

**Managerial Control Practices in Response to Environmental Litigation Risks:  
Evidence from Carbon Reduction Target-Setting**

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## **Abstract**

While a burgeoning literature has shown how stakeholders respond to the heightened environmental litigation risks, little is known about how firms respond to this challenge by adopting managerial control practices. Using the staggered establishment of environmental courts in China as a shock of heightened environmental litigation risks, we attempt to shed some light on this issue by examining whether and how firms establish carbon reduction targets as a response. We find that firms in environmental court jurisdictions are more likely to set carbon reduction targets after the establishment of environmental courts in their cities. Our results remain robust across a series of sensitivity analyses. Cross-sectional tests suggest that the impact of environmental courts is more significant for firms with higher environmental risks and cities with weaker environmental regulation. Further tests reveal that the environmental courts affect the specification, time frame and the difficulty level of carbon reduction targets. Finally, firms decrease carbon emissions and experience an increase in positive environmental-friendly news after the establishment of environmental courts and such an effect is more significant for firms setting carbon reduction targets. Overall, our study reveals a managerial control device firms employ in face of heightened environmental litigation risks.

**Keywords:** Climate, Environmental Litigation Risks, Management Controls, Target Setting

**JEL codes:** M14; M41; Q56