Symbolic Management of Corporate Carbon Targets

Patrick Callery - Carleton University

Eun-Hee Kim - Fordham University

Research question: Firms are increasingly held to account for commitments to improving future performance. In particular, institutional investors have increased pressure on corporations to address climate change-related risk by setting and meeting carbon emissions reduction targets. While such pressure prompts firms to adopt carbon targets, we observe that firms regularly alter existing carbon targets prior to the target completion date, a phenomenon heretofore largely unexplored. What motivates firms to change carbon targets and what are the implications for carbon emissions and corporate responsibility?

Theoretical framework: Using institutional theory and decoupling as a theoretical lens, we develop a framework wherein carbon targets are viewed as an organizational response to the incompatible institutional demands (Greenwood et al., 2011; Oliver, 1991) embedded in business practices such as carbon targets. A large carbon target is viewed more favorably by investors but is more challenging to reach, thereby creating tension. Heightened tension will elevate incentives to decouple (Bromley & Powell, 2012) by relaxing carbon targets while projecting an image of having large carbon targets in place. However, firm attributes that increase scrutiny will lessen the likelihood of such decoupling, especially if overly visible. The unique form of decoupling we identify accommodates the conflicting institutional demands rooted in carbon targets. We argue that firm response can be symbolic or substantive depending on firm exposure to contradictions manifested in business practice as well as scrutiny the firm is subject to.

Method: We test our framework by analyzing carbon target data from CDP (formerly the Carbon Disclosure Project) from 2011 to 2019. We perform a novel matching algorithm that enables us to quantify changes to individual carbon targets over time.

Findings: We find that (1) firms routinely alter carbon targets, (2) the propensity of firms to alter targets is significantly related to the target size (total amount of targeted emissions reductions) and the degree of institutional investor ownership, (3) presence of environmental controversy dampens the propensity of firms to relax (i.e., make easier to meet) its carbon targets, and (4) firms that alter carbon targets are more likely to increase emissions over time.