The implementation of emissions trading in companies

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Abstract

This paper investigates what activities large companies have undertaken to utilize emissions trading and/or offset projects as part of a strategy for climate change. The main objective is to explore how the political conditions in home countries have affected corporate activity towards emissions trading. Based on an analysis of data of 218 companies derived from a questionnaire, this is examined by assessing to what extent emissions trading is becoming embedded in large companies. Looking at the pattern of actions of a cross-section of companies from different countries and industries, an evaluation is made of the path that companies take to move towards the implementation of emissions trading. Findings show that many companies have the intention to participate in the emission market, but are postponing implementation until government policy becomes more concrete.

Keywords: Emissions trading, corporate strategy, climate change
1 Introduction

Over the past decade, an increasing number of companies has recognized the challenge to combat climate change (Kolk and Pinkse 2004, 2005). Business attention for this issue was spurred by adoption of the Kyoto Protocol in 1997, in part because it contained the introduction of three innovative market-based policy instruments – emissions trading, the Clean Development Mechanism (CDM), and Joint Implementation (JI) – which are collectively labeled as the flexible mechanisms (Grubb et al. 1999). Noticeably, there has been very little research on the response of companies to the introduction of these flexible mechanisms or their intention to implement them as part of a strategy for climate change (Pinkse 2007). Most predictions on the effectiveness of emissions trading have been based on outcomes of scenario analyses (which vary according to participating countries, projected economic indicators and estimated emissions growth) using economic models (see Springer (2003) for an overview). However, these models merely focus on cost-effectiveness of a range of policy options for different scenarios (Sandén and Azar 2005), but do not take into account that successful implementation of policy instruments depends to a great extent on the outcome of a political bargaining process between governments, companies and non-governmental organizations (Markussen and Svendsen 2005). As a consequence, emissions trading schemes that are put in practice differ considerably from their optimal economic design and cover a limited number of countries and industries (Boemare and Quirion 2002).

Moreover, individual companies may have incentives to engage in emissions trading and offset projects that are not directly cost-related. Studies that investigate business responses to environmental regulation from a management perspective, suggest that regulation stimulates companies to develop environmentally-induced competences (Porter and van der Linde 1995; Rugman and Verbeke 1998). This implies that firms may use emissions trading strategically to outmaneuver their competitors and not, in the first place, to control greenhouse gas (GHG) emissions. Alternatively, companies may also participate in emissions trading schemes for more symbolic purposes to maintain legitimacy (Meyer and Rowan 1977), because trading may be seen as ‘good’ management by external constituencies, such as governments, non-governmental organizations and the public.

In order to shed light on corporate responses to the flexible mechanisms, this paper investigates what activities large companies have undertaken to utilize emissions trading and/or offset projects as part of a strategy for climate change. It not only takes into account factors that motivate companies to participate in the emission market, but also what prevents them from doing so. In view of the difficulties in identifying incentives and/or barriers for firms to participate in emissions trading schemes, this paper takes a process view by investigating the pattern of actions of firms to implement the flexible mechanisms (Mintzberg and Waters 1985; Winn and Angell 2000). To assess the degree of implementation and reflect on the reasons to participate in an emissions trading scheme, empirical data from a ques-