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Market Strategies for Climate Change

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The issue of climate change has attracted increasing business attention in the past decade. Whereas companies initially aimed primarily at influencing the policy debate, corporate strategies increasingly include economic responses. Existing classifications for climate change strategies however still reflect the political, non-market components. Using empirical information from the largest multinational companies worldwide, this article examines current market responses, focusing on the drivers (threats and opportunities) and the actions being taken by companies to address climate change. It also develops a typology of climate strategies that addresses the market dimensions, covering both the aim (strategic intent) and the degree of cooperation (form of organisation). The aim turns out to be either innovation or compensation, while the organisational arrangements to reach this objective can be oriented at the company level (internal), at companies' own supply chain (vertical) or at cooperation with other companies (competitors or companies in other sectors — horizontal). The typology can assist managers in deciding about the strategic option(s) they want to choose regarding climate change, also based on the insights offered by the paper about the current state of activities of other companies worldwide.

Keywords: Climate change, Corporate strategy, Environment, International policy, Multinationals

Introduction

Climate change is an international environmental issue that has increasingly attracted business attention in the past decade, because of its actual or potential strategic impact on many companies. Climate change poses strategic dilemmas for companies across a range of industries, affecting those that produce fossil fuels (e.g. oil, utilities), depend on these fuels directly (e.g. chemicals, airlines) or indirectly (automobile and aircraft manufacturers), and those that want to develop new market opportunities arising from risk coverage or emerging emission trading systems (e.g. banks, insurance).

While public and policy interest started already in the late 1980s, leading to a first international agreement at the Rio Conference in 1992, the main driver for corporate strategic change was the adoption of the Kyoto Protocol in 1997 (Grubb *et al.*, 1999). This event spurred the development of regulation, and increased the pressure from non-governmental organisations (NGOs) on governments to ensure ratification of the Protocol, and on companies, which were urged to take appropriate steps to address global warming.

In the period leading to the Kyoto meeting, a considerable number of large multinational companies in particular had started to spend much time and effort in trying to influence, both individually and through a range of business associations, their government's stance on an international climate treaty and emission reduction policies (Ikwue and Skea, 1994; Kolk, 2000; Levy, 1997; Newell and Paterson, 1998). With only some exceptions, companies initially opposed the adoption of such measures and regulation. Uncertainties about the economic, technological and strategic impact of an international climate policy led many of them to stress the threats to their business and the negative consequences for the economy as a whole. Especially in the US, the unresolved scientific nature of the global warming debate was often used as further argument.

When government support for Kyoto turned out to be more widespread than expected, however, the picture started to change slowly but surely, and an increasing number of companies stopped their opposition. Some openly adhered to the precautionary principle and emphasised the opportunities that a more proactive approach would bring. Others followed rather reluctantly, merely preparing to comply with expected regulation (Kolk, 2000; Levy and Egan, 2003; O'Neill Packard and Reinhardt, 2000). The timing and pace of these shifts varied by industry and country of origin. Early proponents could be found in those sectors where market chances were quickly discovered, or where the risks of climate change prevailed. In the automotive and oil industries, companies from European countries changed positions much earlier than their US counterparts (Kolk and Levy, 2001; Kolk and Levy, 2004; Levy and Rothenberg, 2002). As the climate issue matured, however, more companies adopted proactive climate strategies. Corporate support for climate measures became evident in the wave of activities and initiatives to reduce emissions, through product and process improvements, cooperation with other companies, government agencies and NGOs to exchange technologies and expertise, and the exploration of options such as emission trading (e.g. Dunn, 2002; Rosenzweig *et al*., 2002; Whittaker *et al*., 2003).

A decade of business interest in climate change has thus led to a clear shift in the strategies adopted. While political, non-market, strategies predominated in the first half of the 1990s, the market component is clearly increasing in importance (Baron, 1995; Levy and Kolk, 2002). At the same time, however, the fact that large companies operate in a range of countries with sometimes different climate policies (Hamilton *et al*., 2003; Schreurs, 2003) means that the more multi-domestic non-market strategies (Baron, 1997) continue to have an impact. But in the firm-specific blend of market and non-market strategies in the field of climate change, the former is currently receiving more attention. However, existing classifications for climate change strategies, developed concurrent with corporate (political) activity in the 1990s, are not yet able to grasp the new realities properly.

This paper introduces an adjusted typology, paying specific attention to the market components related to climate change. To this end, it examines empirical information from the largest multinationals worldwide, derived from a questionnaire, to explore the main elements of current corporate activity on climate change. On the basis of this analysis, the dominant distinguishing peculiarities are subsequently induced and a typology is presented. First, however, and before moving to the sample and data analysis, the next section briefly discusses the climate strategy classifications that have been developed and used so far.

Corporate Responses to Climate Change: Existing Classifications

With the emergence of climate change as business concern, attempts have been made to characterise corporate strategic responses. In line with the broader literature on environmental management, particularly continuum models and, to a lesser extent, typologies have been used (Doty and Glick, 1994; Kolk and Mauser, 2002; Rugman and Verbeke, 1998). An example of a continuum is the RDAP-scale (Clarkson, 1995), adapted from a well-known classification in research on corporate social responsibility. On this continuum, responses range from a reactive stance, which denies responsibility, at the one end, to proactivity at the other, where managers anticipate developments. In between these two extremes, defensive and accommodative postures can be seen, characterised by, respectively, reluctant admission and acceptance of responsibility.

In view of the difficulties in distinguishing the last two categories, a three-step continuum (defensive, opportunistic/hesitant, and offensive) has been used to classify the evolution of corporate climate change strategies since the mid-1990s (Kolk, 2000). The defensive posture involves active opposition to an international climate treaty, with emphasis on the costs involved and the lack of scientific evidence for global warming. In an opportunistic/hesitant strategy, companies prepare themselves for regulatory and market changes, but take a cautious approach in public. They see no need to be a first mover and to take risks, but, at the same time, preparations are being made to change sides if necessary. Finally, companies that follow an offensive approach point at their own responsibility and the need to take the first step themselves, not only for environmental reasons but also because it will offer market opportunities or improve their image. Moreover, the potential consequences and risks of climate change are seen as so serious that a precautionary approach should be taken.

In the description of the categories, elements of other environmental management typologies can be recognised. This involves particularly perceptions of environmental impact and its scientific significance (Roome, 1992), the risks involved (Rondinelli and Vastag, 1996) and the market opportunities offered through environmental protection (Steger, 1993). It should be noted that the defensive-opportunistic-offensive continuum involves broad categories, and that companies can move from one strategy to another in whatever direction. Moreover, they can adhere to one strategy openly (for example, resisting an international treaty — defensive) while simultaneously preparing for change (research into new technologies — opportunistic). This was the case for most companies that lobbied actively against climate measures. The one-dimensional climate model also suffers from another well-known caveat, that is its inability to take internal differences into account. Especially inside large multinational companies, divergent views, for example between European and US locations, have been observed.

Hence, while this continuum had value in the period when corporate reactions to climate policy started to change, and when these positions more than their actual activities mattered since the latter were just