Writing this review with the Copenhagen meeting on climate change ongoing, there is no shortage of news coverage dealing with the various aspects and implications of climate change. Furthermore, over the past few years, a notable number of books have been published covering the economic, sociological and political viewpoints on the issue (see e.g. Giddens (2009)and Stern (2006; 2009)). In a crowded marketplace, one might ask if there is something to be gained from taking an International Business (IB) perspective on climate change. Having read the book by Pinkse and Kolk, I think the answer has to be a resounding “yes”. Since multinational enterprises (MNEs) are likely to be at the forefront in shaping many of the solutions to combat climate change, there is an important place for analysis that is informed by an up-to-date understanding of MNEs as economic and political actors.

The book is generally well-written and very clearly organized, and it is the product of years of engagement by the authors with the topic of climate change and corporate social responsibility. The first part of the book is entitled ‘Between regulation and self-regulation’, and it divides firm responses to climate change under three headings. The first of these deals with the differences in the regulatory context, particularly those between the EU and the US. The second part deals with voluntary initiatives, which fall into three sub-categories, namely government business initiatives, multi-stakeholder initiatives involving NGOs, and unilateral initiatives by firms. The third set of issues discussed in this part deals with carbon control, which includes the activities undertaken by firms to measure and set targets for their own emissions, and the choices they make in terms of disclosing information of these emissions.

Part One is very successful in bringing forward the evidence on these core issues. It reviews the regulatory history of the main players in the global economy, and it also offers evidence from multiple sources on the prevalence of different types of voluntary initiatives, and the circumstances under which firms might prefer to partner or to go it alone. This part also addresses some of the accounting issues related to the measurement of carbon emissions by firms, as well as the link between the issues of measurement and firm strategies.

The second major part of the book deals with the strategic options for business. This part draws more directly on the IB and strategy literature, and although the discussion isn't always as extensive as one might wish, this is not a major shortcoming. This section includes two helpful diagrams, the first of which outlines the options that firms face between innovation and compensation, or in other words between in-house efforts to reduce carbon emissions, and using the market to buy or sell carbon credits. In the second matrix firms are classified into four quadrants based on the extent to which they perceive there to be entrepreneurial opportunities from proactive involvement in the issues surrounding climate change.
This part also tackles the development of firm specific capabilities in connection with climate change, which are likely to consist of a combination of technological capabilities leading to greater energy efficiency, astute trading in the market, and the ability to influence future regulation. All of the discussion is interesting, but a few examples stand out. The first one concerns the problems encountered in the design of new instruments and markets in connection with the clean development mechanism (CDM), which was intended to be a vehicle for the transfer of green technologies to developing countries. Due to the requirement that CDM projects reduce carbon emissions beyond what would otherwise have been achieved (additionality), the system might actually favour the transfer of existing end-of-pipe solutions rather than green innovation. This then raises the question of whether innovation might be better facilitated by policies like targeted R&D subsidies or tax credits, rather than the present mechanism. Another interesting example is the case of large MNEs like DuPont or Wal-Mart, which exercise their power as buyers to impose tougher standards on their suppliers. In these cases, companies that are usually suspected to reduce welfare on account of their market power actually possess the ability to move the market forward in a situation where collective action is necessary, but very difficult to achieve.

If I have any criticism of the book, it is that such issues are bypassed quite quickly, while the reader could have benefited from a somewhat more extensive discussion by the authors. On the other hand, in a volume of this sort, that seeks to provide a comprehensive and factually based account of the different drivers of business responses to climate change, such discussion is not necessarily expected. Indeed, I think the value of the volume is precisely that it evokes a number of interesting issues that IB scholars in particular are well placed to address in further research.

I will briefly outline two such possible issues related to climate change. The first concerns the degree to which the strategies related to climate change are fundamentally different from the issues that relate to toxic pollution. Nearly all of the existing literature on corporate environmental responsibility is an outgrowth of the early 1970s, when the first large scale environmental legislation was instituted, and a second wave of interest in the wake of the Rio conference on the environment in 1992. This literature, which by now has grown quite voluminous, has mostly concentrated on discussing the strategic options available for firms in addressing the issues arising from toxic pollution (Hoffman, 1997; Kolk, 2000; Lundan, 2004; Rugman and Verbeke, 1998).

The basic difference between the two issues is due to the fact that while toxic pollution also involves negative externalities, these tend to be local (or regional). The ability to define what a solution is likely to consist of, and to commit resources within a finite timetable also makes it easier for firms to effectively deal with the concerns of the stakeholders. With climate change, the effects are global, and while firms may claim credit for internal efforts at emissions reductions, solving the problem is beyond any single firm. Furthermore, in the case of climate change, the fundamental uncertainties are much greater. The extent of the firm’s actual environment impact, the time available for mitigation efforts in terms of physical changes, as well as the time available in a political sense, are unknowns to both the firms, the NGOs and even the governments. To what extent then are the skills and capabilities learned by firms in dealing with toxic pollution and other reputational threats relevant and helpful in addressing the issues of climate change?

The second promising area of research is related to the global marketplace, where regional, national and supranational regulation all interact with each other, and where new regulatory instruments are being developed and introduced, sometimes with adverse consequences. The latter was the case for example with the first round of allocation of permits in the EU emissions trading system, which was too lenient, or with the CDM in terms of the incentives for technology transfer (Arquit Niederberger and Saner, 2005). In the development of new regulatory tools, the nonmarket strategies of MNEs assume a great importance, since firms are a primary source of necessary technical inputs when e.g. the baseline levels of emissions are first estimated. At the same time, MNEs are also involved in shaping
the content of the regulations that pertain to their actions, either bilaterally with governments, or as part of multi-stakeholder initiatives (Cantwell, Dunning, and Lundan, 2010; Mudambi and Navarra, 2002). Further analysis of both the motivations and capabilities of the firms involved in such negotiations, as well as the associated public policy outcomes, would seem to be of critical importance.

Climate change mitigation requires the effective transfer of new technological solutions as well as the design of new public policy tools. I hope this book succeeds in getting more IB scholars involved in thinking about the technological, economic and societal implications of the engagement of MNEs with these issues.

References


