



The Greener, the Better: Effect of Internal Carbon Pricing on Profitability of Multinational Enterprise

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ABSTRACT

Many multinational enterprises have set internal carbon prices to abate carbon emissions and improve energy efficiency. This is the first quantitative research that examines the profitability effect of internal carbon pricing. We create a profit model and hypothesize that internal carbon pricing can improve return on assets with an interaction effect from cost of goods sold. We employ propensity score matching and fixed-effects model on the panel data of 132 multinationals across Europe, North America and Asia from 2013 to 2017. Our results confirm that using internal carbon pricing can increase return on assets by 1.1%. Firms with internal carbon prices are more likely to reduce cost of goods sold to improve return on assets. Our study suggests that internal carbon pricing as a self-regulation mechanism could enhance the competitiveness of firms while addressing inefficiencies of government-imposed carbon pricing policies.

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