Climate change strategy and carbon emissions reduction

Business, Industries

Carbon emissions can be significantly attributed to corporate activities (Sullivan & Gouldson, 2013). The burning of fossil fuels produced by oil and gas industry is directly to associated with the release of anthropogenic greenhouse gases (Comyns & Figge, 2015). Carbon emissions contribute to the rise in global temperature, alter water supplies and change weather patterns which causes serious consequences to the environment and people (Cairoli, n. d.).

There are increasing pressures from consumers, regulations and society to reduce carbon emissions due to its negative effect on the environment (Cadez & Czerny, 2015). Firms have taken significant steps in measuring, reporting and have committed in reducing their carbon footprint (DimitarZvezdov & StefanHack, 2016). This literature seeks to determine what motivates firms to reduce carbon emissions and why do some firms reduce their carbon emissions more than others?

The firms' carbon related behavior by understanding the stakeholder theory of R. Edward Freeman (1984)

According to Stakeholder theory (Freeman, et al., 2010), a business must create value not only for its business owners but for its stake holder as well. The stakeholders are customers, society, suppliers, government, shareholders, lenders, etc. It says that a business has to align the interest of all stakeholders and shall not look one of those stakeholders in isolation.

' The process of stakeholder relations can be viewed on a continuum between an instrumental approach, where stakeholders are integrated based on environmental pressures and norms; and a socially responsible approach, where stakeholders are perceived as partners and key to business sustainability' (Penz & Polsa, 2018). These relationships should be considered as an important pillar in designing a comprehensive corporate strategy as the sustainability of the company depends upon the sustainability of its stakeholder relationship (Perrini & Tencati, 2006). A feature of corporate social responsibility (CSR) was observed as a shift in business practices towards stakeholder orientation in regard to ecological sustainability.

Past literature suggests that a firm's motivation to engage in CSR can be shaped by stakeholder preferences (Crifo & Forget, 2015). Consumers, activists, shareholders, regulators and managers are the stakeholder groups that significantly influence the behavior of a firm (Reksten, 2017). ' Groups can prompt the firm to set greenhouse gas or energy use reduction goals, and they encourage the firm to reexamine production processes to find new ways to both reduce costs and emission' (Reksten, 2017).

Empirical research suggests that firms motivations to reduce carbon emissions (or other green houses gases) are : to demonstrate a environmentally friendly attitude, business rationale for saving costs, perceived responsibility for the environment and stakeholder pressure (Penz & Polsa, 2018; Reksten, 2017). A research by Reksten(2017) carried out among major US firms showed that greenhouse gas emission reduction goals were not only used as drivers to establish trust among consumers, but the goals were set in response to stakeholder groups they consider important.

Moreover, it was also found that carbon emissions and firm value were negatively related (ref..). This can be another strong motivation for firms to reduce their carbon emissions more than other and cope up the demand of stakeholders.

Stakeholders' demand for environmental protection does, indeed, serve as a trigger for proactive environmental strategies (Penz & Polsa, 2018). ' A strategy in a business context is typically concerned with setting long-term corporate goals, developing activities and allocating resources that will enable the firm to achieve those goals' (Cadez & Czerny, 2015). It is suggested that firms need to integrate a climate change strategy in their overall business strategy to reduce carbon emissions (Cadez & Czerny, 2015; Reksten, 2017). In this paper, climate change strategy is viewed as a strategy to reduce carbon emissions. Concerns on climate change strategy is on the rise since the passage of Kyoto Protocol in 1997 (Backman, et al., 2015). While there are number of studies carried on climate change strategy, there are still no studies carried out to understand the relationship between climate change strategy and carbon emissions reduction.