (Weitzman, 2017).

The result of this is the fact that the Paris Agreement seem to be a typical *bargaining game* that may have a perverse effect: in fact, countries have the incentive to stay carbon intensive – or even increase their emissions – in order to have more bargaining power at future international negotiations. This may happen because there will always be the need to reward more polluting countries with more emission permits, in order to preserve their crucial support in the negotiations (Harstad, 2018).

At the basis of this bargaining game there is an everlasting political issue concerning climate change, that economists generally frame as a *free-riding* problem (Cramton *et al.*, 2017b): the atmosphere (public good) is shared by all the countries, and its consumption

is non-excludable, since it is not possible to preclude anyone from enjoying it. This means that a “bad country” – that does not want to pay for its negative contributions to the atmosphere – will still have access to the use of that same atmosphere, and therefore it will always have an incentive not to enter into any sort of agreement that binds it to bear costs that it can easily avoid, by simply not joining it.

Within such a scenario, global cooperation appears to be currently quite fragmented and weak. While economists are now offering interesting theoretical options to try to achieve a fair universally shared carbon price – for instance by adjusting the mechanism proposed under the Kyoto Protocol, starting with the negotiation of a *Green Fund* for poor/developing countries (Cramton & Stoft, 2012; Cramton et al., 2017a) – the fear is that all the players involved are still too weak in sharing their similarities and too strong in showing their differences.

The countries in which companies and environmental organizations operate appear now very different in terms of both the type of governments and the cultures towards environmentalism. This ultimately leads to significant differences in countries and institutions – when it comes to discussing climate change – that should be better analyzed.

1.2. Differences among governments and institutions undermine the negotiations: the examples of Europe, the United States and China

By definition, public regulators – such as national governments and transnational institutions – should be the most powerful players regarding the impact of their decisions on environmental issues. In this regard, Tirole (2001) provided an insightful perspective on the role of governments and other regulators, arguing that they are the most influential players in the ecosystem, as they are the only ones able to both *impose* binding conditions

and *balance*, at the same time, all the interests and welfares of all the stakeholders involved. In other terms, governments are in a position of apparent strength, given that they represent the only stakeholder able to set the rules of the game also for the other players, including companies and the rest of the society.

While this certainly appears to be correct from a theoretical point of view, it is worth observing that governments and other regulators can be defined as “non-traditional groups” (Freeman, 1984, p. 26): this means that they are different from country to country all around the world, and they tend to follow different regulatory mechanisms even within the same country; or even display overlapping authorities (*e.g.*, national and supranational authorities) that may generate instability in the decision-making process. All of which results in an absence of global coordination that is essential to cope with the issue of climate change.

For instance, regarding environmental sustainability and climate change, it is possible to underline several differences between countries belonging to the *European Union*, when compared to big countries such as the *United States*. Moreover, there are certainly other differences between western countries with a democratic-capitalist tradition – precisely the United States – and countries which have recently grown a lot, but whose forms of government are still unclear and apparently not strictly democratic (such as China). Specifically, these differences in the approach towards environmental sustainability can be certainly attributed to the different political structures of governance of those countries, but not only: also the different sensitivities – and cultures – of their local *citizens*, *politicians*, *activists* and even *companies* undoubtedly play a crucial role (Doh & Guay, 2006).

In this respect, it follows a brief overview of some of the most significant differences in how some of the most important countries and institutions approach environmental concerns. The examples of *Europe* (through the *European Union* institution), the *United States* and *China* are discussed here below.

1.2.1. *The European Union*

The European Union has a dominant role in controlling the domestic environmental regulations of the EU Member States (Doh & Guay, 2006), thanks to the *Single European Act* (European Union, 1986), that shifted political decision-making from a national level to a more centralized structure under the European authority, which in turn is organized in three main bodies, each of them with different functions: the *European Commission*, the *European Parliament* and the *Council of the European Union* (European Union, 2012).

For our concerns, the *European Commission* is the most important institution among the three, given that it is the one responsible for new legislations and amendments to the existing laws, while the *European Parliament* and the *Council of the European Union* are just responsible for discussing the *Commission's* legislative proposals, in order to decide whether to apply them (European Union, 2012).

Interestingly, the *European Commission* offers several points of contact for complaints coming from environmental activists, companies and NGOs, due to the fact that it is structured in several small administrative units (called *Directorates-General*), each of them specialized in different areas, including environmental and climate change concerns: for instance, the *Directorate-General for Environment* is responsible for developing and carrying out the EU policies on environment (Adie *et al.*, 2002), while the *Directorate-General for Climate Action* is the department explicitly focused on the fight against climate change (European Commission, 2021a). This structure makes it easy for stakeholders to bring their complaints directly to the European Commission, right through establishing a constructive dialogue with these specific units – under the European Commission – which are devoted to the issues they are concerned about (Doh & Guay, 2006).

To be more specific, the collaborative approach of the European Commission towards large NGOs, globally representing the interests of many other small organizations, such as the *European Environmental Bureau* – which currently has its main source of income right from the support of the EU (European Commission, 2021b) — has brought such

large NGOs and the broader society to have a privileged access to the EU Commission (Doh & Guay, 2006). And this collaborative approach – always according to Doh & Guay (2006) – pushed the European Union to become greener, consequently becoming the leading advocate in addressing global warming concerns. This finally resulted in EU setting the tone of the climate change debate by entering the international negotiations with the adoption of a common position (Doh & Guay, 2006).

Unfortunately, this indisputable solid position of the European Union had to constantly face the factual bargaining weakness of Europe in the international framework, compared to individual countries with higher GHG emissions, such as *United States* or *China*: for instance, during the *Kyoto Protocol* negotiations, the European Union offered strong support in the negotiations, by bringing the interests of NGOs and civil society to the negotiating table, trying to mediate between the United States and the developing countries and ultimately emphasizing both on concrete targets for emission reductions and for actual deadlines to be respected, while — conversely — the United States offered little support for either mediation or for listening to the positions of developing countries (Doh & Guay, 2006), and this resulted in the US not ratifying the protocol, with the inevitable consequence of its premature failure (Cramton *et al.*, 2017a).

And apparently this is what is happening again in this last few years after the *COP21 Paris Agreements*: in fact, today it seems that the European Union is the only international player to have set a clear target with a well-defined time horizon for the reduction of greenhouse gas emissions: in fact, the recent introduction of the new *European Green Deal* (European Commission, 2019) has put at the center the goal to make Europe climate-neutral by 2050, thus achieving Net-Zero emissions of greenhouse gases by that deadline.

1.2.2. *The United States*

The context of the United States is very different from the European one: first of all, the United States – unlike the countries adhering to the European Union – is not formally subject to a supranational authority. This means that the US national government has the

complete independence and autonomy to decide about its environmental policies on its own. While this may seem more effective in terms of simplicity and flexibility of the decision-making process, it should be observed that the United States has repeatedly failed in its various attempts to find a unified approach to climate change so far (Doh & Guay, 2006). For the record, it is worth recalling that the United States has joined but then immediately exited both the two biggest attempts to cope with global warming at the international negotiations, namely the *Kyoto Protocol* and the *Paris Agreements*, starting with their withdraw from the Kyoto Protocol and ending with the *Trump* administration's decision to pull out of the Paris Agreements as well.

The reasons for these failures are multifaceted: first of all, the role of the central national government, especially with regard to the environmental issue, is weakened by the US federalism, due to the political decentralization that leads this macro-issue to be legislated and regulated not only at the national level, but also at the level of local individual US states (Doh & Guay, 2006).

Moreover, in all of this, the United States has a more individualistic and less communitarian tradition than Europe (Doh & Guay, 2006): as a consequence, the general management of the whole environmental sustainability issue is in the hands of individual companies, which interpret this macro-theme only in their strict competitive market context, through the use of corporate governance instruments like the *Corporate Social Responsibility* (Matten & Moon, 2008).

As a matter of fact, the relationship between US NGOs and both the national government and the overall American civil society appears to be quite critical and compromised: in fact, concerning climate policy, while global environmental NGOs – also operating in Europe – usually tend to display a collaborative approach towards the European Union (Doh & Guay, 2006), some of the biggest US NGOs – such as *Environmental Defense Fund* – often went against the positions of the most famous global NGOs – such as *Friends of the Earth*, *Greenpeace* and *World Wide Fund for Nature* — which operate all around the world, including Europe (Long *et al.*, 2002). Thus, as a result, US NGOs have often followed the official US government line regarding climate policy (Long *et al.*, 2002), but – as previously discussed – the position of the United States, concerning climate policy, has often been in contrast to the vision promoted by the European Union (Doh & Guay, 2006).

Moreover, due to the individualistic nature of the cultural tradition of the US economy – which has always seen the government exclusively as the primary protector of competition at the expense of cooperation between companies (a good example is the *Sherman Act*, the world's first antitrust law, which traces its origins even back to 1890) – American citizens would not accept the US national government working closely with NGOs, perhaps even publicly funding them as in the previously cited case of the European context, given that – by definition – NGOs should be “Non-Governmental”. As a result, global NGOs are not involved in the decision-making processes regarding the US government's environmental policy, but rather they are relegated to a confrontational approach, instead of the collaborative approach displayed in Europe (Doh & Guay, 2006).

Another reason for the fragility of environmental NGOs in the US context is determined by the strong presence of American industrial lobbies, partially granted by the US federalism, that allows several points of potential infiltration at different political levels (Doh & Guay, 2006). As a result, industrial lobbies – which have diametrically opposed interests to the ones of environmental NGOs, especially concerning GHG emission reduction – make it more difficult for environmental NGOs to persuade and disseminate green information towards civil society (Prieur & Zou, 2018).

Furthermore, beyond all of this, the choices of the US government concerning environmental protection, seems to be controversial. First of all, since these themes are not delegated to the decisions of a supranational authority — such as the European Union — the current environmental debate seems to be heavily influenced by domestic politics, which has often turned this theme into an ideological and electoral topic: for example, the Democratic President *Clinton* – thanks to the convinced activism of his Vice President *Al Gore* – signed the US adhesion to the *COP 3 Kyoto Protocol* in 1997, at the end of the second (and therefore last) Clinton presidency; but the future Republican President, *George W. Bush*, campaigned against Clinton and the Kyoto Protocol. Consequently, as soon as Bush won the presidential election in 2001, he immediately refused to ratify the Kyoto Protocol and withdrew from it.

More recently, again, democratic President *Barack Obama*, always in the final period of his second term in 2015, brought the United States into the *COP 21 Paris Agreements*, and the same thing happened again with the election of Republican President *Donald Trump* in 2016, with the dramatic difference that not only Trump immediately pulled the

United States out of the previous *COP21 Paris agreements*, but even went to the extreme of denying the effects of climate change and pursuing a pro-fossil fuels agenda (BBC, 2018).

In 2021, the new Democratic president, *Joe Biden*, has recently said that he wants to bring the US back into the *COP21 Paris agreements*. But President *Trump* – unlike *George W. Bush* – has only served one presidential term so far, and – despite being defeated in the recent 2020 elections – he has preserved a great number of supporters, so it is reasonable to assume that he may win the presidential election again for a second term and, as a consequence, withdrawing another time from the *COP21 Paris Agreements* commitments.

In short, the American context appears to be certainly unfavorable for the adoption by the United States of a unified position towards the fight against climate change, and this may consequently make international negotiations even more difficult than now, if we consider that the United States is the biggest greenhouse gas polluter together with China (IEA, 2021).

1.2.3. *China*

China is the fourth largest country in the world and the first big emitter of greenhouse gases. For this reason, it is now safe to say that any kind of possible global climate negotiation must need full and complete commitment from China, in order to achieve valuable results for the overall environment (World Bank, 2022).

Unfortunately, nowadays the structure of governance of this country still seems to be quite obscure and controversial from a political point of view, especially when examined from a Western perspective: in fact, China is showing – under the leadership of *Xi Jinping*, *President of the People's Republic of China* – an unclear separation of powers, absence of independent media, unfair political elections and severe compressions of freedom of

expression and association (Gan & George, 2021). According to the United Nations (2002), all these are crucial elements that must be in place in order to consider a country as a true democracy.

However, while these differences with Western democracies are apparently incompatible, the magnitude of this country has always made China to be considered as a necessary interlocutor even for the United Nations itself. Indeed, China has always been one of the five permanent members of the *UN Security Council*, along with France, Russia, the United Kingdom and the United States. The contradictions of the United Nations on this issue are thus quite evident, and they dramatically underline once again the complexity of negotiating a valuable agreement that must be able to align the interests of democratic countries even with the ones of powerful countries displaying façade democracies (or even true authoritarian regimes).

Paradoxically, the authoritarian governmental structure of China may even favor the adoption of a unitary and stable position towards the actions to be taken in order to fight climate change. For instance, in contrast to what is currently happening in the United States, the issue of climate change is not – by necessity – treated as a matter of electoral political consensus (Chiu, 2017). Indeed, the Chinese government apparently seems determined to tackle climate change decisively, and its effort is expected to increase in the next few years (Stalley, 2021). Concerning this aspect, it is also worth pointing out that China is currently the world's first big investor in renewable energy since 2013 (Chiu, 2017). Furthermore, President *Xi Jinping* – in his recent message to *The Davos Agenda* (World Economic Forum, 2022) – repeatedly confirmed the Chinese government's intention to realize the *United Nations 2030 Agenda* and foster international cooperation to achieve sustainable development.

Nevertheless, in spite of the undoubted improvements in environmental policies made in the last few years, other countries still continue to remain quite skeptical towards China, because of its coercive methods in the promotion of national objectives (Chiu, 2017). Moreover, the absence of a transparent democratic setting – as well as the absence of local watchdogs (such as *free media* and *environmental activists*) – inevitably makes China's promises not entirely reliable from an external point of view. As a matter of fact, any environmental initiative – such as the new Chinese carbon market (Buckley, 2021) –

inevitably raises doubts among experts about the ambition of the targets set by such a carbon market (Nogrady, 2021). However, given the absence of a democratic setting, it seems rather difficult to monitor China's actions and finally address the doubts raised by those experts. Therefore, it seems that the international community has no choice but to “trust” the Chinese government and its willingness to combat the effects of climate change and foster ambitious sustainable targets.

1.3. New companies’ responsibilities against Climate Change: the concept of sustainable development and the Stakeholder Theory

In the current debate on climate change, companies have increased their visibility and power. In fact, nowadays companies are generally considered important players, with new perceived social duties and responsibilities, for instance in the fight against inequalities and the effects of climate change (Sassoon, 2020). This can be partially attributed to the fact that governments and international institutions seem to have lost effectiveness and credibility, although they are supposed to be the only players able to set binding conditions on others (Tirole, 2001). Under these new circumstances, it is reasonable to assume that a credible attempt to find a real solution for the sustainable development of our future should necessarily pass through a real integration of companies in the current debate on companies’ sustainability.

As a result, managers are now facing new social pressures, in order to maintain (and possibly enhance) the legitimacy of their companies towards society. For this reason, concerns about legitimacy seems to effectively drive the sustainability reports of companies (Deegan, 2019), showing that those reports may be even exclusively oriented to enhance the image of companies towards stakeholders (like potential customers and investors), given the increased attention paid to these issues.

Thus, it appears to be well-established that nowadays *legitimacy* – which means being socially accepted by society – represents a first main driver force that leads companies to

choose to become environmentally sustainable and contribute to the fight against climate change effects.

Notwithstanding, Bansal & Roth (2000) argue that companies decide to go green – for instance by cutting their CO₂ emissions – not only for concerns about their *Legitimation* towards society, but also for other two main reasons, which are respectively *Competitiveness* and *Ecological Responsibility*. On the other hand, partly surprisingly, this insight tells us that neither companies' mere vocation to become environmentally sustainable (*Ecological Responsibility*) does appear to be the one and only main reason to justify the decision to become green, as it may intuitively appear. The reason is that, nowadays, companies' choice to become environmentally sustainable does not seem to be just a simple operational decision, but rather it must be – instead – contextualized within a complex competitive context, where also the influences of social legitimacy may play an undisputed role (Bansal & Roth, 2000).

For this reason, scholars tend to frame the issue of companies becoming environmentally sustainable by adopting an approach that encompasses this overall concept of sustainability and the broader stakeholder environment (Carroll, 2008), ultimately following a *holistic approach* towards it: as a matter of fact, true sustainable organizations do not address single environmental issues in isolation, but rather they consider the overall and long-term relationship of the organization with the natural environment, in order to promote the social interest in full respect of traditional market logics (Bansal & Roth, 2000).

This is in line with the dominant view in literature, according to which sustainability is defined as a broader theme that should be described with a triple-bottom line, following not only *environmental*, but also *economic* and *social* concerns (Elkington, 1994).

For this reason – given the extreme interrelation between the various components that shape the definition of sustainability (*environmental, economic, social*) – it may be helpful to start discussing about the concept of *sustainable development* of companies and its role in the fight against climate change effects.

Thus, in order to proceed, it is worth starting with the definition proposed by the famous report *Caring for the Earth: A Strategy for Sustainable Living*, jointly published by the

International Union for Conservation of Nature (IUCN), the United Nations Environment Programme (UNEP) and the World Wide Fund for Nature (WWF).

According to this report, *sustainable development* is defined as “improving the quality of human life while living within the carrying capacity of supporting ecosystems” (IUCN/UNEP/WWF, 1991, p. 211). This statement has followed up the earlier – and equally important – definition offered by the *Brundtland report* of the *World Commission on Environment and Development (WCED)*, according to which *sustainable development* was defined – for the first time – as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 54).

Despite the relevance of the *Brundtland report* – which emphasized the responsibility of contemporary society towards the society of the future (WCED, 1987) – the contribution of the report *Caring for the Earth: A Strategy for Sustainable Living* (IUCN/UNEP/WWF, 1991) appears to be far more insightful, as it not only defined what sustainable development is, but rather it also offered – for the first time – a list of nine *Principles for Sustainable Living* that should drive society – including institutions, local governments, companies and citizens – towards environmental sustainability.

More specifically, the principles are the following:

1. Respect and care for the community of life.
2. Improve the quality of human life.
3. Conserve the Earth’s vitality and diversity.
4. Minimize the depletion of non-renewable resources.
5. Keep within the Earth’s carrying capacity.
6. Change personal attitudes and practices.
7. Enable communities to care for their own environments.
8. Provide a national framework for integrating development and conservation.
9. Create a global alliance.

An interesting thing concerning the afore-mentioned IUCN/UNEP/WWF principles (1991), is that they helped to establish – in 2015 – the groundbreaking *United Nations*

2030 Agenda, which introduced the list of *17 Sustainable Development Goals (SDGs)* aimed at being universally applicable in the pursuit of sustainable development (United Nations, 2015).

Both the evolution of the definition of sustainable development – coming from these reports – and the more recent contribution of the *United Nations* to the theme – with the introduction of the *SDGs* – are quite relevant for companies: as a matter of fact, organizations should now be aware of the fact that they are required to follow general principles and targets that would require a change in their business model.

In this regard, Azapagic (2003) offers a similar view to the previous literature, since she proposes to address the issue of corporate sustainability through a *systemic* approach: according to her, the introduction of corporate sustainability should start from the company's *Business Strategy* and then culminate in the development and implementation of an effective *Sustainable Development Policy*, which should be effectively communicated to stakeholders (both internal and external) and constantly monitored and improved in the ongoing process. This suggests that both *internal* and *external* stakeholders may have key roles in the path towards companies' environmental sustainability, and companies should be aware of that.

Following this, concerning *internal stakeholders*: it is easy to assume that, whenever sustainability is becoming an opportunity to compete against other companies (Bansal & Roth, 2000), even the strategic and operative goals inside the organizations should adapt to these new logics of competition: in fact, it would be quite naïve to say that – nowadays – a contemporary manager should only be concerned about company's profits or the mere financial interests of shareholders. Rather, the increased competitive focus on sustainability seems to have raised the bar also for managers' tasks and own personal ambitions. Consequently, it seems extremely relevant to consider not only the interests of *shareholders* – as Milton Friedman (1970) stated in his doctrine, generally referred to as the *Shareholder Theory* – but also those of *stakeholders*. For instance, the aforementioned *managers* are the players who actually have to deal with day-to-day operational decisions, including all the sustainable choices of the company.

As an implication, for a company, the decision to monitor its stakeholders – especially while becoming sustainable – may no longer be just a matter of being “ethical” to cooperate in a “collectivist” sense, as Friedman (1970) may note with skepticism, but rather it may now represent a real need to stay competitive and legitimized, with the main goal to survive inside a dynamic ecosystem that is evolving alongside with companies.

Within this new perspective, Friedman’s *Shareholder Theory* (1970) – according to which the only “social responsibility” of companies is to make and increase profits – seems to be partially inadequate to describe the perceived new social role of companies: in fact, Friedman basically rejected the existence of these external social pressures, without taking into consideration the contribution and influence of other stakeholders (neither *internal* nor *external*) other than company’s shareholders. Furthermore, it should be said that Friedman’s position was strongly influenced by the historical context of the Cold War, with the fear of collectivism and socialism, which were radical ideologies coming from the USSR; but, in spite of this, the importance to the need for companies to be profitable – given by the *Shareholder theory* (Friedman, 1970) – remains vital. For this reason, it seems reasonable to integrate this theory with the most recent studies on the competitive external environment.

Concerning this, we should now clarify – at this point – that our main concern is to reflect about the company's interaction with *external stakeholder*: in this respect, we know that scholars are quite unanimous in counter-proposing to Friedman's *Shareholder Theory* (1970) the doctrine offered by Freeman (1984), generally theorized under the name of *Stakeholder Theory*. This theory is adopting a broader perspective to define the roles and responsibilities of the company, not only towards its owners (the *shareholders*), but also towards the nearby *political, economic, socio-cultural, technological, legal* and *environmental* landscape in which the company operates, since it usually interacts with a multitude of different players (the *stakeholders*), which are both internal and external to the organization.

The *Stakeholder Theory* (Freeman, 1984) certainly benefited from Archie Carroll’s previous contribution to the topic, since he previously argued – on his *Three-Dimensional Conceptual Model of Corporate Performance* (Carroll, 1979) – that the company has several responsibilities (*economic, legal, ethical* and *discretionary*), towards the external

business ecosystem, and these responsibilities are declined for each specific social issue in which the company can be involved (*consumerism, environment, discrimination, product safety, occupational safety and shareholders issues*), while managers can adopt an action of social responsiveness (*reaction, defense, accommodation or proaction*) for each of these social issues, in order to better deal with the expectations of the society.

Consequently, it is reasonable to assume that all those companies that no longer have a clear understanding of what their social responsibilities towards society actually are, may appear unable to meet social expectations and thus continue to be socially accepted (legitimized). This means that, nowadays, a company that does not adequately engage in sustainability may no longer be considered as attractive or even credible in the eyes of society, and this may result in a potential harm caused by these new overwhelming social expectations, which may finally turn into real financial and competitiveness losses.

1.4. Weaknesses of the Stakeholder Theory: contemporary managers between Shareholders and Stakeholders

Having established the importance of the stakeholders and the role of environmental sustainability for companies, it is worth emphasizing that – for corporate managers – it does not seem particularly useful to use a generic approach towards the multitude of stakeholders the company faces during its life (Tirole, 2006). The reason is simply that none of these stakeholders is equally strong or can be considered as static, but – conversely – we know that they inevitably evolve and adapt to their nearby context: for example, a government may fall, or a group of activists may stop fighting, or – again – a company's board of directors can change, just as the ownership and the management of the company as well, leading the business to drastically change its approach towards stakeholders and sustainability in a very short period.

And unfortunately, in all of this, also the *Stakeholder Theory* (Freeman, 1984) appears to be quite fragile: for instance, the role of the regulator (*e.g.* local governments and transnational institutions) is considered in an approximate way on that theory. As a matter of fact, the regulator is roughly depicted as an *exogenous* and *fully rational* actor, not subject to any external pressure, and whose decisions represent a *constraint* to which the company and all the stakeholders must submit, without any possibility of exerting influence on its decisions (Freeman, 1984).

Aware of the limitations of its findings, Freeman himself (1984) observed that there was still a need for searching new theoretical models to describe the complex role of the regulator, in order to translate the *Stakeholder Theory* into concrete strategies ready to be adopted by companies.

Another critical aspect of the Stakeholder Theory is regarding managers' new ambitions, that we initially mentioned in this thesis as one of such phenomena that are evolving alongside with the business ecosystem and the society as a whole. In this landscape, managers' new ambitions may represent a crucial turning point in companies' strive to be sustainable (Tirole, 2001), and the *Stakeholder Theory* (Freeman, 1984) seems to be unable to offer any concrete solution, preferring instead a more holistic and general approach that may be now partially unsuitable for the evolution of the actual ecosystem: to give a concrete example, as Tirole (2001) pointed out, it's hard to properly design new incentive schemes for managers and link them to the company's achievements in the contribution to social welfare, since there is no accounting measure of this welfare; and it is also quite optimistic to assume the existence of a *broad mission of management* (Tirole, 2001; 2006), according to which managers would genuinely adopt an utilitarian approach – towards environmental sustainability – to maximize all the stakeholders' surpluses. This means that, without an explicit compensation (able to link the company's pledges to reduce the negative externalities produced in the environment with the managerial performance), we could only rely on *implicit incentives*, which are imperfect and less effective, since they are not ruled by a contract (Tirole, 2001).

Moreover, it is possible to highlight a potential *conflict of interest* between the role of the managers in running the companies and their perceived responsibilities towards the society: as a matter of fact, managers are paid by the shareholders through a contractual relationship, therefore they explicitly work for them. However, this doesn't happen when

we discuss about the relationship between the management and the rest of the society: given that no contractual relations between these two parties are established, it is reasonable to deduce that the interests of the shareholders will prevail among managers, at the expense of the interests of society as a whole, which can be roughly defined – for the sake of simplicity – by the set of the companies' stakeholders.

Apparently, the only possible solution to this sort of market failure is to *contractualize* the relationship between managers and the other stakeholders, leading to what Tirole (2001; 2006) refers to as the *sharing of control of stakeholders*, with the example of the co-determination in Germany, where workers have the chance to be represented inside the board of directors of the companies in which they work for. This, however, is only a partial solution, as workers represent only a small part of the multitude of the stakeholders, but it is not feasible to assume that a company would be able to contractually negotiate relationships with every kind of stakeholder it deals with (in particular, the external stakeholders).

The problem underlying this bottleneck can be traced back to the definition of stakeholder proposed by Freeman: in fact, on his book *Strategic Management: A Stakeholder Approach* (Freeman, 1984, p. 25), he states that a stakeholder is "any group or individual who can affect, or is affected by, the achievement of a corporation's purpose". This definition now appears to be quite generic, given that it is easy to define as a potential stakeholder any entity a company interacts with, even if this happens only occasionally and marginally.

For this reason, it seems straightforward to assume that the *Stakeholder Theory* (Freeman, 1984) should now only be just the starting point for further reasonings: it appears to be essential, but not anymore sufficient, if we want to describe and predict the changing nature of the business ecosystem, with the aim to offer useful tools for companies to cope with these issues.

Nevertheless, even in this case, it is fair to point out that the contribution to the study of external stakeholders and corporate governance – provided by Freeman (1984) – is rightly undisputed: the *Stakeholder Theory* (Freeman, 1984) brought a revolutionary change of perspective to managers, after the *Shareholder Theory* of Friedman (1970), since it integrated the previous contributions of scholars like Carroll (1979) and Porter (1979). In

fact, not only the *Stakeholder Theory* (Freeman, 1984) has benefited from the earlier – and previously mentioned – insights of Carroll (1979), concerning companies' social responsiveness for specific social issues. But this theory also enriched the contribution to the topic made by Porter (1979), who was the first one to define – on his *Five Forces Framework* – the main forces every company faces during its life.

In fact, Freeman (1984) clearly emphasized that managers can be subject to a multitude of other players, which are different from the more traditional *customers, suppliers* and *competitors*, already analyzed by Porter (1979). And these “new” players can put pressure on the company as well. For this reason, managers must understand their interests, strengths and weaknesses, in order to assess the company's strategy – or as Carroll (1979) would define it, the “social response” – towards them (Freeman, 1984).

1.5. Corporate Social Responsibility as a new tool to address the recent environmental concerns

In the first part of the thesis we discussed about companies' decision to become environmentally sustainable, by illustrating that this choice is typically driven by three main reasons, namely the concerns regarding *Legitimation, Competitiveness* and *Ecological Responsibility* (Bansal & Roth, 2000). We then accepted the *Stakeholder Theory* (Freeman, 1984) – albeit with its limitations already discussed – as the ground point to address the sustainability theme, but without neglecting the importance given by Friedman's *Shareholder Theory* (1970) to the company's intrinsic nature of seeking to make profits.

Following these, we have not yet considered the primary instruments that currently enable companies to become effectively sustainable. In this regard, if we take the failure of

international negotiations – and the consequent lack of a global and binding plan to reduce greenhouse gas emissions – as something factual, it is clear that, today, there seem to be no protection for companies, since they have to deal with the urgent need to reduce their greenhouse gas emissions (in order to mitigate the effects of climate change) but without having an adequate system of protection on a global scale.

Within such context (in which companies appears to be dramatically isolated) it seems that the only tool available to them – both to try to address the issue of environmental sustainability and to protect themselves from the new environmental pressures – is *Corporate Social Responsibility (CSR)*. And this may seem to be even more evident in the individualistic American context: in fact, according to Matten & Moon (2008), US companies have traditionally adopted Corporate Social Responsibility in an explicit way, in order to strategically obtain only an individual benefit at the firm level, whereas Europe has traditionally been characterized by the presence of an implicit CSR, in which the company becomes aware of its responsibility and potential to improve the collective well-being thanks to the European communitarian tradition (Doh & Guay, 2006).

Concerning Corporate Social Responsibility, in the last few years – thanks to the increased attention paid towards the issue of sustainability – the debate on the importance of CSR has been revitalized recently, providing us new insights and making it extremely actual in the current debate regarding environmental sustainability. Nowadays, we have currently access to a vast body of literature regarding Corporate Social Responsibility; nevertheless, much of this background is merely the result of scholars' discussions that proliferated during the 1970s, but then crystallized during the 1980s and 1990s (Carroll, 1999).

Today, instead, scholars are still struggling to find a clear definition of what Corporate Social Responsibility is about, especially if we get away from the debate over Friedman's (1970) controversial position. As a matter of fact, while Friedman proposed a clear definition of CSR as an instrument for the company to simply try to increase its profits – which is for him the primary role that the company should have in the society (Friedman, 1970) – all the subsequent attempts to try to define CSR seem to offer an excessive number of definition, which are very different from each other, because they do not reach an alignment in the size of the breadth of the company's role in the society (Boulouta & Pitelis, 2013).

For instance, according to the *European Commission*, Corporate Social Responsibility is roughly depicted as “the responsibility of enterprises for their impacts on society” (European Commission, 2011, p. 6). Instead, according to the governmental *United States Agency for International Development*, Corporate Social Responsibility is a form of voluntary disclosure that is defined as the set of “transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment” (USAID, 2002, p. 2).

However, even though these definitions do not seem to be neither narrow, nor fully explanatory – therefore corroborating the vision of Boulouta & Pitelis (2013) of CSR as an elusive and controversial concept – the recent renewed attention on the topic of CSR (now even among transnational institutions like the *European Commission*) seems to be a significant confirmation that the interconnection between *sustainability* and *CSR* should be crucial, even though the actual debate seems to be still at the stage of the definition of the phenomenon.

An interesting insight concerning this point is offered by Bazillier & Vauday (2009): on their paper, first they agree on the fact that nowadays there’s not a well-defined notion of Corporate Social Responsibility, thus confirming the view of Boulouta & Pitelis (2013). Then, they underline the risk that CSR might just become a mere corporate communicational tool to take advantage of the absence of credible environmental sanctions by the regulator.

As a consequence, the regulator may no longer be able to supervise companies, generating a potentially chaotic scenario where companies – in the absence of a traditional transparent regulation – are encouraged to increase their investments in communication (advertising on environmental sustainability), at the expense of real investments in CSR, which are assumed to be the only substantial way to effectively reduce companies’ negative externalities (Bazillier & Vauday, 2009). Finally, this could also have negative repercussions for companies that really invest in CSR to improve their sustainability.

Unfortunately, this could be exactly the situation that may happen right now in the current landscape, as far as the global regulators continue to fail to address environmental sustainability through the adoption of universally shared rules. Consequently, under such scenario, it seems quite evident that the ability of companies to properly communicate

their individual social commitment – towards stakeholders – would become of vital importance, in order to preserve their legitimation and their competitive advantage towards competitors.

In short, CSR might be a tool that has nothing to do with reducing negative externalities, and the rest of the society might be already aware of that (including environmental activists). Moreover, this may ultimately result in possible distortions (between the perceived role of the company and its effective contribution to the social welfare that should be better analyzed).

CHAPTER II

PRIVATE POLITICS AND CLIMATE CHANGE: ACTIVISTS AGAINST COMPANIES

2.1. When CSR becomes a market failure: the Greenwashing phenomenon as an information asymmetry

The potential mismatch between the real green investments in CSR and the publicly perceived ecological sustainability – of the company towards society – may generate a phenomenon known as “Greenwashing”: we can consider it as a degeneration of the CSR concept, in which companies may alternatively display non-compliance with environmental rules – for instance the *US Federal Trade Commission's* general principles regarding the use of *Environmental Marketing Claims* (FTC, 2012) – while communicating to do so instead. Specifically, these violations could be wrong products’ *Qualifications and disclosures*, misleading *Distinction between benefits of product, package, and service* and general *Overstatement of environmental attribute* (FTC, 2012).

The Greenwashing phenomenon can be classified as “light” or “hard” (Bazillier & Vauday, 2009), depending on the degree of its manifestation¹, and may affect any kind of organization, even though with significant differences among sectors: in this respect, Aggarwal & Kadyan (2014) propose an empirical model to analyze the *Automobile*,

¹ In the companies’ trade-off between investing in CSR or in Green Communication – explained by Bazillier and Vauday (2009) – companies with both *high* and *low* levels of CSR investments can experience green-washing, depending on both the competitors’ behaviours and the gullibility of consumers; “*Light Greenwashing*” is a less noticeable form of the greenwashing phenomenon, that may happen when the company – that is already investing in CSR – tends to decrease (even slightly) its investments in CSR, because its credibility towards the society is high enough. This may also reduce company’s incentive to disclose information, consequently increasing its incentive to invest even more on green communication at the expense of CSR.

Electronics, Food & Beverage and *Personal Care* sectors, in order to find specific examples of companies complying with the following five (5) Greenwashing criteria:

1. No Proof/No supporting evidence.
2. Use of vague/ broad words or images or visuals.
3. False eco labels and certifications.
4. Hidden Trade Off.
5. Irrelevant claims (mandated by law/ legislative pressure).

These findings have demonstrated that the higher rates of Greenwashing are in the Personal Care sector and the Automobile sector, even though the latter is the sector with both the highest and the lowest greenwashing scores (Aggarwal & Kadyan, 2014). As a matter of fact, it's quite interesting to note that – according to these results – the company with the lowest greenwashing score was a company producing electric cars: Nissan (Aggarwal & Kadyan, 2014).

This may be relevant for our thesis, since that – according to a recent report from *Greenpeace* (Stephan *et al.*, 2019) – the traditional fossil-fuel car industry is one of the major responsible sectors in driving the climate crisis, generating almost 9% of the total GHG emissions. For this reason, we can conclude that Greenwashing may directly affect companies' impact on climate change effect, as these companies may continue to avoid making efforts to reduce their negative externalities, while communicating instead to do so.

In economic terms – in light of what has just been discussed about – we can assume that Greenwashing should be classified as a phenomenon able to generate inefficiency in *Paretian* terms: as a matter of fact, *Pareto* efficiency requires information to be freely disseminated and available, because information is (and should always be) a *public good*.

Conversely, Greenwashing produces *information asymmetries* between the firm and the external stakeholders, ultimately generating *imperfect information*. For this reason, information asymmetries (produced by Greenwashing behaviors) may lead to a market failure.

In this landscape, the power of greenwashing appears to be undeniable, because it may help companies to opportunistically overcome the trade-off between CSR and company's

communication activities, previously depicted by Bazillier & Vauday (2009). In fact, companies may choose to invest only in green communication – to gain the positive feedbacks (in terms of credibility and legitimation) that only real investments in CSR should generate – but without reducing their negative externalities.

This alarming phenomenon may seem particularly significant in the US context, due to the American instrumental and individualistic concept of CSR (Matten & Moon, 2008). In fact, Corporate Social Responsibility can be considered as a sort of self-insurance against reputational damages: according to an empirical study which analyzed the stock price variations of companies after an adverse reputational event (Minor & Morgan, 2011), it has been observed that CSR can partially protect the company from an adverse event that could put its reputation at serious stake. But since investing in CSR is costly, companies may always have the incentive to prefer only the green communication, with respect to the real investments in CSR (Bazillier & Vauday, 2009). As a result, greenwashing may represent – for companies – a shortcut, whether legal or not, to circumvent the issue of these emerging environmental sensitivities, thus keeping activists at bay, without any real commitment in the fight to reduce their negative externalities.

In light of these findings, the topic appears to be even more worthy of particular attention: as a matter of fact, it seems reasonable to suppose that a company may benefit from engaging in greenwashing, at the expense of social welfare, since that a lack of transparency of the organization can distort the relationship with the society as a whole, producing – consequently – an unfair balance of power of the former against the latter. And to some extent, this appears to be true.

An insightful perspective into this is provided by Wu, Zhang & Xie (2020) with their *game theoretic model of CSR and Greenwashing*: this model supposes the existence of:

1. *Information asymmetries* between the firm (which can be either a *profit maximizer* or a *socially responsible* firm) and the consumers.
2. A positive relationship between consumers' attitudes and CSR investments. This means that consumers are willing to pay a premium for buying a product from the most virtuous company (*the socially responsible* firm), given that a company that wants to increase its CSR expenditures is considered as “green”.

In spite of these assumptions, however, customers are not always able to perfectly discern the *socially responsible* firm from the *profit maximizer*, due to the limited information available that generates information asymmetry: this is the reason why companies – by knowing this – engage in greenwashing activities in the first place, with the clear aim of hiding their characteristics, leading consumers to potentially choose the wrong (bad) side of the market, at the end of their decision-making process (Wu, Zhang & Xie, 2020).

By focusing again on this scenario and adopting it to the already mentioned findings of Bazillier & Vauday (2009), we can frame it as follow.

For the sake of simplicity, we assume the existence of only two firms, manufacturing the same good:

- I. The *Socially Responsible* Firm
- II. The *Profit Maximizer* Firm

Established this, we assume that the *socially responsible* (green) firm is a *virtuous* company that:

1. produces the good in a *sustainable* way.
2. allocates a *balanced* amount of resources between the investments in CSR (in order to be increasingly sustainable) and the communication (in order to signal itself as a *virtuous* company towards the society).

On the contrary, we can assume that the *profit maximizer* firm is a *vicious* company that:

1. produces the good in an *unsustainable* way.
2. allocates an *unbalanced* amount of resources between investments in CSR and communication, clearly preferring communication over investments in CSR, with the aim of fake-signaling itself as a *virtuous* company as well.

We can observe that this scenario is apparently quite similar to the well-known model of the automobile market provided by the 2001 Nobel Prize in economics Akerlof, on his *The Market for "Lemons": Quality Uncertainty and the Market Mechanism* (1970): in fact, Akerlof described a setting where – under absence of information certainty – both good cars and *lemons* are in the same market, but the only player able to perfectly

understand the quality of the car is the car seller itself, while the buyer – that wants to buy the car but doesn't know if it is a good car or a *lemon* – would only offer a price that is lower than the minimum price needed to buy the good car: for this reason, the good cars sellers will not accept to sell their car, while only the *lemons* sellers will sell their products. Under such a scenario, asymmetric information is providing an inefficient allocation, leading to an inefficient trade: as a matter of fact, if the buyer is rational – by knowing this – he/she would only and consciously buy the *lemons*, while the good products have already exited the market.

Similarly, in the initial example, the only player able to rationally understand if we are dealing with a *profit maximizer* firm (the *vicious*) or with a *socially responsible* firm (the *virtuous* and green company), is the company itself (that can be represented by the *seller* in the previous example of Akerlof (1970)). As a matter of fact, in this model, the company is the only player with information certainty: in fact, on the other side of the market, the buyers are in a clear disadvantage, since there is the concrete possibility for them to choose the bad company that engages in greenwashing practices, while believing to have chosen the good company instead.

This let us frame greenwashing as a case of *information asymmetry*, and in particular, a case in which *free-riding*, *adverse selection* and *moral hazard* are all displayed (Poret, 2019). While the first one (*free-riding*) seems quite evident, given that the greenwashing company “may receive the benefits related to CSR attributes created by others” (Poret, 2019, p. 4), *adverse selection* and *moral hazard* may require further explanation.

Regarding adverse selection, the only difference with the model of Akerlof is that the “lemon” (the outcome of the bad company) – which Akerlof (1970) identifies in the bad product, like the bad cars – in our example is not necessarily the product itself (that may effectively be a “good” product in terms of its functionalities and characteristics), but rather it depends on the possible mismatch between CSR and communication expenditures.

In other words, the actual quality of the product, produced by the two kinds of company, may be the same towards consumers, but the quality of the production process among the whole value chain – which is mostly not observable in terms of sustainability and GHG emissions – may be different between the two companies. For this reason, it is reasonable

to assume that each mismatch between CSR and communication expenditures should also be classified as a “lemon”.

This means that the possible inefficiency of the trade depends on how widespread the practice of greenwashing actually is. In fact, we can assume that if greenwashing practices are not particularly common and intense, the likelihood of dealing with a "lemon" should be sufficiently low that the potential consumer should accept the risk of the trade anyway. Vice versa, if the greenwashing practice is highly diffuse, it is reasonable to suppose that there would be an oversupply of goods produced in an unsustainable way, and therefore the rational consumer would not pay the price premium, “due to the impossibility of verifying the quality of ... [the] corporation’s behavior” (Poret, 2019, p. 4).

Unfortunately, given that consumers are not fully rational optimizers, they do not have access to complete information. Therefore, as previously mentioned, we can recall the *moral hazard* (Poret, 2019), in order to frame the greenwashing phenomenon: as a matter of fact, the action of investing in CSR is costly but not fully observable by the external stakeholders (Bazillier & Vauday, 2009): this means that the company can hide its actions and provide misleading information about its CSR activities, while customers may mistakenly buy products from the greenwashing company (Poret, 2019).

At this point, it seems therefore logical to ask how popular greenwashing is in the current business ecosystem, because it is now quite clear that this practice is deeply associated with the sustainability of the company and, consequently, with its overall impact towards society. If we take again into account the phenomenon of *Light Greenwashing* (Bazillier & Vauday, 2009), we already know that even those companies that already invest a lot in CSR may have the incentive to reduce their sustainable efforts, while increasing only their green communication instead.

Even though *Light Greenwashing* has a less powerful impact than the *Hard Greenwashing*, it is nonetheless more difficult to notice, because the distortion of information is not sufficiently salient to be considered as completely fake (Bazillier & Vauday, 2009).

For this reason, greenwashing may be much more widespread than we might actually think: in this regard, a very recent empirical study (Silva, 2021) – on the sustainability

reports of the *FTSE 100* companies – has drawn the attention towards companies' real efforts to achieve the *2030 Sustainable Development Goals (SDGs)* of the United Nations – which are often mentioned in those reports as effective *guidelines* and credible *targets* to be achieved – concluding that, unfortunately, even though companies mention the target of the SDGs on their reports, the vast majority of those sustainability reports do not offer credible indicators to report and measure corporate contributions to the SDGs, but strategically use the UN targets instead. In other terms – according to Silva (2021) – most of the Multinational enterprises listed on the London Stock Exchange do not exhibit credible statements on their sustainable reports, but rather prefer a more *symbolic disclosure*, with – apparently – the unique aim of gaining a competitive advantage by being legitimized towards the stakeholders, therefore only focusing on reputation rather than on the reduction of their negative externalities.

As a result, it seems logical to assume that even the reliable *UN Sustainable Development Goals* are now strategically used by greenwashing companies – on their CSR reports – only as a means to signal themselves as always virtuous, by curbing the regulatory vacuum produced by the fragility of actual mandatory rules, generating a scenario similar to the one initially outlined by Bazillier & Vauday (2009), with the CSR substituting the mandatory rules imposed by the regulator.

For this reason, the mere use of the highly authoritative *SDGs* on companies' reports may not guarantee the reliability and quality of those reports. In conclusion, all of this seems to support our previous assumptions about both the strategic importance for companies to engage in sustainability – in order to gain a competitive advantage – and the risks associated with a *mismatch* between corporate communication and effective actions in achieving real sustainability through CSR, leading to the so-called practice of greenwashing.

2.2. Too much information available to activists: possible risks for companies

At this point, given the apparent extent of greenwashing practices, it now seems quite reasonable to ask whether this modus operandi of companies engaging in CSR is just a matter of modern trends in corporate communication – only to appear innovative and in tune with the growing sensitivity towards sustainability – or rather if companies are effectively starting to accept their new perceived role towards the rest of society, thus moving away from the sole strategic aim of increasing profits.

In this sense, it is of crucial importance – for citizens and activists – to understand whether all the recent discussions and new sensibilities about sustainability can lead companies to actually do something concrete to combat climate change by reducing their own emission, helping in this way both national governments and transnational institutions to make a difference. This shift in direction should be apparently done by changing the current business as usual scenario: this would require not only targeting specific *UN Sustainable Development Goals*, but also offering a clear business agenda linked to them – with operational tasks to the reduction of GHG emissions – and transparently disclose it to the external stakeholders.

As a matter of fact, a paradigm shift in this direction may actually help stakeholders to discern company's communication from credible commitment, entailing a reduction in the opportunism of companies, that today still have the strong temptation to greenwash, by faking their environmental commitment, since it is less costly than real CSR efforts (Bazillier & Vauday, 2009).

Notwithstanding, while this certainly seems to be true from the perspective of a portion of external stakeholders (like consumers and activists, that are assumed to be interested in the reduction of greenwashing behaviours), the overall effect of greenwashing depends on the level of *information transparency* available: as a matter of fact, if we refer another time to the previously mentioned *game theoretic model of CSR and Greenwashing* (Wu, Zhang & Xie, 2020), it is interesting to note that the authors also proposed a different perspective on greenwashing, considering it not only as a strictly negative practice (“bad

greenwashing”), but also as a phenomenon with potentially positive implications for social welfare: it’s the case of the so-called “good greenwashing”.

In fact, we have been reasoning so far about the most easily intuitable case of greenwashing: when information transparency is *low*. In this case, it is natural to assume that the *profit-maximizer* firm would engage – as already seen – in greenwashing practices, in order to mislead potential consumers by improperly imitate the *socially responsible* firm.

Nevertheless, things get quite tricky when information transparency increases: in fact, in this scenario, if we consider – for instance – a *moderate* level of information transparency available to stakeholders, the authors (Wu, Zhang & Xie, 2020) demonstrate that the *socially responsible* firm would increase its observable investments in CSR, in order to signal itself as the *virtuous* company and prevent the *profit-driven* firm from engaging in greenwashing strategies.

But the turning point of the study of Wu, Zhang & Xie (2020) – which is more interesting for our reasoning – is represented by the case in which information transparency increases again and reaches a level that is too *high*.

Under such a scenario, the authors (Wu, Zhang & Xie, 2020) argue that it would be too easy for the *socially responsible* firm to distinguish itself from the *profit-maximizer*, due to the high level of information available to the external stakeholders, and this may lead to two main implications: the first one, is the fact that the *socially responsible* firm will feel legitimized to reduce its CSR efforts, since it knows that the consumer (who is willing to pay a price premium to reward the *virtuous* firm) will be able to perfectly discern the *virtuous* firm from the *vicious* one. This means that, for the *virtuous* company, it is no longer necessary to signal itself through investments in CSR. As a consequence, the *virtuous* company may reduce its efforts in CSR expenditures and display what Bazillier & Vauday (2009) refer to as “light greenwashing”.

The second implication concerns the *vicious* company: since the consumer/activist will be perfectly able to discern the *virtuous* company from the *vicious* one, the latter – that is the company considered as “bad” – will no longer have any interest in investing anymore even the smallest amount of resources in CSR (which it would be necessary to at least try

to imitate the company considered as "good"²), since the firm knows that it will be forever considered as the *vicious* company in any case; thus, the *vicious* company drastically abandons its investments in CSR, because it knows that any effort would be something not strategically useful to gain legitimacy. As a consequence, also in this case, the signaling activity (even if it's a fake-signaling) would not be effective at all (Wu, Zhang & Xie, 2020).

This study gives us interesting insights into the power that stakeholders (especially consumers) have over the company, because the authors (Wu, Zhang & Xie, 2020) argue that there's not a monotonic relationship between *Social Welfare* and *Information Transparency*, as the availability of too much information – in the hands of consumers – can be detrimental for the social welfare. By accepting this perspective, a logical deduction is that the full reduction of information asymmetries between the company and the rest of the society may ultimately generate an overall negative effect in the total social welfare, even though this availability of information would ensure an increase in consumer/activist surplus (Wu, Zhang & Xie, 2020).

Contrary to what may intuitively appear, this means that even though consumers/activists would have access to new information, the full availability of perfect information – which is one of the basic assumptions for the Pareto efficiency of markets – may lead to a decrease in the social welfare, while a fair dose of greenwashing seems to be necessary instead (Wu, Zhang & Xie, 2020).

These findings may have significant implications, especially for *regulators* like governments and other policy-makers. In fact, consumers have two strengths: the first one is that they have the ability to gather together into organized groups of activism – such as NGOs – and target companies that they don't consider as sustainable. The second one is that, in a democratic setting such as in the United States – where governments are the expression of the majority of people that exercise their power through elections (Priour

² On their paper, Wu, Zhang & Xie (2020) rely on the assumption that investing in CSR is something that is always good, given that – by their definition – there's a trade-off between CSR and communication expenditures. This implies that, if a bad company wants to pretend to be a good company, it must still invest some resources (albeit very minimal) in CSR, in order to have the chance to at least "mislead" the potential consumer. That's because it would be quite naïve to imagine a scenario where a bad company is able to perfectly fake-signaling itself as a good company, without no CSR investment at all.

& Zou, 2018) – consumers/activists have also the power to change the composition of governments by exerting their right to vote.

For these reasons, if governments are not able to deal with these social pressures – by being authoritative and capable of taking unpopular decisions that might even go against the preferences of the majority of society – the surplus of the activists and other pressure groups might prevail at the expense of the total social welfare, displaying a negative scenario quite similar to the one depicted by Wu, Zhang & Xie (2020) and already described above.

Moreover – as initially depicted in the first chapter – the American political setting seems to be quite weak in reaching a clear position in the overall debate concerning sustainability, due to US structural political fragilities that allows the strong presence of big industrial lobbies (Doh & Guay, 2006). Consequently, the United States may have to deal with environmental activists whose ideas are more radical; on this purpose, Prieur & Zou (2018) have recently elaborated a game of political influence where both the industrial lobbies and the environmental activists devote efforts to try to publicly persuade the majority of voters on their opposite visions regarding environmental sustainability, while the presence of the government is passive, as it follows the median voter's preferences.

This scenario is very similar to the real American setting, because it considers lobbies as already embedded in the social context, while environmental activists represent a more recent phenomenon that has just started its action of influence: under such assumption, findings suggest that there is a strong asymmetry in the impact of public persuasion of the two groups, because environmental activists – as opposed to industrial lobbies – have to exhibit a very radical ideology, in order to achieve their goal in the game of public persuasion (Prieur & Zou, 2018). Also for this reason, companies should be particularly careful not to underestimate the impact that environmental activists might have on them. Especially in the American context.

2.3. Private Politics: the study of the relation between the Company and the Activists

A significant contribution to the study of the interactions between organizations and activists was initially made by Baron (2001): he was the first one to introduce the term "private politics" to indicate all those interactions — between *organizations* and *consumers* – that are typically “nonmarket”: as a matter of fact, Baron abandoned the traditional *supply-and-demand* logic (based on the market of a product at a given price), to focus on the significant importance of consumers, underlining the power they may potentially have towards companies and other organizations, particularly when they organize in activist groups and social movements, for instance with the aim “to change the production practices of a firm for the purpose of redistribution” (Baron, 2001, p. 7).

In the study of such relationships, in fact, Baron (2001) analyzed exactly the case in which consumers turn into *activists* and organize themselves in *Non-governmental Organizations (NGOs)*, in order to target a company, for example by calling for a boycott, with the final aim to get the company change some of its negative behaviors. He also stressed that both the effects of *Private Politics* and the implementation of *Corporate Social Responsibility* actions are able to alter the “competitive positions of firms in an industry” (Baron, 2001, p. 8), and therefore they both have a strategic power that firms should be able to understand, in order to survive and gain a competitive advantage.

Regarding CSR, these findings go in the same direction of our previous hypothesis: the use of corporate practices – commonly labeled as “socially responsible” – is understood by Baron (2001) just as a “profit-maximization strategy”, that can be even motivated by “self-interest and not by conception of corporate social responsibility” (Baron, 2001, p. 9). In other terms, for Baron (2001), each company – no matter its attitude towards the social welfare – may benefit from engaging in “strategic” corporate social responsibility. The reason for this lies in the fact that if we consider the presence of “pressure groups” (such as *activists*), who are able to credibly threaten the organizations they target, it is easy to understand that a company may change its behaviors not only because of its own inner “altruism” – or its “*Ecological Responsibility*” (Banzal & Roth, 2000) – but also because of a credible threat – coming from the outside social landscape – that could harm

companies *Legitimation* (Banzal & Roth, 2000) and potentially result in an economic damage.

This consideration of Baron (2001) is of vital importance, because it allows us to override the initial “*virtuous/vicious* company” trade-off, by presenting a third alternative in which companies decide the amount of their social commitment on the basis of the power of activists. Thus, in the setting proposed by Baron (2001), it is not important to actually be a good rather than a bad company per se, but to be *perceived* as good, in order to avoid the threat of being targeted by activists. This also seems to confirm the perspective – illustrated by Minor and Morgan (2011) – that portrays CSR as a sort of insurance used to try to protect the reputation of the company towards the external environment.

Unfortunately, this current scenario seems to highlight the fragility of organizations when confronted with external pressures, demonstrating negative consequences for the entire society: the defensive attitude of companies seems to be no longer sufficient to adequately address the problem of climate change, as they only seem to be concerned about protecting themselves from activists' threats, whatever the cost for the society (even if this means adopting fake-signaling strategies and leveraging greenwashing practices).

Moreover, activists seem to possess an *atypical* power: they seem to be unified by a major common goal – namely the fight against climate change, even if it can take on specific connotations, such as the request to reduce negative externalities (*e.g.* greenhouse gas emissions), waste (*e.g.* toxic waste disposal) and unsustainable production (*e.g.* plastics) – and they seem to be able to keep companies to stay sharp and on alert (Abito *et al.*, 2016); but they also are *heterogeneous*, often acting without unity of purpose, since they act locally and not globally, due to the differences among countries all over the world (Koenig *et al.*, 2021).

To be more precise, we have pointed out three characteristics that seem to be shared among activists:

1. Activists are “pragmatic” (Abito *et al.*, 2016, p. 8) and seem to know *WHAT they want to reach through their activism* (*e.g.* the target to reduce total greenhouse gas emissions by a specific amount).

2. Activists may not be interested in *HOW companies should reach that target* (it is up to the companies to find a way to be sustainable); or, if they are, they may not have the right skills and/or information required to effectively understand the company's whole process of green *sustainabilization*.
3. Activists may *ask for an immediate WHEN* (which is likely to be as soon as possible, therefore immediate, so quite unrealistic in terms of timing). This could generate further dissatisfaction that can lead activists to get fooled by greenwashing and consequently targeting even those companies that may already be investing in sustainability.

Concerning this last point, Dean (2004) analyzed the effects of corporate *image restoration strategies*, implemented after companies have been hit by a crisis event that undermined the corporate image, leading the company to become a target for activists; he showed that – paradoxically – whenever there's ambiguity in the business ecosystem (*e.g.* available information is limited and incomplete, as in our setting), the socially responsible action (*e.g.* reducing negative externalities), produced by companies considered as *bad*, seems to be perceived as more appropriate to restore the image of the company, with respect to the same action performed by a company that was initially considered as *good*. This may represent a perverse effect caused by the fact that there seem to be higher social expectations on companies considered to be performing well, rather than on those already considered as bad companies by activists in the first place (Dean, 2004).

Moreover, Dean (2004) also stressed the fact that the action of image restoration – performed by the *bad* company – could be even *inappropriate*, therefore lacking elements of “equity, justice and compassion” (Dean, 2004, p. 201), but still remaining effective in the increase of regard towards the firm, for instance due to the fact that the *bad* company may leverage the ambiguity of the ecosystem and shift the blame for its negative behaviors to other companies and/or institutions.

In other terms, whenever there is ambiguity in the business ecosystem, the activist may mistakenly confuse the bad company's greenwashing action – that is only *apparently* sustainable – as an appropriate action to truly reduce negative externalities and enhance company's reputation. Conversely, a *good* company, that puts itself at stake with real *substantial* actions, may not be understood by the activist, and thus be mistaken as a

company that is only faking its sustainable commitment, being ultimately targeted by activists.

This raises critical questions about the power of activist groups, especially with regard to their approach in deciding which company to target: in this regard, Abito *et al* (2016) state that activists can alternatively exhibit *Criticism* or *Confrontation* towards the targeted firms: while the former is only a marginal approach that does not generate significant coverage by the mass media, the latter is the most dangerous for the company, because it can provoke significant mass media coverage and it is generally perpetrated by the most organized activists, which are those able to be "patient activists", displaying resilience in their action (Abito *et al*, 2016).

Moreover, the patient activists exhibiting *Confrontation* tend to target the most "patient firms", which are those types of companies that are typically considered to be the most financially structured and strong (Abito *et al*, 2016). Unfortunately – contrary to what it may intuitively seem – companies that are *patient firms* seem to be even more vulnerable to activists' confrontation, since they usually are the most interested in their own corporate image and reputation (Abito *et al*, 2016). To put it in other terms, the most organized activist groups are also the most powerful, and they tend to target the most established companies, which are typically the only ones with a well-defined image towards society, due to their solid presence in the business ecosystem.

These findings are very relevant, because they not only seem to confirm – once again – the risks for companies to being targeted by activists, but they also offer new insights in the modus operandi of activists, that can be helpful – for companies – in order to try to avoid being targeted by them.

2.4. The Company between the Activist and the Regulator: a war of attrition game with private information

Considering the previous observations regarding the fragility of governments and institutions, it would appear extremely significant to shed light on the figure of the *Regulator* and its role, with regards to Baron's (2001) private politics, given that – as mentioned earlier – it is a “non-traditional” actor (Freeman, 1984, p. 26) that is present in every business ecosystem, albeit with significant differences across countries. Thus, it is of crucial importance – for companies – to try to analyze and frame its figure, to better understand how consistent its presence can actually be within the dynamic mechanisms of force between the company and the activists.

At first glance, the Regulator appears quite fragile – with respect to the power of the activists – in getting companies to become greener, despite its authority to set the rules of the game (Tirole, 2001). For instance, Zameer *et al* (2019) claim that, despite the fact that the company faces basically two pressures, namely "customer pressure" and "regulatory pressure", the influence of customers – therefore *activists* – is far stronger in positively pushing companies to adopt green production, with respect to the legally binding force exerted by the regulator.

This seems paradoxical, but it is caused by the fact that the role of activists is perceived as pivotal in the creation of a company's green competitive advantage, given that customers/activists have the power to directly influence the *Green Brand Image*, which is the most important factor that a company should take into account in order to effectively gain that competitive advantage over its competitors (Zameer *et al*, 2019). These findings seem also to confirm Baron's (2001) assertions about private politics, regarding its power to alter the competitive position of firms in the business setting.

On this theme, a breakthrough insight in the literature concerning the role of activism between the company and the regulator was the one proposed by Egorov and Harstad (2017), with their work *Private Politics and Public Regulation*. As a matter of fact, in the first place they fully embraced Baron's (2001) contribution as an initial starting point for

their research, setting his definition of private politics and his considerations about activism and companies' self-regulations as the basis for their further arguments.

Then, they have enriched the discussion, offering new perspectives about the figure of the Activist with respect to the Regulator, in order to explain the impact of private politics in the improvement of efficiency: in this regard, they stressed the fact that the increasingly central role of activism in the society "has put an end to the government's monopoly on regulation" (Egorov & Harstad, 2017, p. 1653).

Consequently, they have developed a Game Theoretic Model of a *war-of-attrition game with private information*, thus where each player (the Firm, the Regulator, the Activist) strives to make its best move, while – at the same time – none of them knows the costs of the other players and will be privately aware of its own costs only when already in the game. This implies that the setting is a *dynamic framework* where *time* represent the key factor in determining the final outcome of the confrontation between the Activist and the Firm. Despite this, time is understood here as an *unknown* and *infinite* variable among players, given that it is stochastic: this means that each player knows when the game starts, but not when it ends.

The possible actions of the players are the following:

1. The *Firm* can decide whether to *self-regulate* or *not* (it's a binary decision). If it self-regulates, it immediately ends the game, given that it incurs a cost and therefore the Activist has achieved its goal, while the Regulator does not incur any administrative costs, since its imposition of regulation is not needed.
2. The *Regulator* is an independent player that can intervene and put an end to the game at any time by *imposing regulation* on the Firm. However, the Regulator would prefer the Firm to self-regulate, as the administrative costs of regulation are expected to be higher with respect to self-regulation, both for the Firm and for the Regulator itself.
3. The *Activist* can call for a boycott in order to target the Firm.

In this model, the *Activist* would formally benefit both from the *Firm self-regulating itself* and from the *Regulator imposing regulation on the Firm*, but it is the only player that is not able to end the game directly by its own action (in fact, only the game between solely

the Firm and the Regulator is called a "stopping game": the first to act ends the game for everybody).

Intuitively, the Activist would not incur any cost if the Regulator acted promptly by imposing regulation on the Firm. However, we assume that the Activist does exist precisely because the Regulator – in a real setting – does not adequately act in a timely enough manner, with respect to the perceived needs of society: in other terms, as argued above, the Regulator tends to act slowly (Abito *et al*, 2016), while – we assumed earlier – an intrinsic and fundamental characteristic of the Activist is that of asking for an *immediate WHEN*, and to do so it relies on confrontation, targeting the Firm (through boycotts) whenever it feels that the Firm seems not to be performing well on those specific issues worthy of the Activist's attention.

In light of these initial considerations, Egorov & Harstad (2017) developed their model through three different scenarios, that we are going to analyze: the first scenario considers the presence of only the *Firm* and the *Regulator*, the second one considers the presence of only the *Firm* and the *Activist* and the third and last scenario takes into account all the three players together, respectively the *Firm*, the *Regulator* and the *Activist*.

FIRST SCENARIO: the *Firm* and the *Regulator* are present, but NOT the *Activist*

If we only think about a setting with the Firm and the Regulator (thus without considering the presence of the Activist), *self-regulation* would always represent the best final outcome (with respect to the alternative of *regulation*), both for the Firm and the Regulator. However – contrary to what might seem intuitive – Egorov & Harstad (2017) showed that this outcome is impossible to achieve *immediately* (that we can define as *time zero*).

The reason is that – in *time zero* – the Firm does not self-regulate immediately, as it prefers the status quo (no costs at all). The Regulator, on the other hand, in time zero would initially prefer the Firm to self-regulate, instead of imposing regulation (in fact, there are no administrative costs with self-regulation). For this reason, it would simply wait the Firm to do so. But since the Regulator initially waits, nothing changes in time

zero. In fact, the Firm will not self-regulate at all, since it is not worried about the intervention of the Regulator (that – just to remember – would incur additional costs if it decided to intervene by regulating).

As a consequence, the Firm is not forced by anyone to make any move, thus it does not reduce its negative externalities, given that – in the immediate scenario (*time zero*) – it prefers the *status quo* (no costs at all), with respect to its own additional costs if it self-regulates.

On the contrary, Egorov & Harstad (2017) show that the unique equilibrium is *delayed in time*. In such equilibrium players use *mixed strategies*, that is they strategically make their decision about the time of the regulation *unpredictable*, by randomizing their intervention over a given time horizon. At this point, both the Firm and the Regulator will start to estimate their expected payoffs. Thus, the following scenario will occur:

From the perspective of the Regulator

In the initial phase (*time zero*), the Regulator knows that the Firm would not self-regulate on its own (as it prefers the *status quo*). Nevertheless, it does not impose immediately its public regulation, as it would prefer the Firm to self-regulate. Therefore, after a certain time period, the Regulator knows that it has to be the first to act. For this reason, in a real setting, it starts to estimate its payoffs: for instance, if it assumes that its *surplus* (s) coming from Firm's becoming regulated is expected to be consistently high, while its *additional administrative cost* (q), coming from its decision to impose regulation over the Firm, is expected to be low, the Regulator will choose to impose its regulation to end the game, since it knows that the Firm would not self-regulate on its own, given that the Firm prefers the status quo. Therefore, its payoff (net of the discount rate r) will be:

Regulator's payoff with regulation: *surplus* (s) – *administrative costs* (q)

At this point, after the move of the Regulator, the *status quo* option is no longer an available option for the Firm. For this reason, the Firm will choose to self-regulate, preferring a cost (c) over a higher cost ($c + k$), where the presence of the extra parameter (k) represents the additional administrative cost that the Firm would incur if the Regulator imposes its regulation.

From the perspective of the Firm

Initially, in *time zero*, the Firm would prefer the *status quo* (no costs at all), therefore it would prefer neither to *self-regulate* nor to *be regulated*. But things change when the Regulator may decide to intervene. In a real setting, if the Firm estimates that the Regulator's *additional costs for regulation* (q) are expected to be low, it knows that the Regulator will accept this marginal additional cost, in order to achieve a higher payoff ($s - q$) compared to the zero (0) payoff of the initial status quo.

But then the Firm – by knowing this thanks to the backward induction – will consider the Regulator's threat to regulate as a likely move, therefore it may have the incentive to self-regulate early, in order to only get the costs for its *self-regulation* (c), while avoiding the additional costs (k) coming from the imminent imposition of regulation by the Regulator.

In other terms, in this setting where players exhibit mixed strategies, both the Firm and the Regulator may randomly wait or act to end the game. According to Egorov & Harstad, (2017), however, there is an only possible equilibrium, and it is when – after an uncertain time period – both the Regulator and the Firm start to become indifferent between acting and waiting: this happens when the Regulator accepts the lower payoff ($s - q$) instead of the initial potential payoff (s) under self-regulation. As a matter of fact, the Firm has an initial advantage, which is the status quo condition, and therefore it “captures the entire benefit of the possibility to self-regulate” (Egorov & Harstad, p. 1661).

Thus, the payoffs under mixed strategies will be the following:

$$\text{Firm's payoff: } V = - \frac{c}{r}$$

$$\text{Regulator's payoff: } W = \frac{s-q}{r}$$

where (r) represents the discount rate.

Unfortunately for the Activist, in this case the achieved outcome is "delayed" (Egorov & Harstad, 2017, p. 1661), therefore not immediate in time as it would be under pure strategies, given that the Firm – as just seen – has no intention to self-regulate in the first place (*time zero*), but it needs a credible threat from the Regulator instead.

Moreover, the overall expected delay increases if the *additional costs* (q) and/or (k) increase, while it decreases if the *Regulator's surplus* (s) and/or the *Firm's cost for self-regulation* (c) increase: the reason is that the smaller the payoffs are at stake, the slower the players would act, and vice versa.

Thus, in the setting where only the Firm and the Regulator are present, the Activist is harmed because of the general waste of time in the intervention, even if the final outcome (*i.g.* the Firm self-regulating) produces a social benefit for the activist.

SECOND SCENARIO: the *Firm* and the *Activist* are present, but NOT the *Regulator*

The setting and the overall outcome are essentially quite similar when the authors (Egorov & Harstad, 2017) consider instead a scenario between only the Firm and the Activist (thus excluding the Regulator): in fact, in this case, the Activist replaces – even if only partially – the role of the Regulator in putting pressure to the Firm, acting as a *strategic substitute* of it.

The main difference between the Activist and the Regulator, however, is that the Activist does not have the power to end the game through its action (the boycott), but rather, it engages in a much more real war-of-attrition, where both the Firm and the Activist strive to survive and may even end up with a *forever reputational loss*, able to severely impair the image of the organization (either the Firm or the NGO).

Another difference with the initial setting between the Firm and the Regulator is that, here, “the activist benefits from the fact that private politics is possible”, given that now “self-regulation is entirely driven by the possibility to boycott” (Egorov & Harstad, 2017, p. 1664). This means that self-regulation is ruled by the possibility that the Activist's boycott represent a credible threat for the Firm: for this reason, the Activist is benefiting

from this scenario, given that it will display the power to directly induce the Firm to self-regulate through its action.

To put this theory into real terms – in the absence of a strong presence of the Regulator – the Activist will feel not only essentially useful, but also completely necessary and empowered to force Firms to become greener, given that it acts as a partial substitute for the figure of the Regulator. This could imply a significant legitimization of the activist towards the rest of the society, elevating it to a trustworthy and credible interlocutor, with whom companies and other institutions may establish fruitful collaborative relationships with a long-time perspective.

THIRD SCENARIO: the *Firm*, the *Activist* and the *Regulator* are ALL present

The role of the Activist seems to be extremely valuable not only – as discussed right above – when it acts as a strategic substitute for the Regulator, but also when it is present together with a strong and active Regulator: in this respect, Egorov & Harstad (2017) also analyzed a further scenario – perhaps the most realistic – in which both the Firm, the Activist and the Regulator coexist under the same setting.

Within this new scenario, the role of the Activist is apparently overshadowed by the presence of the Regulator: as a matter of fact, if the Regulator is fully empowered, the only credible threat to the Firm is the Regulator itself.

Thus, in the case in which the Firm, the Regulator and the Activist are all present, the power of the Activist – which is a strategic substitute of the Regulator – will be dramatically downsized by the Regulator, that – paradoxically – could be its most valuable partner in pushing Firms to become more sustainable.

This means that, from a purely selfish point of view, the Activist would see the Regulator as a potential obstacle to its own strength, especially when (and if) the Regulator were able to lead Firms to reduce their negative externalities without significant delays.

However, this is not the case for two reasons: the first one is that we can consider the Activists working inside the NGOs exactly as "idealistic employees who will derive

private benefits from promoting social welfare" (Tirole, 2001, p. 27), thus helping the Regulator to act against Firms. The second one is that — on the other hand — it is rather unlikely to imagine, in the real world, a Regulator able to rapidly intervene without any perceived delay (with respect to the Activists' sensibilities), because it would essentially represent an overlap between the figure of the Regulator and the one of the Activist itself, given that the "immediate WHEN" asked by the Activist — as we have initially hypothesized — would coincide with the punctual action carried out by the Regulator.

Rather, as in this case where all the Firm, the Activist and the Regulator are present, the Activist acts as a sort of *catalyzer* of the Regulator's action, helping it to speed up the threat to the Firm, pushing the latter to self-regulate at a faster rate, therefore reducing its negative externalities without the initial delay observed in the first case, where only the Firm and the Regulator were present (Egorov & Harstad, 2017).

This happens because — where all the three players are present — the Regulator and the Activist “can be interpreted as two different principals who both would like to regulate the [same] agent (*i.e.* the firm)” (Egorov & Harstad, 2017, p. 1668), therefore fighting alongside each other.

This is an important consideration by Egorov & Harstad (2017): indeed, they basically claim that the role of the Activist (understood in the sense of an *organized* activist, like an NGO) is always beneficial for the society, even when the Regulator is effectively present. In fact, the Activist helps the Regulator by strengthening its position when facing Firms (Egorov & Harstad, 2017).

This last assumption seems to be opposed to the viewpoint of Wu, Zhang e Xie (2020), regarding the risks of excessive transparency and too much power in the hands of Activists, while it seems to be much more aligned to the vision of the Activist expressed by Abito *et al* (2016), because — also in this case — the Activist exhibits private politics to compensate for the delays and inefficiencies of the Regulator, and is therefore able to keep companies on alert.

But this, however, means — for companies — that the role of activists definitely represents a threat, because whenever the Regulator is not particularly effective, the private politics

exerted by the Activist seems to represent a brake on the free conduct of companies to the detriment of mandatory disclosure obligations, thus potentially avoiding the scenario initially offered by Bazillier & Vauday (2009).

2.5. Activism under different market structures: limitations to the paper of Egorov & Harstad on Private Politics

Although the work of Egorov & Harstad (2017) has brought undisputed contributions to the studies on the effects of private politics (and in particular on the effects of activism against companies), some limitations can be identified. The first one is that Egorov & Harstad (2017) have considered a basic model between only a *Firm*, an *Activist* and a *Regulator*, without considering any possible relationship of strengths emerging under different market structures, such as *perfect competition* (Baron, 2001), *monopoly* (Zheng, 2020) and *duopoly* (Innes, 2006).

Concerning these further topics, other scholars have partially contributed, offering new insights: first of all, Baron (2001) himself claimed that the higher is the competition between companies, the greater is the power of the Activist, due to the lesser force exerted by the firms: this means that, if we assume to combine the model of Egorov & Harstad (2017) under the extreme hypothesis of the greatest amount of competition possible (*perfect competition*), we may expect that the strength of the Activist towards the targeted company is likely to be exponentially stronger.

Conversely, under the diametrically opposed assumption of the absence of competition (*monopoly*), it is reasonable to assume that the power of the Activist is likely to be significantly diminished, and perhaps nullified. Concerning this, Zheng (2020) recently developed a new model based on Egorov & Harstad's (2017) initial framework, but then adding the discriminating assumption of the Activist targeting a Monopolist, thus transforming the initial game theoretical model from a simple “even” to an “uneven” war of attrition game (due to the absolute power of the monopolist, compared to the power of the activist). As could easily be

assumed, Zheng (2020) concluded that the role of activists is *unsuccessful* when there is a monopoly, because the activists will stop the boycott and show *free-riding* behaviors, as the social cost of boycotting the only company would be too high for consumers/activists. Ultimately, this result also enriches Baron's (2001) assertions, given that not only is it true that *the greater the competition, the greater the power of the activist*; but rather, also the reverse seems to be equally true; thus: *the greater the firm's market share and power, the lower the power of the activist* (Zheng, 2020).

Further studies concerning other different market settings in the middle – such as the *duopoly* – have enriched the study of activism, offering new specifications on the actual behavioral patterns displayed by activists: for instance, Innes (2006) proposed another boycott model between activists targeting the duopolistic firms, with the following assumptions: the companies composing the duopoly were *non-identical* in size (which means that one firm is small, the other one is large), while boycotts could be *small (but persistent* in time) or *large (but transitory)*, due to the budget constraints of the activists, that are imposing such a trade-off. The result in equilibrium showed that the activist exhibited the *small (but persistent)* boycott against the small company, while – on the contrary – the *large (but transitory)* boycotts were performed by activists against the large company (Innes, 2006).

This result may seem to be apparently inconsistent with the previous claims by Abito *et al* (2016), according to which the *patient firm* – that can be understood here as the “large company” of the duopoly model offered by Innes (2006), thus the firm with a larger and more robust financial structure – tends to be targeted more by the *patient activist*, which – again – can be considered by Innes (2006) as the “persistent” activist, therefore the one able to display only the “small but persistent” boycott (Innes, 2006). Notwithstanding this apparent divergence between the two reasonings, it is worth stressing that Innes (2006) reasoned under a very constraining set of assumptions, whereas Abito *et al* (2016) did not consider neither such a market setting – the duopoly with non-identical duopolistic firms – nor the trade-off between the “small but persistent” and the “large but transitory” activist’s boycotts (Innes, 2006).

Indeed, if we override such conflicting assumptions, both Innes (2006) and Abito *et al* (2016) postulate that the big activist tends to primarily target the big companies.

CHAPTER III

MODERN ACTIVISM AND THE FUTURE OF THE CLIMATE CHANGE FIGHT

3.1. The rise of Social Media Activism

3.1.1. Social Media as a means to reduce activists' Geographical and Political barriers

After having discussed about some of the limitations to the paper by Egorov & Harstad (2017) – regarding the different market structures that activism can face – it is worth addressing now another interesting issue, only briefly mentioned until now: the exponential growth in the use of social media by activists. As a matter of fact, Egorov & Harstad (2017) have defined this growth as a phenomenon that makes it easier for activists to organize their campaigns, also stating that activists seem to be now increasingly able to influence and boycott firms (while Firms self-regulate and invest in CSR to protect themselves from them), but then they have not further explored such a new trend.

Indeed, a more in-depth contribution to the topic is provided by Daubanes & Rochet (2019): on their paper, they carried out a theoretical framework starting from the model of Egorov & Harstad (2017). They implemented it under the assumption that the activist opposes to a firm's hazardous project, which has already been accepted by the public regulator³. Their findings indicate that the activist may counter-balance companies' influence on the regulator and potentially contribute positively to the social welfare (Daubanes & Rochet, 2019).

Under such scenario, for Daubanes & Rochet (2019) the development of the internet and social media has allowed environmental activists to:

³ Daubanes & Rochet's (2019) basic assumption is that the public regulator may be influenced by the interests of the company and therefore it may accept a business project even though it may be hazardous and detrimental for the social welfare.

1. Have access to more information.
2. Disseminate their information more easily.
3. Mobilize actions more efficiently.

As a consequence, this has generated an overall effect of simplifying the role of activists when targeting companies, thanks to both the reduction of own mistakes provided by the increased transparency of information (*e.g.* confusing companies' hazardous projects with socially beneficial ones, due to the lack of information) and the increasing simplicity of delivering their messages more extensively and organizing actions to mobilize people (Daubanes & Rochet, 2019).

To put it under the framework of the war of attrition theorized by Egorov & Harstad (2017), this means that the wide diffusion of the internet and social media has strengthened the position of the Activist, by lowering the cost of its boycott against the Firm: in fact, due to these innovations, it is reasonable to assume that – thanks to this increase of strength – it becomes slightly less difficult for the Activist to face the targeted company and continue its actions of fight under the war of attrition framework.

This reasoning intuitively appears to be in line with the predictions of Brunsting & Postmes (2002), according to whom the use of the internet as a tool for mass communication would have enabled environmental activists to spread information to large audience by reducing *costs*, breach *geographical* barriers and fight government's censorship.

Concerning the reduction of costs and geographical barriers provided by the internet:

if we combine the predictions of Brunsting & Postmes (2002) with the recent findings of Daubanes & Rochet (2019), we can confirm the hypotheses put forward by Egorov & Harstad (2017). Furthermore, we can also agree with the thesis of Doh & Guay (2006) regarding the potentiality – for environmental activists – to reverse the trend of the absence of global environmental cooperation. In fact, by using social media, activists may help the adoption of a globally shared position that may include companies for real, finally strengthening the whole environmental activism cause. The reason is that environmental activists are “non-occupational groups” (Doh & Guay, 2006, pp. 53): this means they are the only players able to share same principles among different countries and regions (Doh & Guay, 2006). Therefore, they may ultimately

surmount even the geographical and political differences between US and European NGOs analyzed by Doh & Guay (2006).

Concerning the role of social media against governmental censorship, instead:

it is possible to identify in the first place another limitation to the work of Egorov & Harstad (2017): in fact, on their model, they assumed an *independent* and *benevolent* regulator, even though this is not always the case in real terms: for instance, regarding the first assumption of *independence*, we have observed earlier how governments – in democratic settings – tend to be influenced by both electors and industrial lobbies (Prieur & Zou, 2018).

With respect to the second assumption of *benevolence*, regulators around the world seem to be not always the expression of a democratic context: for this reason, it is fundamental to question ourselves at this point about the presence of these modern forms of activism in countries that are not strictly democratic, in order to understand if the use of social media is possible in the first place, and then also effectively beneficial for the spread of these environmental movements worldwide.

In relation to this, a recent study (Foos *et al.*, 2019) has empirically tested the role that social media can play to promote civic activism – such as environmental activism – in countries with regimes of “façade democracies”, which are those countries that have formally transitioned to democracy in recent times, but where governments still hinder political freedom and where the legal system is weak, often leaving malfeasance unpunished. Their results showed that – in Bulgaria, a country with a façade democratic setting – an environmental campaign against the illegal exploitation of Black Sea beaches, run on Facebook (the most popular social network in Bulgaria), had very few success in mobilizing people and recruiting activists towards an environmental cause not supported by the more traditional media, which – in these façade democracies – are easily controlled and silenced (Foos *et al.*, 2019).

As a matter of fact, this also happens because – in countries with authoritarian regimes – civic activists tend to assume neutral *positions, tone* and *language* on social networks – by employing hidden social media tactics to try to circumvent the government’s legal

oppression, but unfortunately, these positions of neutrality are insufficient to contrast the political propaganda and disinformation that characterize countries where political freedom is suppressed (Lee, 2018).

By accepting this as valid, we can come to two conclusions: the first one is that, in countries such as Bulgaria (Foos *et al.*, 2019) and Cambodia (Lee, 2018), social media seem to represent – for activists – merely a vain attempt to try to convey information through these new information channels that are potentially less controllable by an authoritarian government.

The second one is that the role of traditional media still appears to be essential in conveying the messages of environmental activists, as the use of social media alone does not appear to be sufficient to enable environmentalists to mobilize people towards environmental campaigns that are not yet known to the mainstream audience (Foos *et al.*, 2019).

3.1.2. Social Media Activism in Developing and Developed countries: empirical evidence from Latin America and Australia

In view of our previous considerations regarding censorship, it seems useful to analyze whether the inconsistency of social media activism is a phenomenon typically relegated to those countries – such as the examples of Bulgaria (Foos *et al.*, 2019) and Cambodia (Lee, 2018) – that have a poor attitude towards democracy and are generally classified as developing countries (IMF, 2020), or whether it is a trend also present in more developed countries, where democracy and information are not dominated by an authoritarian government.

In order to test these assumptions, we present here two different attempts at environmental activism on social media: the first one was carried out in the developing countries of Latin America, while the second one was conducted in a developed country (Australia).

THE “INTERCAMBIO CLIMATICO” PLATFORM IN LATIN AMERICA

The trend of increased concerns about climate change has also affected Latin American countries, which are among the countries most affected by the effects of climate change, but – in spite of this – they still are fragmented at the UN Climate Change negotiations: for this reason, the *Latin American Platform of Climate* – which is a network of environmental NGOs operating in South America, nowadays known as *ActionLAC* – has launched in 2010 a breakthrough online campaign – called *Intercambio Climático* – aimed at creating an online discussion to publicly engage society and decision-makers all over Latin America, in order to finally reach a unitary position in the international context of climate change negotiations (Takahashi *et al.*, 2015). This digital campaign was observed by Takahashi *et al.* (2015) through a case study that first analyzed the contents of the *Intercambio Climático* website and then conducted in-depth interviews with the activists from the *Latin American Platform of Climate*.

The results of this study have shown that – even though activists/participants perceived the website in a positive way – this digital campaign displayed several organizational problems, related both to the difficulty of maintaining cooperation between different nations (10 countries, represented by 17 NGOs participating in the project) and to the lack of resources (financial and time-related) needed to ensure a constant presence online (Takahashi *et al.*, 2015). These findings are in line with our assumptions regarding the difficulty – for the NGOs operating in developing countries – to take effective action through the internet and social media, without the help of the mainstream media.

THE “CLIMATE COUNCIL” IN AUSTRALIA

In 2013, in Australia, after the newly elected center-right president *Tony Abbott* shut down the Australian *Climate Commission* – an independent environmental institution responsible for producing reliable information about climate change – to make it a body funded and controlled by the Australian government (Arup, 2013), there was a strong and spontaneous protest on social media, that led Australian activists to set up a new independent environmental institution – called *Climate Council* – through crowdfunding, on the ashes of the previous *Climate Commission*. Nowadays, the *Climate Council* is still an environmental organization that is

fully funded by donations from the public and therefore free from any kind of potential government influence.

For this reason, it represents an interesting case of study: as a matter of fact, on the one hand, this Australian organization represents a successful example of a virtual mobilization – on social media – that has been translated into a real and “mainstream” action: the establishment of a real independent non-profit organization.

On the other hand, however, an empirical study (McLean & Fuller, 2016) analyzed the results of a survey carried out by the *Climate Council* itself to better understand the motivations of users/activists to support their environmental organization: the results showed that, although most of the supporters were motivated to preserve an independent institution – able to communicate the real effects of climate change – only a minority of them were available to pursue rigorous activism and/or wanted the *Climate Council* to adopt a more political commitment with a long-term perspective.

These findings suggest a contradictory power of the social media activism, given that, despite the easiness – allowed by social media – of reaching a large number of users, real environmental activists (namely those who effectively perform radical environmental actions) still represent only a limited portion of the online activists. Furthermore, the majority of the general users on social media do not effectively convert in real environmental activists: for this reason, even in a developed country like Australia, digital actions on social media may represent a common ground to face the diversity and disorganization of the global environmental movements, but concrete “mainstream”/non-digital actions, carried out with the help of the mainstream media, seem to be still fundamental to the success of the environmental cause (McLean & Fuller, 2016).

3.2. Modern activism between social media and traditional media: a risk for companies

A recent content analysis – of social media posting by environmental groups – assessed that the environmental debate on internet nowadays appears to be just at the initial *diagnostic* frame of the phenomenon, which is the early phase aimed at only putting the attention on the macro negative consequences connected with climate change (Vu *et al.*, 2021). In this scenario, according to the same research, modern activists still frame their online message strategy with a primary focus on the negative *impacts* of climate change on a global scale, instead of disseminating and personalizing the information to try to trigger proactive *action* locally (Vu *et al.*, 2021). For this reason, in order to propose solutions to the diagnosed issue (and then finally *motivate* people to take action against climate change), environmental activists are now required to update their communication strategies, to make people feel not only directly affected by the effects of climate change at the micro level, but also to make them feel involved in the call to environmental action (Vu *et al.*, 2021).

And in doing so, modern activists should not limit themselves to presenting only mere scientific numbers and statements – which stimulate in the public negative emotions associated with possible catastrophic environmental scenarios – but should also leverage the possible positive emotions of the action (Bain *et al.*, 2012), making them concretely participate in the steps to be taken, since this type of emotionally pro-active communication seems to be more effective in the fight against climate change (Lakoff, 2010).

However, these efforts may not be sufficient to convey effective messages, due to the power that mass media still seem to have in the world of information: in this regard, a reflection on the importance of traditional media (such as newspapers and television) for the dissemination of environmental messages and related calls-to-action is presented below: this will be done by analysing the model of the most recent forms of environmental activism which, to date, seem to be the most influential and empowering.

3.2.1. The Environmental NGO “350.ORG”

A virtuous example of a modern form of digital environmental activism is represented by *350.org*, the NGO founded by the well-known American environmentalist Bill McKibben in 2007. This relatively new organization shows a *decentralized* and *internet-mediated* approach, which allows it to organize actions in different places but in a coordinated and synchronized way (Luxon, 2019).

As a matter of fact, *350.org* is organized in small staffs who send few but targeted messages to the members, focusing on single specific environmental issues (Karpf, 2012). For this reason, *350.org* seems to be empirically showing how this modern activism is able to reduce the geographical barriers analyzed by Brunsting & Postmes (2002) and Doh & Guay (2006) and subsequently taken up by Egorov & Harstad (2017) and Daubanes & Rochet (2019). In fact, in the 'Get Involved' section of the *350.org* website (<https://350.org/get-involved>), potential activists who come into contact with the organization are immediately asked to provide not only their email address, but also their country and zip code: in this way, *350.org* activists are able to easily reach locally specific members by sending targeted call-to-action communications to them.

350.org hit the headlines in the United States thanks to its successful campaign against the construction of the *Keystone XL* pipeline in Alberta, Canada: protests started in 2011 and partially ended in 2015, with the decision – by the Obama administration – not to build the pipeline, as it has been considered heavily polluting for the environment. The protests, initially spearheaded by *350.org* founder Bill McKibben himself, rapidly expanded to every state in the United States right exactly through the decentralized and internet-mediated approach of *350.org*, generating a wave of more than 750 grassroots actions that have mobilized thousands of people, taking on different dimensions: in fact, they initially started as improvised local events organized through email campaigns (*e.g.* impromptu protests rapidly put in place every time President Obama was on tour in a city) and culminated in 2013 with a rally – organized by *350.org* – able to mobilize around 50,000 people in Washington, D.C. (Goldenberg, 2013).

Notwithstanding, despite these relevant numbers, it is worth noting that these outcomes are not the result of the mere use of internet and social media alone: on the contrary, these results also include the contribution of traditional mainstream media, which still seems to be very

influential. In this regard, Luxon (2019) conducted a sentiment analysis on the importance of traditional and social media in generating the necessary emotions – discussed above – to spur the audience to get mobilized and take concrete actions as environmental activists. This analysis exactly observed the modern business model displayed by *350.org* (previously described) and finally concluded that even this new environmental organization has understood the importance of traditional media, since it has always tried to leverage them to convey their messages: as a matter of fact, *350.org* has often displayed tactics to ride the wave of information and achieve wider media coverage (Luxon, 2019). These tactics can be defined as “headline chasing” (Karpf, 2012, p. 50) and can be exemplified in the issuing of press conferences – by *350.org* – during strategic time periods, in order to get space in the newspaper headlines (Luxon, 2019).

Although Luxon's (2019) research identifies *350.org* as a virtuous example, capable of obtaining media space, it is worth pointing out that such media space needs to be obtained without the use of overly emotional frames, because they tend not to attract media coverage. In addition, traditional media tend to constantly be more attracted to breaking news with negative tones (Luxon, 2019), while activists would need effective positive motivational frames (Lakoff, 2010; Bain *et al.*, 2012) but audience tend to be desensitized by this overall media environment (Dauvergne & Neville, 2011). This means that grassroots actions — such as protests and boycotts — could display “diminishing returns” (Luxon, 2019, p. 643) in the long-run, as the chase to the media coverage would become more and more challenging, both in terms of satisfying the canons of the mass media and the increasingly disinterested public.

Ultimately, due to the diminishing returns from media exposure, such a chase to gain media visibility may lead activists to seek increasingly radical actions to get the necessary breaking news space. As a direct consequence, this can lead to damaging consequences not only in terms of public policy, but also for companies, primarily of course for those most responsible for producing negative externalities for the environment. It is sufficient to consider the fact that during the days of COP21 – November/December 2015 – the information world was studded with communications from environmental activists, including *350.org* (Luxon, 2019); nevertheless, companies from the fossil fuel industry did not participate in the debate at all (Hopke & Hestres, 2018), preferring to avoid a potential media pillorying. While this may have paid off in the short term, it is inevitable that in the long term the situation may get out of hand, due to the increasing centrality of the climate change issue, which has strengthened

environmentalists and created new forms of global social mobilization that still seem to be little considered by scholars, despite their inevitable newly acquired power.

3.2.2. *The recent Global Climate Protests*

The most prominent example of this modern global forms of social mobilization is certainly the one represented by the *Fridays For Future* movements: based on the example of the young Swedish activist *Greta Thunberg*, who started a personal school strike in Stockholm on 20th August 2018, with the goal of putting pressure on the Swedish government to adopt policies to drastically reduce greenhouse gas emissions and comply with the *COP21 Paris Agreements*. This movement has rapidly spread worldwide, first among the cities of Sweden and then throughout Europe and the rest of the world, generating a wave of global green mobilization that is considered to be unique in its *tactics*, *global scope* and *appeal* to the young school students (Wahlström *et al.*, 2019).

Indeed, these protests have immediately mobilized more than 1.6 million people only in March 2019 and then they have further generated – during September 2019 – the *Global Week For Future*, one of the biggest coordinated global protests in history (Taylor *et al.*, 2019), which was able to mobilize between 6 to 8 million people globally, with more than 6.100 events held in 185 countries, involving 73 Trade Unions, 820 environmental NGOs and other civil society organizations and even more than 3.000 companies (350.org, 2019). For these reasons, Greta was elected *TIME magazine's 2019 Person of the Year* and is now regularly listed in the *Forbes* list of *The World's 100 Most Powerful Women* since 2019.

Today, after a physiological period of inflection due to the outbreak of the COVID-19 pandemic, climate strikes are expected to come back heavily, targeting the aftermath of the November *COP26 summit* in Glasgow (Neslen, 2021), which is the first annual *Conference of the Parties* after the IPCC report that – for the first time – has unequivocally highlighted the key role of mankind and human industrialization in climate change (IPCC, 2021a).

The strong reliance on social media by this new wave of modern global activism is undisputed: as a matter of fact – thanks to a survey carried out in the major European cities where *Fridays for Future* strikes initially took place (Wahlström *et al.*, 2019) – it was observed that only 11% of the interviewed striking school students (and only 23.4% of the adults) learned about these strikes from a mainstream media – such as newspapers, advertisements, radio or television – while at least 34.4% of the young strikers (and 31.6% of the adults) reported to have become aware of these events through the massive informational activity carried out by both opinion leaders and environmental NGOs on social media.

In this scenario, the whole movement appears to be structured in a way that allows any potential social user to easily become an activist: for example, through the main website of the *Fridays for Future* movement (www.fridaysforfuture.org) – or through the main Instagram profile @fridaysforfuture (www.instagram.com/fridaysforfuture) – it is possible to get directly in touch with the FFF organizers of the movement in your own country: for example, if we think about an Italian user, the main website www.fridaysforfuture.org allows him/her to redirect to the Italian website page of the movement (www.fridaysforfutureitalia.it), while the main principal Instagram account @fridaysforfuture (www.instagram.com/fridaysforfuture) – together with Thunberg's own personal Instagram profile @gretathunberg (www.instagram.com/gretathunberg) – follows and promotes the official FFF Instagram accounts of each country: in the Italian case, @fridaysforfutureitalia (www.instagram.com/fridaysforfutureitalia).

Moreover, the main website (www.fridaysforfuture.org) has a global map – called *Map of Actions* – where you can identify and locate all the campaigns carried out and still to be run, with the relevant contacts at local level.

For this reason, it is now safe to say that the opinion leaders heading the movement – as well as the NGOs engaging with them – have apparently built up a virtual network able to mobilize people towards a shared goal, partially overcoming – also in this case – the geographical and political barriers theorized by Brunsting & Postmes (2002) and Doh & Guay (2006), and confirming another time the intuitions of both Daubanes & Rochet (2019) and Egorov & Harstad (2017) on social media activism.

In this respect, for instance, *Greta Thunberg* entered into contact through social media with the young activist *Alexandria Villaseñor* – her respective American counterpart, founder of the US youth climate organization *Earth Uprising* – and together they have run a climate protest that brought up to 250.000 people to march in front of the UN headquarters in NYC (Singh *et al.*, 2019), where both Thunberg and Villaseñor – along with other 14 young petitioners coming from 12 countries around the world and represented by the NGO *Earthjustice* – made a speech against the inertia of nations on the problem of climate change (UNICEF, 2019).

The apparent simplicity – allowed by social media – of composing and directing transnational coordinated actions at a global scale is remarkable, and could have important implications for both established NGOs and companies. As a matter of fact, it cannot be overlooked that these recent protests have been able to involve even countries – such as the United States – where environmental activism has historically been viewed in an ambiguous manner due to the connotations of the local ENGOs (Doh & Guay, 2006): the example just described – of the protest marches organized in NYC by Thunberg and Villaseñor – is unprecedented and is a clear demonstration of that.

For this reason, it is indeed extremely relevant to question how the more traditional NGOs have received these bottom-up movements: the perception is that this new wave of protests on a global scale may overwhelm both companies and the more traditional NGOs, and mark them as inadequate or even directly implicated in the inertia that has prevented the adoption of credible global environmental policies until now. Regarding NGOs, this may seem particularly true in the European context, where NGOs have been traditionally more powerful and have historically employed a collaborative rather than a confrontational approach to pursue their goals (Doh & Guay, 2006). As a matter of fact, in European countries – such as Italy – large traditional NGOs are focused on lobby activities and, for this reason, they have not fully embraced this new wave of protests, even though several of them have joined young people in the streets for the *Global Strike for Future* on 15 March 2019, organized by the *Fridays for Future* movement (Wahlström *et al.*, 2019).

As a consequence, under such a scenario, new kinds of modern environmental organizations have emerged, often directly founded by the young activists themselves,

like the most notable examples of *Greta Thunberg* and *Alexandria Villaseñor* previously cited. These new organizations/movements seem to perfectly follow the atypical nature of the modern activism previously described on this thesis: they appear to be *fluid* and *flexible* in their nature, since they do not require a static structure to stage collective actions, precisely because they rely on social media to emphasize local “do-it-yourself” forms of actions under the umbrella of the figure of *Greta Thunberg* (De Moor *et al.*, 2020a).

Unfortunately, however, it seems that the only common ground between all these local movements is the charismatic figure of the founder Greta Thunberg herself, as well as the declared goal of just “listening to the science”, which appears to be vague and lacking in long-term vision (De Moor *et al.*, 2020a).

Moreover, even though young generations seem to perceive a higher stake in the climate change issue with respect to adults – and still represent the principal engine of this new form of global activism – traditional environmental NGOs seem to be not of crucial importance for these young demonstrators, as they tend to not engage with them, neither as passive financial contributors, nor as active members (Wahlström *et al.*, 2019). This is quite relevant, because it means that these new forms of protests could even jeopardize the principal and most organized environmental actors, which currently still remain the traditional NGOs embedded in the socio-political system.

However, more traditional NGOs should not be worried by these new environmental movements: the reason is that NGOs are able to easily adapt to these new sensibilities thanks to their nature. In fact, as previously assumed, workers of NGOs should be satisfied from these movements of environmental protests by definition, as they derive their private utility from activities that promote social welfare (Tirole, 2001), like the global climate strikes, that put pressure to governments in order to adopt credible plans to reduce greenhouse gas emissions. Thus, by just embracing such new bottom-up movements, they should avoid being jeopardized by them.

More worryingly, a potential problem could arise if these bottom-up movements start targeting not only governments – perhaps in a general way as happened until now (De

Moor *et al.*, 2020a) – but rather also individual companies they may consider responsible for negatively contributing to the production of greenhouse gas emissions.

On this purpose, it is worth citing the more recent surveys carried out after the September 2019 *Global Week For Future*: these results show that protesters feel frustrated and angered about the climate change item, while they are skeptical about relying on companies to solve these global environmental problems (De Moor *et al.*, 2020b). Moreover, the influence of Greta Thunberg – which by now could be quite “predictable” and assessed – seems to become less influential on the whole actual movement, while the emotional sentiment of protesters may be changing in the near future (De Moor *et al.*, 2020b).

For this reason, we can assume that the whole *Fridays For Future* movement could take on a more radical and extremist character, that would represent an immediate worrying threat for companies. Especially if we combine these findings with the previous ones concerning the diminishing returns from media exposure (Luxon, 2019), because the perceived inaction – by both regulators and companies – can lead to an escalation of violence against those who will be found guilty (rightly or wrongly) of being most responsible for the lack of visible actions to combat climate change.

Moreover, this scenario would dramatically impair the assumptions of Daubanes & Rochet (2019): as a matter of fact, on their paper they have assumed the activists to be just traditional and established NGOs, with knowledge and expertise in the fields of politics and lobbying, and therefore with less scope for error. Conversely, under the new assumption of these recent social movements, normal people are starting to mobilize with locally do-it-yourself actions, under the influence of bottom-up movements run by opinion leaders. In light of these new hypotheses, we can assume that the widespread diffusion of the internet and social media may have an ambiguous effect on the social welfare, due to the lack of expertise of people adhering to these movements of protest: the diffusion of falsehoods (*fake news*) or partial (*biased*) information may proliferate and end up with companies being targeted, no matter their true sustainable commitment.

3.3. Hybrid organizations as a way to cope against global protests: the example of Certified *B-Corporations*

3.3.1. B-Corporations can overcome the limits of the Stakeholder Theory

The recent environmental mobilizations do not seem to go unobserved in the business ecosystem, and not only by those companies which are directly responsible for emissions of so-called greenhouse gases. In this regard, it is worth pointing out that companies are already starting to reassess their business models, so as to become *hybrid organizations*, which are non-traditional companies theoretically able to balance companies' natural need to make profits with the new demand of addressing environmental and social issues (Santos *et al.*, 2015). In fact, hybrid organizations are *for-profit* companies able to demonstrate viable market-based solutions that are at the same time highly sustainable, as they follow the declared mission of driving positive social/environmental change by creating mutually beneficial relationships with external stakeholders (Haigh & Hoffman, 2012).

As the topic of hybrid organizations is relatively new and the research is still developing, the related literature is not yet very exhaustive (Stubbs, 2017). Moreover, in the past, scholars like Birkin *et al.* (2009) have been critical when assessing the effectiveness of these companies, as – in their view – these hybrid organizations were unable to concretely exhibit the necessary radical changes to be considered sustainable, due to the presence of constraints in the social context.

More specifically, they conducted an analysis – using semi-structured interviews and secondary data – of 17 Nordic companies which were publicly recognized for their achievements in sustainable development. They chose to focus on Nordic countries – therefore *Sweden, Norway, Finland, Denmark and Iceland* – because they assumed the Nordic context to be at the cutting edge when it comes to sustainable development (Birkin *et al.*, 2009). What they found out is that, despite this apparently favorable context, there were still significant constraints — such as *short-term time orientation, bureaucracy and too much specialization* at the level of individual knowledge — that prevented a decisive shift towards sustainable business models so far (Birkin *et al.*, 2009).

Notwithstanding this criticism from scholars and the scares literature, however, things may be different nowadays, precisely because of the new radical changes that are taking place in our society: for this reason, it seems very likely that *activism* should now be permanently considered as another *constraint* that companies should take into account. In this respect, it is quite remarkable to note that the exact same Nordic context analyzed by Birkin *et al.* (2009) – and more specifically Sweden – is the one that has recently given rise to the global climate protest movements previously examined in this thesis: the *Friday's For Future* mobilizations.

Following this trajectory, it is possible to actually identify a clear and concrete example of hybrid organizations that has been proliferating in the last few years: the *Certified B-Corporations* (Stubbs, 2017). These organizations actively require an independent non-profit authority – named *B Lab* – to certify their commitment in (ESG) *environmental, social and corporate governance* performance (B Lab, 2021a), as they tend to show excellent results in these fields and therefore want to communicate them with their stakeholders (Stubbs, 2017).

Although *B Lab*, an American independent non-profit institution, was originally established in 2006, it was not until recent years that there has been a surge in the number of applications and subsequent B-Corp certifications: in fact, B-Corporations were only around 800 until 2015, while nowadays there are currently over 4000 *Certified B-Corporations* in almost 80 countries worldwide (B Lab, 2021a) and this can easily be ascribed to the recent environmental mobilizations started in 2016. Moreover, some theories suggest that these numbers may significantly increase during the Post COVID-19 crisis, given that *B-Corporations* are flexible and able to combine the need for economic growth with the concepts of sustainable development (Saiz-Álvarez *et al.*, 2020).

These predictions can be significantly interesting, because this means that *B-Corporations* may ultimately overcome managers' conflict of interest pointed out by Tirole (2001) in his discussion regarding Freeman's Stakeholder Theory (1984): in fact, by stably introducing *ESG performance* indicators in their incentive schemes, it would be possible to align managers' actions — in the interest of shareholders — with the achievement of positive social outcomes for external stakeholders. In other terms, hybrid organizations as *B-Corporations* may go far beyond the concept of CSR (Saiz-Álvarez *et al.*, 2020), by keeping – at the same time – profitability and market logics that distinguish them from charitable organizations and NGOs.

Ultimately, managers of the B-Corporations would realize the concept of *hybrid management* (Miller, 2001), which is a new form of management tailored to these hybrid organizations. More specifically, the hybrid manager would be a manager able to effectively coordinate his/her managerial expertise with *facts and information coming from the scientific community* (e.g. concerning climate change), and should even be able to display *political mediation skills* towards institutions (Miller, 2001), to finally compensate for their fragility regarding environmental issues.

This ambitious mission can be made possible by the credibility that *B Lab* seems to have achieved so far (Paelman *et al.*, 2021). As a matter of fact, the procedure for obtaining the *B-Corp* certification is structured in a rigorous manner by *B Lab*, as it transparently sets out the necessary steps on its website (www.bcorporation.net): in the first place, the company must obtain a score of at least 80 in the *B Impact Assessment*, a test – created by *B Lab* – with a series of questions aimed at determining the company's actual impact on its stakeholders. Subsequently, if the required score is achieved, *B Lab* analysts assess and verify the accuracy of the data and information reported. If everything is in order, the company will be awarded with the *Certified B-Corporation* certificate, together with the publication of the company's profile on the *B Lab* website (B Lab, 2021b).

However, the certification process does not end with this: in fact, the *B Lab* certification is not perpetual, as companies will have to be monitored every 3 years, again through the *B Assessment*, in order to maintain the status of *Certified B-Corporation* (B Lab, 2021b). Moreover, certified companies may be subject to additional random audits by *B Lab* (Stubbs, 2017) and this certainly contributes to strengthening again the level of trustworthiness of this independent certification.

3.3.2. *Not a Trade-Off between Profitability and Sustainability: evidence from B-Corporations*

Despite the apparent reliability of this form of hybrid organization, it is now relevant for a company to question whether becoming a B-Corporation is a viable choice in terms of profitability. There are still few empirical studies concerning this aspect, but early evidence suggests that the answer is yes. In this regard, some of the most recent and authoritative contributions on B-Corporations' profitability are the ones of Chen & Kelly (2015), Romi *et al.* (2018), Parker *et al.* (2019) and Paelman *et al.* (2020; 2021). All of them will be briefly discussed here below.

A first interesting thing to notice is that all these studies share a quite similar research methodology: in fact, they all conducted *Difference-in-Differences* analyses between a list of *Certified B-Corporations* (retrieved from the B Lab website) and a comparison group of *Non-B-Corporations* (retrieved from different financial databases). All the companies analyzed – which were of course different from study to study – were catalogued according to some observable characteristics, in order to match (and then compare) the B-Corporations only with Non-B-Corporations of similar characteristics (such as size and business sector/industry). Matches – between B-Corps and their Non-B-Corps counterparts – were produced using sophisticated statistical tools, such as the *Propensity Score Matching* (Paelman *et al.*, 2021), in order to better manage the variables that characterize each of the companies analyzed. This helped to finally create significantly relevant couplings. Generally, across all the aforementioned researches, the main variable commonly used as a means of comparison between each B-Corporation and the corresponding Non-B-Corporation is the *turnover growth rate*. This variable was indeed taken as a reference point for assessing the degree of profitability of the analyzed companies.

With respect to the outcomes of the studies: findings of Chen & Kelly (2015), Romi *et al.* (2018) and Paelman *et al.* (2020; 2021) tend to show positive overall results for B-Corporations' profitability. More specifically:

- Chen & Kelly (2015) analyzed 130 B-Corporations. They discovered that, when confronted to large public companies, B-Corporations showed a significantly *higher*

turnover growth rate with respect to the average turnover growth rate of similar Non-B-Corporations.

Nevertheless, conversely, this study also displayed that this effect is far less significant within small to medium-sized private firms. In other terms, according to this study, the strength of being a B-Corporation is more visible when the B-Corp is big enough to be confronted to large public companies.

- Romi *et al.* (2018) conducted a similar analysis, analyzing a sample of 540 observations of B-Corporations and matching them with financial data of similar companies retrieved from the *PrivCo* financial database.

Consistently, findings once again indicate that B-Corporations have greater turnover growth rates with respect to their Non-B-Corporations coupling counterparts. For this reason, authors conclude by suggesting that governments and institutions should universally adopt and recognize a legal status for Certified B-Corporations, in order to better harmonize the existing different legal forms of hybrid organizations (Romi *et al.*, 2018).

- Paelman *et al.* (2020) slightly differ from the previous two studies, as they focused on a restricted set of European B-Corporations and conducted the *Difference-in-Differences* analysis between the same B-Corporations one year *before* and one year *after* obtaining their *B-Lab* certification.

In this case, it is interesting to notice that the same B-Corporations have demonstrated a significant increase in the rate of turnover growth, with respect to themselves in the previous year without certification (Paelman *et al.*, 2020). This can be partially attributed to the *signaling effect* of the B-Lab certification, which has increased exponentially its popularity worldwide (Paelman *et al.*, 2020).

- Paelman *et al.* (2021) also conducted a more classical *Difference-in-Differences* analysis, to test the assumptions of the previous studies of Chen & Kelly (2015), Romi *et al.* (2018) and Paelman *et al.* (2020).

They observed 129 individual B-Corporations between 2012 to 2017 and matched them with 129 Non-B-Corporations that were retrieved from a financial database named *Orbis Europe*. These Non-B-Corporations were picked thanks to the use of the – early mentioned – *Propensity Score Matching*: this statistical tool, that was able to produce 2,995,223 observations from the Orbis Europe database, helped to find Non-B-Corporations as similar as possible to their Certified B-Corporations counterparts, creating in this way very effective and consistent matches (Paelman *et al.*, 2021).

These findings of Paelman *et al.* (2021) are quite remarkable: firstly, they confirmed the assumptions – of the previously mentioned studies (Chen & Kelly, 2015; Romi *et al.*, 2018; Paelman *et al.*, 2020) – concerning the greater turnover growth rates of B-Corporations with respect to similar Non-B-Corporations's rates.

Secondly – as they have been the first scholars to verify how the effects of the B-Lab certification evolve over time – they found out that the B-Lab certification is very credible, confirming that it does positively affect the turnover growth rate, even if it takes some time to show its effects: as a matter of fact, the *signaling effect* of the certification increases as the years go by, because stakeholders are now becoming more and more familiar with it over time (Paelman *et al.*, 2021).

Finally, as a direct consequence, they pointed out that companies that obtain the B-Lab certification derive a benefit that allows them to: 1) *emerge from the competition*, 2) *be more credible towards stakeholders* and 3) *clarify the company's path to pursue its sustainable mission* (Paelman *et al.*, 2021).

For the sake of completeness, we must point out that – in partial contrast with the earlier analyzed studies – we can find the contribution of Parker *et al.* (2019): on their analysis – in which they focused on a panel of 249 North American B-Corporations – they found out that companies that aim to get the B-Lab certification incur significative *organizational costs* that slow down the turnover growth in the short-term. And this is particularly evident for companies that are small, because they find it more difficult to manage the immediate impact of such short-term costs. In spite of this, however, Parker *et al.* (2019) also observed that it would not be fair to deny the positive effects – in the medium and long-term – of becoming a B-Corporation.

Notwithstanding this criticism of Parker *et al.* (2019), it is worth pointing out that the – more recent – study by Paelman *et al.* (2020) partially refuted the findings of Parker *et al.* (2019). In fact, as previously observed, Paelman *et al.* (2020) have found that the effects of B-Lab certification on turnover growth are already visible after just one year from the certification, although they tend to increase more significantly as time goes by (Paelman *et al.*, 2021).

These contributions also help to challenge the earlier criticisms initially made by Chen & Kelly (2015), concerning the fact that – apparently – only the large B-Corporations were outperforming their Non-B-Corporations counterparts: in fact, this study of Chen & Kelly (2015) was carried out maybe quite early in time, so it could not have properly analyzed the growth in popularity that B Lab certification has gained in the last few years (Paelman et al., 2020; 2021).

In light of these findings, it seems fairly evident that nowadays *Certified B-Corporations* perform better in terms of profitability (turnover growth) when compared to similar non-certified companies. Therefore, as a direct consequence of all these studies analyzed before, we can conclude that: currently no evidence of any kind suggests a hypothetical trade-off between companies' profitability and their efforts to meet high ESG performance.

Ultimately, this means that it seems to be worthwhile for companies to try to become *Certified B-Corporations*, despite the organizational costs that companies have to bear in the short term (Parker et al., 2019). These costs seem to be unavoidable, considering the credibility of the *B-lab* certification (Paelman et al., 2021), which will inevitably require strict parameters to be met.

Interestingly, these considerations on B-Corporations' profitability are independent from the issue of environmental activism: even without strong external pressure, it seems to be profitable for a company to decisively address the issue of sustainability and integrate it into its business, becoming – in this way – a *Certified B-Corporations* able to display a new form of hybrid management.

However, if we include in the discussion also the growing strength of environmental activists, we can identify a possible threat for companies: if global environmental mobilizations start to target Non-B-Corporations, the process of obtaining B-Lab certification would no longer be just a voluntary means to differentiate from competitors and gain a competitive advantage (Paelman et al., 2021), but it may represent a forced pathway to try to shy away from protests and boycotts. And this scenario seems less unlikely than expected, since the – previously mentioned – *Friday's For Future* movement already seems to not trust companies in the fight

against climate change, and furthermore, it seems to be moving away from Greta Thunberg's influence, which has so far been quite predictable and harmless (De Moor *et al.*, 2020b).

CONCLUSIONS

The thesis contributes to the existing literature concerning *Private Politics*, with a particular focus on the study of the relationship between companies and environmental activists. It explores the actual political and social framework in which companies operate, arguing that it is quite fragmented and in constant evolution, due to the absence of an effective global cooperation at the international level. As we have discussed *political, social and economic* phenomena that are very recent and constantly changing, we have chosen to devote the following conclusions not to a mere summary of the entire thesis, but to a broader and more topical reasoning on the evolution of such phenomena, with the aim of bringing further insights into the development of the subject and potential future research that we believe should be carefully considered by scholars.

In this overall context of uncertainty, we have argued that the more recent global climate protests – such as the *Friday's For Future* – represent a different form of modern environmentalism, with respect to the more traditional activism that we have experienced so far. For this reason, they may become a serious threat for companies, which – in the imminent future – will increasingly have to deal with the climate change emergency, and therefore with these new social pressures.

These new forms of environmental activism are powerful and atypical because they are *digital native*: not only they exploit social media to amplify the reach of their messages, but they also leverage them as an emotional and identity-based communication, especially with respect to the younger generation. Nowadays, even individuals who might not be strictly considered as activists (in the most classical definition) can easily follow the instructions of famous opinion leaders, and instantly become activists for an environmental action (such as a specific *boycott* or a *social media pillory*). This phenomenon seems now to be present also in countries where people have traditionally shown poor attitudes towards environmentalism.

Therefore, we can assert that such recent global mobilizations – coming from the bottom up – may have the potential to finally provide the decisive breakthrough that world environmental policy needs today. As a matter of fact, all the international climate change

negotiations (such as the *Kyoto Protocol*) have failed so far, while the actual on-going agreements (*Paris Agreements* and the recent political talks during the *Glasgow COP26*) seem to be doomed to the same worrying fate. For this reason, these new forms of environmental social movements can create a real political consensus that can stir the majority of citizens and consequently even politicians as well, putting significant new social pressure on them to find a shared, fair and efficient solution at the negotiating table.

Unfortunately, since these modern forms of activism appear to attract much more people than the past, they tend to be very *fluid* and *chaotic*, due to both the ephemeral nature of social networks and the lack of experience of such modern activists. While this may be intuitively seen as a weakness, it may cause a rapid escalation of increasingly radical environmental actions – against companies – to continue to gain traditional media coverage. In addition, the overload of available information – combined with the lack of competence and political inexperience of these modern environmentalists – could make them much more unpredictable, with *grassroot actions* based more on the transitory influence of the opinion leaders, rather than on real environmental issues. In this scenario, it is clear that even companies that are not guilty of being unsustainable could become unintentional victims of these global mobilizations, for example due to false (or misinterpreted) information conveyed and disseminated by such modern activists.

Given the extreme recentness of the phenomenon, however, there are still few studies concerning these recent forms of global environmental activism, while none of them seem to explore the nature of these protests from a theoretical perspective. Moreover, to date, no attention seems to have been paid – in the current literature – to the risk that these movements may constitute for companies. For this reason, the thesis has addressed these two aspects, questioning at the same time a possible solution for companies, in order to enable them to face these upcoming challenges.

We argue that these recent forms of social mobilization may – directly or indirectly – force companies to adopt new managerial tools (as the current ones may no longer be adequate enough), or even completely rethink their business models. Concerning this last aspect, we have proposed – on this thesis – that companies should try to become *hybrid organizations*, and finally have their sustainability performance certified by an independent and publicly recognized authority.

The example we have brought here is that of the “B-Corporations”, which are hybrid organizations certified by the independent organization “B Lab” for their contribution to sustainable development. This solution may represent an opportunity for companies to tackle the issue of climate change while being profitable, as *Certified B-Corporations* seem to currently represent a virtuous business model, able to combine concepts of sustainability with those of traditional profitability.

Current research on this topic appears to be at an early stage: hybrid organizations are still studied only as a *virtuous exception*, but they may soon become the archetype of the normal company of the future. To make this happen, it is first necessary to harmonize – from a theoretical and legal point of view – all the different existing forms of hybrid organizations, in order to reach a uniform standard. The *Certified B Corporations* could represent this universally shared standard, due to the high level of trustworthiness of the independent *B Lab* certification. Therefore, the challenge for scholars and policy-makers is to define a common standard and implement it to set the rules of the game.

Another interesting area of research, which is worth exploring, concerns the forms in which this ever-increasing radicalism of such modern activists will take place: for instance, the recent phenomenon of *Hactivism* (*i.e.* the practice that combines social media activism with the traditional actions of web hackers) could represent one of them, and should be analyzed more in-depth, for instance by looking at the more recent cyber-attacks and trying to find a possible connection with the environmentalist cause. According to the latest global risk reports of the World Economic Forum (2021), *cyber-attacks* have been listed for years as one of the major global risks for both companies and political institutions. The scenarios that could arise whenever such digital attacks become an acknowledged tool in the hands of these global protesters are therefore alarming: sensitive and secret data could be revealed and partially disseminated, and companies’ online platforms could be harmed. All these aspects may cause serious economic and political damage.

Further research might also address when and if these recent forms of mobilizations will ever be able to penetrate authoritarian regimes and façade democracies. For example, with respect to China, there is currently very limited empirical data on Chinese

environmental activism, for the obvious reasons of governmental control, outlined earlier. However, it is conceivable that in the future this *green wave* could somehow reach also these countries – even though they are currently far from democracy by now – as well as their national companies that are already present in international markets.

Regardless of these open questions, however, we want to point out again that the imminent challenge for companies should be to strive to obtain such prestigious certifications of sustainability in any case and as soon as possible, before becoming forced to do so (for instance in the event that activists would start targeting companies that do not possess such certifications).

Otherwise, if no significant steps in this direction will be taken, companies will continue to be vulnerable to a world that is increasingly concerned about environmental issues and decreasingly confident in the performance of companies, especially when it comes to the delicate issue of sustainability.

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