

**ISE AND LEGITIMATE THEORY: A CORRELATION BETWEEN MARKET  
VALUE AND CLIMATE CHANGE**

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**ABSTRACT**

The study aims to analyze whether the practices of climate change are influenced by the market value of the companies that participate in the Corporate Sustainability Index. Were analyzed participating companies in the year 2015 and evaluated all your answers to climate change compared with its market value. To justify this relationship was presented the legitimate theory as a source to provide clarification to the stakeholders. In the field of sample were used 32 consolidated companies that responded to the questionnaire of ISE/CSI in 2015, according to the BM&FBOVESPA. With the objective of testing the assumptions used in the study, we used the Mann Whitney test with the comparison of averages of several companies. The conclusion was that the companies that have higher market value have the best environmental practices.

**Keywords:** Market Value. Legitimate Theory. Climate Change.

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## **1. INTRODUCTION**

The perception of a new market that directs your attention to the problems of sustainability, the environment and the preservation of the planet, is related not only with the economy, but also with the survival of humanity. The logic of the global economy that fosters the tireless pursuit for profit above all else, you can derive impacts on environment catastrophic. This happens because the products and goods produced are removed from the environment, pollute, degrade and negatively impact the ecosystem.

The consequence of this impact is global warming, the melting of glaciers and the extinction of thousands of species that contribute to the balance of the lives in the world. The central problem is that companies do not want to reduce their profits in exchange for a more balanced life and this logic of decompensated profit causes serious damage to the environment.

Due to a strong popular pressure and gradual awareness of society, the strength of recoveries of companies more transparent, less polluting and that are in tune with the politics of preserving the environment, has been suggested as a way forward in the business world. The formatting of a new time was able to observe that the requirement of the investor turned not only for profit, but to the ethics of businesses, to an awareness of business methods and of a minimal speech harmful to the environment.

The companies now respond to questionnaires that facilitate the assessment of the investor, because these issues reveal their environmental practices used. From there, the investor can analyze your criteria for the approval or disapproval of environmental policies used by the companies. In this scenario, one may ask: what is the impact of the efficiency of entrepreneurial attitudes that contribute to the preservation of the environment? What attitudes can be representative in the face of environmental actions of companies in the stock market?

These issues represent a new global trend of interpretation and a new sense of demand of enterprises, effective policies capable of interfering with the condition of the environment. The research is justified by the use of disclosures that directly interfere in the actions of the environmental dimension. The effects of these actions reflect directly on the company's image, in expectation of the consumer and in the general opinion of the market. Seek to analyze how the market value has a decisive influence on the actions of the policies of efficiency of climate change is the primary objective of the study that investigated the wallets of theoretical year of 2015.

## **2. THEORETICAL FRAMEWORK**

### **2.1 Legitimate Theory**

For Dias Filho (2008), the legitimate theory is derived from the theory of contracts and begins to be used in the accounting area, particularly in studies that seek explanations for the adoption of certain mechanisms for disclosure. Therefore, it is based on the idea that there is a contract between the organizations the society in which they operate on the basis of the system of beliefs and values. In this way, even second Dias Filho (2007), it is assumed

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that the companies are legitimate to the extent that they align their practices with the norms and standards of behavior advocated in the environment in which they operate.

The legitimate theory has been widely used to explain the motivation of organizations to disseminate environmental information voluntarily, especially in industries more environmentally polluting. The legitimacy is a widespread perception that part of the judgment on the appropriateness of the actions of an entity within a system is socially constructed norms, values, beliefs and definitions (Suchman, 1995, p. 574).

The disclosure of information related to the actions of the organization facing the environment aims to reduce the pressures of society and demonstrates that it is corporate social responsibility, and this makes their acceptance and approval by the stakeholders. In this way, it becomes clear that the accounting practices related to disclosure of information, environmental influence and are influenced by the social demands, to seek alignment with these to survive in the market where do all their activities.

In this sense, Hopwood and Miller (1994) claim that, from the point of view of institutional theory, the accounting practices cannot be understood with neutrality, but from the interactions that performs with society. It can be said that the environmental disclosure is a mechanism for enterprises to legitimise the market environment of companies.

In this context, Meyer and Rowan (1977, p. 340) are of the opinion that organizations adopt practices and procedures to achieve legitimacy, reaching your goals of continuity in the market, regardless of these practices are or are not efficient. Therefore, the adoption of certain accounting practices, techniques and structures institutionalised by some companies and regarded as legitimate by society, influences other companies to adopt, without a rational analysis of the instruments that are incorporating. It is, therefore, that the structures are coated with social character and that can influence the internal public and external to the organization.

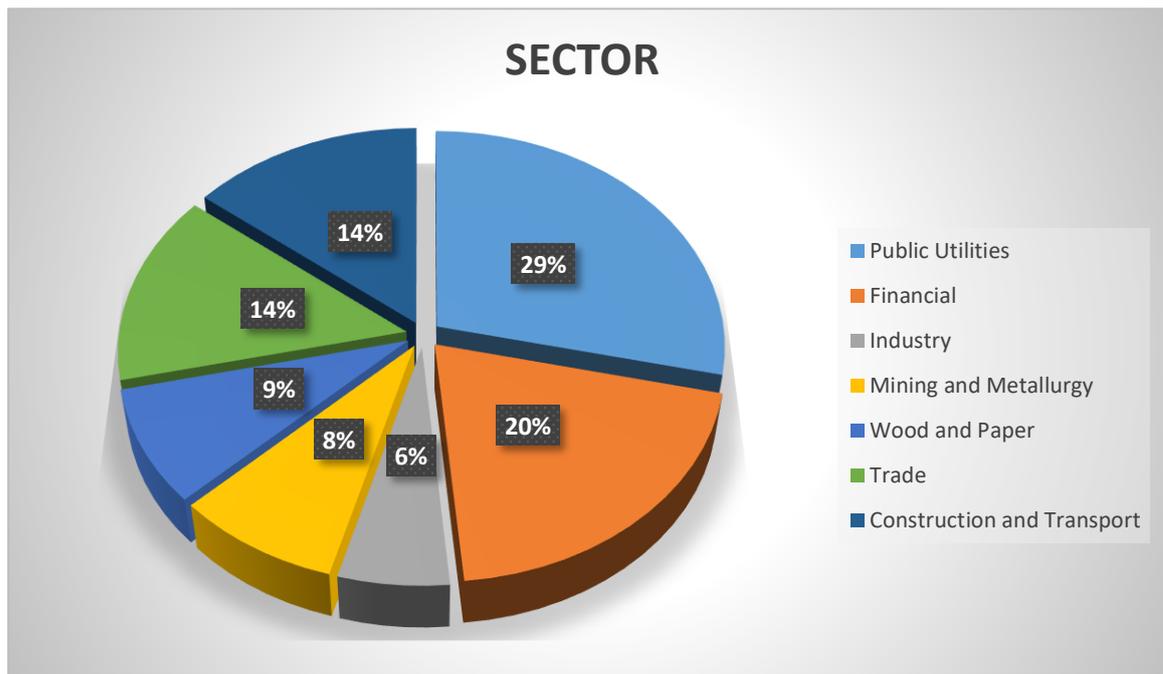
For Gibaut and Dias Filho (2015), the participation of business indicators related to the environment can be used as a mechanism of response to the requirements of stakeholders. The aim is to ensure that the company is aligned with the expectations of the market, from this context, the actions company policies are geared toward the support of the social visibility and the ability to manage responsible policies.

It is clear, therefore, that the good performance of the organization is not bound only to the efficiency of technical factors adopted by the same, but also the ability to develop processes isomorphic in scenarios of similar conditions. Businesses gain or maintain legitimacy by means of incentives in the strategy of the use of business communications, including in addition to financial information, environmental information that serve as an instrument of legitimacy.

Thus, one of the instruments of legitimacy used by organizations is the disclosure of information, environmental voluntarily, since these types of information are aligned with the demands of society. However, despite the growth in the volume of such information, it is necessary to improve the quality and quantity of information reported. In this scenario, the discussion of the impossibility of decision-making more reliable, since the disclosure of this information does not accurately reflect the risks inherent in the development of the activities of enterprises.

### 3. METHODOLOGICAL PROCEDURES

The methodology adopted from the sectors accounted for analysis, in accordance with the instrument of responses of climate change. The Corporate Sustainability Index (ISE/CSI) encourages an analysis of investments aimed at sustainability. The ISE/CSI aims to provide the actions adopted by the companies that participate in the stock market and who use practices related to the environment.



Source: own elaboration

The companies accounted for by the ISE/CSI represented 32 consolidated companies that participated in the questionnaire. The answers are political actions toward the environment and its resolutions according to their attitudes toward the preservation of the environment. The survey divided across seven sectors that have contributed to the discussion and technical analysis of the customers who participate in ISE/CSI.

The questions address issues within the sustainability and the actions that companies develop to preserve the environment, for the balance of the ecosystem and combat the extinction of species. The efficiency of an environmental planning of enterprise not only serves to contribute to the medium, but with the legitimacy of the company and social recognition to the world. It is logical that companies seek to maximize their profits, but this must be done with responsibility.

There are companies that, by presenting profits higher, consequently, become more visible on the pressures of the media, the local population and especially the government. The stakeholders are more attentive to this fact, because they are businesses that attract attention through its financial size and cost. This impact interferes directly in the actions of the climate change policies and actions that companies develop for your well being and improving its visibility to stabilize the market.

In order to legitimise the market, companies invest in social programs, sport in underserved communities, with the aim of obtaining the feeling of responsibility called by society. These actions correspond to a process of positive visibility of the company to get better appreciation of the society, ease of credit in banks, recognition of consumers, continued growth of profit, constant increase of consumers, adhesion of the mark to the product. All these acts constitute encouragements to the stability of the company and perpetuation in the enterprise market.

The process of devastation of the environment does not necessarily by the process of increasing awareness of the people and especially of attitudes of businesses as a way to halt the advance of the degradation of the world. Sustainable actions are increasingly necessary to contribute to a healthy life on the planet. With the crisis of global warming, companies seek to differentiate them in the market through further elaboration of processes of consumption, with the goal of achieving its competitive advantage. Environmental responsibility must be seen as a necessity for survival and also constitutes a promising market, because the moment of crisis, companies are distinguished by their ability to manage and innovation.

Sustainability is a concept that relates the continuity of economic aspects and the preservation of the environment. For an economy that can support is required the participation of companies whose shares are reversible and of control of non-renewable resources, such as water and energy.

The study was segregated in various sectors in order to lend credibility the characteristics of utility each company. The asset of the company is potentially influenced by its market value, in spite of that, sometimes, companies with active low have high market value. This is due mainly in technology companies like Google, Microsoft, Apple and others.

The debate on the companies that have a higher market value as a function of effective actions for sustainability condition its proportionality in accordance with the visibility evaluated on the stock market. The application of resources geared to environmental area is related with the financial growth the company's future and the expectation of growth in the coming years the company on the basis of cash flow.

The study aims to analyze the responses that companies have implemented on the basis of the Corporate Sustainability Index in the portfolio in 2015, listed on BM&FBOVESPA. The composition of the sample was 32 companies for their replies to the questionnaire on climate change.

The politics of efficiency was considered on the basis of responses of the questionnaire of Corporate Sustainability Index that companies have to respond. This disclosure of responses of corporate actions are conditioned the legitimacy that the company has with respect to the market.

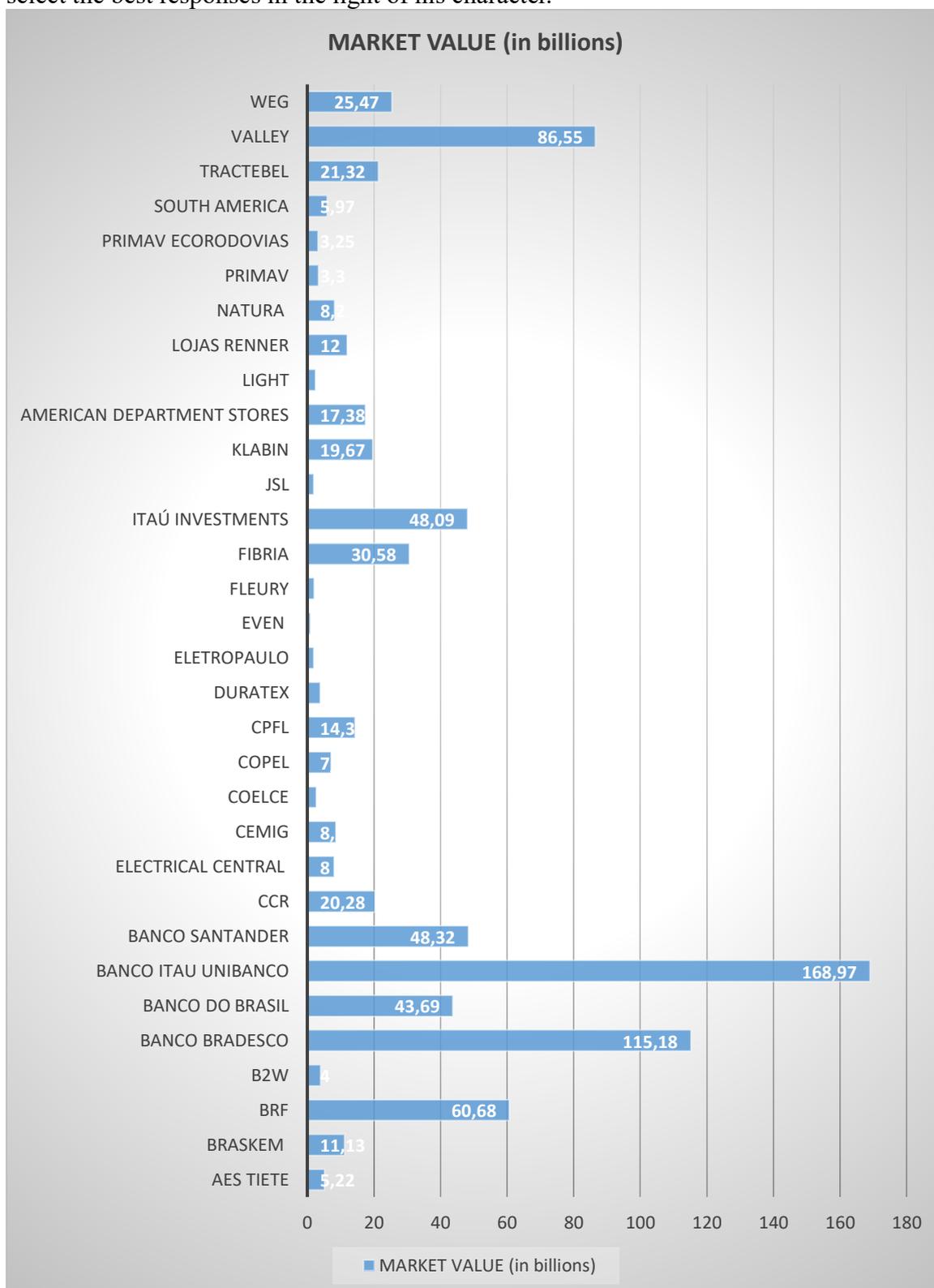
From an analysis that determines the market value on the basis of political action on climate change, whose theme refers the prospects that companies have in the face of environmental responsibility, reducing environmental costs, preservation of natural resources and possible legal proceedings involving the company.

**H0:** The market value of companies is not related to best practice of climate change.

**H1:** The market value of companies is related to best practice of climate change.

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The construction of these hypotheses has come through the understanding that companies with higher market value have more strength to cope with climate change and select the best responses in the light of his character.



The issues addressed in the ISE/CSI, match the guidelines for the planning process and management of the company within the politics of climate change the following:

<b>A</b>	Incorporating the analysis of GHG emissions in the selection and development of suppliers and service providers
<b>B</b>	Promotion and encouragement of energy efficiency
<b>C</b>	Promoting and encouraging the use of renewable energy
<b>D</b>	Promoting and encouraging the reduction of GHG emissions associated with the transport and logistics
<b>E</b>	Promotion and encouragement of technological innovation and R&D for the reduction of GHG emissions in the production and marketing of goods or services
<b>F</b>	Promoting and encouraging the development of new products, services and/or business models that allow for the reduction in GHG emissions
<b>G</b>	Establishment of goals for the reduction of GHG emissions
<b>H</b>	Compensation of GHG emissions
<b>I</b>	Establishment of variable remuneration linked to performance in the reduction of GHG emissions to its executives and employees
<b>J</b>	Identification of risks and vulnerabilities, in order to adapt to climate change
<b>K</b>	None of the above

Source: own elaboration

These guidelines contribute to coping with climate change through the encouragement of renewable energy, reducing pollutant gases and other compensatory measures that promote a considerable improvement to the environment. From this table, we dealt with which companies have contributed effectively to revert this situation. From the analysis of the data, was the construction of a framework that measured the efficiency of each company promoting the allocation of points for this system.

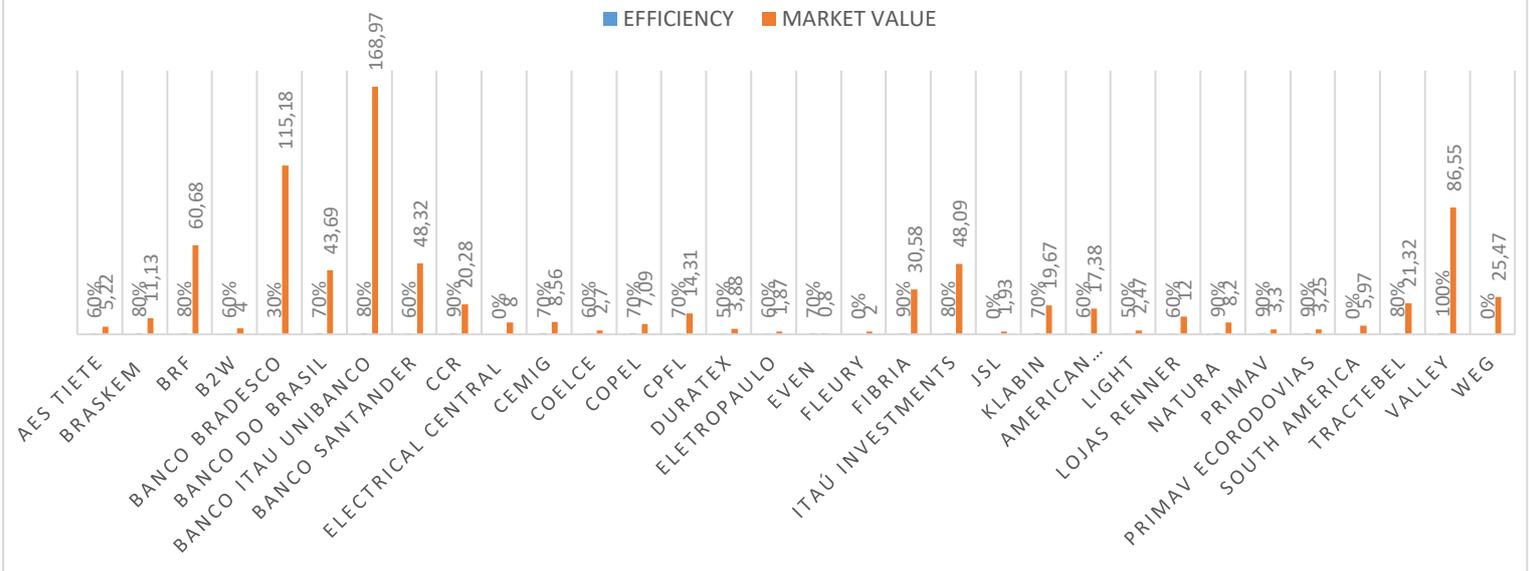
The following chart delineated the condition of efficiency of each company participating in the ISE/CSI. To do this, assign points to each answer. The score was given a point for each positive response and no point for each negative response, in other words, the absence of a response does not applied to loss of score, but just not marking the same. In a system of percentage, was given the charge of 100% if the marking of all the answers. The company that does not marked no response, therefore, get zero, demonstrated its inefficiency of the fight against climate change.

#### **4. ANALYSIS OF RESULTS**

Taking as a basis the resolution of alternatives given by ISE/CSI, it can be noticed that there is a greater interest on the part of public utility companies and mining companies in dealing with the management of incentives for renewable energy and offset the greenhouse gases.

The rule of hypothesis test used was the test of median of independent samples from the measurement of the test for the comparison between medium, with the objective of checking if the market value is or is not associated with the practices of effective sustainability proposal by ISE/CSI. It is important to understand that only one aspect of the Corporate Sustainability Index, within the responses of climate change, was taken into account, in this case, the politics criterion.

## EFFICIENCY AND MARKET VALUE



Source: own elaboration

Through this graph you can see that, among the banks, only the Itau Unibanco S.A. and Banco do Brasil S.A. have an efficiency of 80% and 70 %, respectively. Making it clear that the Financial sector does not have a commitment to climate change. Unlike the industry Mining and Metallurgy, where Vale S.A. and CCR S.A. have 100% and 90 %, respectively, for the operation of the politics of climate change.

This demonstrates that the businesses that deal directly with the environment, by means of machinery, mining, transport, fuel, are more prone to have attention in relation to environmental problems. Already the entities that are "far away" the activity of commercial products, there is little concern with the problems of nature.

## EFFICIENCY INDEX



Source: own elaboration

Even under this perspective, you can make it clear that the corporations of Public Utilities also have a concern with this chaotic scenario environmental, with an average of 70% between them. This occurs because there is a visibility marked since these corporations provide services for the whole of society, then the collection of government and other interested parties are active and constant.

It is clear that companies with the highest market value are not efficient in politics of climate change and that varies in each sector for its performance. The hypothesis H0 must be rejected, because "the market value of companies is not related to best practice of climate change" corresponds to a hypothesis false. Therefore, it is confirmed the hypothesis H1 to show that the market value of companies is related to best practice of climate change.

### Test of Hypotheses

Null Hypothesis	Test	Significance	Decision
The market value of the company is associated with the best efficiency of planning and management of the ISE.	Test of median of independent samples	,0133	Reject the null hypothesis

The significance level of .05.

Through a measurement by Statistical Package for the Social Sciences, it was possible to verify the rejection of the null hypothesis. The best practices are associated with the market value due to a requirement of large companies caused by the strong social visibility and governmental pressure. Companies seek, therefore, presenting the best possible image, avoid the mistakes, with the permanent objective of maximising their profits. The environmental actions are useful for improving practices that preserve the environment, however, it is clear that these practices are used as a mechanism to ensure the legitimacy.

## 5. FINAL CONSIDERATIONS

The objective of this study was to diagnose as the market value influences the capacity to react to actions that would reduce the environmental improvement. These actions are directly linked to its ability to representativeness through the legitimacy that favor the good image.

It can be said that there is a relationship between the market value and the actions of environmental policies. This can be considered favorable due to the resources that large companies have to invest in the conditions of preservation of the environment. Small businesses are more concerned with their immediate survival and the appearance of the environment is far from being a discussion on the life of these companies. However, in larger companies this discussion serves as an instrument to legitimize the market and be able to differentiate from the others with the goal of obtaining attention.

The entities that have lower market value are more concerned with the politics of the ISE, this can be explained because the smaller companies tend to have a greater interest in its growth and sell directly with materials that entail higher costs and damage to the environment. The interesting thing is that the larger companies do not act with management

politics and planning for climate change, but you can have an idea that they legitimize the market through of the constant use of marketing.

The most significant of the stakeholders is on account of the larger firms, because companies are large, therefore, all their attention on their respective actions are on their behalf. As a suggestion, is the using other indices of accounts, such as for example, active, passive, level of indebtedness, earnings per share, degree of financial leverage, operating margin and the indices of liquidity.

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