



Managerial interpretation and innovation in the context of climate change

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Abstract Firms have developed climate change strategies over the last decade in response to rising regulatory, social and competitive pressures. Increasingly, these strategies include the development of new products and services (P&S) to reducing the environmental impact of the firm and its customers. In this paper, I explore how managerial interpretation of climate change has evolved over time and how these changes in interpretation are associated with innovation outcomes. The existing literature suggests that interpreting environmental challenges as opportunities is more likely to lead to open and innovative strategies. Using qualitative survey data on 99 Global 500 firms over the period 2003 to 2009, I find that threat-based interpretation can in fact lead to positive innovation outcomes at early stages of new P&S development. I identify three main mechanisms through which the detailed identification of threats encourages innovation in response to climate change. Furthermore, I develop a temporal dimension to the relationship between interpretation and stages of P&S development. I find that at advanced stages of P&S development, a balanced and opportunity-focused interpretation becomes more important. The results imply that managerial interpretation can provide firms with added flexibility to provide innovative responses to social and environmental challenges. But the relationship between interpretation and innovation is not static, nor is it a question of threat or opportunity interpretation but a combination of the two at different times that provides flexibility.

Keywords climate change, dynamic managerial capability, innovation, interpretation, environmental strategy

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