



## Why join a carbon club? A study of the banks participating in the Brazilian “Business for Climate Platform”



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### ABSTRACT

Why do firms that present low levels of (direct) carbon emissions participate in “carbon clubs”, which have the goal of managing and reducing greenhouse gas (GHG) emissions? In order to answer this question, we collected data from both primary and secondary sources from firms operating in the Brazilian banking sector, which are members of the Businesses for Climate Platform (*Plataforma Empresas pelo Clima* – EPC). We first looked for answers in the institutional theory and resource based view of the firm (RBV). By confronting the arguments presented by these streams of scientific enquiry with empirical data, we worked on theory testing. In particular, we analyzed the institutional pressures and resources and capabilities of the focus companies, in order to understand the rationales for proactive sustainability management. We found evidences of the arguments presented by both the institutional theory and the RBV. By studying an industry that is not a frequent subject to research on socio-environmental issues – for not being considered of high impact – in an emerging market economy, the research contributes to both the further development of the institutional theory and the advancement of sustainability management in corporations.

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## 1. Introduction

The positioning of corporations concerning greenhouse gas emissions (GHG) has changed profoundly in the past two decades. In the early days of the 1990s, corporate coalitions tried to block regulations that addressed global warming. As climate regulation became inevitable, companies started adopting more proactive strategies. Since such strategies were developed without the imposition of emissions reduction targets by regulatory bodies, they were classified as “voluntary environmental initiatives” (Delmas and Terlaak, 2001; Hoffman and Woody, 2008). Indeed, many firms saw the climate issue as market opportunity, anticipating future regulation (Kolk and Pinkse, 2008), reaping reputational gains, or even innovating and profiting from the carbon market (Hoffman, 2005).

Nonetheless, firms from different sectors have also different motivations to respond to climate change (Porter and Reinhardt, 2007). The emissions intensity of firms per unit of revenue or per

unit of product—also known as “carbon intensity” (Weinhofer and Hoffmann, 2010)—and the institutional context (Kolk and Pinkse, 2004) vary greatly among sectors. Firms in sectors perceived as “dirty” (or carbon intense) are expected to be more prone to participate in voluntary environmental initiatives or of self-regulation (Moon and DeLeon, 2007; Berchicci and King, 2007). By adopting climate strategies, firms seek to differentiate themselves, escape from institutional isomorphism (Levy and Kolk, 2002) and obtain competitive advantage. This reinforces the expectation that the potential for gains in high-salience sectors is also higher (Bansal and Roth, 2000). In addition, as noted by Etzion (2007), such sectors have been a more frequent object of research.

And what to say about firms from sectors perceived as “clean”; that is, with lower carbon intensity? Why do firms with low carbon intensity and low salience participate in a “carbon club” whose goal is to proactively manage and reduce emissions? Previous research have studied the drivers that lead companies from “dirty” sectors to become environmental proactive; for companies from “clean” sectors, however, the drivers remain unclear. By seeking explanations for this phenomenon, our study addresses the continuum “determinism-proactiveness” debated by both the strategic management (e.g. Hrebiniak and Joyce, 1985; Hung and Whittington, 1997) and

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environmental management (e.g. Bansal, 2005; Lee and Rhee, 2007; López-Gamero et al., 2008) literature. Since we do so mainly using the body of literature under the new institutional theory, our main contribution also locates in this scientific discipline.

We adopted the case method in order to encompass the broad and diverse set of possible explanations for our research questions. We analyzed the four companies from the banking sector that participate in a leading voluntary environmental initiative in Brazil — the Business Platform for Climate (*Plataforma Empresas pelo Clima* - EPC). Therefore, our study is also unique and relevant for practice because it addresses proactive carbon strategies in the context of emerging markets, where there are very few command and control mechanisms regarding climate change.

## 2. Voluntary environmental initiatives

Direct environmental regulation of firms' activities - the so-called "command and control" - prevalent in the 1960s and 1970s, presented several limitations, such as high compliance and enforcement costs, excessive bureaucracy and lack of flexibility (Lynch-Wood and Williamson, 2011). By the 1980s, new approaches to regulation emerged based on economic instruments of environmental management and on the disclosure of the firms' information. Those instruments are based on the market logic or on the so-called "self-regulation", in which public and private actors collaborate in the development of participatory control systems. This represented a new agenda of collaboration between industry and civil society in the formulation and implementation of plural forms of regulation, downplaying the monolithic role of the government (Moon and DeLeon, 2007; Lynch-Wood and Williamson, 2011).

Firms are currently compelled to invest in environmental protection both by direct regulation or taxation of high carbon intensity activities and by market-based incentive mechanisms (Testa et al., 2011), which can eventually generate competitive advantages (Azzone and Bertelè, 1994). Notwithstanding, it is unclear what types of mechanisms are more effective—both in terms of environmental protection or revenue for firms—, and research exploring the relationship between social pressure and market considerations in a firm's decision to participate in VEs is still scarce (Koehler, 2007). In the next sections, we discuss some possible explanations why firms participate in VEI.

### 2.1. Institutional pressures and isomorphism

Institutional factors can encourage the development of voluntary environmental actions by firms (Delmas and Toffel, 2008). According to the new institutional theory - in its sociological perspective - firms are susceptible to institutionalized values and expectations, and their survival depends on conforming to them (Moon and DeLeon, 2007).

Firms from the same organizational field tend to adopt the same norms and practices over time (DiMaggio and Powell, 1983). This phenomenon sometimes is due to pressures of actors with whom the organization maintains relationships. It can be of a compulsory nature (i.e., legally mandated) or not (DiMaggio and Powell, 1983), such as standards imposed by buyers or expectations by the civil society and NGOs (Bansal and Roth, 2000; Delmas and Toffel, 2008). The greater the level of environmental regulations in a specific country, the greater the impact a specific industry has in the environment (Bansal and Roth, 2000; Bansal and Bogner, 2002; Etzion, 2007; Lee, 2011). Likewise, the greater the media exposure, the greater the predisposition of a firm to take actions towards environmental protection (Bansal, 2005; López-Gamero et al., 2008). Firms also avoid being targets of legal sanctions by legitimizing themselves through the adoption of practices shared by other firms (Bansal, 2005).

Firms can also adopt similar strategies and practices because of the lack of certainty about a specific issue, tending to copy the most successful companies (DiMaggio and Powell, 1983). In the case of climate change, this situation can occur when firms do not have a clear understanding about what the winning strategy is (Kolk and Pinkse, 2007a).

Finally, pressures from being part of a professional network or industry association of the same organizational field can also occur. Firms from specific sectors may favor proactive environmental practices, as a way to avoid more strict environmental regulation. This may happen because of the low environmental performance of the sector (Barnett and King, 2008) and the costs firms in the sector may have to incur in case regulatory measures are imposed (Hoffman and Woody, 2008).

Institutional pressures may explain the predisposition of firms of a given sector to display pro-active environmental behaviors. However, other specific elements of the organization can also influence the strategic response of companies; notably those related to strategic options and available resources and capabilities (Lee, 2011).

### 2.2. Proactiveness: strategic choices

According to the specialized literature, firms have five motivations to incorporate environmental issues into business practices: influence the regulatory environment, reputational gain, pioneering and innovation, access to knowledge and risk mitigation. We discuss them in the following sessions.

#### 2.2.1. Influence the regulatory environment

Given the regulatory uncertainty, the anticipation of future regulation can bring competitive advantage to the first movers (Kolk and Mulder, 2011; Hoffman and Woody, 2008). In effect, the regulatory environment can be seen as both an opportunity and an inhibiting factor for companies to take proactive initiatives regarding climate change (Hoffman, 2005). Members of carbon clubs have good chances of influencing regulation because government agencies tend to actively participate in such VEs (Delmas and Terlaak, 2001). On the other hand, there is value for government to participate in green clubs because they can anticipate the effects a new regulation would have on the strategies adopted by the firms (Engau and Hoffmann, 2009). However, because the costs of compliance vary from industry to industry (Banerjee, 2002), there can be varied levels of interest of companies from different sectors to influence the regulatory environment.

#### 2.2.2. Reputational gain

Empirical studies, such as Zyglidopoulos (2001) showed that reputation and financial performance are positively correlated. The reputation can be enhanced or impaired as a result of the decision of whether or not to engage in environmental activities and to disclose environment-related information (Fombrun et al., 2000; Branco and Rodrigues, 2006; McWilliams et al., 2006; Husted and Allen, 2001). However, since proactive initiatives often lack a clear definition of the firm's goals, it can be received with skepticism from the external public, clients and even the regulation bodies. Thus, the possibility for firms to acquire reputational value from joining these initiatives would be limited (Koehler, 2007). This question is essential when it comes to climate change, which is aggravated by large uncertainty on the part of the general public (Hoffman, 2005).

The benefits of VEs are not so easy to identify. Gaining reputation is difficult to quantify and often the reputation of the sector has greater notoriety than the reputation of a single company (Hoffman, 2005). Companies with poor environmental performance may also try to use green clubs to gain legitimacy (Dawkins and Fraas, 2011). In order to avoid this "free-riding" problem, clubs

need to develop mechanisms to ensure the participants' commitment, and protect the reputation of the VEI. In this sense, adopting reduction targets and having an independent civil society organization leading the efforts or establishing minimum standards may prove essential (Orsato, 2009).

### 2.2.3. Pioneering and innovation

Regulation can foster innovation, leading to lower costs or increased value for the company and offsetting the higher costs of compliance (Porter and van der Linde, 1995). The openness of a company to aspects that go beyond the core business enables new insights about its activities, processes and development of new products (Molteni, 2006; Hart and Dowell, 2011). Companies that have shown dynamism in dealing with environmental policy, facing the switch from command and control to voluntary mechanisms, can benefit from the development of innovative solutions for the environment as well as for other areas of the business (Russo and Fouts, 1997). Pioneering firms in environmental issues are also more likely to attract public and media attention (Moon and de Leon, 2007) and greater ability to differentiate themselves from competitors. Companies that go beyond legal obligations may benefit in the long run, for they may occupy an advantaged position in a scenario in which activities will be more strictly regulated (Madariaga and Cremades, 2010).

### 2.2.4. Access to knowledge

The need to adapt to climate change causes companies to seek knowledge and develop a dynamic of continuous learning. This knowledge may not be restricted to internal sources, but also to other organizations and experts (Christopher and Busch, 2011). The joint development of technology, processes or products applied to climate change can be done in partnership with other organizations (Jeswani et al., 2008), private, public or not for profit (Kolk and Pinkse, 2004). Many firms work with business partners to identify new approaches that benefit business while dealing with an environmental issue.

Among the possible ways companies can organize themselves to pursue knowledge, green clubs are particularly noteworthy, for they generally involve sharing knowledge among its members, allowing for the development of more effective practices, norms and management systems regarding environmental issues (King and Lenox, 2000). They also allow for the exchange of experiences between companies, by participating in seminars and meetings (López-Gamero et al., 2011).

### 2.2.5. Risk mitigation

In the past decade or so, companies have started to include long-term environmental risks in their assessment. The stakeholders' demands can be a threat to the continuation of the organization's activities, and depending on how companies respond to these demands may prevent or increase consumer boycotts, liability lawsuits and labor liabilities (Kurucz et al., 2008). A survey by Taylor Nelson Soffres with 302 financial analysts and fund managers in Europe identified 86% of them believing that managing socio-environmental risks will have a significant positive impact on the market value of the company in the long run (Little, 2003).

When assessing potential environmental liabilities, financial institutions can reduce the risk and default of its customer base, and ensure that the value of their collateral does not change considerably. Hence, financial institutions, as lenders to companies of all sectors and sizes, have added environmental risk assessment in lending decisions. Moreover, they can concentrate investments in companies and projects with good environmental performance to protect their asset portfolio, thereby increasing financial stability and protecting their own reputation.

### 2.3. Resources and capabilities

Researchers have adopted the resource-based view (RBV) to explain good environmental performance of some firms, and distinguish proactive companies from those that focus on compliance (Russo and Fouts, 1997). For the RBV, generating competitive advantage requires implementing a strategy that adds value and delivers benefits for the company and not to its competitors. It can be achieved through internal resources or sets of resources of the firm (Barney, 1991). Therefore, the analysis of resources and capabilities helps understanding the factors that can lead firms to adopt a proactive sustainability strategy. Among them are: firm size and resource availability (Lee and Rhee, 2007; Bansal, 2005; Walls et al., 2008), international operations (Bansal, 2005), involvement of top management (Lee and Rhee, 2007; Walls et al., 2008), the historical involvement with environmental issues/path dependence (Walls et al., 2008; López-Gamero et al., 2008), and, finally, whether they operate in capital markets (Fisher-Vanden and Thorburn, 2011).

## 3. Methods

In order to investigate why companies with low carbon intensity and low salience take part in voluntary initiatives for GHG emissions reduction, we conducted an exploratory research which, according to Flick (2009), focuses less on testing what is already known and more on discovering new things. Such method is indicated to areas of enquiry that contain relatively scarce and systematized knowledge (Flick, 2009). An exploratory research requires a qualitative approach, resulting in the description of the results and of the impression over events. Another reason for an exploratory research with qualitative approach was the fact that the chosen object of analysis are companies from a sector not commonly researched in studies involving environmental issues (Etzion, 2007).

As research strategy, we utilize the qualitative case study, which, according to Eisenhardt (1989), is appropriated to provide a description of a given context, test and building theory. One might say the two former situations apply to the research. Moreover, the case study enable the phenomenon be understood considering a holistic perspective (Fiss, 2009).

### 3.1. Object of analysis: financial institutions

In order to choose the most suitable cases in terms of availability of empirical data, we employed a theoretical sampling (Draucker et al., 2007) based in two main criteria. First, the choice was based on a sector that: (a) the climate issue presents low salience, as proposed by Bansal and Roth (2000); (b) companies that do not present high direct emissions – according to scope 1 and 2 of the GHG Protocol (WRI and WBCSD, 2011), and; (c) is not included in the National Climate Change Policy (PNMC), consequently with a lower probability to be subject to future regulation and mandatory reduction targets.

Once the sector was chosen, the companies should be engaged in a VEI related to climate change. For this purpose, The Business for Climate Platform (*Plataforma Empresas pelo Clima*, in Portuguese – EPC) is particularly outstanding. It is a business platform created by the Centre for Sustainability Studies at Getulio Vargas Foundation (GVces), São Paulo, Brazil which aims to engage, mobilize and articulate private leadership towards the management and reduction of GHG emissions, and the management of climate-related risks and the advocacy for the design of public policies and positive incentives for businesses in the context of climate change. The EPC was launched in 2009, in partnership with The Prince of Wales Corporate Leaders Group on Climate Change (CLG), with the

support of 27 founding companies (by the end of 2013, there were 36 member companies). The platform is regarded as the next step following the Brazil GHG Protocol Program, engaging companies not only in discussions and actions related to the management and reduction of corporate GHG emissions, but also in taking a stance in climate-related issues and the construction of public policy proposals that may contribute to a low carbon economy in Brazil (GVces, 2013).

Based on these criteria, we selected companies from the banking sector. In addition to adhering to the criteria above, this is the sector with the largest representation on EPC (4 companies out of 36): Banco do Brasil, Bradesco, HSBC, and Itaú Unibanco, representing the totality of financial companies participating in the EPC. Together, these four banks represent 48% of the assets of the Brazilian financial sector (BCB, 2013). Therefore, the four cases that, at first glance, may seem too few to permit generalizations, represent, in fact, almost half of the Brazilian banking sector.

### 3.2. Data gathering and analysis

We collected data both from primary and secondary sources. Secondary data was gathered from the annual sustainability reports and the Carbon Disclosure Project (CDP) reports. In the case of Itaú-Unibanco and Bradesco, we analyzed the 2012 sustainability reports; for Banco do Brasil and HSBC, the 2011 reports. We also analyzed the CDP Investor 2012 reports of all four organizations. Primary data was collected via semi-structured interviews with managers from the sustainability departments. For confidentiality reasons, the interviewees were identified by “E1” (Banco do Brasil), “E2” (Bradesco), “E3” (HSBC), and “E4” (Itaú Unibanco).

We conducted rigorous analysis of the data based on the following steps, suggested by Ruona (2005): (a) data preparation: getting the collected data into a form that is easy to work with; (b) familiarization: immersing in the data much more deeply, reading and rereading the data and jotting notes; (c) coding: organizing information into meaningful categories, and labeling those categories; (d) generating meaning: interpreting the data beyond their categories, exploring the way the emerging themes are interconnected and connected to the existing literature. Finally, based on the theoretical framework, we defined the categories of analysis before the data collection.

The research has limitations in the collection of the data and the external validity. Regarding the data collection, being sustainability an issue sensitive to political correctness, we were aware that the double hermeneutics would be a limiting factor. When asked to provide us with the rationales for their actions, managers' answers may have been influenced by our own presence and interest on the issue, which may have influenced them to have biases toward politically correct answers. Furthermore, despite using CDP reports and annual sustainability reports of the banks, as well as interviews with employees participating in activities of the EPC, we did not interview professionals from other sectors or clients from the banks, so as to triangulate with the opinions expressed by the bank representatives. Regarding the external validity, it is not possible to generalize the results from the few individual cases - even if our sample represents almost 50% of the Brazilian sector, and we can expect that this would happen to banks with similar characteristics operating in other countries. We recommend that researches studying the same phenomena in different contexts go this step further so grasp the position a wider spectrum of stakeholders.

## 4. Results and discussion

This section presents and discusses the results of the study, which is broadly divided in two sub-sessions. Session 4.1

analytically contrasts the institutional pressures (coercive, normative and mimetic) with the de strategic rationales that may influence firms to adopt climate change strategies and practices, previously presented in Session 2.1. Subsequently, Session 4.2 does the same regarding the resources and capabilities of the four banks.

### 4.1. Analysis of institutional pressures

According to the specialized literature presented in Session 2, institutional pressures may motivate banks to engage in activities related to climate change. Table 1 presents a summary of the evidences, followed by a discussion of each institutional pressure. These are presented in the top line of the table: (a) the coercive pressures from the customers and society as a whole, (b) the shared normative behaviors of the sector and (c) mimetic isomorphism practiced by firms. Among the strategic options available to companies to develop voluntary climate initiatives (in the columns), as discussed in Session 2.2, stand out: 1) access to knowledge, 2) influence the regulatory environment; 3) reputational gain; 4) pioneering and innovation, and; 5) risk mitigation.

#### 4.1.1. Coercive pressures

Currently, there is no specific regulation for the banking sector on climate change but some government bodies, such as the Brazilian Central Bank (BCB), are creating mechanisms to include socio-environmental responsibility in the Brazilian financial system. In 2008, the BCB, determined that public and private banks that provide rural credit to require proof of environmental compliance from borrowers for activities in the Amazon region. In late 2010, the BCB and the Ministry of the Environment (MMA) signed a technical cooperation agreement in order to develop procedures for the monitoring environmental activities undertaken by financial institutions signatories to the “Green Protocol”. Also in 2010, the BCB implemented the “Social and Environmental Responsibility of the Financial System” program, setting a standard for good socio-environmental practices for financial institutions. In 2012 BCB positioned itself as the regulatory body for integrating sustainability into the Brazilian financial system by holding public hearing n. 41/2012 to discuss normative acts aimed at making mandatory the implementation of an environmental responsibility policy for all financial institutions and other bodies. The measures would also require companies to publish a socio-environmental report (BankTrack, 2012). However, the organization did not explicitly define measures regarding climate change.

Banco do Brasil reports no significant regulatory coercive pressure in relation to its core activities: “There is no perceived risk to the businesses of Banco do Brasil's regarding government regulation” (CDP investor 2012 – Banco do Brasil, p. 3). However, interviewee E1 states that the bank considers the issue of climate change as a critical and strategic one. This is because, despite not having large GHG emissions, the bank finances and invests in companies that do emit. Thus, there is a concern in mitigating risks by avoiding, for instance, possible fines and obstructions of projects, which could jeopardize their cash flow and generate insolvency (see cell 5A in Table 1).

Bradesco representatives believe that, despite the National Climate Change Policy (PNMC), there are still no clearly defined operational mechanisms. However, the bank considers the possibility that international agreements may set mandatory emissions reductions to all sectors. Thus, Bradesco sees as a probability that, in a time horizon of six to ten years, some regulation may result in higher operational costs, even if the impact on bottom-line may be low (5A in Table 1). Because there is no established legal framework, there is also the opportunity to contribute to the formulation of public policies through the participation in various forums and

**Table 1**  
Assessment of institutional pressures in the Brazilian banking sector.

Institutional strategic pressures choices	A) Coercive pressures (N = 14)	B) Normative pressures (N = 8)	C) Mimetic processes (N = 4)
1) Access to knowledge (N = 8)	B. Brasil: 0 Bradesco: 1 HSBC: 1 Itaú: 1 (N = 3)	B. Brasil: 0 Bradesco: 1 HSBC: 1 Itaú: 1 (N = 3)	B. Brasil: 0 Bradesco: 0 HSBC: 1 Itaú: 1 (N = 2)
2) Possibility to influence the regulatory environment (N = 3)	B. Brasil: 0 Bradesco: 1 HSBC: 1 Itaú: 1 (N = 3)	B. Brasil: 0 Bradesco: 0 HSBC: 0 Itaú: 0 (N = 0)	B. Brasil: 0 Bradesco: 0 HSBC: 0 Itaú: 0 (N = 0)
3) Reputational gain (N = 3)	B. Brasil: 0 Bradesco: 0 HSBC: 1 Itaú: 0 (N = 1)	B. Brasil: 0 Bradesco: 0 HSBC: 0 Itaú: 0 (N = 0)	B. Brasil: 0 Bradesco: 0 HSBC: 0 Itaú: 1 (N = 1)
4) Pioneering and innovation (N = 5)	B. Brasil: 0 Bradesco: 1 HSBC: 1 Itaú: 1 (N = 3)	B. Brasil: 0 Bradesco: 0 HSBC: 1 Itaú: 0 (N = 1)	B. Brasil: 0 Bradesco: 1 HSBC: 0 Itaú: 0 (N = 1)
5) Risk mitigation (N = 8)	B. Brasil: 1 Bradesco: 1 HSBC: 1 Itaú: 1 (N = 4)	B. Brasil: 1 Bradesco: 1 HSBC: 1 Itaú: 1 (N = 4)	B. Brasil: 0 Bradesco: 0 HSBC: 0 Itaú: 0 (N = 0)

N = number of evidences; 0 = evidences not found; 1 = evidences found.

committees that address climate change, the EPC among them (2A in Table 1). Participation in these forums also enables a better understanding of regulatory trends in places where the bank operates (1A in Table 1):

“[...] we attempt to comply with future regulations and adapt to a scenario more and more determined by climate changes. Bradesco has participated in several forums, chambers and commitments related to study of climate change and adaptation [...]” (CDP investor 2012 – Bradesco, p. 2)

Nevertheless, Bradesco seems to envision great opportunities in climate change regulations. Regulations on air pollution and product efficiency standards may foster the development of new products and services (4A in Table 1). This explains the funding of projects that aim to reduce emissions from the operations of customer firms, as well as lines of credit stipulated by the PNMC, with potentially low to medium impact.

Itaú Unibanco sees the coercive regulatory pressures as an opportunity rather than a risk. The bank believes that stricter regulation legislation at the state or municipal level can have a large impact, even if it is unlikely to come into effect. This is because it could affect their customers' solvency due to the impact of sanctions for non-compliance over their cash flow or the sudden need to allocate resources to adjust their processes to a low carbon economy (5A in Table 1). On the other hand, Itaú Unibanco also believes in opportunities brought by the regulation. Interviewee E4 cited regulations proposed by the Brazilian electricity regulatory agency (ANEEL) for the development of solar and wind energy, which could generate demand for new businesses and, consequently, greater demand for financial services; and the National Policy on Solid Waste, which should increase the demand for reverse logistics, increasing firms' emissions in transportation, and consequently generating demand for financial services in order to reduce and/or offset such emissions (4A in Table 1).

Itaú Unibanco has been systematically monitoring the international debate on potential new agreements, participating as a delegate at the Conference of the Parties (COP), at United Nations Environment Programme Finance Initiative (UNEP-FI), and also

domestically through their Department of Government Relations. The participation in EPC is also highlighted as a way of obtaining knowledge and contributing to the design and implementation of public policies (1A and 2A in Table 1).

“We also participated in the business platform ‘Businesses for the Climate’ administrated by the business school of the Getulio Vargas Foundation (FGV). The initiative brought together over 40 businesses, with the aim of instructing them on the subject and positively contributing to climate change policies.” (CDP investor 2012 – Itaú-Unibanco, p. 3)

HSBC also sees risks and opportunities in terms of regulatory coercive pressures. In this sense, the imposition of limits for emissions in Europe is seen as virtually certain, albeit with potentially low impact. The bank envisions the operating costs increasing due to the need to either adjust to emission targets or purchase carbon credits, with a potential impact on the reputation due to the worsening of financial results (3A in Table 1). Higher costs can also be imposed on customers and reduce the demand for financial services. Regulatory uncertainty regarding climate and can reduce the demand for climate-related financial services, in particular those from energy-intensive sectors. Customers may choose not to invest in projects with a high climate change risk (5A in Table 1).

HSBC engages in discussions with policymakers in various countries where it operates, including Brazil, aiming at contributing to the improvement of regulation. The bank does so when participating in the COP and specific meetings with national and supra-national authorities (2A in Table 1):

“We continue to commit time and considerable resources to working with policymakers on regulatory reform, so that the financial system can contribute as fully as it should to economic prosperity and to support growth and jobs.” (CDP Investor 2012 – HSBC, p. 4).

Changes in the regulatory framework, however, are also seen as opportunities by HSBC, insofar as the bank stimulates the development of incentives to new, clean technologies, and new energy

sources, stimulating the demand for financial products and services (4A in Table 1). In this regard, HSBC, through its Climate Change Centre of Excellence (CCCE), monitors regulatory actions to identify and support their clients in areas related to the development of low carbon technologies (1A in Table 1).

In terms of coercive pressures by customers, NGOs and civil society in general, the banks attribute different degrees of importance. They argue that it is important to show that actions are being taken, and seem to hold greater concern regarding activism by NGOs, suggesting the existence of coercive pressures of non-compulsory nature (Bansal and Roth, 2000; Delmas and Toffel, 2008).

According to interviewee E1, the rationale behind the involvement in voluntary initiatives is to better understand what the impacts of socio-environmental issues in society, market, institutions and customers are. Moreover, he believes it is important for everyone to have a clearer notion of the socio-environmental impacts, thus the generation of knowledge should be a collective effort (1A in Table 1). His words reflect a clear concern about the opinion of stakeholders and the reputational risk faced by the company: “The market is being regulated by society itself. An unfortunate investment or lending decision becomes public knowledge, and rapidly spread throughout the social media.” (3A in Table 1).

The reputational risk and eventual reduction of demand for financial products due its association with companies with high emissions, is considered low by Bradesco. In addressing the question of reputation, the manager for socio-environmental responsibility believes that, using this topic as marketing is risky, since it would require backing up claims with real evidence, and that dealing with these issues is an incremental process.

HSBC shows concern for their accumulated reputational capital. Having the most valuable brand of the sector makes the organization more susceptible to potential gains or losses as a result of actions in relation to climate change. Changing the current positioning towards climate change could damage the (good) image customers have about the organization. Increasing engagement of NGOs in climate change issues has led to campaigns against customers operating in carbon-intensive sectors. There is also increasing expectations that firms influence the actions of customers. On the other hand, understanding the expectations of stakeholders, increasingly interested in the climate issue, could lead to an increase in reputation (3A in Table 1).

Itaú Unibanco sees a moderate risk in the probability of customers requiring banks to incorporate sustainability and climate change into their business practices. By participating in voluntary initiatives such as EPC, the bank acquires legitimacy as an active contributor to advancing the solutions for climate change. Concern with reputation, thus, entails some monitoring of the image of various publics and some benchmarking against its competitors and other large companies.

The results show that even with a low level of environmental regulation in a given country and of direct influence by a certain industry over the environment, firms can carry out voluntary initiatives (Delmas and Toffel, 2008; Bansal and Roth, 2000; Bansal and Bogner, 2002; Etzion, 2007; Lee, 2011). Strategic choices are associated with risk mitigation, pioneering and innovation, the ability to influence the regulatory environment, access to knowledge and reputational aspects, and highlight the ambivalent nature of opportunities and risks associated with climate change, as mentioned by Hoffman (2005). In terms of risk mitigation, this is related to customers from the most carbon-intensive sectors, which are more prone to regulation, may experience increased operating costs, and struggle over meeting mandatory targets (Lins and Wajjnberg, 2007). Regarding pioneering and innovation, companies identify opportunities related to the development of new lines of credit for compliance with new regulation, benefiting thus

from new insights related to activities, processes, the development of new products (Molteni, 2006; Hart and Dowell, 2011) and innovative solutions (Russo and Fouts, 1997). These strategic choices relate to the attempt to understand the implications of the required changes (Christopher and Busch, 2011; Jeswani et al., 2008), which may include the participation in green clubs such as EPC (King and Lenox, 2000), which can eventually influence new regulation (Delmas and Terlaak, 2001). Finally, as previously posed by Orsato (2009), by participating in voluntary climate initiatives, firms attempt to preserve and protect their reputation, rather than expect substantial gains from it. In this sense, the relationship between reputation and financial performance, as cited by Zyglidopoulos (2001), relates more with avoiding revenue loss than with increasing the customer base, showing that reputational gains tends to be rather limited (Koehler, 2007).

#### 4.1.2. Normative pressures

Since the 2000s, several voluntary initiatives from the banking sector have emerged, requiring signatory companies to comply with an increasing number of requirements. Large banks, UN/UNEP, or civil society organizations led the international initiatives, such as the Equator Principles. In Brazil, the Federation of Banks (FEBRABAN) is the leading representative organization operating in Brazil (125, from a total of 178, are members of FEBRABAN), which also promotes climate change initiatives. Among them, the “Green Protocol” signed between FEBRABAN and the Ministry of Environment (MMA) in 2009 is relevant for the Brazilian context. Signatory banks commit to develop and enforce environmental criteria for lending and promoting special lines of credit for projects with environmental additionality, in other words, projects that environmental benefits go beyond the minimum required by law. The materiality matrix created by FEBRABAN in partnership with the Center for Sustainability Studies at Getulio Vargas Foundation (GVces) in 2010 included several criteria, some related to climate change. As a result of the adoption of voluntary climate initiatives, some standardization of organizational behavior could be observed. Indeed, in a 2010 survey with 49 international banks, 57% of them had policies related to climate change, which was the most addressed issue, ahead of human rights (49%) and biodiversity (22%) (BankTrack, 2012).

The banks analyzed in our study constantly interact with each other, with trade groups and with business associations in general. There is also great mobilization on the part of institutional investors, which ultimately influence the investment banking division or affect its ability to raise funds. Banco do Brasil sees a certain risk in the position of the Brazilian Business Council for Sustainable Development (CEBDS)—of which it is a member—, of encouraging the development of strategies to promote the assessment and the reduction of the emissions by the companies (5B in Table 1). On the participation in voluntary initiatives, such as the EPC, interviewee E2 believes that it is easier to discuss complex and difficult issues such as climate change in a larger group (1B in Table 1). Thus, it is possible to learn about best practices from peers and improve together: “In those initiatives, there is a common goal, it’s for everyone, it’s for society. When we treat it collectively, we become stronger.” (Interviewee E2). She emphasizes that it is possible to exchange experiences with other sectors. According to her, it is important to discuss how these issues affect other sectors and not just the banks, whose operations foster the activities of all other sectors. HSBC and Itaú Unibanco held similar views.

Interviewee E3 points out that, often, discussions in voluntary initiatives are more focused on manufacturing. However, as the bank has customers from all sectors, he believes in the importance of understanding how environmental challenges affect the business community (1B in Table 1). Furthermore, he believes that large banks are on the same level with respect to environmental issues.

Interviewee E4 somehow shares this view, who emphasizes the value of exchanging experiences among companies of various sizes and industries. According to her, discussions tend to be more focused on manufacturing than services. Nevertheless, the participation in these initiatives is useful for banks to better understand and analyze market trends (4B in Table 1). As the statement below indicates, the main reasons for Itaú Unibanco to participate in such initiatives relate to training, research and exchange with other companies:

“There is no readily available tool in the market to assess socio-environmental risks. What is the metric behind it? How do I measure it? Everything has still to be done. The ‘how’ is to be learned.” (Interviewee E4)

In addition to EPC, Itaú Unibanco also actively participates in various initiatives to discuss climate issues within the financial sector and business in general, and monitors related publications and events to develop knowledge about the subject.

HSBC anchors some of its arguments in the achievements of the last United Nations Climate Change Conference (COOP 17 meeting) in Durban in 2011. There, institutional investors, with assets amounting to about US\$ 20 trillion, mobilized for the development of an investment grade to guide investment in climate-related projects. The investment portfolio of HSBC considers such guidelines, and with a reasonable probability and low to medium impact, in the future it may raise fewer funds in case of poor performance based on this investment grade. This highlights a strategic choice concerning risk mitigation, somehow generated by the normative pressure of such investors (5B in Table 1). Likewise, the bank notes that it could have an advantage when competing for resources from those investors, should they meet the increasingly stringent standards related to that issue.

According to Bradesco’s representative (Interviewee E2), currently there is no internationally accepted and sufficiently established method to estimate the impact of financial products and services of customers. Still, in Bradesco’s view, the use of environmental criteria for screening the financing of large-scale projects, and socio-environmental considerations in supply chain management can promote the reduction of emissions of its products and services. However, while recognizing climate change risks in the perception of investors, E2 considers them unlikely, with low potential impact. (5B in Table 1).

Overall, between 2003 (HSBC) and 2006 (Banco do Brasil) all banks have adopted the Equator Principles, and were the first banks operating in Brazil to do so. In 2012, they began adopting the 2012 standards of the International Finance Corporation (IFC), which require a threshold and reporting of emissions criteria to financed projects, and priority financing to projects that contribute to the reduction of emissions.

Finally, it is possible to observe the dynamics of normative pressures over Banco do Brasil, due to the so-called social obligations mentioned by Ramus and Montiel (2005), demonstrating the greater emphasis on its social role in detriment of a risk or business opportunity perspective. This may occur due to the fact that the bank is a mixed capital company, with the federal government maintaining the majority shareholding. Sometimes identifying themselves as “government”, the bank may carry an implicit obligation to be the guardian of society’s interest:

“[...] the Brazilian government has to look to the existent fragilities of cities and invest on it, because there are strong necessities that are not perceived as important as those related to climate change mitigation and adaptation.” (CDP Investor 2012 – Banco do Brasil, p. 2)

“The Banco do Brasil follows the National Plan for Climate Change and will eventually participate in financing infrastructure projects to mitigate or adapt to the consequences of Climate Change in Brazil.” (CDP Investor 2012 – Banco do Brasil, p. 3).

In sum, normative pressures have proven affect the perception of managers and the organizational behavior of banks, expressed in their participation in voluntary climate initiatives. This seems to derive from the ecological modernization rhetoric of the sector as a whole, with the influence of trade associations, other banks and even institutional investors, reflecting the scenario described by Lynch-Wood and Williamson (2011). Initiatives from Febraban and especially from multilateral organizations such as IFC (e.g. Equator Principles) reflect the willingness of the industry to act in favor of the development of voluntary climate initiatives (Barnett and King, 2008). In terms of strategic choices, access to knowledge is the aspect that was most relevant for participating in voluntary climate initiatives that bring together a group of companies – highlighting the role of the EPC. Through these initiatives, the banks benefit from the possibility of exchanging and obtaining knowledge (King and Lenox, 2000; López-Gamero et al., 2011) about the implications of climate change, not only in relation to the banking sector but also to companies from different sectors and sizes.

#### 4.1.3. Mimetic processes

Two voluntary initiatives have influenced mimetic behavior in the industry. The first has become known as UNEP-FI. In 1992, the UNEP launched an initiative for financial institutions, combining all recommendations on environmental aspects of operations and services from the financial sector. In the same year, UNEP and five banks prepared the UNEP Statement by Banks on the Environment and Sustainable Development. By the end of 1992, 23 commercial banks had signed the statement, and in 2004, 163 financial institutions worldwide have become signatories. The second initiative is the Equator Principles. In June 2003, ten banks announced the adoption of environmental safeguards for projects above US\$ 50 million. Together, these banks financed around 30% of the projects worldwide. By January 2005, 27 banks had adhered to the Equator Principles, four of which were from Brazil. More recently, other examples from major banks include the participation in other green clubs such as the Carbon Principles in 2007, and the Climate Principles in 2008.

The influence of these initiatives in mimetic behavior was visible in three of the banks analyzed. Banks participate in proactive actions for being recommended or promoted by organizations perceived as representatives of the sector or by reference institutions, and/or for being the object of attention by direct competitors. The exception is precisely Banco do Brasil, which, as previously noted, seems to align primarily to the government’s agenda, with focus on the welfare of civil society, rather than to benchmark against what other banks are doing regarding climate change. Bradesco revealed that the Executive Committee of Sustainability—which reports its activities to the CEO—decides in which initiatives to participate, and for that it considers the institutions and opportunities involved, and the relationship of the subject with the business (4C in Table 1). The Interviewee E3 says that big banks are basically involved in the same initiatives, in which they exchange experiences and opportunities. To decide whether to participate in the voluntary initiative, HSBC considers whether other banks also participate, thus adding more value to discussing issues that only make sense in the universe of banks. Also, the bank evaluates what kind of return those initiatives bring, such as pursuing knowledge (1C in Table 1). Itaú Unibanco’s sustainability committee decides which voluntary initiatives the bank

should participate in, and for that it analyzes whether the subject is relevant to the company and applicable to its daily operations. The committee considers the credibility of the institution behind the initiative and whether other companies in the industry also participate, not because of competition, but because they face shared challenges (1C in Table 1). Itaú Unibanco monitors its reputation comparatively to its competitors and other large companies, which tend to bear a certain relationship to mimetic pressures (3C in Table 1).

Overall, our study found mimetic pressures having indeed influenced the decision of banks to participate in voluntary climate initiatives. The fact that Brazilian banks follow suit on initiatives led by foreign institutions and banks, implicitly referring to the major banks during the interviews, shows that firms tend to develop similar actions to those considered successful (DiMaggio and Powell, 1983). They mimic them even when the salience of the subject matter is not as great. Voluntary climate initiatives can lend reputation to the company (Dawkins and Fraas, 2011), especially when having the participation independent civil society organizations (Orsato, 2009) – in the case of EPC, from Getulio Vargas Foundation (FGV). Therefore, banks and other low carbon intensity companies may join VEIs when they do not have a clear idea about what the winning strategy regarding climate change is (Kolk and Pinkse, 2007a). In other words, they adopt a risk mitigation strategy.

#### 4.2. Analysis of resources and capabilities

The analysis of the annual reports and other secondary sources allowed us to observe the resources and capabilities of the four financial organizations. A summary of the analysis is presented in Table 2 and discussed below.

As row 1 in Table 2 shows, Banco do Brasil, Itaú Unibanco and Bradesco are among the top 5 biggest Brazilian banks in terms of total assets. HSBC is the sixth largest bank operating in Brazil, and the fifth largest bank in the world (Chinese Bank, 2013). In terms of return on equity (ROE), in 2011 and 2012 the three largest Brazilian banks swapped positions around the top three in the Americas (Ayres, 2013). HSBC is the 4th best ranked bank in Brazil. All banks also operate internationally. Banco do Brasil operates in 21 countries; Bradesco in 8; Itaú Unibanco in 19 countries; and HSBC in over 80 countries.

Senior management engagement demonstrates a propensity for the adoption of proactive sustainability strategies (Lee and Rhee, 2007; Walls et al., 2008). At Banco do Brasil, sustainable development entered the agenda of strategic and operational management in 2003. In November 2009, the Sustainable Development Unit was created and officers respond primarily for the socio-environmental responsibility of the bank and for the implementation of the “regional sustainable development strategy” across the country.

Bradesco's sustainability initiatives are monitored by an Executive Committee of Sustainability, made up of a member of the Board of Directors, executive officers and heads of departments who meet quarterly. Since 2009, the topic of climate change began to be assessed in a strategic and structured fashion. The area responsible for strategic planning integrated the issue into their analysis in order to assess the impacts, risks and opportunities for the bank. HSBC has a Sustainability Committee, which is the highest level of governance for matters related to the subject. The committee comprises the bank's chairman and executive officers of various departments. The issue of climate change is considered strategic for the institution, and financing a low-carbon economy has been named one of the bank's six priorities in 2009. Itaú Unibanco has a Sustainability Executive Committee composed by vice presidents and executive officers, which is responsible for the integration between business strategies and sustainability, as well as the promotion of co-responsibility of the various areas of the organization in integrating sustainability with management and organizational culture. Climate change is addressed under the perspective of socio-environmental risks and opportunities in the sustainability strategy.

As indicated in Table 2, all four banks operate in capital markets. According to Fisher-Vanden and Thorburn (2011), publicly listed companies suffer greater pressure from institutional investors, urging their participation, for example in the CDP. Therefore, the size, the ROE and profits of the four companies, as well as the fact that all banks of the study are listed and operate in international markets influence the adoption of proactive sustainability practices. This certainly contributed to the decision to join green and carbon clubs (Lee and Rhee, 2007; Bansal, 2005; Walls et al., 2008; Fisher-Vanden and Thorburn, 2011). In conclusion, in the first half of 2000s, the banks have sought to involve their senior management in sustainability issues (Lee and Rhee, 2007; Bansal, 2005; Walls et al., 2008), developed voluntary environmental initiatives (Walls et al., 2008; López-Gamero et al., 2008). From the second half, they encompassed climate change policies and strategies.

Although there are no other studies specifically exploring the motivations of firms with low carbon intensity to engage in VEIs, some studies that investigate climate change policies and practices have found similar results. Clark and Crawford (2011) found that corporations more often choose to influence policy discussions indirectly, by attempting to harness the support of stakeholders to convey the position of the group to policymakers. Kolk and Pinkse (2007b) explored multinationals' corporate political activities focusing on climate change. The findings show that the political activities can be characterized as an information strategy to influence policymakers toward market-based solutions. Most firms have taken a more cooperative approach by aiming to push policymakers in the direction of market-based solutions, such as

**Table 2**  
Resources and capabilities of the four Brazilian Banks.

Component	Banco do Brasil	Bradesco	HSBC	Itaú Unibanco
Size (total assets)	R\$ 1.15 trillion	R\$879.1 billion	R\$115.5 billion	R\$1014 trillion
Resource availability (ROE – 2012)	16.89%	17.27%	13.70%	16.70%
Internacionalization/ Internacional Operations	Yes	Yes	Yes	Yes
Involvement of top management	Sustainable Development Unit – Executive directors	Sustainability Executive Committee – One member of the Board of Directors and Executive Officers	Sustainability Committee – Chairman and Executive Officers	Sustainability Executive Committee – Members of the Board of Directors
Historical involvement with environmental issues/path dependence	Green Protocol – 1995	Millennium Development Goals – 2000	Global Compact – 2000	Dow Jones Sustainability Index – 1999
Capital markets operations	Yes	Yes	Yes	Yes

emissions trading and voluntary programs. In the research conducted by Okereke (2007), companies seem to take climate actions for a wide variety of reasons. Similar to the results of our study, these motivations found by Okereke (2007) range from self-interest and profit oriented reasons, to governmental, public pressure and ethical considerations.

## 5. Conclusions

This paper aimed at answering why firms from sectors with low carbon intensity and low salience participate in voluntary environmental initiatives related to climate change. To this end, we studied companies from the Brazilian banking sector participating in a voluntary climate initiative – the Business for Climate Platform (EPC). We first looked for answers on the institutional theory and resource based view of the firm (RBV). By confronting the arguments presented by these streams of scientific enquiry with empirical data, we worked on theory testing, according to the views of Whetten (1989). In particular, we analyzed the institutional pressures and resources and capabilities of the focus companies in order to understand the complexity of environmental issues in the organizational realm (Bansal, 2005; Lee and Rhee, 2007; López-Gamero et al., 2008). Furthermore, the research tried to contribute to the theoretical and empirical fields by studying an industry that is not a frequent subject to research on socio-environmental issues, for not being considered of high impact (Etzion, 2007; Moon and DeLeon, 2007).

We found evidences of all arguments presented by both the institutional theory and the RBV. Together, coercive pressures from customers and society, industry patterns of behaviors based on sustainability standards, as well as mimetic processes explain the decision of firms (banks), which present low carbon intensity and low salience, to invest in voluntary climate initiatives by actively participating in carbon clubs. Among the strategic choices of firms to participate in such initiatives, access to knowledge, risk mitigation and pioneering and innovation stand out. We also observed that the strategic decision to access to knowledge encourages the exchange between organizations, emphasizing the process of mutual influence and development of standards.

Indeed, such practices seem to be aligned with the overall proactive behavior of firms in the area of sustainability management, which are conducive to competitive advantage (Reinhardt, 1999). The access to knowledge is, in fact, crucial for management excellence in general, and so can be also crucial for mitigating risks in the area of carbon strategies (Hoffman, 2005). The exchange between organizations via a green club (in this case, the Business for Climate Platform) also helps these pioneering banks to be prepared in case climate regulations are imposed for the financial sector (Orsato 2006). Overall, the preparedness of these companies regarding climate strategies can be consider a benchmark in the sector, to be followed by competitors in Brazil and elsewhere.

Nonetheless, perception and strategic choices alone are not sufficient to explain the adoption of voluntary initiatives. From the data analysis, we identified that all banks have the capabilities and internal resources described by RBV as critical for an above-average environmental performance. Among them, being listed in stock markets, high profitability, international operations are noteworthy. In a hypothetical situation in which the firm faces resource constraints, it would be expected that it restricted its investments to the core business and/or to what is mandated by law. Similarly, it is hard to imagine a situation where a firm commits resources, interacts with regulating bodies or make large investments without the engagement of senior management. In the current Brazilian context, climate-related measures are completely voluntary and, specifically to the banking sector, has low salience. Hence, form a

RBV perspective, a simple explanation for the proactivity of companies related to their affordability. They simply have the capabilities and resources to do so.

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