

# INSIDE CMR

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# SUMMARIES

5 Firms, Regulatory Uncertainty, and the Natural Environment

**Alfred Marcus, J. Alberto Aragon-Correa, and Jonatan Pinkse**

This introduction presents a framework managers can use to deal with regulatory uncertainty and also introduces and summarizes how the papers in this special issue address what managers can expect, do, and gain from regulatory uncertainty.

17 Government Policy and Firm Strategy in the Solar Photovoltaic Industry

**Usha C.V. Haley and Douglas A. Schuler**

The solar photovoltaics (PV) industry would not exist without government policies. Governments around the world have implemented policies to support consumption of solar energy and production of solar PV products. These policies have varied across countries and across time, thus contributing to regulatory uncertainty. This article addresses two related questions. First, how does regulatory uncertainty in the solar PV industry shape firms' market and non-market strategies? Second, how might firms' responses to this public-policy environment affect technological development and the locus of manufacturing? Government policies on solar PV, and firms' strategies to overcome regulatory uncertainty, may have unintended consequences. Firms' decisions on location and technology development may result in loss of employment and national competitiveness for developed countries; and firms' market strategies may increase regulatory uncertainty if they do not involve non-market stakeholders.

39 Regulatory Uncertainty and Corporate Responses to Environmental Protection in China

**Christopher Marquis, Jianjun Zhang, and Yanhua Zhou**

This article analyzes the closing gap between regulation and enforcement of environmental protection in China and explores its implications for doing business there. It identifies three major dimensions that characterize change in regulatory systems: priorities and incentives, bureaucratic alignment, and transparency and monitoring. Using these dimensions, it describes the mechanisms that characterized China's prior period where enforcement of environmental protection was decoupled from regulation. Regulation and enforcement are becoming re-aligned. This is due to a change in national development strategy, reorganization of the bureaucracy, and increasing monitoring from both the government and general public. To address these changes, firms need to embrace environmental innovation and integrate local and global standards. They should also be more transparent and compete on reputation.

64 The Drivers of Greenwashing

**Magali A. Delmas and Vanessa Cuerel Burbano**

More and more firms are engaging in greenwashing, misleading consumers about their environmental performance or the environmental benefits of a product or service. The skyrocketing incidence of greenwashing can have profound negative effects on consumer and investor confidence in green products. Mitigating greenwashing is particularly challenging in a context of limited and uncertain regulation. This article examines the external (both institutional and market), organizational, and individual drivers of greenwashing and offers recommendations for managers, policymakers, and NGOs to decrease its prevalence.

- 88 Regulatory Uncertainty and Opportunity Seeking:  
The Case of Clean Development

**Ans Kolk and Gerhard Mulder**

Regulatory uncertainty has been inherent in climate change policy due to the absence of a successor to the Kyoto Protocol. Many companies have called for more certainty and a stable policy framework. However, besides having clear disadvantages, regulatory uncertainty may also benefit some companies if they recognize the opportunities of flux and move early. This article explores business opportunities that have emerged for different types of companies, including utilities, banks, project development & carbon offset companies, brokers, exchanges, consultants, auditors, and legal services providers with respect to clean development projects and the related carbon market.

- 107 Airlines' Flexibility in Facing Regulatory Uncertainty:  
To Anticipate or Adapt?

**Christian Engau, Volker H. Hoffmann, and Timo Busch**

Coping with uncertainty is a fundamental challenge for firms. One way they can respond is by building up strategic flexibility. By looking at airlines' flexibility responses to regulatory uncertainty associated with their inclusion in the European Union Emission Trading Scheme, this article shows that firms can respond to regulatory uncertainty by developing such flexibility in two ways: they can either anticipate the potential consequences of changing regulatory conditions and try to prepare for them; or they can adapt quickly and efficiently to them once the regulatory situation has become clear. By examining evidence from nine case studies, the article identifies the organizational capabilities required to pursue an anticipatory or adaptive strategy and demonstrates that each type of response requires a specific bundle of capabilities.

- 126 Strategies to Cope with Regulatory Uncertainty in the Auto Industry

**Sandra Rothenberg and John E. Ettl**

Automotive assemblers and suppliers have employed a number of different strategies to deal with external uncertainty. These strategies have evolved relatively rapidly of late in part because of changes in the locus of innovation from OEMs to suppliers, changing market conditions, and the future regulations of greenhouse gases. This presents a unique challenge for the industry. Some auto firms have been more effective in dealing with market and regulatory uncertainty due to technology resource integration across platforms and integration between functions on the value added chain from suppliers to retailers.

- 145 Profiting from Environmental Regulatory Uncertainty:  
Integrated Strategies for Competitive Advantage

**Adam R. Fremeth and Brian K. Richter**

This article offers two integrated strategies managers can use in the face of environmental regulatory uncertainty. As integrated strategies, they both recognize non-market forces while taking into account market realities. Advocating for pragmatic, progressive policies enables firms to shape future policy around existing environmental strengths; this strategy raises competitors' costs when competitors have yet to develop identical competencies. Systematically embracing advancing regulation enables firms to satisfy activists who are pressuring policymakers to force firms to conform to higher environmental standards in other jurisdictions; this strategy allows managers to adapt to coming regulation at their own pace while leveraging market competencies. This article presents four case studies that highlight how some firms have implemented these strategies, and why some have been successful at mitigating regulatory uncertainty and some have not.