



Managerial interpretation and innovation in response to climate change

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Managers need to be able to identify and interpret many different challenges that emerge in the external environment. The way in which managers understand and interpret these challenges can affect for example the level of organizational commitment and the types of innovation activities undertaken.

Recent academic studies have suggested that when managers interpret environmental challenges such as climate change as opportunities rather than as threats, they are more likely to adopt innovative strategies. But this perspective tends to underestimate two dimensions: firstly, the potential for threat interpretation to lead to positive outcomes and secondly, the fact that the relationship between interpretation and innovation is likely to change over time.

In this paper, I look at the relationship between the interpretation of climate change and innovation in detail over time. I do this by analysing the responses of a subset of 99 Global 500 companies to the Carbon Disclosure Project during the period 2003 to 2009, using a combination of quantitative and qualitative methods, including illustrative case studies of two non-carbon-intensive sectors (financial and telecommunications).

One of the main findings of the paper is that in non-carbon-intensive sectors, a focus on the threats of climate change is associated with innovation in new products and services. This is because threat interpretation enabled firms to identify the long-term, interconnected nature of the problems associated with climate change. The initial focus on threats then helped to develop a basis for responding to opportunities that emphasised learning, stakeholder interaction and reputation.

The results imply that managerial interpretation provides firms with much needed flexibility in responding to external changes. They also show that managers have a responsibility to develop flexible and balanced interpretations of environmental issues like climate change because these interpretations can influence how and when new products and services are introduced.

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