Full name: Younsung Kim

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Title: Responding to Climate Change: How Corporate Carbon Management Initiatives Relate to Firms' Positions towards Mandatory Climate Regulation

Dissertation director and committee names:
Dr. Nicole Darnall (Co-adviser)
Dr. Paul Posner (Co-adviser)
Dr. Peter Balint
Dr. Venkata R. Putti

Abstract

Responding to Climate Change: How Corporate Carbon Management Initiatives Relate to Firms' Positions towards Mandatory Climate Regulation

Climate change has emerged as the most pressing sustainability issue. In response, there has been an increase of governmental initiatives to regulate greenhouse gas emissions and firms' responses to these regulatory approaches. Three corporate political responses are identified: *supportive*, *defensive* and *neutral*. Some firms are motivated to support strict greenhouse gas regulations (politically supportive), while other firms are motivated to defend the status quo (defensive). Still others take a wait-and-see approach to climate regulations (neutral).

This study draws on the resource-based theory of the firm to analyze different firms' preferences for climate change policy. It asserts that a firm will choose among politically supportive, defensive or neutral strategies based on its organizational resources and capabilities.

Furthermore, this study examines the factors that motivate firms to implement proactive carbon management practices. The study posits that firms that seek to gain external legitimacy and maximize their competitive advantage are more likely to undertake

carbon reduction measures such as carbon emissions trading, investments in energy efficiency, and developments of new products and technological solutions. Lastly, this study assesses the conditions under which less competitive firms are more likely to manage their carbon emissions. Conventional wisdom in the broader corporate environmental responsiveness literature indicates that more competitive firms implement proactive carbon management. However, by taking into account the moderating role that legitimacy has on the relationship between competitiveness and carbon management practices, this study proposes that strong regulatory pressures would cause less competitive firms to reduce carbon emissions.

The empirical analysis examines these relationships by drawing on a U.S. sample of S&P 500 firms. The results suggest that firm-level resources and capabilities are related to corporate climate policies. The findings also suggest a firm's desire to gain legitimacy and increase its competitiveness (in terms of cost savings and market prospects) is associated with the implementation of carbon management practices, and thus lead to a greater probability of firms' support for mandatory climate regulations. Moreover, the results offer evidence supporting the moderating role of legitimacy on the relationship between competitiveness and carbon management. This study contributes to a better understanding of the actual dynamics behind corporate policy responses that have shaped climate regulations in a supportive or defensive way. Identifying the determinants of firms' policy responses can underscore the importance of firm-specific resources and capabilities that are developed through their carbon management practices. Related to public policy, this study indicates that greater regulatory pressures have an important direct relationship in motivating firms' proactive practices to reduce carbon emissions. Moreover, these pressures have a salient indirect relationship with firms' collaborative posture in climate change governance.