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Stakeholders and voluntary climate reduction goals at large U.S. firms: An institutional analysis

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ABSTRACT

What leads firms to develop voluntary greenhouse gas reduction goals? This paper discusses the results of interviews conducted with vice presidents and managers responsible for environmental sustainability initiatives at large U.S. firms. To situate the analysis, it develops a theoretical framework that sees the firm as a socially embedded creation, where stakeholder groups exert varying levels of influence and provide the context in which the firm responds to outside information in the face of uncertainty. By understanding the firm as socially embedded, the influence and power of groups that have strong preferences for or against environmental protection can be understood. The interviews provide empirical support for this model. Subjects discuss the role of stakeholder groups such as activists, shareholders, consumers, and workers in the development of the firm's environmental policy. Groups can prompt the firm to set greenhouse gas or energy use reduction goals, and they encourage the firm to reexamine production processes to find new ways to both reduce costs and emissions. This suggests that policies to regulate industrial greenhouse gas emissions may be less costly than some projections indicate.
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1. Introduction

While economywide, mandatory limits on greenhouse gas emissions in the USA will not be introduced by the Trump Administration, voluntary actions by large firms to reduce emissions have received much publicity in recent years.[1] Such efforts can involve setting a goal for reducing direct emissions from or emissions from product use. Commitments to reductions by firms appear to be growing as a global consensus to mitigate climate change develops, with the USA a (recent) large exception. One early catalyst of voluntary action in this area was the U.S. Environmental Protection Agency's (EPA's) voluntary Climate Leaders program that operated from 2002 to 2010. The program provided assistance to member firms in developing a greenhouse gas inventory and voluntary reduction goals. By the end of the program, its 368 member companies were responsible for roughly 8% of US greenhouse gas emissions and earned combined revenues equivalent to 12% of US gross domestic product (U.S. Environmental Protection Agency, 2009). By 2016, 264 Fortune 500 companies had set either absolute or intensity-based emissions targets (211 companies) or renewable energy targets (53 companies) (World Wildlife Fund, Ceres, Calvert Investments, & CDP, 2017).

Standard economic assumptions of profit-maximization suggest that firms weigh the costs and benefits of setting and achieving a goal and choose the option that offers the greatest net benefits. However, if firms could have increased profits by improving efficiency or switching to renewable energy, why would they have not done so already? What explains the willingness of

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[1] See, for example, Davenport (2014) and Tabuchi (2017).

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some firms to set greenhouse gas emissions targets, and how do they decide how stringent those goals will be? Are emissions goals simply "greenwashing" designed to generate public goodwill, or are there other motives involved? This paper will investigate the motivations for firms to set voluntary goals for greenhouse gas emissions reduction by seeking to understand how stakeholder groups such as regulators, customers, activists, investors, or employees may prompt a firm to set a goal and subsequently reexamine its production process to identify emissions- and cost-reducing steps to take.

Interviews can be especially useful for this inquiry as they can capture greater and richer detail about the goal-setting process than surveys and quantitative data and are more generalizable than case studies. Results from 16 interviews conducted with officials at major firms with a presence in the USA in 2013 and 2014 are analyzed here, finding that rather than simply using greenhouse gas emission reduction goals as vehicles to establish goodwill among consumers, firms often set goals in response to pressure from stakeholder groups they consider important. They then discover that implementation of the goals can lower production costs. This suggests that at least some progress on voluntary emission reductions will continue to be made even as the Trump Administration signals its lack of interest in regulating such emissions. Additionally, as states like California and Washington regulate greenhouse gases, the pressure for firms to remain prepared for broader controls or higher carbon prices will remain.

The paper will be organized as follows. The next section discusses the economics literature on corporate social responsibility (CSR) and the intersection between this concept and stakeholder theory. This is used as a starting point to develop the theoretical framework that posits a firm socially embedded among stakeholders, including its own employees that can be used to understand the interviews. Next, the research design of the study is outlined in greater detail. Then, the results of the interviews are analyzed, discussing how stakeholder groups might prompt firms to set goals and the subsequent process of achieving and setting those goals. The final section will detail conclusions and possible directions for future research.

2. Theoretical background

The setting of voluntary environmental goals by firms can be considered a type of corporate social responsibility (CSR). The European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Commission of the European Communities, 2001, 5). Similarly, Kitzmueller and Shimshack (2012) define it as "corporate social or environmental behavior that goes beyond the legal or regulatory requirements of the relevant market(s) and/or economy(s)" (53). CSR should be considered inseparable from the broader strategy and business operations of the firm (Elms, Johnson-Cramer, & Berman, 2011; Freeman, 2010/1984; Freeman, 2010). In economics, it is often modeled as an additional component of output (Bagnoli & Watts, 2003; Baron, 2001), an externality (Calveras, Ganuza, & Llobet, 2007), or a modification of the production process (Baron, 2012; Fedderson & Gilligan, 2001).

The theoretical literature on the motivations of firms engaging in CSR activities suggests that it may be shaped by stakeholder preferences (Crifo & Forget, 2014; Kitzmueller & Shimshack, 2012), or, in the case of air pollution, it may simply be more profitable for the firm to reduce emissions (Busch & Pinkse, 2012; Lyon & Maxwell, 2002; Porter, 1991; Porter & van der Linde, 1995). Stakeholder groups that have been found to play an important role in determining the behavior of a firm include consumers (Bagnoli & Watts, 2003; Lyon & Maxwell, 2002), activists (Baron, 2001; Baron, 2012; Calveras et al., 2007; Fedderson & Gilligan, 2001), regulators (Kagan, Thornton, & Gunningham, 2003; Lyon & Maxwell, 2002; Lyon & Maxwell, 2004; McCluskey & Winfree, 2009), shareholders (Baron, 2007; Cespa & Cestone, 2007), and managers (Baron, 2007; Cespa & Cestone, 2007; Wright & Nyberg, 2015). However, previous work discusses stakeholder groups largely in isolation from one another, and it does not examine how this might relate to the discovery of profitable CSR opportunities. Thus, it does not develop a complete understanding of the processes that determine the setting and extent of environmental goals.

Following these results and building on Freeman's (2010/1984) stakeholder theory of the firm, this paper sees the firm as socially embedded among a group of stakeholders that shape its strategic response to information. While this framework was originally developed to argue that those managing the firm have ethical obligations to the groups whose activities they impact (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010), much of the literature on CSR discussed above uses some form of the stakeholder framework because it is thought (and this paper finds) that outside groups and firms believe and behave as though these groups matter. In the context of climate policy, the stakeholder framework has been applied to governments to analyze policy making at the local level (Fiack & Kamieniecki, 2017).

Within a firm, committees and key individuals in the firm work together to determine what will be produced and the technology to be used in that production.[2] Individuals within the firm, shaped by their social experiences, together choose from a set of possible actions which, in their understanding, maximizes profits for the firm over a given time horizon. The possible choice set is determined by (1) current market conditions, (2) perceived stakeholder preferences, weighted by the perceived importance of each group, and (3) past decisions and performance. Because of the path-dependent nature of the choice set, there are, over time, several actions that may be profit-maximizing for the firm.

Applying this understanding more specifically to decisions that ultimately shape environmental goals and

[2] This is roughly analogous to Galbraith's (1972) concept of the technostructure, but it maintains a greater role for upper management, which Galbraith found to be somewhat irrelevant to production decisions (see Dunn, 2011, also).

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