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**Is Vestas Encouraging Responsible Consumption or
Merely Greenwashing for its Own Gain?**

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We need a revolution. The days of consumption without thought are over. Climate change is rendering the old model obsolete. – UN Secretary General Ban Ki-moon¹

Introduction

Vestas, the global leader in the manufacture of wind turbines, is leading the charge to launch a new trustmark – WindMade – and wants the commitment of thousands of companies and millions of consumers. The idea is relatively straightforward: if a product or service has a WindMade trustmark, then it has met WindMade.org standards, meaning it was produced with wind energy and, therefore, is less harmful to the environment than non-renewable energy sources.²

Vestas already has some noteworthy partners, namely the World Wildlife Fund (WWF), Price Waterhouse Coopers (PwC), the United Nations Global Compact (UNGC), Bloomberg New Energy Finance (Bloomberg), The LEGO Group, and the Global Wind Energy Council (GWEC).³

This paper will explore Vesta's underlying business strategy, paying close attention to its economic incentives, environmental norms, and value-added partnerships as it builds a new environmental label. There are key questions that are answered along the way. Is this greenwashing? What are the incentives driving the participation of the WWF and UNGP? How inclusive is the development of the WindMade standards

¹ Pfanner, Eric; "WindMade' May Soon Join Other Feel-Good Labels", NY Times, JANUARY 28, 2011

² WindMade: Leading businesses and non-profit organisations will develop first global consumer label for companies using wind energy, Vestas' Press Release, 01/18/2011

³ WindMade: Leading businesses and non-profit organisations will develop first global consumer label for companies using wind energy, Vestas' Press Release, 01/18/2011

within the core set of partners, throughout the wind energy industry, and amongst the public at large. Will the formulation of the standards be a transparent process? What can be learned from other similar trustmarks? These questions are answered later, but for now let us focus on Vestas' traditional function as a profit-maximizing entity.

Vestas Wind Systems A/S

Vestas is the world's largest wind turbine manufacturer. Founded and headquartered in Denmark, it sells wind turbines and services in all major world markets, including Europe, the United States, India, and China. Its major competitors include General Electric, Siemens, and lower-cost Asian manufacturers.⁴

In 2010, it had revenue of 6.9 billion euros.⁵ Although the company demonstrated significant growth in revenue and net profit in 2008 – 54% and 204%, respectively – other figures between 2006 and 2010 do not look as promising. Net profits decreased in 2009 and 2010, by 59% and 38%, respectively. Its share prices plummeted in 2008 and 2010 by nearly 45% in both years.⁶

There are three primary drivers that explain Vestas' poor performance, as well as the volatility in global demand for wind energy. The first, and primary, driver is the 2008 financial crisis. As the availability of subsidies and credit in cash-strapped Western markets dried up, particularly in Europe, wind-farm developers were

⁴ Ward, Andrew; "Vestas hit as wind sector struggles"; Financial Times, August 18 2010

⁵ Annual 10-K, Vestas Wind Systems A/V, 2011

⁶ Personal Calculations using data from Annual 10-K, Vestas Wind Systems A/V, 2011

forced to cancel turbine orders. Secondly, a huge increase in the supply of US natural gas in 2008 resulted in low prices for the resource, which is used to generate electricity and competes directly with renewable energy technologies.⁷ Finally, in December of 2008, there was the overwhelming failure of the United Nations climate summit in Copenhagen (COP-15) to produce any binding agreement on greenhouse gas emissions (GHGs). Had an agreement been reached, renewable energy technologies around the world would be faring much better than they are today. The above scenario is the reality that Vestas is operating in.

More recent events are showing that the Vestas is still in trouble. In October 2010, it announced that it would cut 3,000 jobs, thereby impacting 14% of its global workforce and decreasing its Danish workforce by a third. Interestingly, the company expanded its presence in the United States, adding 3,000 jobs.⁸ It is also under investigation for evading taxes in Italy, with accusations claiming US\$63.5 million was withheld from the government there.⁹

With respect to corporate strategy, two things are apparent given the above firm-based analysis. One, Vestas is betting on the US market – its biggest market.¹⁰ Two, the wind industry needs to find a way to catalyze demand for its form of energy, which means doing so without much regulatory certainty, at least in the short to

⁷ Ward, Andrew; “Vestas hit as wind sector struggles”; Financial Times, August 18, 2010

⁸ Harvey, Fiona, “Vestas to cut 3,000 jobs at wind turbine plants”, Financial Times, October 26, 2010

⁹ Schwartzkopff, Frances, “Vestas Is Under Investigation in Italy for Alleged Tax Fraud”, Bloomberg, Mar 3, 2011

¹⁰ Johnson, Keith; “Vestas’ Fortunes Hinge on U.S. Wind Market”, February 12, 2009

medium term. The financial stimulus package was definitely an added incentive to redouble efforts in the US market.¹¹ Still, long-term success of the industry in the US depends on when Congress passes comprehensive energy reform, which failed in the Senate in September 2010.

Equipped with a better understanding of the incentives and general strategy influencing the behavior of Vestas, let us now turn to its WindMade initiative.

Vestas' WindMade Initiative

Revisiting the introduction, Vestas is launching a trustmark called WindMade. Products and services sporting this label will be made with some percentage of wind energy (precise amounts are still unavailable). This section will begin with an analysis of the strategic significance of Vestas' partnerships as they related to forming a successful, credible corporate responsibility initiative (i.e. WindMade).

Partnerships

This section examines WindMade's partnership structure, using Vestas as the focal point since it was the company that initiated the project. Because there are several partners involved, this paper does not attempt to cover all partnerships their strategies in detail. It will focus on the GWEC, the WWF, and the UNGP, while only summarizing the other partnerships. One overarching incentive for all partners is that they are allowed to have representatives from their organization sit on the

¹¹ Johnson, Keith; "Vestas' Fortunes Hinge on U.S. Wind Market", February 12, 2009

technical committee of the WindMade Standard.¹² In terms of the creation of the WindMade Standard, which will be covered in greater detail later in this paper, all partners are involved in the process.

The Global Wind Energy Council is based in Brussels. It is an industry trade association “working to create a better political environment for wind.”¹³ It has over 1,500 member companies, organizations, and institutions. By representing all of the world’s major wind turbine manufacturers, including Vestas’ major competitors, GWEC’s membership is currently responsible for 99% of the world’s installed capacity.¹⁴

Vestas must leverage its relationship with the GWEC in order for the WindMade label to achieve inclusiveness and credibility. If all of the major wind turbine companies are not on board, then it makes trustmark adoption less likely. There is the added potential for industry infighting. Furthermore, an unorganized effort in the industry may confuse the companies that use wind to produce their goods and services, decreasing demand. In contrast, including the GWEC means that the mark will have breadth and, also, that the development of a set of standards will be applicable in markets around the world.

¹² The WindMade Website, <http://www.windmade.org/pages/windmade-standard/>

¹³ The GWEC Website, <http://www.gwec.net/index.php?id=60>

¹⁴ The GWEC Website, <http://www.gwec.net/index.php?id=60>

The Secretary General of the GWEC and interim director of WindMade, Steve Sawyer sums it up best:

*Vestas has clearly been the prime mover in WindMade and they both deserve and have received credit for that. But they know, and we know, that this initiative has to be on behalf of the whole industry if it is to be effective. The standard must be rigorous and of a very high standard if it is to be credible and effective, and that means engagement of the whole industry as well as a broad cross-section of the many potential stakeholders in the initiative.*¹⁵

The World Wildlife Foundation is one of the world's largest independent conservation organizations. "Its mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature."¹⁶ The WWF energy division covers all major forms of renewable energy. It is widely accepted for its expertise in standards creation process.¹⁷ It openly supports wind energy as a viable resource:

WWF believes that the benefits of wind energy far outweigh the damage caused by the use of more conventional energy sources. Precautionary measures should help mitigating potential negative impacts. The future of wind energy

¹⁵ Winds of Change: Green Industry Trailblazers Leads WindMade Charge, The Daily Beast, 02/28/2011

¹⁶ WWF website, http://wwf.panda.org/what_we_do/

¹⁷ WWF Standards of Conservation Project and Programme Management, WWF, 02/09/2007

lies in large-scale, onshore and offshore wind parks that connect to regional super grids to provide clean and efficient electricity.¹⁸

Therefore, WWF's experience in standards creation and support of wind energy aligns the incentives between the WWF and Vestas. On credibility, Vestas' partnership with the WWF means that it should be able to effectively stave off any greenwashing accusations, so long as the NGO continues to be a key actor in the development and monitoring of the WindMade standards.

The United Nations Global Compact is an initiative with the objective to promote social responsibility in business. It provides a "voluntary leadership platform", but is not a regulatory body, nor does it have strong enforcement mechanisms. The Executive Director of the UNGC, George Kell, referred to the WindMade team "as the ideal 'constellation' of corporations, business associations, not-for-profits, and the public-private sector."¹⁹ With 5,300 participating businesses operating in 130 countries around the world, the Global Compact is the largest corporate responsibility initiative in the world.²⁰

The partnership with the UNGP, similar to the WWF, is also mutually beneficial. Vestas gains credibility as an inclusive first mover with WindMade because it is

¹⁸ WWF website,

http://wwf.panda.org/what_we_do/footprint/climate_carbon_energy/energy_solutions/renewable_energy/clean_energy_facts/wind_energy_facts/

¹⁹ Winds of Change: Green Industry Trailblazers Leads WindMade Charge, The Daily Beast, 02/28/2011

²⁰ UN Global Compact Participants, UNGC website,

<http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>

partnered with a renowned multilateral dedicated to CSR. It also benefits from UNGP's extensive network of companies, which could serve as the first WindMade clientele. From the UNGP's perspective and actions, this is a corporate responsibility initiative that has true potential. UNGC Executive Director Kell adds,

We have long tried to establish links with the consumer, but it has never really worked. For the first time, we have a label that has the power to be a fundamental force.²¹

If WindMade were a success, being a founding member would be a huge boon to the UNGP's track record of facilitating corporate responsibility worldwide.

The Remaining Partners also play a vital role in the technical and private-sector aspects of this initiative. PwC, as the world's largest accounting firm, is WindMade's official verification partner. Therefore, if Vestas can broker agreements between PwC and WWF standards experts within the technical committee, then WindMade is sure to have a set of strong, verifiable standards.²² Bloomberg will be the official data provider to WindMade, meaning that it is charged with creating a searchable registry, open to the public, and boosting the initiatives overall transparency. LEGO, Vestas' fellow Danish firm, is the world's largest toy manufacturer with progressive renewable energy targets and social standards. It brings value to the WindMade

²¹ Chu, Jeff; "Inside Vestas' Plan to Create More Energy-Conscious Consumers", Fast Company, 02/01/2011

²² WindMade: Leading businesses and non-profit organisations will develop first global consumer label for companies using wind energy, Vestas' Press Release, 01/18/2011

team as a representative of the manufacturing companies that use wind energy to power their operations.

The PR Campaign: A Lack of Formal Statements and Advertising from Partners

Interestingly, aside from a few quotes scattered throughout various news articles, WindMade partners have not issued their own formal statements highlighting their partnership with WindMade. Additional research on their respective websites yielded minimal results, most of which were links to the aforementioned media articles. The Vestas website is the only site containing the WindMade logo linking viewers to the WindMade.org website. This demonstrates that the partners are

1. Apprehensive to begin a marketing campaign until the standards are finalized,
2. Letting Vestas carry the financial burden of the marketing campaign, or
3. Being encouraged by WindMade.org and/or Vestas to not solicit their own information

All of the above scenarios are plausible. Several emails were sent to contacts listed on WindMade's Press Release.²³ Perhaps unsurprisingly, the response rate was miniscule, with LEGO issuing the only response, as shown below:

Dear Jarrod Miles Russell

Thank you for your e-mail and the enquiry for a possible cooperation with the LEGO Group in connection with your CSR course.

We regret very much to tell you that we cannot meet your request.

Every day we are approached by students from around the world who would

²³ Exhibit 1

like to cooperate with us on a specified project, thesis or similar, and we are of course pleased to note this interest for our company. But due to an extremely high level of activities in the LEGO Group at present, we are not able to allocate the resources needed to enter into a cooperation, which will also prove useful to you as a student.

We hope for your understanding and wish you good luck with your studies.

*Gitte Klausen
PA / Secretary
Corporate Communications, LEGO*

All other partners failed to respond to research inquiries. This may be an indication that the WindMade PR campaign is working too well, as these contacts are inundated with requests for additional info. In late January 2011, Vestas' CEO Ditlev Engel's, in follow-up announcements to WindMade's initial press release, highlighted the rationale behind the trustmark at the World Economic Forum in Davos. This generated a great deal of media attention, particularly video interviews. Engel states, "It's all about getting the green agenda going for consumers where they can vote every day, by buying products made with wind power."²⁴

Creating the WindMade Standard

Attention to the granular details is frequently the most important aspect to ensure a successful business venture. The efforts needed to create a global standard and label are no exception to this rule.

The WWF and PwC both have sophisticated standards creation and verification mechanisms. We will take a closer look at both of them.

²⁴ Racanelli, Vito; "Davos: Vestas Says Look for the WindMade Label", Barron's, 01/26/2011

The WWF's Conservation System²⁵



PwC's Independent Chain of Custody (CoC) Standard: A Look at Forestry

PwC, as a third-party certifier, has experience helping companies establish a CoC process. In Canada, it is helping the forest, paper, and packaging industry improve supply chain sustainability. As a verifier, PwC observes all of the following standards:²⁶

- PwC Independent CoC Standard
- The Sustainable Forestry Initiative Annex 1 and 2
- Programme for the Endorsement of Forest Certification Schemes (PEFC) Annex4

²⁵ WWF Standards of Conservation Project and Programme Management, WWF, 02/09/2007

²⁶ Chain of Custody Certification Brochure; Forest, Paper and Packaging Industry; PwC, 2009

- Forest Stewardship Council (FSC) CoC Standards

The value added to the company or organization contracting PwC's work is as follows²⁷:

- Greater access to CoC-compliance markets
- Credible message of certified product's value to consumer
- Improved supply chain management and performance
- Stronger corporate brand

The ability of WWF and PwC to construct an enforceable WindMade standard will require that they play to one another's strengths. There is reason for optimism here, as the PwC and WWF have both produced successful results in similar ventures, namely the WWF helped create the FSC standard (and the Marine Stewardship Counsel standards)²⁸ and PwC provides consulting for companies seeking to comply with it.

Learning from Past Trustmarks

There are numerous attempts to implement consumer-based initiatives using product label; unfortunately, only a select few are successful. In 1993, Green Seal was predicted to be the next big consumer label, distinguishing products with high environmental practices. However, by the late 90's, Green Seal was being attacked by producers who did not receive the Green Seal and it also faced stiff competition from the US Environmental Protection Agencies Energy Star (perhaps the most

²⁷ Chain of Custody Certification Brochure; Forest, Paper and Packaging Industry; PwC, 2009

²⁸ Phone interview with Michael Conroy, Author: Branded!, 02/24/2011

successful consumer environmental label to date) with an emphasis on energy efficiency.²⁹ The U.K.-based Carbon Trust has performed remarkably well in the European market.³⁰ Still, labels such as Smart Choice, which promoted healthy food, contracted a deal with Fruit Loops cereal, undermining its own credibility. Other marks like Smart Choice have come and long been forgotten.³¹

Why should Vestas think that WindMade would be any different from Green Seal? Firstly, the comprehensive set of partners makes the group much more insulated from criticism. Secondly, because the GWEC captures 99% of the installed wind energy industry, any deal it brokers should effectively reduce the likelihood of infighting among industry stakeholders.

On a final note, in June 2010, a TNS Gallup survey, with more than 25,000 consumers across 20 markets, claimed that 92% of respondents supported renewable energy as a solution to combat climate change. The survey goes on to add that, of those interviewed, a majority would prefer wind-made products, even if a price premium were included.

This is encouraging news for Vestas and the WindMade initiative, yet they should exercise caution. Consumers may say that they will pay more for a more responsible product, but actually paying the premium reduces consumer commitment to their

²⁹ Conroy, Michael; An NGO Cautionary Tale: The story of Green Seal, Branded!; 2007, pp. 19-21

³⁰ Pfanner, Eric; "WindMade' May Soon Join Other Feel-Good Labels", NY Times, JANUARY 28, 2011

³¹ Phone interview with Michael Conroy, Author: Branded!, 02/24/2011

own claims.³² On the topic of price premiums, the Secretary General of the GWEC and interim director of WindMade, Steve Sawyer upholds that,

[I]nstallations of new power plants using wind energy are directly cost-competitive with new-build of most other forms of electricity generation. So I don't think companies will be asking their consumers to pay a premium for their use of wind, although, in the end, that will be up to them and will vary.³³

Conclusion

This paper has explored the complex system of corporate-NGO partnerships by examining Vestas' ambitious attempt to create a consumer label for wind energy, WindMade. As this is an ongoing process, firm conclusions cannot be reached regarding the success of the label. Looking ahead, WindMade will hold a public consultation on March 20, 2011. This will open the standards to critiques from stakeholders and interest groups worldwide. After taking the public's feedback into consideration, the first WindMade certifications are to be announced on June 15, 2011, Global Wind Day.³⁴ Hopefully - for the sake of Vestas, the wind industry, and the WindMade partners - public opinion proves as favorable as the winds that run their turbines.

³² Hainmueller, Hiscox, Sequeira; Consumer Demand for the Fair Trade Label: Evidence from a Field Experiment; January 2011

³³ Winds of Change: Green Industry Trailblazers Leads WindMade Charge, The Daily Beast, 02/28/2011

³⁴ Hickman, Leo; "WindMade to launch first wind-power product label", The Guardian (UK), January 18 2011

Appendix

Exhibit 1:

Attention Charlotte Simonsen (media@lego.com):

RE: UCSD Grad Student: Research Paper on the WindMade Product Label

Dear Charlotte,

I am a second year graduate student at the School of International Relations and Pacific Studies (UC San Diego). My foci are International Environmental Policy, private sector sustainability initiatives, and Latin America.

I am currently doing research for the final paper of my CSR course. It will be something along these lines - WindMade: Strategic Recommendations to Ensure Product Label Success. It is an interesting project for me because the specifics of the initiative are still being worked out and, from an environmental standpoint, a very promising venture.

I would love to discuss WindMade with you. Are you free to chat anytime over the next couple weeks?

Many thanks for your time!

Jarrold Miles Russell

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Exhibit 2:

MONITORING ORGANIZATION MATRIX		
Use this matrix to help organization your evaluation of this organization's monitoring mechanisms. Rank this organization's monitoring mechnaims on a scale of 1-5, where 1 is ideal for strong monitoring and 5 is the weakest. Makes notes where necessary.		
DIMENSIONS	SCORE	COMMENTS
I. Autonomy from Target of Monitoring	2.5	
a. How autonomous is the organization from the standards-making and target groups?	2	Inclusion of strong partners with different interests
b. Does the organization fit the third party concept ?		
• Money Source: Do they take money from the Target	4	Unclear. Vestas donated \$1.5M of energy price to WindMade
• Control: governance structure: who sits on the board	1	Technical committee has members from all partner orgs
are they connected to the Target?	3	No direct relationship among relevant executives apparent
c. Does the organization charge fees for inspection?		
• Who pays the fees?	N/A	Unclear until first certifications performed.
II. Organizational Strength		
a. What is the organization's capacity to carry out monitoring?	1.25	
• Size of staff:	1	7 of the world's largest organizations, 1 initiative
• What kind of training is provided to staff?	1	All partners have expertise in their respective field
• Educational level of staff:	2	Too many partners to know for sure.
• Amount of back-up resources? (i.e. accounting, finance, law)	1	With complete 7-partner commitment, soft budget constraint
III. Monitoring Practice	1	
a. How does the organization carry it out?	1	Likely a joint effort btwn PwC, WWF, UNGP, Bloomberg
b. How often is monitoring conducted in the field?	N/A	
c. Is monitoring unannounced?	N/A	
d. How do they select inspection sites?	N/A	
e. How do they interact with the Target?:	N/A	
• Do they need permission?	N/A	
IV. Sources of Information	3.5	
a. How do they collect data/information?	2	Bloomberg will use reports from PwC, UNGP, and WWF
b. Do they collect complaints from		
• employees and others?	N/A	
• in information gathering?	N/A	
c. Is the organization "free" from the target?	5	Currently, given PR blitz, WindMade appears to be the target
V. Standards vs. Monitoring	3	
a. How are the standards set?	1	Technical committee of various stakeholders w/ power
b. Is the Monitor separate from the standard setter?	5	Not if it is PwC as is likely to occur
VI. Evaluations		
a. Do they ever find violations? How many?	N/A	
b. What do they do with the violations information?	N/A	
c. How do they measure compliance with the standard ?	N/A	
d. How do they follow up deviation from standard?	N/A	
VII. Sanctions		
a. Are there any sanction on the target?	N/A	Heavy sanctions are unlikely b/c voluntary. Could loose label
b. Who administers a sanction?	N/A	
c. How effective are sanctions?	N/A	
VIII. Transparency of Monitoring Organization	2.75	
a. How transparent in the organization? How much public information does it provide?	2.5	Lots of generic info, but process details kept undisclosed
b. Can you learn about I-VII from the company's website? From calling?	3	Phone calls not returned, one decline via email after numerous
c. Is the following information made available?		
• Money,	4	
• Board control	2.5	
• Process,	2	
• Staff, etc. ?	2.5	
XI. Shadow of the State	1.66666667	
a. Does the organization rely on Government information or regulations?	2	This is an effort to move away from regulatory dependency
b. Does the organization rely on Governmental rules of information provision?	2	Consumer-based initiative with no need for FDA
c. Does it require government support to obtain information from target?	1	Not at all