EDITORIAL INTRODUCTION

The long-term energy transition and multinational enterprise complexity: A *BJM–JIBS* Joint Initiative

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Geoffrey Wood and Pawan Budhwar, the Co-Editors-in-Chief of the *British Journal of Management - BJM*, suggested at the 2017 AIB Conference in Dubai, that *JIBS* and *BJM* develop a Joint Initiative on long-term energy transition (LTE transition). The *JIBS* Editors and I enthusiastically agreed to work with the *BJM* on this initiative, especially because of *JIBS*' new strategy to publish high-quality work addressing big questions and grand challenges in international business (IB) (Buckley, Doh, & Benischke, 2017). Erin Bass and Birgitte Grøgaard accepted the lead roles in assessing manuscripts and guiding these toward acceptance by *JIBS*.

Four years later, both *JIBS* and the *BJM* are in a position to publish simultaneously two sets of excellent articles on the grand societal and business challenge of the LTE transition. These papers demonstrate that IB-oriented research offers distinct intellectual value to the description and assessment of the LTE transition currently underway in the global economic system.

IB-oriented research is different from other types of scholarship in two important respects. *First*, this research offers insight into how macro-level governance mechanisms, including regulations and other types of external pressures, can affect the behaviour of firms across geographic and industry space. Several high-quality papers in the *BJM* portion of the Joint Initiative with *JIBS* address this first issue (Allen, Allen, Cumming & Johan, 2021; Andreou & Kellard, 2021; Liu, Zhang, Cai & Davenport, 2021; Tarim, Finke & Liu, 2021). *Second*, IB-oriented research also offers advanced understanding of how multinational enterprises (MNEs) cope with unique vulnerabilities, and how they develop and deploy distinct capabilities to enact the LTE transition. The papers published in this issue of *JIBS*, in addition to discussing the impact of external pressures, add this unique focus on firm-level capabilities

Mithani, Narula, Surdu and Verbeke (2021) identified the specific vulnerabilities and capabilities of MNEs when crisis situations unfold. The fact that established and new MNEs are enacting the LTE transition does not assume a management crisis, but several of the unique vulnerabilities and available firm-level capabilities are similar. On the side of vulnerabilities, MNEs must structurally cope with a higher variety of exposures than firms in a single jurisdiction, given the diversity of institutional pressures and the broader array of stakeholder expectations that MNEs face across their network. These pressures and expectations do not operate independently of each other; they combine to create a much more complex and uncertain environmental canvas than that typically faced by single-country firms. External pressures on the MNE can affect the company's functioning much more significantly than the sum of the individual, location-specific exposures would suggest. In addition, foreign subsidiaries of the MNE might be more constrained in their responses to external pressures than domestic incumbents because of the involvement of the MNE's distant head office in decision making. Given its status as a foreign-owned and controlled firm, the MNE (which often has a high visibility) may also decide to be much more cautious in addressing institutional pressures and constraints, to avert stakeholder criticism and even outright hostility.

Regarding distinct capabilities, MNEs can gain experience from a wide array of interactions with local stakeholders in a diverse set of geographic milieus, to guide their own energy transition strategy. They can, therefore, develop a wider portfolio – as compared to uni-national firms – of anticipatory and remedial responses to the external forces that try to impose on them LTE transition innovations and capital investments (Verbeke & Hutzschenreuter, 2021). In addition, MNEs have the potential both to develop unique capabilities and to redeploy their own slack resources and income streams from geographically dispersed operations to locations that are the most attractive for LTE transition innovations and capital investments. They might also gain easier access to innovations and other resources from across the world through their subsidiary operations and global value chain partners.

Verbeke and Hutzschenreuter (2021) noted that much scholarly research across a variety of disciplines tends to downplay the challenges for firms faced with pressures to decarbonize their own production activities and to reduce the indirect emissions that result from the consumption of their products. Decarbonizing is viewed by many as a moral imperative on a global scale, but country-level pledges to reduce global warming and to reach carbon neutrality are often made by policy makers who have little, if any, insight into the innovation processes and capital expenditures required to achieve these lofty goals. For example, both command-and-control measures and taxes on greenhouse gas emissions impose an additional cost on business (and sometimes on consumers). Such policy interventions can be highly effective in reducing emissions levels from the production and consumption of the targeted goods, but they do not guarantee at all the requisite innovation efforts and massive reallocations of capital expenditures to reach macro-level policy targets such as those stated in the 2015 Paris agreement.

McKinsey (2020), a strategy consulting firm, recently advocated a five-point checklist for senior executives in the global mining industry. This checklist could be used for responding to external pressures to reduce their climate change footprint. The five recommendations are broadly aligned with mainstream thinking on micro-level governance, but somewhat understate the complexities of MNE strategy. *First*, McKinsey suggests an '*end-to-end diagnostic*' to assess the vulnerability of each of the firm's assets, which are distributed across geographic space. Just as MNEs regularly reassess each value chain activity's optimal location and ownership status (Verbeke & Lee, 2021), so must these firms now also continually evaluate how each of these value chain activities can be affected by external pressures regarding climate change. But these various analyses are not independent of each other. MNEs have the structural advantage that exiting from particular locations might be more feasible than for uni-national firms, especially if these locations become characterized by unreasonable demands for decarbonizing. MNEs may also be able to exit more easily through outsourcing targeted activities in foreign locations.

Second, McKinsey recommends involving the Board and the top management team (TMT) in decision making on decarbonizing the firm's activities. On the surface, this suggestion might appear to be a straightforward recommendation. But in established MNEs with widely dispersed operations, the challenge is not simply to involve the Board and the TMT. The challenge is to ensure that the Board and TMT receive the relevant information upon which to act. Critical, distributed intelligence – regarding external forces promoting decarbonizing and novel business opportunities associated with decarbonizing – often resides in subsidiaries, regional affiliates and global value chain partners, and must actually reach global headquarters so that informed decisions can be made. The quality of the Board in the MNE is also more important than its involvement *per se* (Verbeke & Yuan, 2021). In addition, once climate-change related reporting and monitoring has become routinized in the MNE, there might be less need for the continuous direct involvement of the CEO and TMT executives in this realm.

Third, McKinsey suggests that firms should establish 'climate targets' for achieving feasible operational efficiencies, but here it should be recognized that the challenge for many MNEs is not to achieve company-level targets but rather to differentiate such targets across their different operations and value chain activities. Standardized, decarbonizing targets imposed on the entire MNE network are unlikely to make sense, especially in highly diversified companies where goals should be set at a disaggregated level, and where subsidiary initiatives may be the most efficient vehicle for radical innovation (Verbeke & Yuan, 2020).

Fourth, McKinsey recommends that firms 're-shape' their activity and asset portfolios and 'embed climate intelligence' in their decision-making on capital expenditures. While this suggestion

appears plausible at first, better climate intelligence does not necessarily imply more investments in decarbonizing initiatives. As noted above, climate intelligence may suggest exit from unattractive locations and divesting assets that are increasingly difficult to manage inside the company, for example when institutional shareholders' demands to decarbonize simply cannot be met by a publicly listed firm, given financial and technological constraints. One option might be to sell the divested assets to private equity investors or to firms pursuing different strategies, given their idiosyncratic resources reservoir and institutional context.

Fifth, McKinsey advises firms to engage in proactive climate-change risk disclosures. One challenge for MNEs is again the great variety of disclosure expectations in different jurisdictions. Another challenge is that a clear distinction should be made between the risks of not investing more in decarbonizing initiatives, and the risks associated with pursuing very ambitious decarbonizing objectives. It is typically much easier for firms in industries with comparatively low greenhouse gas emissions to achieve large percentage-gains in emission reductions, than it is for firms in industries supplying energy with capital intensive and non-redeployable assets or having very large energy inputs in their production processes.

One likely outcome of requiring stringent risk disclosures from MNEs, combined with highly uncertain future burdens imposed upon them by non-market forces, might actually be a reduction of investments in non-redeployable assets. Firms will reduce such investments out of fear that new forms of the 'obsolescent bargain' would arise and haunt them for having been too ambitious in attempting to reduce their carbon footprint rapidly across their dispersed operations and with support only from highly unreliable coalitions.

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