

# **LEGITIMACY THEORY AS AN EXPLANATION FOR CORPORATE ENVIRONMENTAL DISCLOSURES**

Gary O'Donovan, B. Bus. (Acc), Dip. Ed. (Secondary), Grad. Dip.  
Commercial Data Processing  
School of Accounting and Finance  
Victoria University of Technology, Melbourne, Australia

*A thesis submitted to the Faculty of Business and Law, Victoria University of  
Technology, in fulfilment of the requirements for the award of Doctor of  
Philosophy*

*February 2000*

## ABSTRACT

The main aim of this thesis was to refine and develop legitimacy theory as an explanation for voluntary corporate environmental disclosures in the annual report. Legitimacy theory posits that for a corporation to continue to exist it must act in congruence with society's values and norms (Dowling & Pfeffer, 1975). An aspect of legitimacy theory, investigated in this research, is that in order to continue to exist a corporation will act to remain legitimate in the eyes of whom it considers is able to affect its legitimacy. One way corporations act to remain legitimate to these important 'conferring publics', is to voluntarily disclose social and environmental information in the corporate annual report.

Much of this investigation was concerned with exploring new areas and attempting to establish relationships between variables identified as important to the development of legitimacy theory. It was decided that a field study approach, using mainly interview-based qualitative data, was the optimal research methodology to achieve the objectives of this investigation. A number of senior management personnel from three large Australian-based companies were the primary source of data in relation to corporate environmental disclosure decision processes.

The data were collected in three distinct phases, each phase being developed subsequent to the findings of the preceding phase. The first two phases were predominantly exploratory and resulted in the identification of the people responsible for environmental disclosure decisions and the processes which result in environmental information being disclosed. It was also concluded during this stage that at a macro-level legitimacy theory is a major explanatory factor for the voluntary disclosure of environmental information. During the third data collection phase, the developing legitimacy theory was tested at a micro-level to establish: the extent of relationships between a significant, potential legitimacy threatening environmental issue/event; whether the purpose of a corporate response was to gain, maintain or repair legitimacy; and the choice of alternative legitimisation tactics which are linked to specific annual report disclosure approaches. The results from the third phase indicate the essence of the relationships observed between these variables.

Essentially, it is argued that legitimacy theory is an explanatory factor for the disclosure of environmental information and that, as a result of this investigation, legitimacy theory has been developed at a micro-level not previously attempted. The legitimacy theory model constructed in this thesis should aid corporate management to manage legitimacy in many diverse situations and to assist researchers in applying legitimacy theory to many forms of organisational behaviour.

## ACKNOWLEDGEMENTS

When I started this *long* journey as a *novice* researcher, one of my objectives was to learn more about research. What I have learned was far more universal, often frustrating, and ultimately, more fulfilling.

I learned new depths of respect and devotion through my partner, Lynn. The trying times I put her through during the last 6 years were always returned with a level head, a willingness to listen and many helpful suggestions. She believed in me, more than I did myself. My 5 year old son, Liam, regularly (and genuinely) asked how the PhD was going and he will now get to know his Dad better. Liam's 15 month old sister, Sophie, will not have to crawl to the door of the study in order to see Dad from now on. I learned tolerance and understanding from friends, whose invitations to social events I often refused to work on this thesis.

This project commenced as a Masters by Research Degree and during this stage my supervisor, Kathy Gibson, taught me about commitment, enthusiasm and achievement. Part way through the Masters, I transferred to a PhD and at this stage Dr. Bob Clift became my supervisor, mentor, confidante, advisor and friend. His dedication to detail, willingness to listen, experience, good logic, thorough professionalism and a good sense of humour made the project more bearable than it otherwise may have been. I also benefited greatly from Dr. Louise Kloot's input as a co-supervisor during this project. Louise was particularly adept at keeping me on track during the final write up.

I must also thank my colleagues, both at Victoria University of Technology and those that I have met at conferences where I have presented aspects of this work. Their help, advice, willingness to lend a sympathetic ear and support have been invaluable. In particular my friends at the Interdisciplinary Environmental Association in Massachusetts, whether aware of the fact or not, seemed to know when I needed a lift in confidence. The importance of having some 'time-out' to think about other things was a valuable lesson learned. Without regular walks (with our dog Frodo) to the 'Do Lunch' café, near the local library, I doubt whether my sanity would have been preserved. Thanks to Russell, Kerry and all the staff for the good coffee and a great place to have a break.

I experienced goodwill through the respondents to the interviews. They contributed to the essence of this project. Without them the task could not have been completed. Finally and most importantly, I learned that humans must, above all else, continue to look after the source of all life, the environment. At the end of this project I am optimistic that business is becoming more aware of the need to balance economic and ecological concerns.

# TABLE OF CONTENTS

## CHAPTER 1 - INTRODUCTION

1.1	BACKGROUND TO THE RESEARCH	1
1.2	RESEARCH PROBLEM AND OBJECTIVES	3
1.3	JUSTIFICATION FOR THE RESEARCH	6
1.4	METHODOLOGY	8
1.5	OUTLINE OF THE THESIS	10
1.6	SUMMARY	13

## CHAPTER 2 - CORPORATE SOCIAL AND ENVIRONMENTAL REPORTING

2.1	INTRODUCTION	14
2.2	BUSINESS AND SOCIETY: CORPORATE SOCIAL RESPONSIBILITY	14
2.3	THE CORPORATE ANNUAL REPORT AS A COMMUNICATION MEDIUM	17
2.4	SOCIAL AND ENVIRONMENTAL DISCLOSURES IN THE ANNUAL REPORT	20
2.4.1	<i>THE EXTENT OF SOCIAL AND ENVIRONMENTAL REPORTING</i>	20
2.4.2	<i>WHO IS RESPONSIBLE FOR THE DISCLOSURE OF ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT?</i>	22
2.4.3	<i>DETERMINANTS OF SOCIAL AND ENVIRONMENTAL DISCLOSURES</i>	24
2.4.4	<i>THE QUALITY OF ENVIRONMENTAL DISCLOSURES</i>	25
2.4.5	<i>ENVIRONMENTAL DISCLOSURES: THE IMPORTANCE OF STAKEHOLDERS</i>	26
2.4.6	<i>ENVIRONMENTAL DISCLOSURES: USERS AND USES</i>	28
2.5	WHY DO FIRMS VOLUNTARILY DISCLOSE ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT?	33
2.5.1	<i>THEORETICAL PERSPECTIVES</i>	35
2.5.1.1	Market-Based Motives	35
2.5.1.2	Social-Based Motives	37
2.6	A LEGITIMACY THEORY PERSPECTIVE	43
2.7	SUMMARY	45

## CHAPTER 3 - LEGITIMACY AND ORGANISATIONS

3.1	INTRODUCTION	46
3.2	ORIGINS OF LEGITIMACY	46

3.3	WHAT IS ORGANISATIONAL LEGITIMACY? .....	49
3.4	THE SCOPE OF LEGITIMACY .....	50
3.5	DETERMINANTS OF LEGITIMACY .....	53
3.5.1	<i>ORGANISATIONS AND SOCIAL VALUES</i> .....	54
3.5.2	<i>LEGITIMACY, ORGANISATIONAL ACTIONS AND ISSUES MANAGEMENT</i> .....	60
3.5.2.1	Issues/events .....	60
3.5.2.2	Issues Management .....	63
3.5.2.3	Summary .....	66
3.5.3	<i>CONFERRING ORGANISATIONAL LEGITIMACY</i> .....	67
3.6	DEFINING LEGITIMACY, LEGITIMATION AND LEGITIMACY THEORY .....	75
3.7	SUMMARY .....	80

**CHAPTER 4 - MANAGING LEGITIMACY: THEORETICAL AND PRACTICAL PERSPECTIVES**

4.1	INTRODUCTION .....	81
4.2	THEORETICAL PERSPECTIVES .....	81
4.2.1	<i>INSTITUTIONAL THEORY</i> .....	84
4.2.2	<i>IMPRESSION MANAGEMENT THEORY</i> .....	85
4.2.3	<i>RESOURCE DEPENDENCE THEORY</i> .....	86
4.2.4	<i>A STRATEGIC FOCUS</i> .....	88
4.2.5	<i>REVIEW</i> .....	89
4.3	MANAGING ORGANISATIONAL LEGITIMACY: PRACTICAL FACETS .....	93
4.3.1	<i>LOSING LEGITIMACY: PUBLIC PRESSURE VARIABLES</i> .....	94
4.3.1.1	Media Influences .....	95
4.3.1.2	Interest Group Influences .....	96
4.3.1.3	Crises .....	97
4.3.2	<i>PURPOSES OF ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS</i> .....	99
4.3.2.1	Gaining Legitimacy .....	102
4.3.2.1.1	<i>Conform to Environments</i> .....	102
4.3.2.1.2	<i>Select Among Environments</i> .....	103
4.3.2.1.3	<i>Manipulate Environments</i> .....	103
4.3.2.2	Maintaining Legitimacy .....	104

4.3.2.2.1	<i>Perceive Change</i> .....	105
4.3.2.2.2	<i>Protect Accomplishments</i> .....	106
4.3.2.3	Repairing Legitimacy .....	107
4.3.2.3.1	<i>Normalise</i> .....	108
4.3.2.3.2	<i>Restructure</i> .....	109
4.3.2.3.3	<i>Avoid Overreaction</i> .....	109
4.3.3	<i>ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS</i> .....	109
4.3.3.1	Substantive Legitimation Tactics .....	112
4.3.3.1.1	<i>Conform with Social Values</i> .....	112
4.3.3.1.2	<i>Alter Social Values</i> .....	114
4.3.3.2	Symbolic Legitimation Tactics .....	116
4.3.3.2.1	<i>Conform with Social Values</i> .....	116
4.3.3.2.2	<i>Alter Social Values</i> .....	117
4.3.3.2.3	<i>Alter Social Perceptions of the Corporation</i> .....	121
4.3.3.2.4	<i>Avoid</i> .....	124
4.3.3.3	Classification Dilemmas .....	126
4.4	ANNUAL REPORT DISCLOSURES AS A MEANS OF MANAGING LEGITIMACY .....	129
4.5	SUMMARY .....	131

## **CHAPTER 5 - ENVIRONMENTAL DISCLOSURES AND LEGITIMACY**

5.1	INTRODUCTION .....	133
5.2	ENVIRONMENTAL ANNUAL REPORT DISCLOSURES AND LEGITIMACY .....	133
5.2.1	<i>LIMITATIONS OF PRIOR STUDIES</i> .....	142
5.3	ORGANISATIONAL LEGITIMACY: SUMMARY .....	146
5.4	SUMMARY .....	148

## **CHAPTER 6 - THE LEGITIMACY THEORY MODEL**

6.1	INTRODUCTION .....	149
6.2	AIMS IN DEVELOPING THE MODEL .....	149
6.2.1	<i>THE ENVIRONMENTAL ISSUE/EVENT</i> .....	150
6.2.2	<i>THE PURPOSE OF THE CORPORATE RESPONSE</i> .....	150

6.2.3	<i>IDENTIFYING CONFERRING PUBLICS</i> .....	151
6.3	OVERVIEW OF THE MODEL .....	152
6.4	THE LEGITIMACY THEORY MODEL: THE SPECIFICS .....	155
6.4.1	<i>IDENTIFYING AND CLASSIFYING CONFERRING PUBLICS</i> .....	156
6.4.2	<i>MANAGING LEGITIMACY: CHOOSING LEGITIMATION RESPONSES/TACTICS</i> .....	157
6.4.3	<i>THE PURPOSE OF THE CORPORATE RESPONSE: GAIN, MAINTAIN AND REPAIR LEGITIMACY</i> .....	164
6.4.3.1	Gaining Legitimacy .....	165
6.4.3.2	Maintaining Legitimacy .....	166
6.4.3.3	Repairing Legitimacy .....	167
6.5	TESTING THE MODEL: IMPLICATIONS FOR DATA COLLECTION .....	169
6.6	SUMMARY .....	171

## **CHAPTER 7 - METHODOLOGICAL FRAMEWORK**

7.1	INTRODUCTION .....	172
7.2	OVERVIEW OF DATA COLLECTION AND ANALYSIS .....	172
7.3	METHODOLOGICAL ASSUMPTIONS .....	173
7.4	RESEARCH PURPOSE: EXPLORATORY/EXPLANATORY .....	175
7.5	FIELD STUDY METHOD .....	179
7.5.1	<i>JUSTIFICATIONS FOR USE OF THE FIELD STUDY METHOD</i> .....	180
7.5.1.1	Research Occurs in Natural Settings .....	181
7.5.1.2	Level of Contact with the Research Subjects .....	182
7.5.1.3	Multiple Sources and Types of Data Collected .....	183
7.5.1.4	Highly Structured Hypotheses Are Unnecessary .....	184
7.5.2	<i>THEORY DEVELOPMENT</i> .....	184
7.5.2.1	Qualitative Methods: Inductive Vs. Deductive Techniques .....	187
7.5.2.2	Analytic Induction .....	188
7.6	RESEARCH DESIGN AND METHOD .....	189
7.6.1	<i>SELECTION DECISIONS</i> .....	190
7.6.1.1	Single Or Multiple Cases .....	190
7.6.1.2	Units-of Analysis .....	192

7.6.2	<i>TRIANGULATION</i> . . . . .	193
7.6.2.1	Multiple Sources of Data . . . . .	193
7.6.2.1.1	<i>Interviews</i> . . . . .	194
7.6.2.1.2	<i>Documentary Sources</i> . . . . .	195
7.6.2.2	Multiple Methods of Data Collection . . . . .	197
7.6.2.2.1	<i>Different Interview Methods</i> . . . . .	197
7.7	RESEARCH VALIDITY AND RELIABILITY . . . . .	198
7.7.1	<i>CONSTRUCT VALIDITY</i> . . . . .	199
7.7.2	<i>INTERNAL VALIDITY</i> . . . . .	201
7.7.3	<i>EXTERNAL VALIDITY</i> . . . . .	203
7.7.4	<i>RELIABILITY</i> . . . . .	204
7.8	ETHICAL CONSIDERATIONS . . . . .	207
7.9	SUMMARY . . . . .	209

**CHAPTER 8 - PHASES I AND II: IDENTIFYING FACTORS WHICH AFFECT THE LEGITIMACY THEORY MODEL**

8.1	INTRODUCTION . . . . .	211
8.2	SELECTION OF CORPORATIONS . . . . .	213
8.3	PHASE I- EXPLORING REASONS FOR ENVIRONMENTAL DISCLOSURES: IDENTIFYING THE PERSONNEL INVOLVED AND UNDERSTANDING THE PROCESS . . . . .	214
8.3.1	<i>DATA COLLECTION</i> . . . . .	214
8.3.1.1	Documentary Data - Annual Reports . . . . .	214
8.3.1.2	Unstructured Interviews . . . . .	214
8.3.2	<i>ANALYSIS TECHNIQUES</i> . . . . .	217
8.3.2.1	Documentary Data - Annual Reports . . . . .	217
8.3.2.2	Unstructured Interviews . . . . .	218
8.3.3	<i>FINDINGS - PHASE I - MOTIVES FOR DISCLOSING ENVIRONMENTAL INFORMATION: EVIDENCE OF LEGITIMACY THEORY</i> . . . . .	220
8.3.4	<i>FINDINGS - PHASE I - IDENTIFYING THE PERSONNEL AND UNDERSTANDING THE ENVIRONMENTAL DISCLOSURE PROCESS</i> . . . . .	222
8.3.4.1	Description of Tasks and Responsibilities . . . . .	224

8.3.5	<i>FINDINGS - PHASE I - OBSERVATIONS AND INSIGHTS ABOUT THE ENVIRONMENTAL REPORTING PROCESS</i> .....	228
8.3.6	<i>IMPLICATIONS FOR SUBSEQUENT DATA COLLECTION</i> .....	235
8.4	PHASE II - REASONS FOR, AND INFLUENCES ON, THE DECISION TO INCLUDE VOLUNTARY ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT .....	236
8.4.1	<i>DATA COLLECTION</i> .....	236
	8.4.1.1 Documentary Data .....	237
	8.4.1.2 Semi-structured Interviews .....	238
8.4.2	<i>ANALYSIS TECHNIQUES</i> .....	241
	8.4.2.1 Documentary Data .....	241
	8.4.2.2 Semi-structured Interviews .....	242
8.4.3	<i>FINDINGS - PHASE II</i> .....	249
8.4.4	<i>IMPLICATIONS FOR SUBSEQUENT DATA COLLECTION</i> .....	259
8.5	SUMMARY .....	260

**CHAPTER 9 - PHASE III: ENVIRONMENTAL DISCLOSURES AND LEGITIMACY:  
ESTABLISHING RELATIONSHIPS**

9.1	INTRODUCTION .....	261
9.2	DATA COLLECTION .....	264
	9.2.1 <i>DOCUMENTARY DATA</i> .....	267
	9.2.2 <i>INTERVIEWS</i> .....	268
	9.2.3 <i>REASONS FOR USING VIGNETTES AND REAL-WORLD CASES</i> .....	271
	9.2.4 <i>DEVELOPING THE VIGNETTES AND REAL-WORLD CASES</i> .....	273
	9.2.4.1 Distinguishing Between Environmental Issues and Events .....	274
	9.2.4.2 Choosing the Environmental Issues/events .....	275
	9.2.4.2.1 <i>Linking Environmental Issues/events to the Purpose of the Corporate Response</i> .....	276
	9.2.4.2.2 <i>Political Visibility - Corporation Size and Industry</i> .....	278
	9.2.4.2.3 <i>External Pressures on the Corporation</i> .....	278
	9.2.4.3 Vignettes: Scenarios and Interview Questions .....	280

9.2.4.3.1	<i>Gaining Legitimacy</i> .....	281
9.2.4.3.2	<i>Maintaining Legitimacy</i> .....	281
9.2.4.3.3	<i>Repairing Legitimacy</i> .....	282
9.2.4.3.4	<i>The Intention of the Annual Report Disclosure Approaches Provided</i> .....	282
9.2.4.3.5	<i>Other Interview Questions</i> .....	285
9.2.4.4	Real-world Cases: Environmental Issues/events and Interview Questions .....	285
9.2.4.4.1	<i>Gaining Legitimacy</i> .....	286
9.2.4.4.2	<i>Maintaining Legitimacy</i> .....	287
9.2.4.4.3	<i>Repairing Legitimacy</i> .....	289
9.2.4.4.4	<i>The Intention of the Annual Report Disclosure Approaches Provided</i> .....	290
9.2.4.4.5	<i>Other Interview Questions</i> .....	292
9.3	ANALYSIS TECHNIQUES .....	293
9.3.1	<i>DOCUMENTARY DATA</i> .....	293
9.3.2	<i>INTERVIEWS</i> .....	294
9.4	FINDINGS - PHASE III (A) - VIGNETTES .....	301
9.4.1	<i>SIGNIFICANCE OF ISSUE/EVENT</i> .....	302
9.4.2	<i>GAINING LEGITIMACY - ABC COMPANY LTD</i> .....	303
9.4.3	<i>MAINTAINING LEGITIMACY - HIGH - XYZ COSMETICS LTD</i> .....	307
9.4.4	<i>MAINTAINING LEGITIMACY - LOW - MILITARY HARDWARE LTD</i> .....	309
9.4.5	<i>REPAIRING LEGITIMACY - ASHFORTH REFINING LTD</i> .....	313
9.4.6	<i>OTHER FINDINGS</i> .....	317
9.4.7	<i>IMPLICATIONS FOR SUBSEQUENT DATA COLLECTION</i> .....	318
9.5	FINDINGS - PHASE III (B) - REAL-WORLD CASES .....	320
9.5.1	<i>PERCEIVED LEGITIMACY OF CORPORATION</i> .....	320
9.5.2	<i>SIGNIFICANCE OF ISSUE/EVENT</i> .....	321
9.5.3	<i>GAINING LEGITIMACY</i> .....	323
9.5.4	<i>MAINTAINING LEGITIMACY</i> .....	327
9.5.5	<i>REPAIRING LEGITIMACY</i> .....	331

9.5.6	<i>OTHER FINDINGS</i> . . . . .	336
9.6	SUMMARY OF PHASE III FINDINGS . . . . .	337
9.7	SUMMARY . . . . .	339

## CHAPTER 10 - SUMMARY AND CONCLUSIONS

10.1	INTRODUCTION . . . . .	340
10.2	REVIEW OF CORPORATIONS AND LEGITIMACY . . . . .	340
10.3	SUMMARY OF FINDINGS: FIRST RESEARCH OBJECTIVE . . . . .	341
10.4	SUMMARY OF FINDINGS: SECOND RESEARCH OBJECTIVE . . . . .	345
10.5	THEORETICAL IMPLICATIONS: THE PROPOSED LEGITIMACY THEORY MODEL . . .	350
10.6	PRACTICAL SIGNIFICANCE OF THE RESEARCH . . . . .	354
10.7	CONSTRAINTS . . . . .	355
10.8	OPPORTUNITIES FOR FURTHER RESEARCH . . . . .	358
	BIBLIOGRAPHY . . . . .	361

## APPENDICES

APPENDIX A:	STUDIES LINKING ORGANISATIONAL LEGITIMACY TO CORPORATE ENVIRONMENTAL DISCLOSURES .....	378
APPENDIX B:	INITIAL CONTACT LETTER .....	382
APPENDIX C:	CONSENT FORM FOR SUBJECTS INVOLVED IN RESEARCH .....	384
APPENDIX D:	PHASE I - UNSTRUCTURED INTERVIEW QUESTIONS .....	386
APPENDIX E:	PHASE II - INTERVIEW QUESTIONS .....	387
APPENDIX F:	PHASE II - SAMPLE QUESTION-BY-QUESTION MATRIX .....	391
APPENDIX G:	PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - GAINING LEGITIMACY - ABC COMPANY LIMITED .....	392
APPENDIX H:	PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - MAINTAIN LEGITIMACY - HIGH - XYZ COSMETICS LIMITED .....	395
APPENDIX I:	PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - MAINTAIN LEGITIMACY - LOW - MILITARY HARDWARE LIMITED .....	398
APPENDIX J:	PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - REPAIRING LEGITIMACY - ASHFORTH REFINING LIMITED .....	401
APPENDIX K:	PHASE III (B) INTERVIEW QUESTION - EXISTING ENVIRONMENTAL REPUTATION .....	404
APPENDIX L:	PHASE III (B) - REAL-WORLD INTERVIEW QUESTIONS - GAINING LEGITIMACY .....	405
APPENDIX M:	PHASE III (B) - REAL-WORLD INTERVIEW QUESTIONS - MAINTAINING LEGITIMACY .....	409
APPENDIX N:	PHASE III (B) - REAL-WORLD INTERVIEW QUESTIONS - REPAIRING LEGITIMACY .....	413

## LIST OF FIGURES

FIGURE 1.1	OVERVIEW OF RESEARCH PROCESS .....	11
FIGURE 2.1	CORPORATE RESPONSIBILITY .....	16
FIGURE 2.2	SOURCES OF CORPORATE ENVIRONMENTAL PRESSURE .....	29
FIGURE 3.1	ORGANISATIONAL LEGITIMACY .....	56
FIGURE 3.2	THE TWO WAY NATURE OF LEGITIMACY .....	59
FIGURE 3.3	ISSUES AND ORGANISATIONAL LEGITIMACY .....	67
FIGURE 3.4	ISSUES AND STAKEHOLDERS .....	71
FIGURE 3.5	STAKEHOLDER TYPOLOGY .....	74
FIGURE 4.1	LEGITIMACY THEORY DEVELOPMENT .....	91
FIGURE 5.1	PREMISE UNDERLYING PRIOR STUDIES OF ENVIRONMENTAL DISCLOSURES AND LEGITIMACY THEORY .....	134
FIGURE 6.1	OVERVIEW OF LEGITIMACY THEORY MODEL .....	153
FIGURE 6.2	IDENTIFYING AND CLASSIFYING MULTIPLE CONFERRING PUBLICS .....	156
FIGURE 6.3	CHOOSING LEGITIMATION TACTICS FOR SPECIFIC CONFERRING PUBLICS ..	159
FIGURE 6.4	LEGITIMATION RESPONSES AND GAINING LEGITIMACY .....	165
FIGURE 6.5	LEGITIMATION RESPONSES AND MAINTAINING LEGITIMACY .....	167
FIGURE 6.6	LEGITIMATION RESPONSES AND REPAIRING LEGITIMACY .....	169
FIGURE 6.7	KEY CONCEPTS AND VARIABLES TO BE TESTED .....	170
FIGURE 7.1	DESCRIPTION OF DATA COLLECTION AND ANALYSIS PHASES .....	173
FIGURE 7.2	THE PROCESS OF ANALYTIC INDUCTION .....	189
FIGURE 7.3	UNITS OF ANALYSIS .....	193
FIGURE 8.1	PHASE II - DATA ANALYSIS: SEMI-STRUCTURED INTERVIEWS .....	243
FIGURE 9.1	PHASE III - DATA ANALYSIS: INTERVIEW QUESTIONS .....	294
FIGURE 9.2	EXAMPLE OF WEIGHTING OF RESPONSES TO CLOSED QUESTIONS .....	296
FIGURE 9.3	TWO-VARIABLE CONCEPTUALLY ORDERED MATRIX: RELATIONSHIPS BETWEEN PURPOSE OF THE CORPORATE RESPONSE AND ANNUAL REPORT DISCLOSURE APPROACHES .....	300
FIGURE 9.4	PHASE III (A) - SIGNIFICANCE OF ISSUES/EVENTS FOR EACH LEGITIMACY PURPOSE .....	302

FIGURE 9.5	PHASE III (A) - GAINING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	305
FIGURE 9.6	PHASE III (A) - MAINTAINING LEGITIMACY (HIGH): LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	308
FIGURE 9.7	PHASE III (A) - MAINTAINING LEGITIMACY (LOW): LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	311
FIGURE 9.8	PHASE III (A) - REPAIRING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	314
FIGURE 9.9	PHASE III (B) - SIGNIFICANCE OF ISSUES/EVENTS FOR EACH LEGITIMACY PURPOSE .....	322
FIGURE 9.10	PHASE III (B) - GAINING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	324
FIGURE 9.11	PHASE III (B) - MAINTAINING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	328
FIGURE 9.12	PHASE III (B) - REPAIRING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES .....	333

## LIST OF TABLES

TABLE 2.1	REASONS FOR THE DISCLOSURE AND NON-DISCLOSURE OF ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT . . . . .	34
TABLE 3.1	ORIGINS OF LEGITIMACY THEORY . . . . .	48
TABLE 3.2	DISTINCTION BETWEEN STAKEHOLDER AND LEGITIMACY THEORIES . . . . .	71
TABLE 4.1	THEORETICAL FRAMEWORK FOR THE MANAGEMENT OF ORGANISATIONAL LEGITIMACY . . . . .	83
TABLE 4.2	PURPOSES AND CHARACTERISTICS OF ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS . . . . .	100
TABLE 4.3	LEGITIMATION TECHNIQUES FOR DIFFERENT LEGITIMATION PURPOSES . . .	101
TABLE 4.4	SUBSTANTIVE LEGITIMATION TACTICS: CONFORM WITH SOCIAL VALUES . . . . .	112
TABLE 4.5	SUBSTANTIVE LEGITIMATION TACTICS: ALTER SOCIAL VALUES . . . . .	114
TABLE 4.6	SYMBOLIC LEGITIMATION TACTICS: CONFORM WITH SOCIAL VALUES . . . . .	116
TABLE 4.7	SYMBOLIC LEGITIMATION TACTICS: ALTER SOCIAL VALUES . . . . .	118
TABLE 4.8	SYMBOLIC LEGITIMATION TACTICS: ALTER SOCIAL PERCEPTIONS OF THE CORPORATION . . . . .	122
TABLE 4.9	SYMBOLIC LEGITIMATION TACTICS: AVOID . . . . .	124
TABLE 4.10	POSSIBLE ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS . . . . .	129
TABLE 6.1	SAMPLE RESPONSES TO LEGITIMACY THREAT . . . . .	161
TABLE 6.2	AIMS OF CORPORATE RESPONSES TO LEGITIMACY THREATS . . . . .	162
TABLE 7.1	CORPORATE PERSONNEL CONTACTED AND/OR INTERVIEWED . . . . .	194
TABLE 8.1	CHRONOLOGY AND OVERVIEW OF PHASES I AND II DATA COLLECTION AND ANALYSIS . . . . .	212
TABLE 8.2	PHASE I - PERSONNEL CONTACTED AND/OR INTERVIEWED . . . . .	216
TABLE 8.3	PRIMARY ANNUAL REPORT WRITERS . . . . .	224
TABLE 8.4	MAIN WRITER(S) OF FIRST DRAFT ENVIRONMENTAL INFORMATION FOR INCLUSION IN THE ANNUAL REPORT . . . . .	225

TABLE 8.5	MAIN EDITOR(S) OF FIRST AND SUBSEQUENT DRAFTS OF ENVIRONMENTAL INFORMATION .....	226
TABLE 8.6	MAIN REVIEWER(S) OF SUBSEQUENT DRAFTS OF ENVIRONMENTAL INFORMATION .....	227
TABLE 8.7	APPROVAL OF FINAL DRAFT OF ENVIRONMENTAL INFORMATION FOR INCLUSION IN ANNUAL REPORT .....	228
TABLE 8.8	AMOUNT OF ENVIRONMENTAL DISCLOSURES, ACCORDING TO TYPES OF DISCLOSURES, IN ANNUAL REPORTS OF CORPORATIONS STUDIED: 1992-1994 .....	231
TABLE 8.9	PHASE II - CORPORATE PERSONNEL INTERVIEWED .....	239
TABLE 8.10	PHASE II - INTERVIEW RESPONSES USED DIRECTLY FOR SUBSEQUENT DATA ANALYSIS PURPOSES .....	244
TABLE 8.11	PHASE II DATA - CHECKLIST MATRIX .....	248
TABLE 9.1	CHRONOLOGY AND OVERVIEW OF PHASE III DATA COLLECTION AND ANALYSIS .....	263
TABLE 9.2	PHASE III (A) - FICTITIOUS ENVIRONMENTAL ISSUES/EVENTS, PURPOSE OF RESPONSE AND INTENTION OF DISCLOSURE APPROACH .....	265
TABLE 9.3	PHASE III (B) - REAL-WORLD ENVIRONMENTAL ISSUES/EVENTS, PURPOSE OF RESPONSE AND INTENTION OF DISCLOSURE APPROACH .....	266
TABLE 9.4	PHASE III - CORPORATE PERSONNEL INTERVIEWED .....	270
TABLE 9.5	PHASE III (A) - SAMPLE OF THE INTENTION OF ANNUAL REPORT DISCLOSURE APPROACHES - XYZ COSMETICS LTD .....	283
TABLE 9.6	PHASE III (B) - SAMPLE OF THE INTENTION OF ANNUAL REPORT DISCLOSURE APPROACHES - THE GREENHOUSE CHALLENGE .....	291
TABLE 9.7	PHASE III (B) - GAINING LEGITIMACY: MULTIPLE ANNUAL REPORT DISCLOSURE APPROACHES SELECTED .....	326
TABLE 9.8	PHASE III (B) - MAINTAINING LEGITIMACY: MULTIPLE ANNUAL REPORT DISCLOSURE APPROACHES SELECTED .....	330

TABLE 9.9	PHASE III (B) - REPAIRING LEGITIMACY: MULTIPLE ANNUAL REPORT DISCLOSURE APPROACHES SELECTED . . . . .	335
TABLE 10.1	LEGITIMATION DISCLOSURE RESPONSE MATRIX . . . . .	351

## CHAPTER 1 - INTRODUCTION

### 1.1 BACKGROUND TO THE RESEARCH

Scientific evidence indicates that environmental impacts such as global warming, the production of greenhouse gases, the destruction of the ozone layer and acid rain, to name a few, will affect the capacity of the planet to sustain the needs of current and future generations. Governments and private corporations have long used 'free' environmental resources as the most efficient and cost-effective way of improving living standards, measured solely in economic terms. Recent studies indicate that society is increasingly concerned about the welfare of the planet and are also concerned about business' impacts on the natural environment (Australian Bureau of Statistics, 1997, Elkington, 1994).

**Environment**, in this context, means:

*"The surroundings in which an organisation operates, including air, water, land, natural resources, climate, flora, fauna, humans and their interrelation. The environment in this context extends from within an organisation's location to the global system and also incorporates sensual perceptions including, sound, odour, tastes and the social factor of aesthetics."*

This meaning of environment is drawn from a number of definitions, but is primarily derived from Standards Australia (1994) and the Victorian State Government's Environment Protection Act (1970) definitions.

As recently as fifty years ago, it did not seem urgent that the relationship between business and the natural environment be understood. Natural resources seemed unlimited and the collateral effects of extracting, refining and using products manufactured from these resources did not attract much public attention. At the beginning of a new millennium, however, it is accepted that these collateral effects have significant detrimental impacts on society. It is in this context that an increased understanding of the importance of corporate actions affecting the natural environment is considered a crucial social issue. The corporate form of entity's main objective is to make a profit for its investors and it has been argued that making profit is its sole responsibility (Friedman, 1962). A corporation operates as part of a social system, however, and

it is generally agreed that it needs to be socially responsible and accountable for impacts its activities have on society (Shocker & Sethi, 1973). Corporations are becoming increasingly concerned about their relationship with society and are taking a greater interest in managing environmental and social responsibilities, as well as the more traditional, financial, responsibilities.

The negative environmental impacts of business are often brought to public notice through the public exposure of environmental incidents (Brown & Deegan, 1999). For example, the Exxon Valdez oil spill in Alaska in 1989, the chemical leak in Bhopal, India in 1984 and the significant environmental damage to the Fly and OK Tedi rivers caused by BHP Limited during the late 1980's and early 1990's, in Papua New Guinea, all generated a great deal of negative publicity for the companies involved. As a result of these incidents, society's awareness of both the specific and general social and environmental impacts of business was raised. The increased public exposure that incidents of this type generate also raises the consciousness of society about the social and environmental responsibilities of corporations and can bring into question the legitimacy of the corporations involved.

Incidents or events of this type also bring general social and environmental issues to the attention of the public and this increased attention puts more pressure on corporations to manage their social and environmental responsibilities, public image and legitimacy. One way corporations manage this increased pressure is to publicly disclose information with respect of their social and environmental record and performance (Neu et al, 1998, Patten, 1992). One of the most common means of communicating environmental information is through the corporate annual report (Deegan & Gordon, 1996, Gray et al, 1996). **Environmental information**, published as disclosures in the corporate annual report, is defined as:

*"Information produced and distributed by the organisation about the organisation's relationship with the environment, whether adverse or beneficial, wholly or partially resulting from activities, products and services of the organisation. This information may be published in quantified financial, quantified non-financial or descriptive form."*

Research indicates that the amount of environmental information being voluntarily disclosed by corporations in corporate annual reports has increased significantly over the last fifteen years

(Frost & Wilmshurst, 1998, Gorman, 1992a, Guthrie & Parker, 1990, Harte & Owen, 1991, KMPG, 1999, O'Donovan & Gibson, 1994, Van Nuffel et al, 1994). Why are companies including more voluntary environmental information in these reports? A corporation is required by legislation to make detailed disclosures to shareholders about various financial aspects of its financial stability and performance. It is logical to suggest that any voluntary environmental disclosures, financial or non-financial, would only be included if management deemed they were of some benefit to managers, the organisation itself or its stakeholders.

Environmental issues/events, similar to those listed above, have been catalysts for the examination of motives for corporate social and environmental annual reporting practices (Blaccionierre & Patten, 1994, Deegan et al, 1999, Rubinstein, 1989, Walden & Schwartz, 1997). These studies found that environmental disclosures in the annual report increased in response to intensified public pressure, linked to the environmental incidents/events. This demonstrates that corporations are aware of the need to *act* to ensure congruence with current social values and norms. Moreover, by voluntarily disclosing environmental information in the annual report, a corporation is attempting to manage its legitimacy. These results support the broad thrust of legitimacy theory, which espouses that for a corporation to continue to exist, its actions or activities must be congruent with society's norms and values (Dowling & Pfeffer, 1975) and this is what the investigation is primarily about.

## 1.2 RESEARCH PROBLEM AND OBJECTIVES

There are two main objectives the investigator sought to achieve in completing this investigation. The first objective was:

1. To identify corporate motives for the voluntary disclosure of environmental information in the corporate annual report and to provide evidence to support the position that these motives are principally linked to the concept of organisational legitimacy.

One aspect of legitimacy theory indicates that a corporation will publicly disclose information if its reputation or ability to continue to operate successfully is threatened. This threat comes about because of perceived inconsistencies between the corporation's norms and values, indicated by its actions and activities, and the norms and values of the society in which it operates. In order to achieve the first objective, research needed to be conducted in order to:

- (i) confirm that modern corporations require social approval in order to continue to operate successfully;
- (ii) demonstrate that the natural environment is a key issue with regard to the existence of corporations' social approval;
- (iii) establish the existence and extent of voluntary environmental disclosures in the corporate annual report;
- (iv) determine the processes which result in environmental information being included in the corporate annual report;
- (v) identify the personnel responsible for both the writing of and decision to include environmental information in the corporate annual report;
- (vi) discover what motivates companies to voluntarily disclose environmental information; and
- (vii) determine to what extent these motives can be explained by legitimacy theory.

The second major objective of this investigation was:

2. To refine and further develop legitimacy theory by developing a model designed to assist future researchers in predicting how companies use specific types of annual report disclosures to manage legitimacy in response to present or potential legitimacy threatening issues/events.

More specifically, it was intended that the model could assist in establishing the extent of relationships between the corporation, a legitimacy threatening environmental issue or event which threatens the reputation and possible existence (legitimacy) of the corporation, whether the

aim of any response was to gain, maintain or repair legitimacy (the purpose of the corporate response), possible tactics which could be adopted with reference to the purpose of the corporate response (legitimation tactics) to the issue or event and resultant annual report environmental disclosure approach.

In order to achieve this objective, research needed to be conducted, in order to:

- (i) identify variables associated with perceived threats to a corporation's legitimacy;
- (ii) identify and classify the purposes of corporate responses to legitimacy threats;
- (iii) identify and classify the corporate response/legitimation tactics to legitimacy threats;
- (iv) associate the classifications in (iii) with annual report disclosure approaches;
- (v) explain any relationships observed between the variables identified in (i), the purpose of the corporate responses identified (ii), the legitimation tactics chosen (iii) and annual report disclosure approaches (iv); and
- (vi) develop a legitimacy theory model, designed to explain the extent of relationships observed.

Apart from discovering the personnel responsible for environmental disclosure decisions and the processes involved in environmental information being disclosed in the annual report, the aims of this investigation were not concerned with identifying processes. The main thrust of the investigation was to establish the extent to which legitimacy theory explains *why* environmental disclosure decisions, resulting in specific annual report disclosures, are made. The investigation was analytical and descriptive rather than normative, in that it was not concerned with evaluating the adequacy or otherwise of environmental disclosures in the annual report. It is argued that it is necessary to understand the reasons environmental disclosures are made before one could intelligently enter into discussions prescribing change.

### 1.3 JUSTIFICATION FOR THE RESEARCH

In 1994, BHP Limited, one of Australia's largest multinational mining companies, was sued for \$4 billion for damaging the natural environment and affecting the subsistence lifestyle of local villagers, who resided close to BHP's copper mine located near the OK Tedi river in Papua New Guinea. Referring to the ensuing public relations disaster in relation to the management of these environmental issues and the subsequent law suits, Paul Anderson, BHP Ltd's chief executive officer concluded that:

*"We did not pay sufficient attention to the environmental and community aspects of our mining activities and it had a negative impact on our reputation and our financials. We must operate to world class quality and that means open communication with our stakeholders. We must adapt or we will go out of business". [www.theage.com.au/daily/990505/bus.bus1.html](http://www.theage.com.au/daily/990505/bus.bus1.html) (Wood, 1999).*

Although the main objective of a corporation is to generate acceptable returns for its shareholders, Mr. Anderson's statement reinforces the growing belief that large corporations have to satisfy a broader group of interested stakeholders, whose interests are more than just financial. His statement in relation to "adapting or going out of business", lends credibility to the broad thrust of legitimacy theory. A legitimate corporation is one whose actions and activities are congruent with acceptable social norms and values. An 'illegitimate' corporation is one whose present actions or activities are incongruent with prevailing social values. If a corporation is perceived to be illegitimate, at best its short-term profitability may be questionable, while at worst, its very existence could be problematic.

Research into aspects of the annual report disclosure of social and environmental information has indicated that corporations are aware of the need to be more accountable to society for the social and environmental impacts their activities cause (Gray et al, 1996). This accountability is increasingly being discharged by companies voluntarily including social and environmental information in the corporate annual report. What has not been established to date are the precise reasons companies are increasingly disclosing social and environmental information in the annual report. While there has been a great deal of speculation that the motives for increased disclosures range from 'economic' market based arguments (Belkaoui, 1976, Blaccionierre & Patten, 1994, Spicer, 1978) to social motives (Deegan et al, 1999, Deegan & Gordon, 1996, Guthrie & Parker,

1989, 1990, Roberts, 1992), no agreement has been reached as to why environmental disclosures are made.

It has been argued that the main reason for this lack of agreement in attributing reasons for increased environmental disclosures is the absence of a satisfactory theoretical framework underpinning the research (Gray et al, 1995, Mathews, 1993, Ullman, 1985). A detailed evaluation of studies in this area and the theoretical foundations on which they have been conducted appears in Section 2.5.1. From this evaluation it was concluded that legitimacy theory is the most appropriate theory to use to investigate the reasons companies disclose environmental information in the annual report. Legitimacy theory, as it is applied in this investigation, presumes that a corporation will act to ensure that its actions and activities are congruent with whom it believes has the necessary attributes to affect the corporation's image and, ultimately, existence. Legitimacy, therefore, is granted by others, but is able to be controlled by the corporation. One way a corporation can act, to ensure legitimacy, is to disclose environmental information in the annual report.

As legitimacy theory is dependent on managers' views about the perceptions of others, it is considered essential to the development of legitimacy theory to seek information directly from people responsible for the decision to include environmental disclosures in the annual report and to collect data from an *ex ante* perspective. While the results of extant research into legitimacy theory, as an explanation for environmental disclosures, suggest that legitimacy theory is an explanation for the increase in environmental disclosures, researchers have not sought information about the reasons for disclosures, directly from management. The majority of the research conducted has been on an *ex post* basis and has used content analysis of annual reports and other documentary data to establish a relationship between increased disclosures and environmental issues/events. *Ex post* data are limited in usefulness as they only allow for explanations about data that were actually disclosed. Gathering data, directly from management and from an *ex ante* perspective is more useful in evaluating reasons why certain environmental disclosures were made and, more importantly, why decisions not to include environmental information were made.

The main data sources for this investigation were the people directly responsible for environmental disclosure decisions. The data were also collected from an *ex ante* perspective. Thus the data collected in this investigation overcame the methodological limitations of previous research. These limitations are discussed in detail in Section 5.2.1.

Research into the concept of legitimacy, in the management discipline, has introduced the idea that there are three distinct legitimacy purposes relevant to any institution concerned with managing its legitimacy (Ashforth & Gibbs, 1990, Oliver, 1991, Suchman, 1995). These purposes are to gain, maintain or repair legitimacy, and the choice of purpose is dependent upon issues/events which threaten an institution's legitimacy. There has been no research conducted to date which attempts to link these purposes to the choice of annual report disclosure approaches in relation to environmental disclosures. Further, no research has been conducted on a micro-level, which attempts to explain what particular varieties of legitimation tactics (Dowling & Pfeffer, 1975, Lindblom, 1994), resulting in environmental annual report disclosures, may be made in relation to specific legitimacy threatening environmental issues/events. This research aims to contribute to the body of knowledge by investigating these relationships. This should result in an enhanced development and operationalisation of legitimacy theory as an explanation for increased environmental disclosures. Moreover, it is proposed that a legitimacy theory model will be developed throughout this investigation. The proposed model should be able to be used by other researchers seeking explanations for many types of organisational behaviour as viewed from a legitimacy perspective.

#### 1.4 METHODOLOGY

Although a detailed discussion on the specific methodological assumptions, framework and data collection and analysis techniques is conducted in Chapters 7, 8 and 9, a brief outline of methodological issues is provided here. A major objective of this investigation is to develop theory through the collection of new data. The main intent is theoretical, not empirical. Consequently, an *inductive* approach to theory development was chosen, which is most easily operationalised through the collection of qualitative data.

One focus of the investigation was to *explore* the major issues surrounding the disclosure of environmental information in the annual report from a legitimacy theory perspective. A second focus was to *establish relationships* between variables identified as important for the belief that legitimacy theory is a probable explanation for the disclosure of environmental information. Given the, mainly exploratory, aims of the investigation, coupled with an intent to develop legitimacy theory, it was decided that a field study approach would be the most effective way to proceed. Moreover, corporate legitimacy is an abstract concept and is based on the perceptions of management about others' views about a corporation's actions. Unless one discovers, and then comprehends, information about these perceptions, the future development of legitimacy theory will be retarded. The adoption of a field study approach best facilitates a direct management perspective to be obtained. Three large Australian public companies, which operate in three industries perceived to be environmentally damaging (Elkington, 1994, Gorman, 1992a) were chosen as the cases for the study.

The data were collected in three distinct phases (See Figure 7.1). The aim in the first phase was to identify the personnel responsible for environmental disclosure decisions in each of the companies. These people were the primary data sources for the remainder of the investigation. The main data collection techniques were a combination of unstructured and semi-structured interviews with various personnel from the three companies. The aim in the second phase was to establish the extent to which legitimacy theory is an explanation for corporate environmental disclosures, and to identify factors which affect environmental disclosure decisions. The aim in the third phase was to explain relationships between environmental issues/events, the legitimacy purpose and the choice of specific annual report disclosures.

The majority of the data collected were qualitative, with some quantitative data collected in the semi-structured interviews during the third phase. It is contended that the best way to develop a theory is to use *inductive* analysis techniques rather than *deductive* techniques. Deductive techniques are used to test hypotheses, whereas inductive techniques are more applicable in generating models or hypotheses. Analytical inductive techniques will be used in this investigation. This involves iteration between the extant literature, data collection and theory generation. A key feature in theory building is to be able to collect and analyse data concurrently

during an investigation (Eisenhardt, 1989b). In the third phase of the data analysis the use of analytical induction techniques on the qualitative data collected assisted in providing explanations of relationships between the important legitimacy theory variables. A discussion on the methodological framework issues is covered in Chapter 7. *Specific* qualitative analysis techniques used during this investigation, including data reduction and display techniques used on transcribed interview tapes, such as context charts and different types of data matrices (Miles & Huberman, 1994), are covered in Chapters 8 and 9.

## 1.5 OUTLINE OF THE THESIS

This thesis has developed into ten chapters plus a bibliography and fourteen appendices. An overview of the research process followed in this investigation is provided in Figure 1.1.

In Chapter 2, the literature relating to the concept of corporate social responsibility is examined, as is the history of social and environmental reporting in the annual report. The main purpose of this chapter is to report on the literature relating to reasons that environmental information is disclosed in the annual report in order to justify the choice of legitimacy theory as the theoretical perspective to follow in the investigation.

Chapter 3 contains a detailed discussion of the concept of legitimacy, its integral parts and why it is important to corporations. The chapter begins with a brief history of the concept of organisational legitimacy and reference is then made to literature from the management discipline to establish the importance of legitimacy to corporations. A definition of legitimacy appropriate for the objectives of this investigation was developed from evaluating the literature and is used in the remainder of this investigation.

Following on from the development of a definition for legitimacy, Chapter 4 contains a detailed evaluation of the literature related to the *management* of legitimacy. An integral part of the application of legitimacy theory, in this investigation, is that companies will attempt to manage legitimacy through increased environmental disclosures in the annual report. In this chapter the relevant literature from the management discipline is evaluated to place the idea of managing legitimacy into an appropriate theoretical framework.

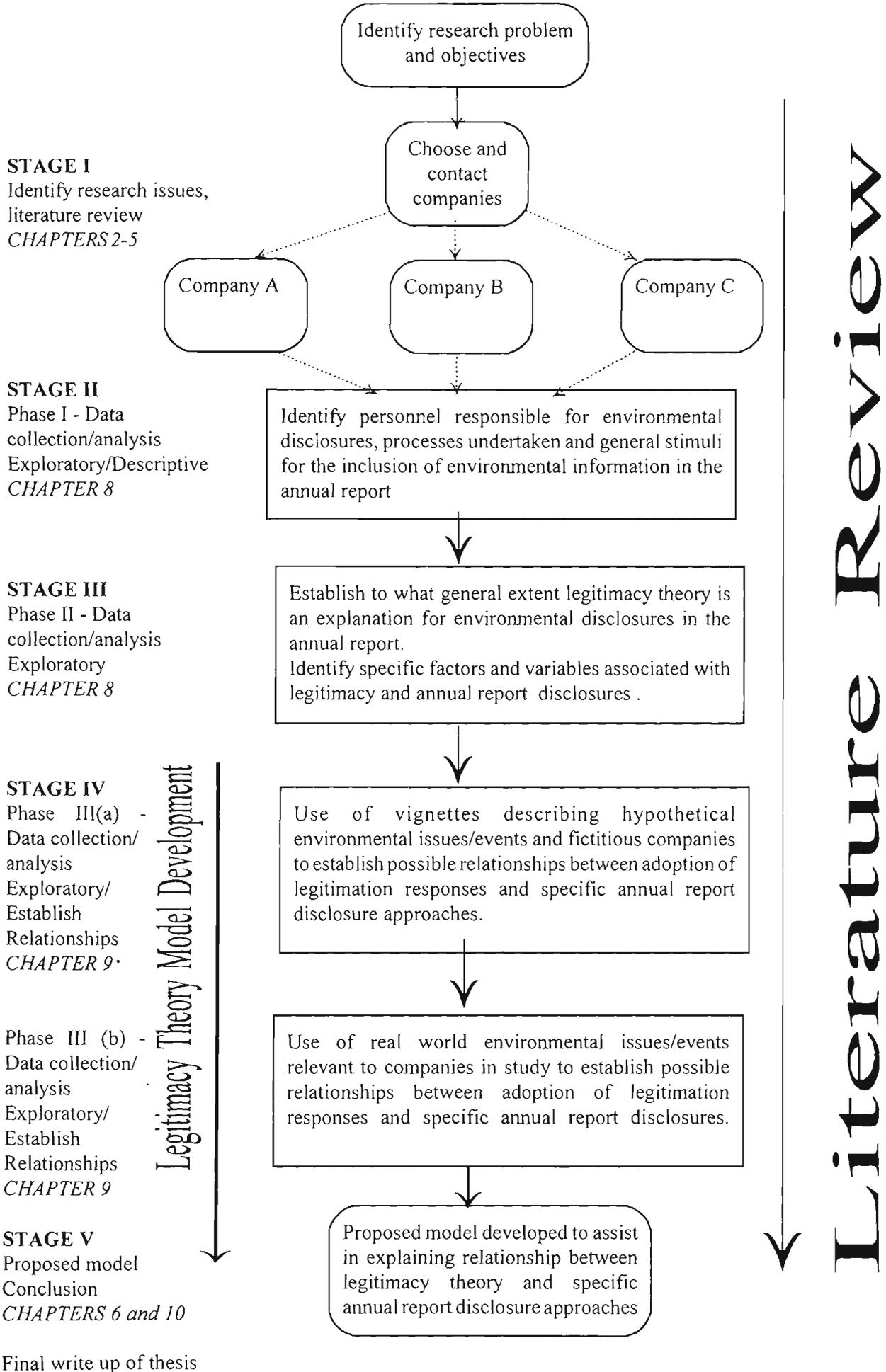


FIGURE 1.1 - OVERVIEW OF RESEARCH PROCESS

Three theoretical frameworks are evaluated, institutional theory, impression management theory and resource dependence theory. Moving from a theoretical to a practical focus, an evaluation of the empirical evidence which identifies factors relevant to institutions losing legitimacy and tactics used to attempt to remain legitimate are discussed. The notion that different legitimacy purposes exist: gaining; maintaining; and repairing, is introduced and the literature which identifies the characteristics related to these specific purposes is evaluated to enable an identification of legitimisation tactics which may be unique to specific legitimacy purposes. The chapter concludes with a discussion on the use of the annual report as a major way a corporation can legitimise its actions and activities to important stakeholders.

In Chapter 5, the discussion from the previous two legitimacy centred chapters is synthesised with the literature and research on environmental disclosures and legitimacy. In this chapter a detailed evaluation of the empirical research which has been conducted into legitimacy theory as an explanation for environmental annual report disclosures is reported. The results of this research are supportive of the existence of legitimacy theory, but, it is argued in this chapter, that the methodological limitations inherent in the majority of these studies and discovered from an evaluation of the literature reviewed in Chapters 3 and 4, only goes part of the way to establishing legitimacy theory as a major motivation for environmental disclosures.

A consolidation of the literature review provided in Chapters 2 - 5, resulted in the development of a proposed legitimacy theory model, which is presented in Chapter 6. This model was the basis on which the data collection and analysis was conducted. In Chapter 7, the methodological framework on which the investigation proceeds is described. Justifications for the methodological assumptions adopted are provided and reasons for the use of a field study method, utilising qualitative data are discussed. A discussion on research design issues relevant for this investigation is included and an outline of some of the general analysis issues is also covered.

In Chapter 8 a thorough discussion of the *specific* data collection and analysis techniques used in the investigation and a discussion of the findings from Phases I and II of the data collection is provided. These two phases were exploratory and were concerned with discovering factors which affected the environmental disclosure decision process and were related to legitimacy theory.

Building on the factors identified in Chapter 8, Chapter 9 includes a discussion of the *specific* data collection and analysis techniques, and a discussion of the findings, from Phase III of the data collection. This part of the data collection was concerned with testing legitimacy theory by establishing relationships between the factors identified during Phases I and II in relation to environmental disclosure decisions and legitimacy theory.

Chapters 8 and 9 are presented in a chronological format. The data collection and analysis techniques are discussed phase by phase and, in each phase, are followed by a discussion of the findings. A discussion on any implications of the findings for subsequent data collection in the ensuing phases is also included at the end of each phase. As the theory and model were being refined and developed both between and during one data collection phase and the next, it was decided that reporting the process and findings in this way was the optimal way to allow the reader to follow the development of the theory.

In Chapter 10, the key outcomes and the proposed legitimacy theory model, developed as a result of the investigation are presented. In testing the model, one aim was to depict the extent of the relationships established between an environmental issue/event, the purpose of the corporate response, the choice of legitimation tactics and the resultant annual report disclosure approach. This is presented as a *Legitimation Response Disclosure Matrix*. A reflection on some of the practical observations that the theory offers to corporations in respect of environmental disclosure decisions is covered. This is followed by a short analysis of the significance of the research findings and a list of constraints to be considered. Finally, directions and opportunities for further research are included.

## 1.6 SUMMARY

In this chapter the foundations for this report were outlined. The research problem and objectives were introduced and a justification for the research was discussed. An overview of the methodology proposed for this investigation was described and this was followed by an outline of the chapters included in this report.

## **CHAPTER 2 - CORPORATE SOCIAL AND ENVIRONMENTAL REPORTING**

### **2.1 INTRODUCTION**

The main aim in this chapter is to examine the literature in relation to the concept of corporate social responsibility, which includes environmental responsibilities. In addition to examining the broad concept of corporate social responsibility, there are three specific aims of this initial part of the literature review. The first aim is to investigate the annual report as a means of communicating social and environmental information to various groups of society; second, to examine different aspects of the history of corporate environmental reporting; and third, to introduce the various theoretical perspectives developed to explain the reasons corporations disclose environmental information in the annual report. The final part of the chapter includes a discussion of why legitimacy theory was chosen as the theoretical framework on which this investigation is based.

### **2.2 BUSINESS AND SOCIETY: CORPORATE SOCIAL RESPONSIBILITY**

It is generally acknowledged that the main purpose of the private corporation is to maximise wealth for its owners (Friedman, 1962). The idea of a corporation being ‘socially’ responsible is not a new phenomenon, however. Estes (1996) argued that when the corporate structure developed over 150 years ago, its original purpose was to provide a public benefit and a secondary purpose was to provide a financial return to investors. Research into different aspects of “corporate social responsibility” has become commonplace in business literature over the last 20 years (Wood, 1991) and it is acknowledged that corporations cannot act as if they operate in a social vacuum (Bucholz, 1995). Even with this rise in awareness of corporate social responsibility, no universally accepted definition of corporate social responsibility exists.

Corporate social responsibility can be broadly described as the ethical behaviour of a corporation towards society. In particular, this means management acting responsibly in its relationships with stakeholders, other than shareholders, who have a legitimate interest in the business. Corporate social responsibility can also be about what business puts back and can show it puts back, in return for the benefits it receives from society. This implies that the rights society bestows on business organisations come as an inclusive package that contains certain obligations to behave

in a way society finds acceptable. Wood (1991) argues that the basic idea of corporate social responsibility is:

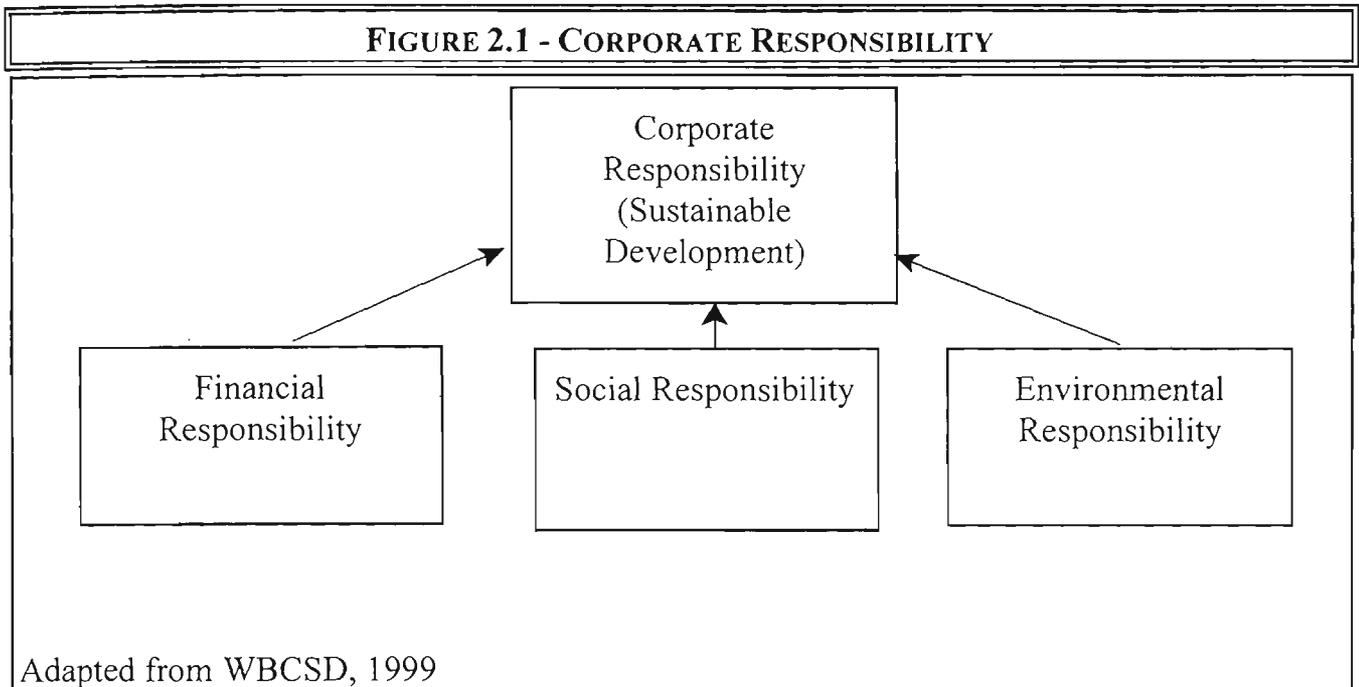
*“that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes” (p. 695).*

A similar, but more general, description, which introduces ‘accounting’ for corporate social responsibility, suggests that corporate social responsibility is about the interaction of the corporation with the legal and social obligations of the societies in which it operates, and how it accounts for those obligations (World Business Council for Sustainable Development (WBCSD), 1999).

In a 1999 report, the WBCSD<sup>1</sup> developed a diagram (Figure 2.1) which depicted that the responsibilities of corporations extend to social responsibilities, with a particular focus on the environment. This illustration indicates that the total responsibilities of corporations not only include financial responsibilities to shareholders and financiers, but also includes social and environmental responsibilities. The particular focus of the WBCSD is on sustainable development and they argue that by promoting sustainable development other social benefits will naturally flow.

---

<sup>1</sup> The WBCSD, is a coalition of 120 international companies united by a shared commitment to the environment and to the principles of economic growth and sustainable development. Its members are drawn from 30 countries and more than 20 major industrial sectors.



The protection of the environment is one of the most pressing social issues governments and corporations have to face today. The concept of sustainable development is one which has a major status with governments and business. In 1987, the World Commission on Environment and Development (the Brundtland Commission) defined sustainable development as development:

*"...that meets the needs of the present without compromising the ability of the future generations to meet their own needs" (p.8)*

In attempts to move towards sustainable development, governments and businesses around the world have participated in two worldwide conferences on the environment during the 1990's, in Rio De Janeiro in 1992 and in Kyoto in 1997. The fact that these conferences were organised has much to do with the way governments and corporations perceive the importance of the environment to society.

Evidence of the importance of the environment to the public was discovered by the George H Gallup International Institute. In its twenty-two country public opinion survey on environmental attitudes, reflecting the opinion of over 20,000 world citizens (reported by Elkington, 1994), it was found that majorities of citizens in a majority of countries indicated that:

- (i) degradation of the environment is degrading health;

- (ii) citizens want more priority given to environmental protection, even at the expense of economic growth and are willing to pay higher prices for environmental protection; and
- (iii) citizens are taking action to protect the environment by adopting green consumerism practices.

Gray et al (1993) argued that while public opinion on the environment is volatile and varies from country to country, the volatility and continuing debates about the best way to protect the environment disguises the extent to which environmental concern is an enduring issue. From an Australian perspective, the most recent Federal Government report titled “Environmental Issues: People’s Views and Practices” (Australian Bureau of Statistics, 1997) indicated that 70 percent of people considered environmental protection as important as economic growth. The majority of people surveyed also reported they felt that the quality of the environment had declined during the previous ten years. Further evidence of the importance of the environment to Australian society was found in Deegan & Gordon’s (1996) study which showed a significant increase in the level of membership of environmental groups such as Greenpeace and the Australian Conservation Foundation, from 1980 to 1991:

Corporate social responsibility reporting has been the subject of much research during the last two decades. Research results indicate that most of the increases in the reporting of corporate social information in Australia has been through the corporate annual report (Deegan & Rankin, 1997, Guthrie, 1983, Guthrie & Mathews, 1985, O’Donovan & Gibson, 1994, Rankin, 1996). More recent research into corporate social reporting has witnessed the emergence of the term ‘the triple bottom line’ (Deegan, 1999, Elkington, 1999, Mathews, 1997). This term is used to describe the reporting of financial, social and environmental performance by corporations. This ‘triple bottom line reporting’ is consistent with the social responsibilities of corporations as illustrated in Figure 2.1. A more detailed discussion on specific aspects of social and environmental reporting in the annual report is covered in Section 2.4.

### **2.3 THE CORPORATE ANNUAL REPORT AS A COMMUNICATION MEDIUM**

One of the major channels of communication between corporations and the public is the annual report (Anderson, 1981, Chang & Most, 1977, Chenall & Juchau, 1977). Much of the

information, especially financial, included in annual reports is mandated, but the annual report today contains more voluntarily information than ever before (Anderson & Epstein, 1995). One original purpose of financial reports was to provide details of a company's financial performance for management purposes, and, even in the post-world war II era, writers such as Edwards and Bell (1961) and Sterling (1970) identified business managers as the prime users of annual reports, and the main function of accounting as serving the interests of managers.

A change in focus, with respect of whom the annual report was aimed at and what information was considered useful, was signalled in the UK with the release of The Corporate Report (Accounting Standards Steering Committee, 1975), and in the USA from the American Accounting Association's (AAA) Committee on Social Costs (1975) which contended that;

*"..social accounting is directed towards measuring (either in monetary or non-monetary units) adverse and beneficial effects of such activities both on the firm and/or those affected by the firm. Social accounting is deemed to include the cost/benefit measurement and reporting of a firm's social programs and general activities." (p.53)*

The term social accounting in this context suggests an expansion of the traditional role of accounting from the reporting of economic information, in the annual report, to incorporate social information (Mathews, 1993). Olsson (1981) suggested that the purpose of annual reports should include discharging social accountability, when he argued that groups in society demand that corporations go much further than the law requires. He asserted that society expected corporations to communicate how they manage social issues, such as employment policies, protection of the environment, consumer relationships and political leanings.

A great deal of the research into the effects of voluntary disclosures in the annual report has been concerned with the disclosure of financial and economic information (Lev, 1992). Conclusions from Lev's (1992) research suggests that these voluntary disclosures have a significant impact on the perceptions of investors and the financial markets. Whether these *market-based arguments* are convincing explanations for increases in social and environmental disclosures in the annual report are discussed in Section 2.5.1.1.

It has been argued that the inclusion of voluntary information in the annual report can be, and is, used by managers to send specific signals and messages to the public (Salancik & Meindl, 1984). It has also been asserted that the inclusion of information in the corporate annual report is used to persuade readers to accept managements' view of society (Amernic, 1992) and that annual reports are both reflective and constitutive of a wider set of societal values (Dyball, 1998). Hines (1988) agreed with these thoughts by indicating that regardless of the truth or accuracy of what is included in annual reports, it does have an effect on what becomes 'real' for the readers of the reports. Neu et al's (1998) research supported the assertion that annual reports are as much about managing public impressions and public image (Preston et al, 1996) as they are about disclosing financial information to financial markets.

The effect that the content of annual reports may have on society is encapsulated by Tinker & Neimark (1988), who state:

*“since annual reports, like the writing of history and other systems of meaning, are not passive and neutral, but are partisan reconstructions through which individuals and institutions define themselves and are defined by others....these definitions and self-knowledge cannot be taken for granted, but are themselves social constructions which need to be challenged and reinterpreted” (p. 56)*

Dyball (1998) concluded that the majority of research into the use and purposes of annual reports over the last two decades concurred with views such as Tinker & Neimark's (1988). Corporate annual reports are far from socially innocuous outputs of facts, but include many messages designed to 'construct reality' by communicating managers interpretations of reality (Hines, 1988).

In looking at the annual report as a means of disclosing social and environmental information, results of research suggest that the annual report is the main method of communicating this information. Tilt (1994) identified that community and environmental groups viewed the annual report as the main information source of social and environmental information. Rankin's (1996) study found that both users (shareholders and non-financial users) and preparers of annual reports saw the annual report as the main way of communicating environmental information. While acknowledging that in certain circumstances other disclosure mediums are used (Rankin, 1996,

Zeghal & Ahmed, 1990), it is concluded that the annual report is *the* major communication medium that corporations use to disclose environmental information and it is also the primary source to which users refer in seeking environmental information about corporate activities.

## **2.4 SOCIAL AND ENVIRONMENTAL DISCLOSURES IN THE ANNUAL REPORT**

In this section, the literature on social and environmental disclosures in the annual report will be examined in order to establish answers to the following questions:

- (i) What is the extent of social and environmental reporting?
- (ii) Who is responsible for making decisions to disclose environmental information?
- (iii) What are the characteristics of the disclosing corporations?
- (iv) What is the quality of the disclosures?
- (v) What is the demand for this information?
- (vi) What are the motivations for these increased disclosures?

### ***2.4.1 THE EXTENT OF SOCIAL AND ENVIRONMENTAL REPORTING***

Environmental disclosure in annual reports is not a new phenomenon. In recent years researchers have analysed corporate annual reports in terms of the quantity and quality of environmental disclosures. The international accounting firm, KPMG have published the most comprehensive surveys on international environmental reporting practices. They have published three reports (1993, 1997 and 1999) in the last six years. The most recent report (KPMG, 1999) was concerned mainly with the production of annual environmental reports, whereas the 1993 and 1997 reports were concerned with the disclosure of environmental information in the annual reports of the world's leading corporations in ten countries, for 1993, and thirteen countries, for 1997.

Of the 885 corporations from 13 countries surveyed in KPMG's 1997 study, 71 percent of corporations disclosed information about the environment in the annual report. This was an increase of 13 percent compared to the results from the 1993 study (58 percent of corporations disclosed environmental information). Further, the number of separate environmental reports produced increased from 15 percent of the total corporations surveyed in 1993 to 24 percent in 1997.

Other researchers have also confirmed significant increases in the amount of environmental information being disclosed in the annual report. A study of the disclosure practices of UK corporations over a 13 year period (1979-1991) conducted by Gray et al (1995) indicated a substantial increase in environmental disclosures between 1979 and 1991, with most of the growth occurring post 1986. The increase in environmental annual report disclosures is also apparent in studies from around the globe. For example, researchers from the USA (Fekrat, 1996, Gamble et al, 1995), Finland (Niskala & Pretes, 1995), New Zealand (Allen, 1993, Hackston & Milne, 1996), and developing countries such as Nigeria (Disu & Gray, 1998) and Bangladesh (Belal, 1999) have found that the amount of social and environmental disclosures in the annual report is increasing.

From an Australian perspective, in comparing results from a study of 60 annual reports from Australian private and public sector organisations, Gibson & Guthrie (1995) concluded that Australian organisations appear to disclose more environmental information than corporations from the US, Canada and UK. While not the leading country in environmental disclosures, KPMG's (1997) report indicated that 61 percent of Australian corporations surveyed mentioned environmental matters in the 1996 annual report. This placed Australian corporations in the top five countries in the world for disclosing environmental information.

This result was not unexpected as Australian corporations have been disclosing environmental information in the annual report for a number of years. Guthrie & Parker (1990) found that 21 percent of the 50 Australian corporations they examined, disclosed environmental information in 1983 annual reports. In a longitudinal study, in which the annual reports of 41 corporations from 8 industry groups for a ten year period (1983-1992) were examined, O'Donovan & Gibson (1994) found that the number of corporations reporting *any* environmental information over the survey period increased from 46 percent in 1983 to over 67 percent in 1992. The predominant form of reporting was descriptive (narrative) information with the number of corporations voluntarily disclosing *descriptive* environmental information increasing from 43 percent to 67 percent over the survey period. In raw terms the quantity of total environmental disclosure on average increased from 0.324 percent of the total annual report in 1983 through a low point of 0.192 percent in 1986 to a peak of about 1.386 percent in 1992. Using content analysis of 197

corporations' 1991 annual reports Deegan & Gordon's (1996) found that 36 percent of corporations disclosed some environmental information. These results were similar to O'Donovan & Gibson's (1994) findings.

In attempting to categorise environmental disclosures into different 'types', Woodward (1994) examined thirteen studies of social disclosures in annual reports in the U.S., Europe and the U.K. between 1972 and 1988. He found that by far the most common form of voluntary corporate social responsibility disclosures were those of a narrative, descriptive kind. In conducting a review of international studies on environmental reporting, Gray et al (1996) also concluded that the majority of voluntary environmental disclosures were descriptive text, rather than information disclosed in a quantifiable or financial form. These findings are consistent with results from Australian studies conducted by Deegan & Gordon (1996), Deegan & Rankin (1996) and O'Donovan & Gibson (1994).

#### ***2.4.2 WHO IS RESPONSIBLE FOR THE DISCLOSURE OF ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT?***

There has been little significant research conducted solely to determine who is responsible for annual report environmental disclosure decisions and what processes are used in relation to the disclosure of environmental information in the annual report. Some researchers, however, have referred to the importance of these matters.

Fitzgerald (1993) conducted a telephone survey of Scottish corporations in which he discovered who was responsible making strategic decisions on environmental issues. He found that in 31 percent of the corporations with a turnover of more than £5 million, responsibility for environmental issues resided with the managing directors, proprietors, chairman or chief executive officers (CEOs). In 37 percent of the corporations surveyed, responsibility rested with levels of management represented by directors, partners, accountants, company secretaries and financial controllers. These results may give some guidance in discovering whether there is some correlation between being responsible for corporate environmental issues and being responsible for environmental disclosure decisions.

Bartlett and Jones (1993) attempted to discover the quantity change, and reasons for changes, of mandatory and voluntary corporate disclosures in the annual reports of a single corporation between 1970 and 1990. They used the annual report at the end of each five-year period. One finding was that the decision to include voluntary social disclosures, in particular employee reporting, was linked directly to the company chairman's perceptions of what he considered were important social issues at the time. This perception was reflected directly in the increased quantity of employee reporting included in the annual report of the corporation when the current chairman took up his position. While not related directly to environmental disclosures, these *single case study* findings did indicate that voluntary social disclosures were affected by the perceptions of the leader of the corporation.

As part of her PhD thesis, Buhr (1994) sought answers about the processes involved in environmental disclosures being included in the annual report. Using a case study approach, she found that responsibility for environmental disclosure decisions in 6 of the 8 corporations studied, resided with the head of a separate environment section of the corporations. All of the corporations in the study engaged in several review cycles, with respect of any environmental information to be disclosed. During these review cycles, input and opinions were commonly sought from a number of senior executives.

Some other conclusions Buhr (1994) made were that:

- ◆ there was a great deal of diversity in the job title, description and corporate positions of individuals responsible for environmental content in annual reports;
- ◆ an iterative review process in the preparation of the annual report was common for all corporations studied;
- ◆ the perceptions of the most senior personnel, in *some* of the corporations, appeared to have an influence on environmental disclosure decisions. This last point is consistent with Bartlett & Jones (1993) findings.

Apart from the studies noted above, there appears to be a lack of research into *how* corporations disclose environmental information and *who*, within the corporation, is responsible for environmental disclosure decisions. To discover reasons for environmental disclosures, it is argued that the personnel responsible for environmental disclosure decisions need to be quizzed and the processes culminating in environmental disclosures need to be understood.

### 2.4.3 DETERMINANTS OF SOCIAL AND ENVIRONMENTAL DISCLOSURES

What types of corporations disclose environmental information? Research indicates that corporations viewed by society as operating in industries perceived to be potentially damaging to the environment (Elkington, 1994) or what Gorman (1992a) called 'dirty' industries, tend to disclose more environmental information than corporations operating in less environmentally damaging industries (Patten, 1992, Blacconierre & Patten, 1994, Deegan & Gordon, 1996). Trotman & Bradley (1981) found that corporations disclosing social information were, on average, larger in size, had higher systematic risk and placed more emphasis on the long term than corporations which did not disclose this information. These findings were also supported by Adams et al (1998) who examined 150 annual reports from 1992 across 6 European countries and Gray et al (1995) in reviewing corporate social responsibility disclosure studies across many countries conducted between 1979 and 1992.

Cowen et al (1987) covered some of these points by relating specific types of social disclosures, including environmental information to corporate characteristics. In relation to the environment, they found that corporate size and industry category were significant influencing factors in the amount of environmental information disclosed. They did note, however, that different types of disclosure may receive different treatment from corporations and may constitute a response to different pressures. These findings were supported by Ince (1998) in his UK study into the types of corporations which formulate and disclose formal environmental policies.

Despite some support for the existence of relationships between profitability and social disclosures (Bowman & Haire, 1976, Roberts, 1992), most researchers who investigated this link found little evidence that levels of corporate profitability were related to social disclosures (Gray et al, 1995, Hackston & Milne, 1996, Patten, 1991). This lack of connection is important when considering

the validity of economic arguments and market-based motivations for disclosing environmental information and is discussed in Section 2.5.1.1.

Studies relating to the size and political visibility of the disclosing firm, while useful, do have some limitations. Size and political visibility alone cannot explain different influences inherent in disclosure decisions. Management expertise in, or predisposition towards, various social issues, political costs and even the industry in which the firm operates, can cause different disclosure decisions among firms with similar characteristics. Any general conclusions reached from research attempting to link general firm characteristics to any form of voluntary environmental disclosure is necessarily limited by the inherent assumption that all firms are equally likely to make specific forms of environmental disclosures.

#### **2.4.4 THE QUALITY OF ENVIRONMENTAL DISCLOSURES**

As the majority of the environmental information being voluntarily disclosed is descriptive (qualitative), some studies have investigated various aspects of the quality of environmental information being disclosed. Guthrie & Parker (1990) and Deegan & Gordon (1996) have shown that, in the main, corporations disclose only "positive" environmental information.

Guthrie & Parker (1990) found that in 1983, of the firms which disclosed environmental information, no corporation disclosed "bad" news about its environmental activities. They proposed that social disclosures appeared to be a reactive response to social pressures and were attempts to respond to demands for social impact information from particular interest groups. They also suggested that disclosure strategies may include:

*"emphasising the corporation's positive contributions to social welfare and highlighting its attempts to minimise its harmful effects on various elements of society" (p. 165)*

Following Guthrie & Parker's (1990) lead, Deegan & Gordon (1996) looked at 197 Australian annual reports from 1991 in order to discover whether firms were continuing to disclose environmental information only in a positive manner. They concluded that environmental disclosures:

*“are typically self-laudatory, with little or no negative disclosures being made by all firms in the study.” (p.198)*

The results from these Australian studies are consistent with results from UK studies (Hines, 1991, Owen, 1994), Europe (Federation des Experts Compatbles Europeens, 1994) and Canada (Gorman, 1992b). A later study by Deegan & Rankin (1996) attempted to address the (unlikely) possibility that firms only had positive information to disclose. Using recent prosecutions by the Environmental Protection Authority as an influencing factor, they examined the environmental disclosures in the annual reports of 20 corporations which had been prosecuted during the years 1990-93. They discovered that the firms that were prosecuted, in a particular year, disclosed significantly more ‘positive’ environmental information than their counterparts which had not been prosecuted. These results are consistent with the conclusions of Rockness (1985) and Wiseman (1982) who concluded that firms which provide the greatest amount of positive environmental information are typically the poorest environmental performers.

Deegan & Rankin (1996) suggested that, with the corporate emphasis on providing ‘positive’ information, management believe that the ‘readers’ of the annual reports consider environmental information to be useful. If this is the case, one must decide who are the readers (users) of environmental information and what uses are made of this information. More specifically, one needs to discover to whom management think it is important to disclose environmental information and why it is important. The broadening of the audiences for annual reports and the recognition that corporate activities have impacts on many sections of society has led to the increased use of the term ‘stakeholder’, to represent individuals or groups to which a corporation may feel a need to report.

#### **2.4.5 ENVIRONMENTAL DISCLOSURES: THE IMPORTANCE OF STAKEHOLDERS**

Accounting literature has tended to categorise readers of annual reports as "users" of annual reports (Anderson, 1981, Curtis, 1981, Olsson, 1981) and these users have long been considered mainly to be shareholders and prospective investors (Anderson & Epstein, 1995). The increasing importance of corporate social responsibility has led to the idea that society in general, as well as special interest groups (Gray et al, 1995, Tilt, 1994), have an interest or stake in an organisation's activities and this has led to the increased use of the term "stakeholder".

The concept of a corporate stakeholder is not new. Mitchell et al (1997) listed a number of definitions of corporate stakeholders dating back to 1963. Typical of the divergence in definitions is seen in comparing Freeman's (1984) definition of a stakeholder, which includes any group or individual who can affect, or is affected by the achievement of the firm's objectives, to Epstein & Freedman's (1994) description of stakeholders as being one or all of:

*"investors, creditors, employees, suppliers, customers, government and the community." (p.46)*

The extremes in definition caused Mitchell et al (1997) to claim there:

*"is a maddening variety of signals on how questions of stakeholder identification might be answered" (p. 853)*

Stakeholders have been categorised as primary, those without whose participation the corporation cannot survive, and secondary, those who influence or affect, or are influenced or affected by, the corporation and are not essential, in the short term, for the corporation's survival (Clarkson, 1995). Clarkson (1995) suggested that the corporation must adapt to meet the needs of its more powerful stakeholders.

Woodward et al (1996) categorised stakeholders as either primary and secondary, but added two sub-categories based on a *contractual* and a perceived *communal* relationship between the corporation and specific stakeholder groups. For example, a corporation has legal obligations to shareholders (primary - contractual) and moral obligations to shareholders as well (secondary - communal). To the general public, Woodward et al (1996) claim the corporation only has communal obligations, but they are both primary (e.g., philanthropy) and secondary (e.g., image building). Interestingly, they have also classified non-human things as stakeholders, including 'political interests' and the physical environment.

In an Australian context, and with a more specific agenda of corporate environmental management in mind, the Australian Society of Certified Practising Accountant's (Barbera, 1994) defined stakeholders as;

*"..all parties who have an interest in the operations of the business. These may vary from firm to firm but would generally include, government authorities, investors/owners, lenders, past and present employees, suppliers, customers, corporate management and depending on the environmental sensitivity of an organisation's activities may also include environmental activists, public interest groups and neighbourhood groups." (pp. 7-8)*

It can be determined from these definitions that a stakeholder may be any person or group with any degree of interest in a corporation's activities. The definitions listed above are typical of the definitions of the term "stakeholder" contained in accounting and management literature. Further discussion on the importance of identifying stakeholders in relation to motivations for environmental disclosures, the attributes these stakeholders possess and the role of stakeholder theory is discussed in Sections 2.5.1.2 and 3.5.3.

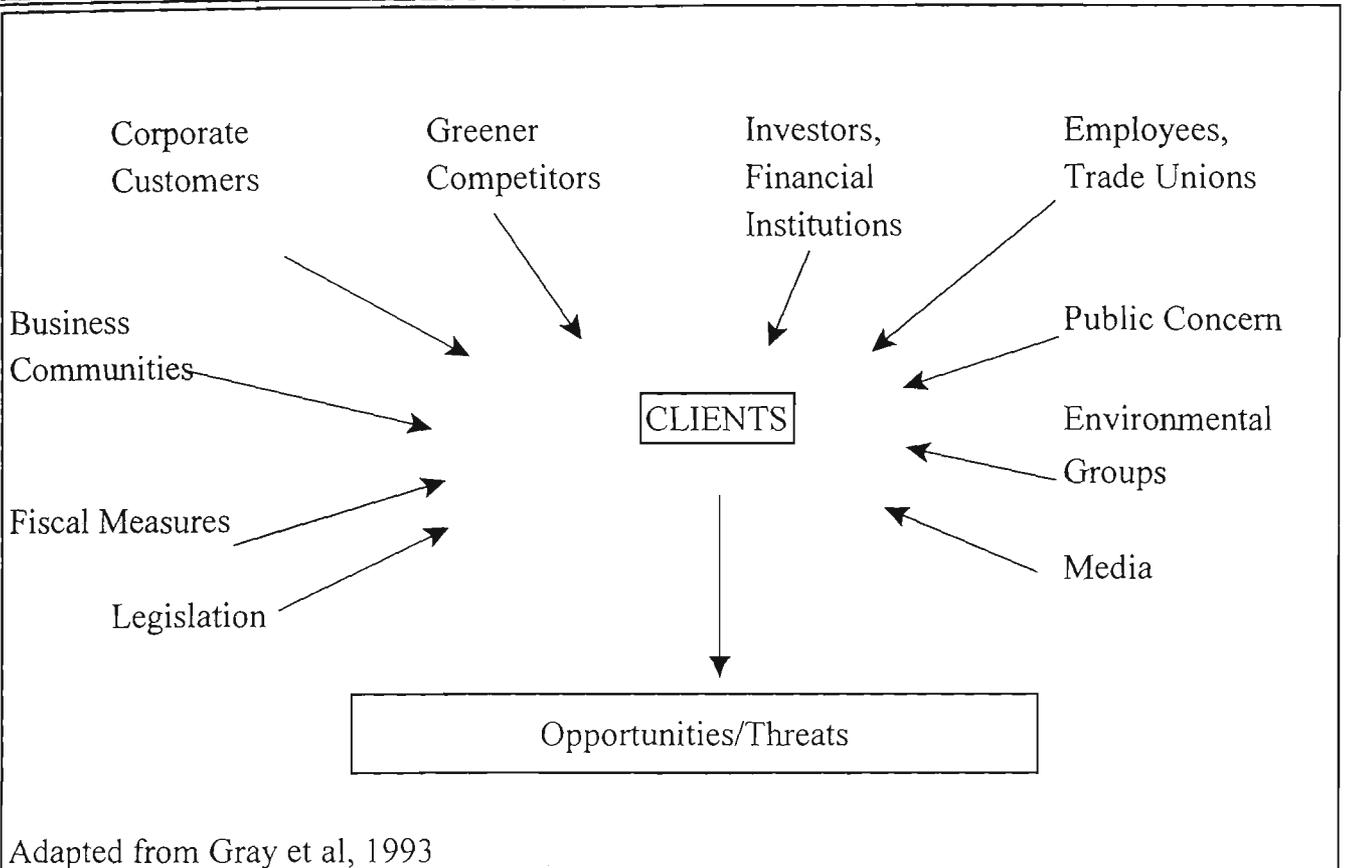
#### **2.4.6 ENVIRONMENTAL DISCLOSURES: USERS AND USES**

If one accepts that:

- (i) corporations are increasingly concerned with corporate social responsibility;
- (ii) stakeholders are important to corporations;
- (iii) the annual report is a major way corporations communicate with stakeholders; and
- (iv) corporations are increasing the amount of social and environmental disclosures in the annual report,

it is important to discover what pressures are on corporations to disclose environmental information and whether stakeholders want social and environmental information.

There appears to be a number of sources of pressure on corporations in respect of the environment. An adaptation of a diagram developed by the National Environment Unit of KPMG, (as reproduced in Gray et al, 1993), illustrates sources of environmental pressure on corporations (Figure 2.2). These sources can be linked to 'user' groups or stakeholders and are the basis on which much of the research into reasons for environmental reporting has been established.

**FIGURE 2.2 - SOURCES OF CORPORATE ENVIRONMENTAL PRESSURE**

Adapted from Gray et al, 1993

Coopers and Lybrand (1997) considered that 'engaging stakeholders', such as those listed in Figure 2.2, was essential if corporations were to manage environmental issues adequately. They identified that for each of the groups listed above there were benefits in reporting to those stakeholders. For example, they identified that in reporting environmental issues to the local community (public concern), it demonstrated corporate social responsibility and good citizenship. If environmental information was targeted at environmental groups it would help to pre-empt attacks, help secure endorsements and it also demonstrated commitment to the environment. In identifying the media as a source of pressure, it was concluded that reporting environmental information enhanced corporate reputation, provided opportunities to lead the debate on environmental issues and would lead to more balanced media reports in times of crisis.

One of the difficulties in establishing whether environmental disclosures are needed and used is in deciding which groups of stakeholders want this information. Dierkes & Antal (1985) suggested that it is extremely difficult to collect, evaluate and integrate the divergent information needs of diverse groups such as, shareholders, social activists, management, employees, local

community groups and governments. They claimed that the interests of these different groups not only vary significantly, but they can also conflict on certain issues, so that any decision to publish data for distinct stakeholder groups is a delicate matter for the corporation. While it is difficult to argue against this stance, it is clear, however, that many diverse groups of stakeholders are considered important to report to (Coopers & Lybrand, 1997, Gray et al, 1993) and that corporations *appear* to consider stakeholders' views, other than those with an economic stake in the corporation (Rankin, 1996, Tilt, 1994), when making environmental disclosure decisions.

Most of the research into what stakeholders want to see disclosed has been concerned with those stakeholders who have a financial stake in the business (e.g. shareholders/investors and lenders) For example, in a survey sent to over 2,300 shareholders in Australian corporations, Anderson & Epstein (1995) concluded that both sophisticated and unsophisticated<sup>2</sup> *shareholders* wanted to see more environmental information disclosed in the annual report, even if it was detrimental to the corporation.

Based on a perception that individual investors had been largely ignored, in favour of institutional investors, in the investigation of the demand for social and environmental information (Buzby & Falk, 1978, Rockness & Williams, 1988), Epstein & Freedman (1994) conducted a survey of individual investors' demand for social and environmental information. They found a strong demand for the disclosure of information relating to environmental activities.

Mastrandonas & Strife (1992) reported on a US study conducted in 1991/92 by the Global Environmental Management Initiative and the Investor Responsibility Research Center (sic), which sought investors' views about what environmental information was important and how it should be communicated. In order to gain a more general stakeholder view, the group surveyed included non-traditional investors such as church groups, government investors and those investors known to be socially responsible, as well as the more traditional investors. Given a list of 20 'Environmental Information Priorities', Mastrandonas & Strife (1992) reported that the group surveyed ranked environmental liabilities and expenditure on reducing environmental

---

<sup>2</sup> The difference between 'sophisticated' and 'unsophisticated' shareholders was not made clear in the article

impact as the highest priority items, about which they wanted to know. The importance of this was not so much the type of information they required, but the fact that the majority of stakeholders felt they were not receiving adequate information in relation to these issues.

One of the few investigations into the possible influence stakeholders, with no financial stake in the corporation, have on corporate social disclosures was conducted by Tilt (1994). In concentrating on community lobby or pressure groups<sup>3</sup> Tilt (1994) tested what she claimed was a general presumption that community and pressure groups were a major influence on social and environmental disclosures decisions. She found that these pressure groups were major users of corporate social disclosures with 82 percent of survey respondents having read some kind of social disclosure and 52 percent actively seeking social information. These groups viewed the annual report as the main way corporations communicate this information. Tilt (1994) concluded that the use of disclosures by pressure groups indicated a potential influence of pressure groups on social disclosure decisions by corporations.

Deegan & Rankin (1997) also tested for the importance of environmental information to various users of annual reports. The 'users' referred to included shareholders, stockbrokers and financial analysts, academics, financial institutions and review organisations. Consistent with the results of other research, Deegan & Rankin (1997) found that more than 70 percent of each stakeholder group, except for stockbrokers and financial analysts (31 percent) and financial institutions (50 percent), wanted greater environmental disclosures in the annual report. Less than half of all respondents sought environmental information from sources other than the annual report.

Of particular interest, with respect of stakeholders other than those with a financial interest in the corporation, was the use by Deegan & Rankin (1997) of review organisations. The organisations surveyed in this category included the Australian Council of Trade Unions, environmental lobby groups, industry associations and consumer groups. 83 percent of this group sought greater environmental disclosures in the annual report. Deegan & Rankin (1997) concluded that, of the

---

<sup>3</sup>

Tilt (1994) accessed the entire population of pressure groups (146) in Australia for the purposes of the study.

user groups they surveyed, shareholders and review organisations considered environmental information to be most important in respect of any decisions they may make.

Results of research indicate that investors and non-financial stakeholders want more environmental information disclosed in the annual report. Are these stakeholder needs being met by corporations? What views do corporations have about the need and desire to disclose environmental information? Rankin (1996) identified a gap between what users want and what annual report preparers perceived as being necessary and desirable to disclose. A total of 474 'users' of the reports were broken into the same groups as were identified in Deegan & Rankin's (1997) study. The preparers of annual reports were 462 of the top 500 corporations listed in the 1995 Australian Financial Review Shareholder Handbook.

One finding from the study, which reinforces the point made earlier (Section 2.3), about the importance of the annual report as a method of communication, was that both users and preparers indicated overwhelmingly that the annual report was the key publication used to disclose environmental information (preparers) and to discover information about the environmental activities of corporations (users). The key finding from the study, however, was that while 67 percent of users, from various stakeholder groups, believed they could make use of environmental information and wanted more of it, only 24 percent of the corporations surveyed<sup>4</sup> disclosed environmental information in the annual report. Based on these results, de Leuw (in Wood, 1998) concluded that:

*"the preparers of reports don't think it (environmental information) is important, but the users do" (p. 1)*

Rankin's (1996) study also raised issues about the demand by stakeholders for mandatory environmental reporting and the perceived opportunities and threats to corporations, from both the preparer and user perspective. Apart from stockbrokers and financial analysts, the users were supportive of mandatory environmental disclosures, while the preparers were not in support of

---

<sup>4</sup> This result is much lower than other similar studies conducted in Australia in the 1990's (Deegan & Gordon, 1996, KPMG, 1997, O'Donovan & Gibson, 1994). It is beyond the scope of this investigation to discover the reasons for the variation in results between these studies.

this concept. The corporations did not see the disclosure of environmental information as a threat (9 percent) to the corporation. While 28 percent perceived the disclosure of environmental information as an opportunity, the majority did not consider it to be either a threat or opportunity. The users perceived the disclosure of environmental information as an opportunity for corporations (59 percent). The results of this study suggest that corporations are slow to react to different stakeholder needs, yet a review of the literature clearly indicates that environmental disclosures are increasing. Why then are corporations disclosing more environmental information?

## **2.5 WHY DO FIRMS VOLUNTARILY DISCLOSE ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT?**

A case has been made indicating that the quantity of environmental disclosures in annual reports is increasing, the types of corporations disclosing this information are more likely to be larger, politically visible corporations and the type of information being disclosed is generally descriptive and of a positive nature. It is also clear that the annual report is viewed as an important means of disclosing social and environmental information by both corporations and certain groups of stakeholders. What is not clear from the literature reviewed to date, is what is motivating firms to disclose social and environmental information.

Motives for voluntary disclosure of environmental information are unlikely to be simple. As was covered in previous sections of this chapter, the types of corporations and the industries in which they operate, the identification of important stakeholders and the perceived purpose of the annual report are but three groups of variables which could affect managers' environmental disclosure decisions. Gray et al (1993) added that environmental disclosure decisions depended principally on the 'culture' of the corporation.

From the responses to a postal questionnaire sent to the financial directors of *The Times* top 1,000 corporations, Gray et al (1993) constructed a list of reasons for the voluntary disclosure or non-disclosure of environmental information in the annual report (Table 2.1).

**TABLE 2.1 - REASONS FOR THE DISCLOSURE AND NON-DISCLOSURE OF ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT**

Reasons to disclose	Reasons to not disclose
<ul style="list-style-type: none"> <li>• To forestall mandatory disclosures</li> <li>• To legitimise current activities</li> <li>• To distract attention from other areas</li> <li>• To enhance corporate image</li> <li>• To build up expertise in advance of regulation</li> <li>• Positive impact on share price</li> <li>• Reduce perceived corporate risk</li> <li>• Political benefits</li> <li>• Competitive advantage</li> <li>• Stakeholders right to know</li> <li>• To explain expense patterns</li> <li>• Desire to tell people what corporation has achieved</li> <li>• To forestall disclosure by other parties</li> </ul>	<ul style="list-style-type: none"> <li>• No need to do so</li> <li>• Wait and see attitude</li> <li>• Too costly to report</li> <li>• Lack of data availability</li> <li>• Secrecy</li> <li>• Lack of demand for the information</li> <li>• No legal requirement to report</li> <li>• Never considered it</li> <li>• Other areas are more important to disclose</li> </ul>
Adapted from Gray et al, 1993, p.211.	

Many of the reasons listed above have been the focus of research into motivations for environmental reporting. For example, the impact of environmental disclosures on share price has spawned a number of studies (for example, see Belkaoui, 1976, Spicer, 1978) as has the idea of legitimising current activities (for example see Hogner, 1982, Guthrie & Parker, 1989, Patten, 1992), while others have investigated the idea that corporations want to distract attention or forestall mandatory environmental disclosures (for example, see Simmons & Neu, 1998, Buhr, 1998).

In order to understand why corporations disclose environmental information, these and other studies need to be placed in a appropriate theoretical context. Mathews (1997) encapsulated this position when writing:

*“It would appear that in many instances management regards social disclosures as useful, although we do not know whether the motivation comes from capital market, organisational legitimacy, social contract, or some other source of justification” (p.277).*

### 2.5.1 THEORETICAL PERSPECTIVES

Looking chronologically at studies into why corporations disclose social and environmental information gives an insight into how the thinking has changed over time. Most of the earlier (pre-1985) studies investigated possible relationships between environmental disclosures and environmental performance and share price movements. The majority of later (post-1985) studies adopted a social perspective in examining motives for environmental disclosure.

In the last few years Gray et al (1995) and Mathews (1993) have gone through much of the research into corporate social and environmental reporting in an attempt to identify the different theories relating to reasons corporations disclose social and environmental information. These authors attempted to group theories with similar backgrounds into suitable categories. While categorising prior studies into neat ‘boxes’ is a somewhat subjective exercise, for the purposes of this investigation, two main theoretical perspectives based on Gray et al’s (1995) and Mathews (1993) classifications will be used. These categories will be classified as *market based motives* and *social motives*.

#### 2.5.1.1 Market-Based Motives

Market based motives are referenced in many studies and are premised on the idea that *investors* can make better decisions with additional disclosures being available. It can be argued that market based theories have some connection to **agency theory** (Eisenhardt, 1989a, Jensen & Meckling, 1976). Agency is about principal-agent relationships and agency theory is based on the premise that the agent will not always act in the best interests of the principal, but will attempt to maximise self-interest. This theory has been very popular in the literature on explaining the choice of accounting techniques for reporting purposes (Watts & Zimmerman, 1978).

In the context of environmental reporting, the principal would be, at its most general, society, or more specifically certain groups of stakeholders, and the agent is the corporation. Market-related research into motives for social and environmental disclosures has tended to look at the effect that

different types and origins of social and environmental disclosures have on markets in which the corporation operates and were therefore concerned with the effect on shareholders/investors' wealth (Belkaoui, 1976, Spicer, 1978). While not directly badged as agency theory, many studies attempting to link environmental disclosures to economic measures of a firm's wealth are consistent with an agency model. In other words, reporting strategies are chosen based on the agent's self-interest rather than the principals. Gray et al (1995) argues that agency theory is an 'economic' (market based) theory and is related purely to maximising the wealth of the agent. Wood (1991) and Woodward et al (1996) have a more expanded view and suggest that maximising self-interest can be applied to decisions by corporations to be more socially responsible.

One could argue indefinitely about the authenticity of 'social benefit' motives of corporate management from a self-interest perspective. As it was originally developed (Jensen & Meckling, 1976), agency theory was linked to economic rewards for corporations and managers. While more recent literature (Wood, 1991, Woodward et al, 1996) has sought to expand the idea that self-interest may relate to maximising social benefits, there does not appear to be any substantive evidence, at this stage, to support this view.

There have been many market-based studies which have investigated the possible relationships between environmental performance measures, environmental disclosures and the share price or other economic measure of the disclosing corporation (Belkaoui & Karpik, 1989, Blaccionierre & Patten, 1994, Ingram & Frazier, 1980, Shane & Spicer, 1983, Stevens, 1984, Wiseman, 1982). In each of these studies, different variables relating to measures of environmental performance and disclosures were used and different hypotheses were developed to test for correlation between these measures, environmental disclosures and share prices.

Results from these studies have been mixed. The inference is that measures of environmental performance and both corporate and independently published environmental disclosures, affect share price and this is a major reason for corporations to have more strategic control over environmental disclosures. In other words, the market considers that the disclosure of environmental information indicates good management of environmental issues and this will

positively affect the value of the firm, measured by market capitalisation. While some of the studies indicated some correlation between measures of environmental performance, disclosure of environmental information and effects on share price and market value of corporations (Belkaoui, 1976, Shane & Spicer, 1983, Blaccionierre & Patten, 1994, Stevens, 1984), others concluded there was little or no evidence of a relationship (Belkaoui & Karpik, 1989, Ingram & Frazier, 1980, Rockness, 1985, Wiseman, 1982). Ullman (1985) argues that one of the main reasons that the results have been inconclusive is that the measures of environmental performance, disclosure, market value and wealth have all been radically different. In essence, Ullman (1985) argued that the data collected 'was in search of a theory'.

While market reaction to environmental disclosures may be one motivating factor for the increase in the amount of corporate environmental disclosure, studies in this category have not adequately tested other possible reasons for this increase. Motivation for corporate environmental disclosure would appear to be more complex than efficient market arguments alone could justify. Gray et al (1995) supported Ullman's (1985) conclusions in asserting that market-based studies<sup>5</sup> have been plagued with problems of 'under theorising'. Mathews (1993) agreed, implying that attributing reasons for complex social and political disclosure decisions meanings to more easily testable market-based reasons is overly simplistic. These studies, however, are considered a useful starting point in attempting to explain reasons for increased corporate environmental disclosure.

More recent literature suggests that descriptive 'social based' theories, which attempt to explain motives for increased social disclosures, are more likely to lead to a satisfactory explanation for the increase in social and environmental disclosures (Gray et al, 1996).

### **2.5.1.2 Social-Based Motives**

Grouping theories as 'social based' allows a focus on the role of information and disclosure in the relationship(s) between organisations, individuals and groups (Gray et al, 1996) that market based theories exclude. Many of the social group of theories have origins in the concept of the "social

---

<sup>5</sup> Gray et al (1995) categorised studies into 'decision-usefulness', 'economic' and 'social and political'. For the purposes of this investigation, the 'decision-usefulness' and 'economic' studies have been integrated under the classification of market based.

contract". Shocker & Sethi's (1973) summary of what the social contract is best illustrates this concept.

*"Any social institution - and business is no exception - operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:*

- 1. The delivery of some socially desirable ends to society in general, and*
- 2. The distribution of economic, social or political benefits to groups from which it derives its power.*

*In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards must have society's approval" (p.97).*

The idea of a social contract between business and individual members of society suggests that, while the main aim of a business is to maximise profits, business also has a moral obligation to act in a socially responsible manner (Shocker & Sethi, 1973). Supporters of the idea of the social contract tend to consider that corporations and other organisations exist at society's will and are beholden, to some extent, to society's wishes. This approach implies that the corporation has an unwritten social obligation to act in the manner in which society expects. This obligation is the basis of the unwritten social agreement or contract between business and society.

If one accepts this idea, corporate management may attempt to fulfill this contract by conforming with social expectations or by trying to influence perceptions which the public have of the organisation. The identification of important stakeholders and these attempts to influence perceptions, usually through increased corporate social responsibility disclosures, are a reaction to social pressures and are the basis on which social theories such as **stakeholder theory** (Clarkson, 1995, Mitchell et al, 1997, Roberts, 1992), **legitimacy theory** (Guthrie & Parker, 1989, Mathews, 1993, Patten, 1992, Sutton, 1993), **political economy theory** (Buhr, 1998, Cooper, 1988, Guthrie & Parker, 1990) and **accountability theory** (Gray et al, 1995, Kokubu et al, 1994) have been developed. There are many similarities between these theories. Gray et al (1995) sees these theories as being complimentary rather than competing and that there is

considerable overlap between them. This is the basis on which these theories are approached. The overlap and distinctions between these theories is now discussed.

**Stakeholder theory** extends the notion of the groups which may be interested in the activities of a corporation from those with an economic interest to those with any interest. So while the shareholder is a stakeholder so well might an environmental lobbyist be. Under this notion these interest groups have a right to information about the ongoing activities of the firm. This creates a problem for the corporation in that it must balance the conflicting demands of various stakeholders in the firm.

In not disputing the myriads of stakeholders any or all organisations may have, Mitchell et al (1997) succinctly describe stakeholder theory as an:

*“attempt to identify which groups are stakeholders deserving or requiring management attention and which are not?” (p.855)*

While some versions of stakeholder theory are of an ethical/normative type (Donaldson & Preston, 1995), from a managerial perspective, the focus of stakeholder theory is to gain approval for corporate decisions by groups whose support is required for the firm to achieve its objectives (Tricker, 1983). It is important for a firm first to identify important stakeholders and second, to assess the importance of stakeholder demands and their relative importance in attempting to achieve the objectives of the firm. In essence, the identification of important stakeholders is the basis of the theory when viewed from a managerial perspective.

The basic concept of legitimacy is that one group has power and authority over another. The group which has the power and authority requires approval from the group over which power is exercised in order for the relationship to exist. **Legitimacy theory**, at its simplest, argues that organisations can only continue to exist if the society in which they operate perceives that the organisation is operating within the bounds of a value system acceptable to society (Dowling & Pfeffer, 1975).

Further discounting the arguments supporting market-based theories, in favour of legitimacy theory, it is noted that many stakeholder issues are outside of the normal market system and, put simply, issues are raised by groups within society, analysed in the public policy arena and, where necessary, laws or other regulations may be enacted if the corporation does not meet society's needs (Preston & Post, 1975). Pressure is likely to be applied to the firm to meet societal expectations, and firms are likely to take actions to minimise the impact of these demands. As a result, voluntarily disclosing more information about the firm's activities, which have an impact on the natural environment, represents one of the methods a firm could use to influence the public policy process. The net effect is an attempt to reduce the firm's 'exposure' to the social and political environment. Davis (1973) contended that:

*"Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it." (p.314)*

Legitimacy theory suggests that management can influence the perceptions which the general public has of the firm. Therefore, legitimacy theory implies that, being legitimate, to a large extent, is controllable by the corporation itself. This attempt at *managing legitimacy* may take many forms, from the corporation changing its activities so that it is consistent with social perceptions through to attempts to influence processes which may cause a change in social perceptions or values. Lindblom (1994) identified four forms of legitimation, or legitimation tactics, that firms could adopt in order to manage legitimacy. These are:

1. Seek to educate its stakeholders about the company's intentions;
2. Seek to change the stakeholders perceptions of issues/events;
3. Distract or manipulate attention away from the issue/event of concern; or
4. Seek to change external expectations about the company's performance.

Lindblom (1994) indicated that whichever of these tactics are used to manage legitimacy, to be successful a communication must be made to stakeholders, the content of which is dictated by the tactic chosen. Thus a corporate environmental disclosure in the annual report may be a response to an environmental issue, and the purpose of disclosure may be to legitimise the corporation's

actions, in relation to the issue, in order to create congruence with society's perceptions of the issue.

There appears to be two specific aspects of legitimacy theory which differentiate it from stakeholder theory. The first is the belief that the greater the likelihood of adverse shifts in the social perceptions of how a corporation is acting, the greater the desirability on the part of the corporation to attempt to manage these shifts in social perceptions (Guthrie & Parker, 1989, Patten, 1992). Stakeholder theory does not appear to extend to the *management of stakeholder issues*. The second is that the concept of legitimacy extends to the very existence of the corporation and its actions being in congruence with society's values, whereas stakeholder theory is aimed at identifying stakeholders considered important to achieve the objectives of the firm. Identifying important stakeholders is crucial in both theories but, while there is obvious overlap between stakeholder and legitimacy theories, and empirical evidence often clouds the boundaries of where stakeholder theory ends and legitimacy theory begins (Guthrie & Parker, 1989, Patten, 1992, Roberts, 1992), legitimacy theory offers a broader 'societal' perspective in attempting to explain increased environmental disclosures than does the more 'corporation' focussed stakeholder theory. The similarities and differences between these two theories and their importance to this investigation is explored in more detail in Section 3.5.3.

Gray et al (1996) have broadly described a **political economy** as:

*"the social, political and economic framework within which human life takes place." (p. 47)*

This description indicates that the economic domain cannot be isolated from the social domain and is another indicator of the limitations of market-based theories. The description also suggests that stakeholder and legitimacy theories operate within a political economy framework. This idea incorporates the belief that a broader interpretation of legitimacy theory, which incorporates challenges about the legitimacy of the *system* in which corporations operate, is consistent with a political economy perspective.

Political economy theory is not well defined in empirical studies into social and environmental disclosure decisions. Guthrie & Parker (1990) characterised the political economy perspective as viewing social disclosures as a pro-active attempt by a corporation to:

*“portray its own views of its social and political constituency” (p.171)*

Buhr (1998) argued that adopting a political economy perspective is a means of obtaining organisational legitimacy and as such is a variant of legitimacy theory. Guthrie & Parker’s (1990) view of political economy theory indicated it is linked to legitimacy theory as an explanation for environmental disclosures, in that pro-actively disclosing positive social and environmental information about a corporation will, in many instances, be motivated by a desire to ensure legitimacy. Buhr (1998) agreed and claimed that the distinction between the two theories was that legitimacy was at a micro level and political economy was at a macro level. She argued they both serve to legitimate, but means and motivation are viewed differently. It seems that the political economy perspective is a higher level theory than either legitimacy or stakeholder theory. It is not an objective in this research to investigate the role of the corporation in the context of whether it discloses environmental information because of all-encompassing political, economic or social reasons. The focus is more specifically on social reasons and is concerned with corporate responses to environmental issues/events (micro level issues). Because of this the political economy theory is not used as a theoretical basis for this investigation.

**Accountability theory** is probably more correctly labelled as an accountability framework model (Gray et al, 1996) under which all social theories fit. In this context, accountability is the duty to provide an account of those actions for which one is held responsible. There exists two responsibilities; one to undertake certain actions, or not to take other actions; and two, to provide an account of those actions. Accountability is based on relationships between principals and agents, but it includes relationships between any *accountee* (principal) and any *accountor* (agent). As such it is much more expansive than the pure agency relationships discussed under market based motives for environmental disclosures. From a corporate social responsibility perspective the framework would indicate that whoever the agent is they must act in a manner the principal approves (or at least does not disapprove) of and they must provide a report about how corporate social responsibility was discharged.

This framework obviously then includes stakeholder, legitimacy and political economy theories. Kokubu et al (1994) referred to accountability theory, in relation to corporate social responsibility disclosures, as a way of explaining that information is provided due to the company's (agent) obligations and society's (principal) rights. That is society requires the agent to be accountable and disclose information. The theory attaches more importance to the right of the principal (society) rather than the agent (corporation), or the information itself. Legitimacy theory, on the other hand, emphasises why the agent (corporation) discloses information to the principal (society). As the disclosure of environmental information is controlled by the corporation, it is more sensible to ask the corporations why they disclose environmental information (a legitimacy theory perspective) before one can begin to ascertain whether the rights of society (accountability theory) are considered when environmental disclosure decisions are made. Therefore, while accountability theory is important, developing a robust legitimacy theory first, should assist in the subsequent development of accountability theory.

## 2.6 A LEGITIMACY THEORY PERSPECTIVE

The focus of this investigation is legitimacy theory. Market-based theories are rejected as the primary explanation for environmental disclosures. These theories are based on an agency theory perspective and also encompass the idea that the only important stakeholders are those who have a direct financial interest in the corporation. 'Pure' agency theory (Jensen & Meckling, 1976) is considered to be related to profit and economic motives and as there is no substantive evidence linking profits to environmental disclosures, 'pure' agency theory is not used in the remainder of this investigation. It is clear that stakeholders other than those with a financial interest in the firm are considered important to corporations and this gives further weight to the decision to reject market-based theories.

It is obvious that the social group of theories are interconnected, but it appears that legitimacy theory encompasses many of the ideas of both stakeholder and political economy theories and it allows for more specific insights into the *management* of corporate social responsibility practice than does stakeholder or political economy theory. It also appears that legitimacy theory needs to be developed before appropriate measures of accountability theory can be developed. Gray et

al (1996) argue that most corporate social responsibility initiatives and disclosures can be traced back to one or more of Lindblom's (1994) four suggested legitimization tactics.

The strength of legitimacy theory as an explanation for environmental disclosures is also supported by the relative increase in the number of recent studies into motivations for environmental disclosures testing for or taking a legitimacy focus (Buhr, 1998, Clarke & Ogden, 1999, Deegan et al, 1999). The fact that the number of studies investigating market-based reasons, agency reasons and other social theories, with the possible exception of stakeholder theory, is decreasing, indicates that social-based motives and, in particular, legitimacy theory, is gaining in favour as the most likely explanation for increased social and environmental disclosures.

One example of this support is found in Bansal's (1995) PhD. She concluded that the main reasons firms have become more environmentally aware over the last decade is a combination of motives based on increasing profit, becoming more socially responsible and wanting to retain organisational legitimacy. Of these three motives, Bansal (1995) concluded that the major motivation for corporations "going green" was to retain organisational legitimacy.

Despite the growing awareness and acceptance of legitimacy theory as an explanation for corporate environmental disclosures, the theory is still relatively underdeveloped and untested. Legitimacy motives for environmental disclosure decisions are based on managers' perceptions about stakeholders' views about corporate environmental activities. There has been little attempt to discover exactly what these perceptions are and how these perceptions may influence environmental disclosure decisions. Moreover, at this stage of its development, the theory has been developed at a macro-level, rather than a micro-level. Research into legitimacy theory as an explanation for environmental disclosures has not, to date, been concerned with what specific types of environmental annual report disclosures may be made in response to present or potential legitimacy threats. Nor has the research investigated the extent to which different purposes of legitimacy (gain, maintain or repair) affect the choice of legitimization tactics and disclosures. These areas are covered in the remainder of this investigation, as well as discovering who is responsible for environmental disclosure decisions.

## **2.7 SUMMARY**

In this chapter the literature in relation to the concept of corporate social responsibility was reviewed. It was concluded that corporations are increasingly concerned with their social responsibilities and this is, in part, supported by the increasing quantity of social and environmental information being disclosed in the annual report. The use of the annual report as a way of communicating social information was discussed and a detailed evaluation into specific facets of research into social, and particularly environmental, annual report disclosures was covered. Theoretical perspectives relating to why environmental annual report disclosures are made were evaluated, which led to legitimacy theory being adopted as the focus for this investigation.

## CHAPTER 3 - LEGITIMACY AND ORGANISATIONS

### 3.1 INTRODUCTION

The main aim in this chapter is to report on a detailed analysis of the relevant organisational legitimacy literature in order to begin to develop a legitimacy theory model. More specifically, the chapter will contain a discussion on the origins of legitimacy and an analysis of the connection between the concept of organisational legitimacy and private corporations. The variable components of the concept of legitimacy will be identified and evaluated in order: first, to develop working definitions of many of the component parts of legitimacy theory and; second, to determine the effect each variable has on the likely responses chosen by corporations to manage legitimacy.

### 3.2 ORIGINS OF LEGITIMACY

The concept of legitimacy has its roots in many areas. According to Rosen (1979), the term “legitimacy” is coined from the classical Latin “*legitimus*”, meaning according to law. Investigation of the writings on legitimacy indicate that the law referred to is not restricted to the development of laws to be enforced by a legal system, but also the social laws under which moral and ethical behaviour are judged. The acceptance of established social norms and values is also consistent with often used applications of the term, legitimate. For example, Sutton (1993) suggests that “legitimacy theory” originated in the philosophy and law of politics in the middle ages. Since then it has acted as a measure for the right and wrong uses of power.

The term legitimacy has been used predominantly with reference to the dual concepts of “power” and “authority”. These terms are interconnected and, based on Weber’s writings, Mitchell et al (1997) best explain the connection with the phrase:

*“power gains authority through legitimacy” (p.869)*

In other words, power on its own cannot guarantee authority unless the power holders are considered to be legitimate. This is perhaps a little simplistic, as there are no doubt dictatorial powers in the world who are not legitimate, but hold power and, thus authority, through fear. For

the purposes of this research, however, and in relation to the corporate form of organisation, the basis of this interconnection is considered valid.

Even in the earliest times, the concepts of power and authority have been defined using the legitimising force drawn from the subjects of that authority. The Bible contends that while all power is derived from and ordained by God, King David made a pact with the people regarding his rule. The writings of Aristotle favour the election of the ruler as well as the power to call him to account. St. Thomas Aquinas, the father of the idea of the social contract between ruler and ruled, argues that the authority of the ruler, while ordained by God, is ultimately determined and limited by the ruled, and that the ruled provide the ultimate powers of confirmation and cancellation.

This suggests that a basic principle of legitimacy embraces the idea that an individual or group has power and authority over another individual or group. Where there is no power or no access to power, it is arguable if there is any need for debate on legitimacy. In order to maintain that power, the individual or group holding the position of power must convince the group, over which it holds power, that the power and authority vested is worthy of retention. In essence, the power holder is beholden to the will of the group over which it exercises power. To maintain that approval, the power holder must warrant the power position held and this must be acceptable to the group over which it holds power.

It can logically be extrapolated from this explanation that the concept of legitimacy is crucial to the role of democratically elected governments and, indeed, any social organisation which requires a form of social acceptance for its continued existence. The idea of legitimacy being added to the exercise of government authority by the consent of the governed is not new in political thought. This is confirmed in that many of the original writings, which discussed the concept of legitimacy, were predominantly found in political science literature and the role of governments.<sup>6</sup>

---

<sup>6</sup> Writings on the legitimacy of governments and ruling classes date back as far as biblical times. For an historical perspective on the development of the legitimacy as a concept in relation to modern governments, one can refer to the theoretical perspectives of legitimacy as explained in Vidich & Glassman (eds) (1979), Part I, pp. 17-98.

It should be kept in mind that where an organisation has power and authority and is generally perceived as valid, there is little stimulus for questioning whether the organisation is legitimate. It is only when other's perceptions lead to concern over how power and authority are being used that an organisation's legitimacy may be questioned.

The development of theoretical frameworks in relation to legitimacy appear to have their origins in sociology. German sociologist Max Weber's works published at the beginning of the twentieth century on the concept of legitimacy, have been largely accepted and are viewed as seminal in the development of theories relating to legitimacy in the social sciences. Weber (1966) pointed out that not only do most forms of power strive for legitimation, but whole political and social systems require legitimation to forestall crisis and degeneration. Contemporary social science definitions of legitimacy are based on Weber's ideas which stress the tendency of political power to seek justification, especially in the eyes of the ruled. The summary in Table 3.1 depicts the approach used in this research with regard to the origins of legitimacy.

**TABLE 3.1 - ORIGINS OF LEGITIMACY THEORY**

<b>Literature</b>	<b>Main References</b>	<b>Concept</b>	<b>Comments</b>
Sociological and Philosophical	Weber 1966; Vidich & Glassmans (eds) 1979	General concept of legitimacy	As developed from the concepts of "power" and "authority"
Sociological	Dowling & Pfeffer 1975; Preston & Post 1975; Sethi 1975	Concept of organisational legitimacy	Has origins in the notion of the social contract; business has a duty to society to act in accordance with prevailing social values.

A critical point in Weber's construction of legitimacy is the principle that the basis of power and authority of any system proceeds from and is consistent with the subjective beliefs of the group over which power and authority is exercised. This point implies that legitimacy has to do with the way the exercise of power is perceived (Gordy, 1993). It follows that if the power holder has the ability to influence the beliefs, perceptions and behaviours of the group over which power is established, they have gone a long way to establishing the legitimacy required to continue in power.

It is apparent that the basic concept of legitimacy, a group having power and authority over another and that group requiring approval from the group over whom power is exercised, not only has application to governments and citizens, but also to any social organisation where some form of power and approval of power is a requirement of the relationship. Power in this context, and therefore legitimacy, is a two way construct (Hybels, 1995). For example, an elected government has power and authority over its constituents; it is legitimate. When the voters decide that the government's authority should be removed, the voters have the power. Power is foregone when legitimacy is lost.

### 3.3 WHAT IS ORGANISATIONAL LEGITIMACY?

As can be appreciated from an understanding of the origins of legitimacy, the term legitimacy can be, and is, used in a number of different ways. It has emerged from a number of disciplines and semantic traditions.

Legitimacy is applicable to any form of organisation where the organisation has power and authority over others and there is a chance that the power and authority could become precarious. The organisational form relevant to this research is the private corporation. Corporate management (the power holder) have the use of resources and decision-making powers while stakeholders (the groups over which power is exercised) may exercise a right to approve (or disapprove) power in various ways. While the relationship between the corporation as a power holder and the group over which power is exercised is different from the direct approval a citizen can exercise over a democratically elected government, it has been identified that corporate entities rely upon approval from *at least two* distinct groups of stakeholders (Clarkson, 1995, Donaldson & Preston, 1995). The first group a corporation relies upon includes shareholders, employees and financiers and it relies on this group for resources. The second group is society, which a corporation relies upon for goodwill and approval in order for it to continue to operate to achieve its goals. It is the essence of the relationship between the corporation and its stakeholders that ensconces legitimacy and it is the way corporations manage this relationship that is the fundamental premise underpinning legitimacy theory as it is applied in this investigation.

It is, therefore, essential to look at the evolution of the concept of “organisational legitimacy” and to have an understanding of the application of this concept, if one is to understand how corporations attempt to manage organisational legitimacy. If one does not understand what organisational legitimacy is, one cannot manage it.

The general concept of legitimacy performs a critical role in social theory as a ready explanation for stable forms of social relations. Pinpointing an all encompassing definition is difficult. The view of Hybels (1995), who contended that descriptions abound and that legitimacy and related concepts are both abstract and indefinite and, in many ways, defy definition, is supported by Boulding (1974), who speculated that the study of legitimacy had been avoided in social sciences:

*“because there is no simple, abstract act or class of acts which constitutes the establishment or maintenance of legitimacy” (p.239)*

At the other extreme and with particular purposes in mind, other researchers (Deephouse, 1997, Dowling & Pfeffer, 1975, Pfeffer & Salancik, 1978, Suchman, 1995) have defined legitimacy and organisational legitimacy quite succinctly. For example, Deephouse (1997) tested the proposition that organisations which imitate the behaviour of ‘legitimate’ institutions have a greater chance of being considered legitimate themselves. He argued that legitimacy can be conceptualised as both a process and a state, but he tested it as a ‘state’. He described legitimacy as:

*“a status conferred (on institutions) by social actors (society and others)”  
(p.1025)*

Such opposite positions do not compromise either school of thought. It can be argued that depending on what is motivating an organisation and what is the relevance and relative importance of legitimacy to it at any point in time, a workable definition of organisational legitimacy can be constructed. In order to construct a definition of legitimacy, for use in this investigation, it is important to place set some parameters as to the scope of legitimacy.

### **3.4 THE SCOPE OF LEGITIMACY**

If the presence of legitimacy is important for the continued existence of corporations, how is it assessed? It has been claimed that any organisation, be it political, social, or economic, is

legitimate only when its actions or outputs are "consistent with the value-pattern of society" (Stillman, 1974, Sutton, 1993). If society's evaluation of the appropriateness of an organisation's activities is indeed the criterion whereby legitimacy is established, then all corporations are dependent on society, or at least some sections of it, for legitimacy. Because of this dependence, a corporation's powerful stakeholders can exert control over the firm.

Three views of how organisational legitimacy may be assessed will be examined in this section. First, for an organisation to be legitimate it need only continue to be economically viable; second, legitimacy is based on both economic viability and the adherence to laws; and third, an organisation can only be truly legitimate when a combination of economic viability, adherence to laws and congruence with generally accepted social values and norms is in place.

An important caveat must be kept in mind when evaluating these views. Because legitimacy is based on perceptions, an organisation, whatever activities it undertakes, may always be considered legitimate at some level, by some individuals. However, an individual's personal construct of legitimacy may be very different to generally accepted social norms and values. Organisational legitimacy in this context should be based on common, generally accepted beliefs or values.

The first perspective implies that for a corporation to be considered legitimate it need only account and report on *economic* transactions between the corporation and its direct economic resource providers. If a firm continues to make profits for its shareholders, it is considered legitimate. This view is extremely limited and almost universally rejected. For example, if a corporation involved in heroin trafficking was extremely profitable, but these profitable activities were illegal and not socially acceptable, it would not be considered legitimate.

The second view is based on compliance with the laws of the day. It may be claimed that if a corporation is obeying all existing laws in relation to its operations then the corporation is acting in a legitimate manner. However, a corporation acting within the bounds of current legal requirements is not necessarily a legitimate organisation. The law may confirm changes in social values and norms, but does not create them. In addition, the law is somewhat reactive to social change, thus a time lag exists between what may be acceptable behaviour for an entity and what

may be legally allowable. Thus the relationship between legality and legitimacy may be explained as:

*“Legitimacy is not coextensive with, nor is it defined by legality. Law may be intended to confer legitimacy and may actually do so, but law does not necessarily confer legitimacy and legitimacy does not always imply legality (Epstein & Votaw 1978, p.76).”*

The formal nature of law may also lead to conflicts between what society expects and what activities businesses are legally allowed to engage in. The social effects of gambling and continuing public debates concerning the health effects of smoking and alcohol are but two areas in which a corporation’s economic and legal legitimacy may not be in question, but its social legitimacy may. The approach adopted in this research is based on the third viewpoint. An assessment of an organisation’s legitimacy is based not only on economic and legal assessments being undertaken, but also how the corporation acts relative to prevailing social norms and values. This is consistent with the principles of corporate social responsibility, based on the idea of the social contract between business and society (Wood, 1991).

Most of the post 1970's literature, especially in relation to corporate social responsibility, supports this view and rejects the idea that economic success alone, or in conjunction with adherence to prevailing laws, is sufficient for organisational legitimacy to exist (Carroll, 1989, Dowling & Pfeffer, 1975, Gray et al, 1988 Lindblom, 1983, Mathews, 1993, Preston & Post, 1975, Sethi, 1979, Wartick & Cochran, 1985).

Typical of the definitions of corporate social responsibility (discussed in Chapter 2), which support this view is:

*“The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations placed on organisations by society at a given point in time.” (Carroll, 1989, p. 30)*

This definition highlights an important factor in establishing legitimacy. In attempting to gauge the legitimacy of any organisation, norms and values of society are not static. For example, a corporation which may have had to legitimise its role relating to support for the increasingly

unpopular Vietnam war in the U.S. in the early 70's may have been more pro-active in announcing any involvement it may have had in the Gulf War in 1991, such was the apparent public support in the U.S. for the government's role in that conflict.

While there may be some constants as to what constitutes acceptable corporate social activity over time, actions which may not require action or management by an entity today could very well threaten the existence of the corporation in the future. It is argued in this research that this is the situation in relation to environmental issues such as sustainable development, climate change and greenhouse gases.

In summary, the attainment of substantive organisational legitimacy is based on the following assumptions. While the worthiness of a corporation may be conferred by some individuals on the basis of economic viability, or a combination of economic viability and legal compliance, the entity must include and go beyond those aspects and respond to the common shared social values and norms of society, to demonstrate that the entity is legitimate.

It is, however, contended that a corporation will *not* try to maximise its organisational legitimacy in the wider society's perception. Rather it will only identify which groups it believes are important stakeholders, those with the ability to confer or withdraw legitimacy, and then attempt to maximise the congruence between those stakeholders' social values and perceptions with the corporation's activities.

### **3.5 DETERMINANTS OF LEGITIMACY**

It is imperative at this time to identify various components which affect legitimacy and to distinguish between legitimacy and legitimation. It is also important to reiterate that the group over which power is exercised judges the worthiness of an organisation based on that organisation's image. Therefore, legitimacy is not a characteristic that an institution, organisation or individual either does or does not possess. Nasi et al (1997) described legitimacy as a measure of the 'adequacy' of social perceptions of the organisation's behaviour compared to the social expectations for the organisation's activities.

Many of the variables pertaining to legitimacy tend to be unique, first, to the institution, organisation or individual which is either seeking, keeping or defending legitimacy, and second, to whatever sections in society are powerful enough to influence any judgements to be passed on the organisation. Any useful definition would need to be both general enough to have applicability to most forms of organisation and wider society, as well as specific enough to be useful for an individual organisation with distinctive requirements and interested sections of society with more specialised values and norms.

Legitimation refers to tactics undertaken by organisations to ensure legitimacy. An early definition of legitimation was:

*“the process whereby an organisation justifies to others its right to exist”*  
(Maurer, 1971, p.361)

The process of legitimation, along with a refinement of this definition based on the development of a definition of legitimacy, is discussed later in this chapter. With the specific aim of developing a definition of legitimacy and legitimation, suitable for use in this research and encompassed in the broader objective of further developing legitimacy theory as an explanation for increased corporate environmental disclosures, the following discussion identifies three areas considered important in determining whether the legitimacy of a corporation is or may become problematic. The first is: what and who causes pressure to be exerted on the corporation (Section 3.5.1); second, what are the factors which create this pressure (Section 3.5.2); and third, to what extent do companies believe the groups exerting pressure on the corporation have the necessary attributes to confer or withdraw legitimacy on the corporation (Section 3.5.3)? In attempting to answer the third question, the relationship between legitimacy theory and stakeholder theory, introduced in Section 2.5.1.2, is revisited and evaluated in greater detail.

### **3.5.1 ORGANISATIONS AND SOCIAL VALUES**

What then causes pressures to be exerted on an organisation? The basis of legitimacy is not in question. It refers to some form of relationship between society's values and an organisation. Beginning from an extremely broad base, Hybels (1995) described legitimacy as an:

*“attitude of people toward a persistent aspect of society” (p.241)*

This highlights the perceptual nature of legitimacy in that attitudes of people are crucial. The “persistent aspect of society” suggests that legitimacy is linked to an established value rather than any passing trend.

Adopting a more institutional focus, based on the notion of legitimacy founded on Weber’s (1966) views, Lipset (1963) wrote that legitimacy involves:

*“the capacity of the system to engender and maintain the belief that the existing political institutions are the most appropriate ones for society” (p.64)*

Lipset’s view introduces the stance that the system has the capacity to control perceptions of society for the purpose of maintaining the status quo. The system in this context could be an elected office, an institutionalised process or any form of organisation with authority and power. Therefore, this description embraces the idea that even though the existence of legitimacy is constructed and conferred outside the organisation, it can be controlled to some extent by the organisation itself.

An attempt at explaining organisational legitimacy, which originated in sociological literature and has been applied to corporate social disclosure research (Gray et al, 1995, Lindblom, 1983), suggests that organisations seek to establish:

*“...congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are a part” (Dowling & Pfeffer, 1975, p.122)*

When a disparity, actual or potential, between the entity’s social value system, as a result of its activities, and the value system of the larger social system, exists, there is threat to the entity’s legitimacy and this may lead to an inability to continue to operate and achieve its goals. Legitimacy in this sense establishes a connection between an organisation’s social values and responsibilities and society’s values. This description implies that organisations will seek compatibility between these two sets of values. This description emphasises both evaluation and

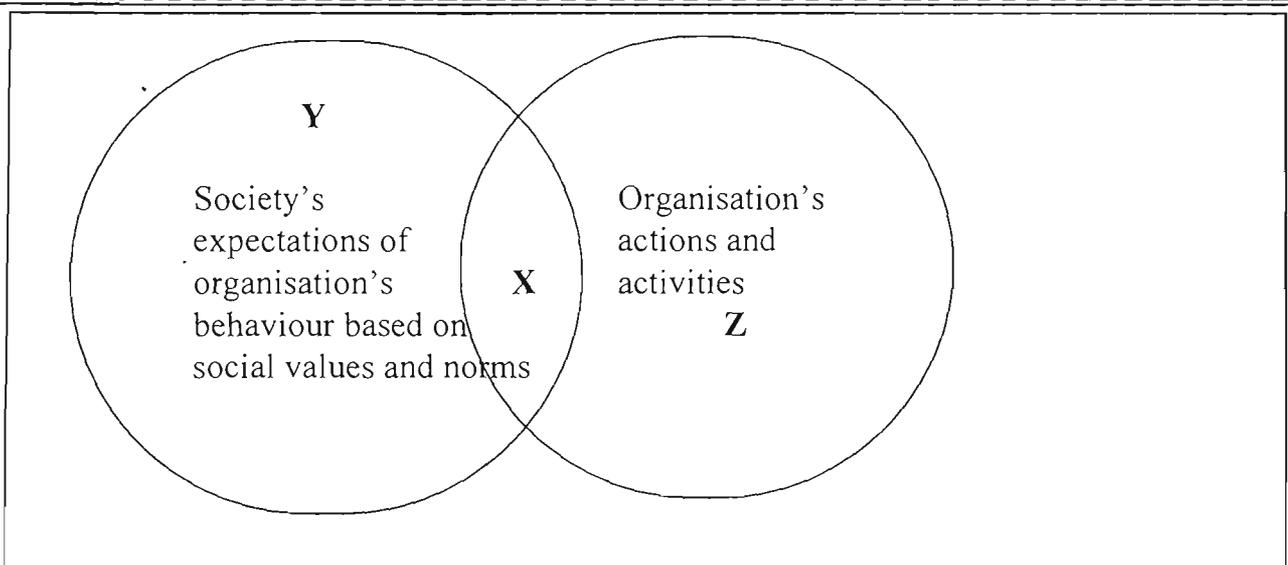
cultural conformity. It is evaluative in the sense that organisation's must consider their own social values and attempt to align them with currently held social values and beliefs (cultural conformity).

Sethi (1979) concurred with and added to this view in suggesting that legitimacy problems occur when societal expectations for corporate behaviour differ from societal perceptions of a corporation's behaviour. He calls this difference the "legitimacy gap", which implies it can be narrow or wide. The existence of a widening gap motivates corporate management to manage legitimacy.

These descriptions of legitimacy endorse the belief that, to a large degree, the level of legitimacy is organisation-specific. One of the major aims of this research is to identify how individual members (the corporations chosen for the field study) of one form of organisational structure (the corporation) may manage legitimacy through annual report disclosures.

The following diagram (Figure 3.1) depicts where descriptions of organisational legitimacy, as discussed to date, currently rest.

**FIGURE 3.1 - ORGANISATIONAL LEGITIMACY**



Area X represents congruence between organisational activity and society's expectations based on social values and norms in respect of organisational activities. In other words, the

organisation's actions are consistent with society's views of socially responsible activity. Areas Y and Z represent incongruence between an organisation's actions and society's perceptions of what these actions should be. These areas represent "illegitimacy" or the legitimacy gap.

According to the discussion to date, the aim of the organisation is to be legitimate, that is, to enlarge Area X in Figure 3.1. The ultimate (but most likely futile) aim would be to have the two circles totally overlapping, representing an organisation's actions and activities being totally congruent with what society's expectations of it are. If Area Y represents all of society, then this is obviously an unrealistic target, as society's values and perceptions of any organisation are, for many reasons, not shared by all in society. Nonetheless, in order to maximise an organisation's legitimacy, the organisation will attempt to enlarge the section of the diagram which represents legitimacy. As the organisation can influence its own destiny in managing legitimacy, from the organisation's perspective this can be achieved by moving either or both of the circles towards each other. The various tactics which may be used to manage legitimacy are referred to as the process of legitimation. A discussion on these tactics and the way they are used is included in Section 4.3.3.

The impractical aspect of an individual organisation conforming with wider social values was discussed by Pfeffer & Salancik (1978), who were amongst the first to claim that only certain sections of society, along with their particular values, may affect an organisation's reputation and possible existence, in stating that:

*"Legitimacy is conferred when stakeholders - that is, internal and external audiences affected by organizational outcomes - endorse and support an organization's goals and activities." (p.194)*

In identifying stakeholders, Pfeffer & Salancik (1978) asserted that only those who considered themselves affected by an organisation's activities could threaten its legitimacy. This theme was also considered, along with the congruence of an organisation's actions with accepted social values, in Meyer & Scott's (1983) proposition that organisational legitimacy:

*“refers to the degree of cultural support for an organization (sic) - the extent to which the array of established cultural accounts provide explanations for its existence” (p.201)*

This extension from Dowling & Pfeffer's (1975) position and supporting Pfeffer & Salancik's (1978) description is that these “cultural accounts” represent views and perceptions of different groups in society, (the array of established cultural accounts) including the view of the organisation itself.

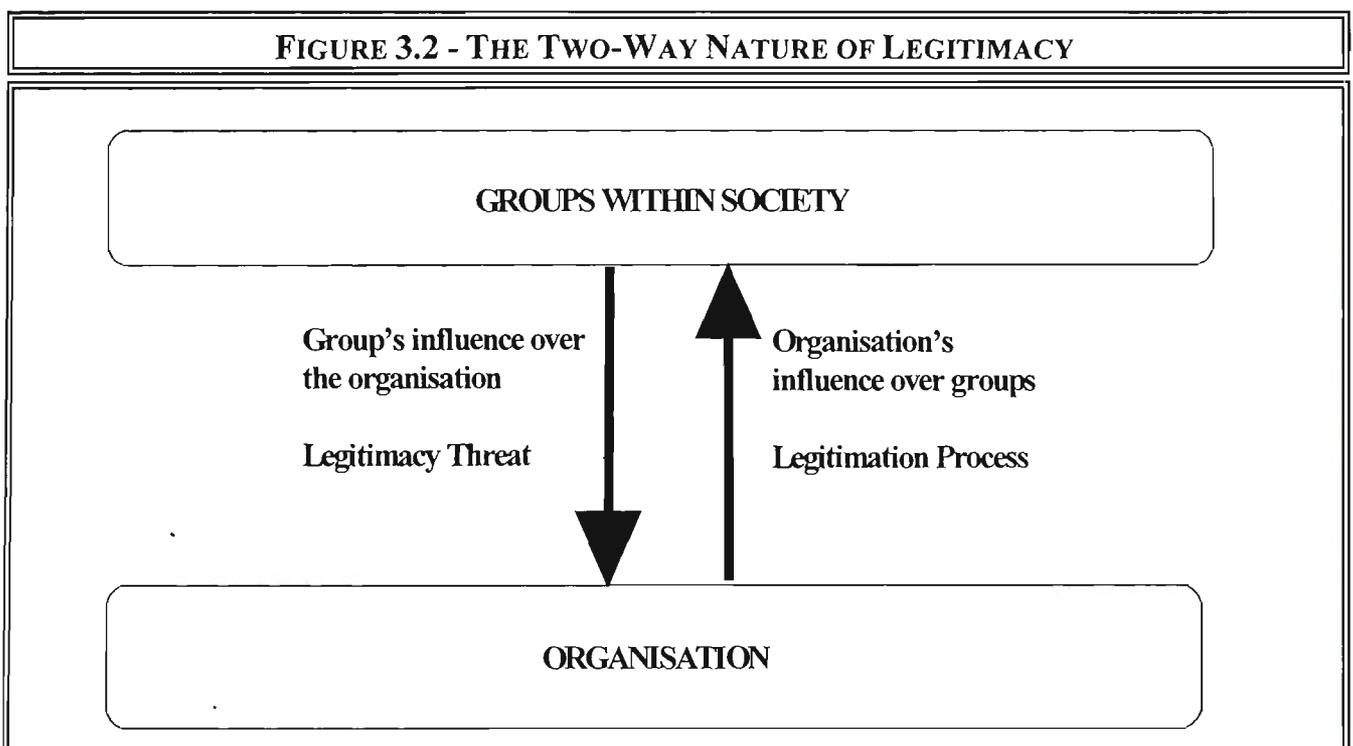
The thought that an individual organisation's legitimacy relates to sub-sections of society, rather than society as a whole, is also confirmed in descriptions of organisational legitimacy as “a status conferred by social actors” (Ashforth & Gibbs, 1990, Deephouse, 1997). Galaskiewicz (1985) elaborated on this by stating that from the position of a social actor, a legitimate organisation is one whose values and actions are congruent with that social actor's values and expectations for action. This description acknowledges the necessity to identify social actors separately. Deephouse (1997) supported the ideas of Meyer & Scott (1983), Galaskiewicz (1985) and Baum & Oliver (1991), that only certain groups of social actors have the standing to confer legitimacy upon any individual organisation.

Can organisations do anything about a potential loss of legitimacy from certain groups of conferring social actors? Because of the subjective nature of cultural accounts held by groups who either can or want to confer or withdraw legitimacy on an organisation, Meyer & Scott (1983) argue that if one group can project views better than another, then that group has gone a long way to controlling the agenda on any issue and thereby ultimately determining the legitimacy of the organisation. There are two groups in this description: the group who can confer legitimacy; and the organisation itself, which may be able to influence those doing the conferring. This argument is consistent with Lipset's (1963) view.

This leads to the thesis that legitimacy is a two way proposition. It is conferred by outsiders to the organisation but may be influenced by the organisation itself. This is implied in various descriptions of legitimacy (Ashforth & Gibbs, 1990, Buhr, 1998, Dowling & Pfeffer, 1975, Elsbach, 1992, Elsbach & Sutton, 1994, Pfeffer & Salancik, 1978, Meyer & Scott, 1983,

Woodward et al, 1996). The existence of this phenomenon leads to processes of legitimation being adopted by organisations whose legitimacy is in question.

This double edge of legitimacy can be further explained as follows. Assuming the organisation is originally legitimate (Davidson, 1991, Sethi, 1978), concerns regarding the possible illegitimacy of an organisation would initially be stimulated by its actions or activities influencing relevant norms and values held by other individuals, groups or organisations in society. If legitimacy becomes problematic, retained legitimacy is the desired outcome of a legitimation process undertaken by the threatened organisation. This indicates that changing social norms and values are one motivation for organisational change and also one source of pressure for organisational legitimation. The two-way nature of this concept is depicted in Figure 3.2.



Each of these descriptions of legitimacy to date have resulted in specific but subtle adjustments to the development of the concept of organisational legitimacy. Organisational legitimacy, as described so far in this research, is applicable to most social institutions and is based on an organisation's actions being consistent with social values, as perceived by certain groups in society.

Therefore, a provisional definition may be that a legitimate organisation is one whose:

**“actions must be perceived by certain groups in society as being congruent with socially constructed systems of norms, values and beliefs”**

This provisional definition leaves two unanswered questions:

- (i) What is the connection between an organisation’s actions or activities and changed perceptions of groups in society (Section 3.5.2)?
- (ii) How can organisations identify the groups, within society, that are powerful enough to threaten an organisation’s reputation and existence (confer legitimacy) (Section 3.5.3)?

These questions must be addressed before a more complete definition of legitimacy can be developed. It should be noted that the answers to these questions are not mutually exclusive. Except in extreme cases, an organisation’s actions or activities will be perceived as being inconsistent with particular perceptions of social values and norms of only some groups within society and even then to different degrees.

### **3.5.2 LEGITIMACY, ORGANISATIONAL ACTIONS AND ISSUES MANAGEMENT**

In its every day activities, any organisation may have an effect on the way those in society perceive it. The sum of any organisation’s actions or activities will, in the longer term, decide whether it is accepted by the wider society as being legitimate or not. If an organisation continually behaves in a way that the majority of society believes is irresponsible, the chances are its legitimacy will be withdrawn and its existence will become problematic. What then is the catalyst behind any changes in social perceptions of an organisation’s activities? It is asserted, for the purposes of this investigation, that this behaviour is mainly linked to issues/events which cause an increase in public pressure on the organisation and, in turn, can create legitimacy gaps.

#### **3.5.2.1 Issues/events**

It has been repeatedly identified in the literature, that many threats to an organisation’s legitimacy are related to issues or specific events which are a sub-set of a larger issue (Blaccionierre &

Patten, 1992, Marcus & Goodman, 1991, Patten, 1992, Rubinstein, 1989, Sutton & Callahan, 1987). For example, the social backlash against the Exxon Corporation after the environmentally disastrous oil spill, which occurred in Prince William Sound in Alaska in March 1989, resulted in a serious short term threat to Exxon's legitimacy (Rubinstein, 1989). This spill linked the environment as an issue to the legitimacy of both Exxon and the oil industry (Patten, 1992, Walden & Schwartz, 1997). This threat was brought about by an event (the oil spill) directly related to an emerging social issue, the environment.

Before proceeding with an explanation of this position, some time should be spent defining a corporate issue. Wartick & Mahon (1994), in a seminal theoretical article written solely for the purpose of defining a corporate issue, argued against the long-held belief that because corporate issues are defined by various groups of powerful stakeholders, management will know an issue when one comes along. This passive view of a corporate issue is reactive in that it tends to lend itself to crisis management techniques rather than to holistic pro-active issues management techniques, many of which may be utilised by an organisation wishing to manage its legitimacy.

Three interconnected themes developed in Wartick & Mahon's (1994) paper are identified as being crucial in defining a corporate issue for use in this research. First, the impact theme, which asserts an item must have a firm-specific impact to be an issue. For example, the concept of sustainable development is a trend in environmental debates, but unless that trend affects the firm now, or in the future, it is not an issue.

The second and third necessary constructs are controversy and the existence of expectation gaps. Changing corporate performance or changing stakeholder expectations leads to controversy (and thus to issues) as gaps open and possible resolutions to the gaps challenge both corporate legitimacy and stakeholder costs and benefits (Wartick & Mahon, 1994). It is the demanded change by one or more important stakeholders (including management) that causes a corporate issue to develop. For example, assume a corporation introduces a new technology into its manufacturing process which causes significant increases in toxic emissions to the air. Local communities, environment groups, some politicians and some prominent shareholders, express collective displeasure at this change in corporate activity. This change has caused controversy

thus creating an issue and a possible threat to the firm's legitimacy. The controversy, then, relates to both management and other stakeholders' concerns.

The inclusion of an expectation gap to identify the link between issues and legitimacy was strongly implied by Nigh & Cochran (1994) in their definition of an issue as:

*"a gap between the expectations of a stakeholder regarding corporate behaviour and the same stakeholder's perceptions of actual corporate behaviour. Thus an issue is the difference between "what ought to be" and "what is" from the perspective of a stakeholder" (p.52)*

Two other definitions of an issue, which are similar to the descriptions of legitimacy discussed earlier, especially the notion of a legitimacy gap (Sethi, 1979) were found in Post's (1978) definition of an issue as:

*"a gap...between what the organisation's relevant publics expects its performance to be and the organisation's actual performance" (p.283)*

and Ryberg's (1982)

*"a gap between social perceptions of business behaviour or performance and social expectations about what that performance should be" (p.231)*

Wartick & Mahon (1994) suggest that these gaps may occur within, as well as between, stakeholder perceptions. For example, management of a corporation may identify that while it has an equal opportunity policy, it does not have any female senior executives. If management believe this may affect the firm, this gap between expectations and performance, albeit from one stakeholder's perspective (and that stakeholder being management), creates a controversy, which may threaten the corporation's legitimacy, so an issue has arisen and the corporation would act to close the gap and restore legitimacy.

In the preceding discussion the point is made that issues are inextricably linked to legitimacy. In order to manage legitimacy, one must manage issues. This suggests that an investigation of issues management literature should be considered in relation to the development of legitimacy theory.

### 3.5.2.2 Issues Management

If one adopts the position that issues must first be identified and managed in order to deal with legitimacy, then an understanding of issues management (Greening & Gray, 1994, Meznar & Douglas, 1995, Wartick & Mahon, 1994) is a key factor in placing organisational legitimacy into an appropriate theoretical framework. The development of legitimacy theory can be enhanced with an appreciation that issues management encourages the development of a more coordinated approach to the management of an organisation's relationships with stakeholders.

A general definition of issues management is:

*"a process by which the corporation can identify, evaluate and respond to those social and political issues which may significantly impact upon it" (Johnson 1983, p.22)*

A more specific description, which includes reference to features on which legitimacy is based, suggests that issues management:

*"consists of the tracking of broad societal and industry trends; the assessment and determination of issues that pose a specific threat or opportunity, and the stakeholders that are associated with those issues; the assessment of the power of the opposition versus that of the company in shaping issues; and the impact of opposing stakeholders on the products, services, manufacturing processes and reputation of the company" (Mitroff 1994, p.103)*

Much of the literature divides issues management into three distinct areas (Ackerman 1975, Arrington & Sayawa, 1984, Bucholz, 1995). A corporation must: first, identify an issue and important stakeholders; second, analyse the issue with respect to its likely impacts on the organisation and; third, develop responses in relation to issues. Much research has been conducted into these areas: issues identification and interpretation (Ansoff, 1975, Dutton et al, 1983, Keisler & Sproull, 1982), issues analysis (Bartha, 1982, Dutton & Ashford, 1993) and; issue response development (Greening & Gray, 1994, Post, 1978, Sethi, 1979).

### *Identification of issues and important stakeholders*

The first phase of the issues management process is the identification of issues that may have some impact on the firm. To do this the firm must also be aware of whom its stakeholders are. In issues management, this identification focuses on stakeholder expectations and perceptions of corporate behaviour and on trends in influential factors which may affect these expectations and perceptions (Nigh & Cochran, 1994).

While acknowledging the link between issues and stakeholders, many of the authors tend to recognise the issue and the stakeholder separately. Given the previous discussion which led to the interpretation of a corporate issue to be adopted in this research, it is argued that the identification of a corporate issue is intrinsically linked to the corporation's stakeholders. In other words, external stakeholders could bring the issue to the notice of the corporation, management could decide from within that an issue exists because they are becoming increasingly aware of stakeholder perceptions or the issue and stakeholders come to light simultaneously, as is often the case in crisis management.

An example can be used to illustrate this point. The climate change environmental issue could have come to the attention of corporate management in any of three ways: first, through media coverage of organised protests from green groups: second, through a pro-active management strategy aimed at discovering current environmental values: or third, due to an event, such as rising sea levels, which have been scientifically linked to climate change and corporate activities, being directly linked to some human or environmental mishap.

### *Analysis of the issue*

The second phase, issues analysis, includes ranking issues for further management consideration. No firm can address in any meaningful way all of the hundreds of issues that may have some impact on it. The firm must rank the issues it has identified so that it can devote its resources to those issues that are likely to have the greatest effect on its future survival and viability.

In developing a thorough understanding of an issue and how to manage it, and to help in this ranking task, some researchers have theorised that issues follow a fairly predictable life cycle. To

manage the potential impacts of an issue effectively, it is important to understand where the issue is in its life cycle (Ackerman & Bauer, 1976, Post, 1978, Nasi et al, 1997). Ackerman & Bauer (1976), without referring directly to legitimacy, reflected the importance of legitimacy to issues management and connected it to life cycle theory, by concluding that the initial phase of an issue's life cycle is the development of a gap between the perceptions of a stakeholder of a firm's performance and the expectations of the stakeholder; the legitimacy gap discussed earlier. This gap may be precipitated in a number of ways. Nigh & Cochran (1994) use the example of the seminal book, Rachael Carson's *Silent Spring* (1962), which linked corporate actions to the destruction of the natural environment, as a stimulus which altered stakeholder expectations of corporate performance. It can also be triggered by dramatic events which are linked to wider issues, such as the Bhopal tragedy or the Three Mile Island nuclear accident, which alters stakeholder perceptions of corporate performance.

Empirical evidence of the applicability of legitimacy to issues management, drawing on this life cycle theory was tested in a four company case study by Nasi et al (1997). In this study, the authors looked at sixteen years of the annual reports of two Canadian and two Finnish companies. The aim was to attempt to explain whether organisations managed different issues, measured by annual report disclosures, using a combination of legitimacy, issue life cycle and stakeholder theories. From a legitimacy theory perspective, they concluded that the existence of legitimacy gaps drives issues management activities of corporations.

#### *Developing responses to issues*

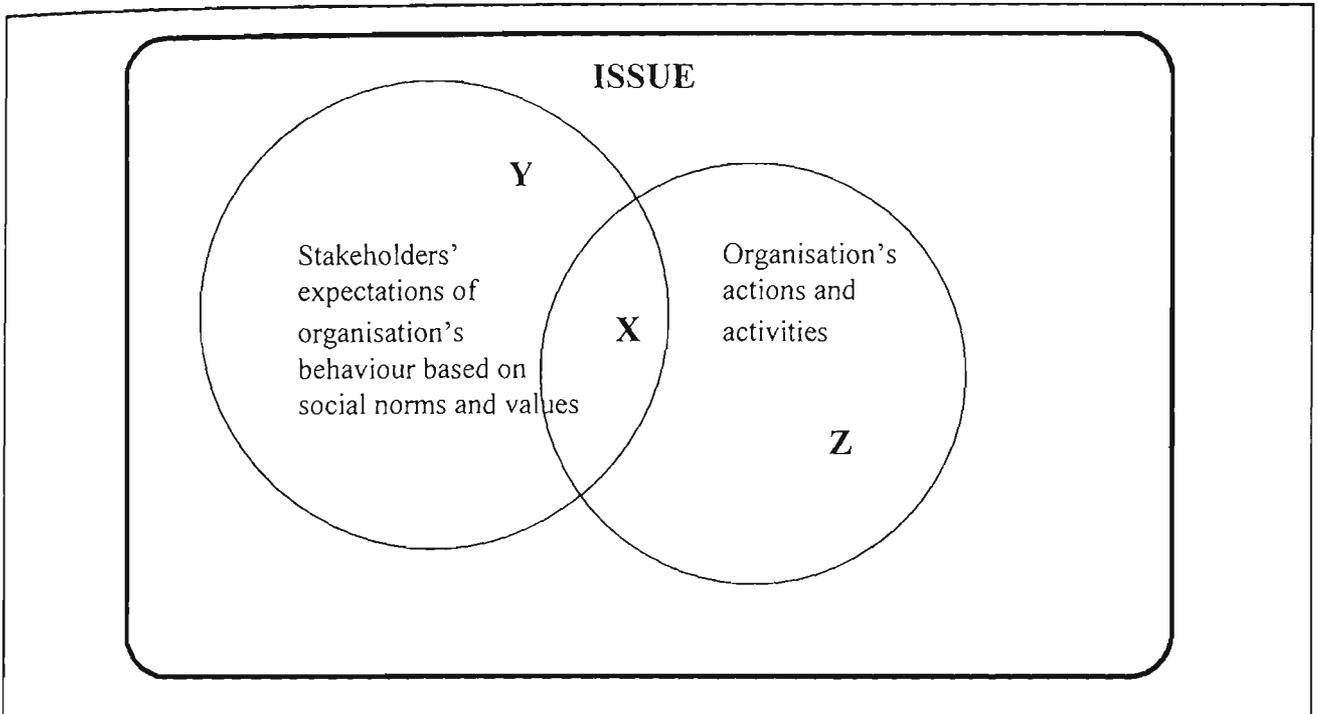
The third phase of issues management relates to response development and is closely linked with the legitimisation process. Companies may enter the public opinion and government policy arenas to try to influence stakeholder expectations and perceptions of corporate behaviour or they may change their policies and practices (actual behaviour). A corporation's response to an issue will follow different lines depending on the nature of the legitimacy gap involved. This phase of legitimacy management is discussed in detail in Section 4.3.1.

### 3.5.2.3 Summary

In summarising this section, it is suggested that the status of an organisation's legitimacy is determined largely by outsiders to the organisation and is predicated on certain groups' perceptions of the organisation's congruence with the groups' social values or norms. An organisation is deemed legitimate until something happens to bring legitimacy into question. It is asserted that this something will be that the organisation will be 'negatively' linked to a social issue or with one or more significantly negative events which are related to a broader social issue. This assertion will be tested later in this investigation.

The nature of legitimacy is based on social perceptions which can and do change over time. The state of any organisation as being legitimate or illegitimate is not static. This state can change when perceptions change and perceptions of an organisation can change when the organisation is publicly linked to sensitive social issues. The view adopted in this research is that "issues" are the catalyst for debate on a corporation's activities in relation to its social responsibilities, including its impacts on the environment. This, in turn, can lead to the creation of a "legitimacy gap", which the corporation will try to close by adopting a legitimisation process in order to manage the issues/events.

Further, and most importantly, in evaluating the literature on issues and issues management from a legitimacy perspective one recurring theme leads to the inescapable conclusion that any organisation must identify both the issue and who the organisation believes are that issue's important stakeholders before any strategies aimed at successfully managing legitimacy can be adopted. Figure 3.3 illustrates the current position in relation to the developing definition of legitimacy. This figure now depicts that the main cause of legitimacy gaps (Areas Y and Z) for any individual organisation, is a corporate issue. It is the issue which must be managed in order to get the legitimate area (X) to become larger.

**FIGURE 3.3 - ISSUES AND ORGANISATIONAL LEGITIMACY**

From a practical perspective, the identification of legitimacy threatening issues is deemed to be crucial for managing legitimacy in four ways: first, identifying if the corporation believes the issue is important to specific groups of stakeholders; second, making a judgement about the relative power of the groups who hold these views; three, making a decision as to whether these groups have enough power to affect the legitimacy of the firm; and four, determining what legitimisation tactics may be chosen. The first three points are discussed in the next section. The fourth point is covered in Section 4.3.3.

### 3.5.3 CONFERRING ORGANISATIONAL LEGITIMACY

One of the aims in this research is to discover whether companies consider specific audiences when deciding on corporate responses, in particular, annual report disclosures, to present or potential legitimacy threatening environmental issues/events. This aim will be achieved by referring to the extant literature on stakeholder identification and stakeholder theory and by collecting data which help to answer this question. It is not a specific aim to identify *which* audiences are important to companies and why. It is argued, in this investigation, that the audiences which are identified by a corporation are specific to any legitimacy threatening issue/event. Therefore, it is not an aim, in this research, to predict *generalisable* relationships between specific legitimacy threatening issues/events and likely corporate responses.

It has been established that managers act to gain support or approval of stakeholders for many reasons, including to sustain the existence of the corporation. The more influential the stakeholders are the more the corporation must meet stakeholder needs (Clarkson, 1995, Corbett & Wassenhove, 1993, Donaldson & Preston, 1995, Mitchell et al, 1997, Roberts, 1992). From a social and environmental reporting perspective, both Robert's (1992) and Nasi et al's (1997) empirical work on the connection between stakeholder theory and the incidence of social and environmental annual report disclosures confirmed that the views, needs and wants of various stakeholders do manifest themselves in the form of increased social and environmental disclosures in the corporate annual report.

Throughout the preceding discussion on issues and issues management, the proposition that issues are the causes of legitimacy gaps was developed. What is also clear from that discussion is that corporate issues only become *issues* if they have some impact on the firm and impact on the firm only occurs when "stakeholders" perceptions of what the firm is doing and what they ought to be doing is different. In order to manage legitimacy, corporations must be able to identify who these stakeholders are as well as what are their needs or demands. In other words, the firm must answer the following questions. First, what groups are exerting pressure on the organisation and, second, to what degree does the firm believe these groups have the power to confer or withdraw legitimacy?

The connection between the developing legitimacy theory and stakeholder theory, as introduced in Section 2.5.1.2, needs to be revisited in order to flesh out answers to the questions posed above. In relation to corporations, the two theories are concerned with the same basic premise; they are both ensconced in the social contract framework and they are both concerned with the interconnectedness between organisations and stakeholder groups.

Many of the practical differences between these two theories are not made clear by reviewing the literature. Much of this can be attributed to the haphazard interpretation of what exactly is meant by both stakeholder theory (Donaldson & Preston, 1995) and legitimacy theory. If one adopts Mitchell et al's (1997) general description of stakeholder theory as an:

*“attempt to identify which groups are stakeholders deserving or requiring management attention and which are not?” (p.855)*

then the process of managing relationships with stakeholders is not strictly part of the theory.

Legitimacy theory, on the other hand, is predominantly focussed on managing stakeholder needs or demands in order to ensure legitimacy. The common thread between stakeholder theory and legitimacy theory is obviously identifying important stakeholders. Wood's (1991) argument that stakeholder theory provides a starting point for thinking about how society grants and takes away corporate legitimacy crystallises both the connection and difference between the two theories.

A second observed difference between the two theories, from an issue management perspective, is that legitimacy is related to social issues linked to the values and perceptions held by particular groups of stakeholders, whereas stakeholder theory can be concerned with any issue, social or otherwise, in which identified groups of stakeholders' demands need managing. This view is espoused by Clarkson (1995) who claims that:

*“all social issues are not necessarily stakeholder issues, just as all stakeholder issues are not necessarily social issues” (p.105)*

Reverting to an earlier, more general understanding of legitimacy as being related to “society's views and perceptions” will prove this point. An issue may be of concern to one or more stakeholder groups but it may not be of concern to “society” as a whole, so it will not be a consideration in the state of legitimacy for a corporation. For example, a corporation may identify the issue of profitability as being extremely important to stakeholders such as shareholders and employees, but it may not be an issue which is important to society as a whole. This is a stakeholder issue, not a social issue and it would not be managed from a legitimacy theory perspective.

The description of legitimacy developed to date, however, requires the need to identify specific groups of stakeholders, rather than respond to the rather indeterminate measure of society's views and perceptions. It is asserted that legitimacy theory posits that management will move to establish congruence between these specific groups' perceptions and values on particular *social*

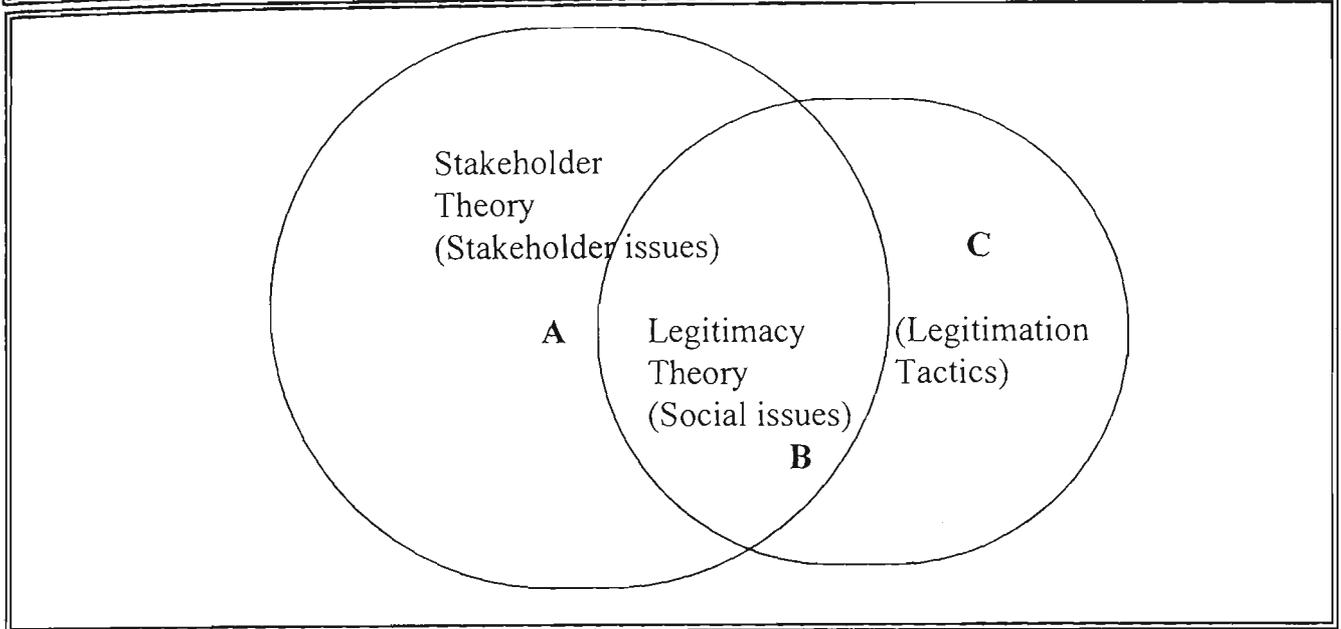
issues considered important for a firm's continuing legitimacy. In this sense, stakeholder and legitimacy theories are coming together, but the basis on which important stakeholders are identified is different.

An example of this coming together is found in the results of a study which attempted to link issues management to issues life cycle theory, legitimacy theory and stakeholder theory (Nasi et al 1997). They found that the three theories were interconnected. Managers respond to the demands of the most powerful stakeholders (stakeholder theory). When a powerful enough alliance of stakeholders becomes concerned with a particular issue which has the potential to damage a firm's legitimacy, then a legitimacy gap appears and this gap must be reduced (legitimacy theory). Management responses change when different stakeholder groups gain or lose power throughout the life cycle of the issue (life cycle theory).

It appears then that legitimacy theory could be positioned as a sub-set of stakeholder theory. From a stakeholder theory view, it has been argued (Mitchell et al 1997) that for corporate management to achieve certain ends, or because of perceptual factors, corporate managers only pay certain kinds of attention to certain kinds of stakeholders. From the prior discussion, on what constitutes legitimacy, the concept of legitimacy in the eyes of certain kinds of stakeholders is but one "certain end" management may be trying to achieve. The application of legitimacy theory will exclude those sections or groups in society who the corporation believes will have no affect in determining the corporation's legitimacy.

Figure 3.4 illustrates this position. Area A represents stakeholder theory as represented by all possible issues which may be relevant to all possible stakeholders. Area B, as a sub-set of Area A, represents all social issues considered to be relevant to a firm's legitimacy and stakeholders considered able to confer or withdraw legitimacy. Area C represents the component of legitimacy theory which contends that management will attempt to manage legitimacy by various means. Area C sits partly outside stakeholder theory as it represents a legitimisation process being undertaken by management to decrease any identified legitimacy gaps. At this stage of its development, stakeholder theory is not directly concerned with specific stakeholder management techniques.

**FIGURE 3.4 - ISSUES AND STAKEHOLDERS**



There are three main differences observed between legitimacy theory and stakeholder theory (Table 3.2): first, the distinction between social issues as an indicator of legitimacy threatening issues and stakeholder issues; second, the identification of specific stakeholders who are able to confer or withdraw legitimacy as opposed to other multiple purposes for identifying stakeholders; and third, that while both legitimacy and stakeholder theories are concerned with identifying influential stakeholder groups, only from a legitimacy perspective is the managing phase introduced.

**TABLE 3.2 - DISTINCTION BETWEEN STAKEHOLDER AND LEGITIMACY THEORIES**

<b>Theory</b>	<b>Predominant Type of Issue</b>	<b>Basis of Stakeholder Identification</b>	<b>Management Techniques</b>
Legitimacy	Social	Able to confer or withdraw legitimacy	Various tactics hypothesised
Stakeholder	Stakeholder specific	Most powerful in relation to issue	Not applicable

What has emerged in this review is a marriage of stakeholder and legitimacy theories. This marriage has occurred because in order to establish legitimacy a firm must identify which groups of stakeholders are important to it. If Mitchell et al's (1997) broad description of stakeholder

theory - the identification of which groups deserve or require management attention and which do not - is adopted, then legitimacy theory - alternative ways corporations manage the relationship between specific stakeholders in order to remain legitimate - becomes a connected part of stakeholder theory.

Legitimacy then, as viewed from a stakeholder perspective, meaning the identification of the groups which require or demand management attention, is only evaluated on the basis of whether the firm believes these groups are in a powerful enough position to confer or withdraw legitimacy.

How does a corporation decide which groups or classes of stakeholders have the ability to confer or withdraw legitimacy? While not a specific aim of this research, it is important to have an appreciation of how a corporation might proceed to identify which stakeholders are important for any issue management-stakeholder relationship.

Throughout the previous discussions on stakeholder theory and its applicability to legitimacy theory, the most often used concept in connecting the corporation to important stakeholders has been power. Initially a firm has power over stakeholders, but if the double edge of legitimacy is introduced, stakeholders can have power over the corporation. In this case, the corporation must take notice of these stakeholders.

In ground-breaking work, designed to help management determine the attributes of stakeholders in order to rank the relative influence they have on an organisation, Mitchell et al (1997) argued that power is but one of three attributes stakeholders may have of which a corporation must be cognisant, if they are to decide how to manage influential stakeholders. To power they add the attributes of legitimacy and urgency.

Based on Weber's (1966) work, they describe power as the ability of one group to get another to do something it would not have otherwise done. They argue that power and legitimacy are distinct stakeholder attributes that can combine to create authority. They apply Suchman's (1995) definition of legitimacy:

*“a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions.” (p.574)*

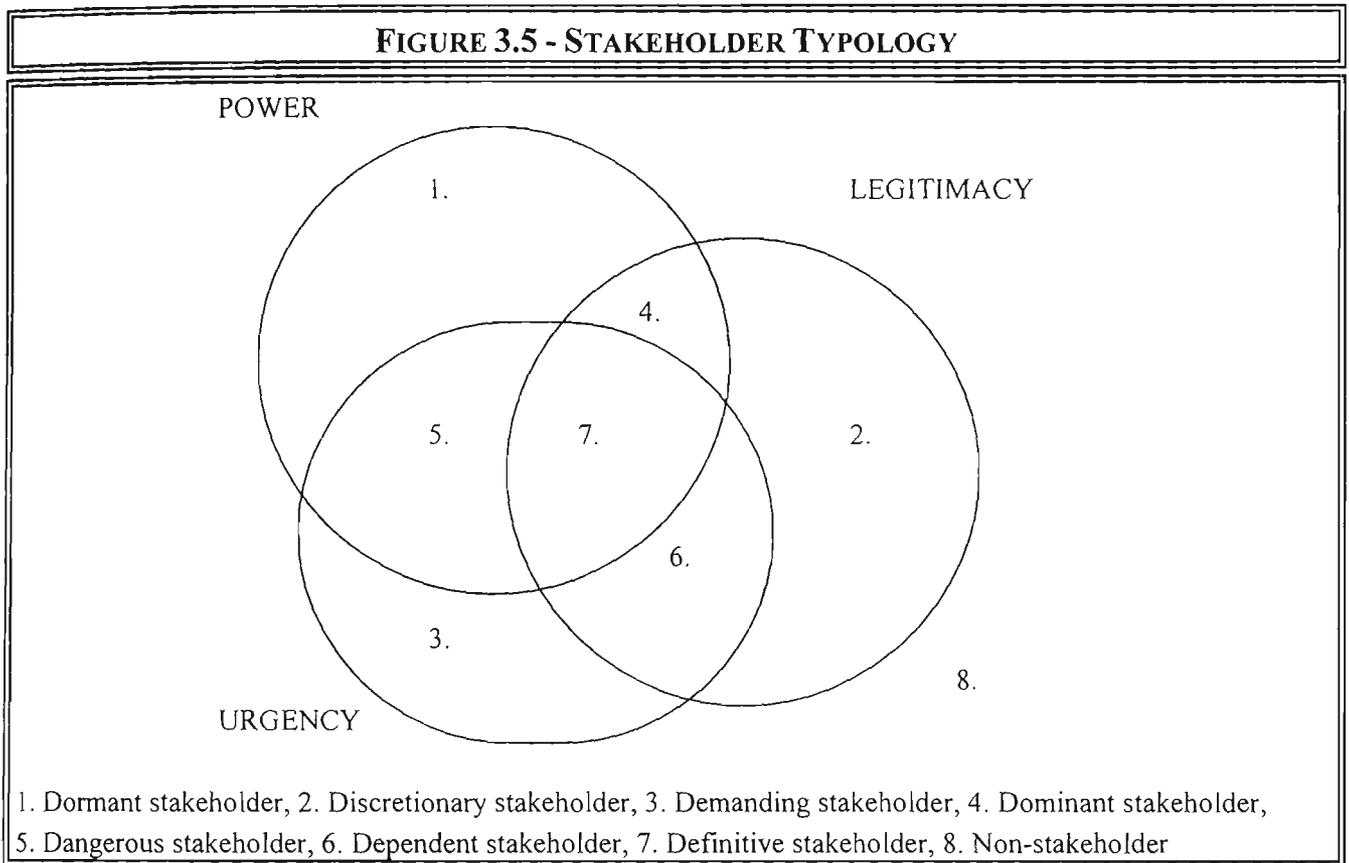
in order to make the point that legitimacy is a desirable social good and that the social system within which legitimacy is attained can be at an individual, organisational or societal level. In other words, both the corporation and stakeholder groups interacting with the corporation will seek legitimacy. For the purposes of this research, the managing of legitimacy is considered from an organisational perspective. Mitchell et al (1997) argue that, from this level, being legitimate is an important attribute for any stakeholder group, external to the organisation, to possess, if they wish management to respond to its needs. The possession of legitimacy alone, by external stakeholders, will not necessarily cause a corporation to classify a stakeholder group as being able to influence the corporation's legitimacy.

For example, a small environmental group may have a legitimate standing in society and it may have a legitimate protest over a corporation's activities with regard to an environmental issue, but unless it has the power to enforce its will in the relationship, it will not achieve its aim of getting management of the corporation to take notice of its protests.

Urgency is the third stakeholder attribute management needs to identify. This is described as the extent to which stakeholder claims call for immediate attention. The necessity of being aware of this attribute is implied in the previous discussions on issues and issues management and it also is highly relevant to crisis management. Managerial delay in attending to a stakeholder claim may inflame any situation. From an organisational legitimacy perspective, the longer management takes to deal with a potential legitimacy threatening issue, the more likely the legitimacy gap will widen.

Using the previous example, it is possible that the legitimacy of the environmental group coupled with urgency of an issue, may be enough to cause management of the corporation to decide that its legitimacy is under threat, even if the environmental group's power position has not altered.

In developing a stakeholder typology, Mitchell et al (1997) created seven classifications of stakeholders based on the possession of either one, two or all of the three necessary attributes. They argue that the more attributes the stakeholder possesses, the greater the influence they have on a firm. Figure 3.5, adapted from Mitchell et al (1997), depicts these relationships.



Definitive stakeholders (7) are most important as they possess all of the variable attributes necessary for management to respond to them; power, legitimacy and urgency. The importance of the stakeholders diminishes as the number of attributes each stakeholder possesses reduces. The last group, the non-stakeholder (8), possesses no stakeholder attributes. If a group has no power over a corporation, no social legitimacy and the issue/event it is concerned with is not urgent, this group is not considered a stakeholder in this model. From a legitimacy theory perspective, the stakeholders most likely to win management attention, in respect of requiring a response, are those who are able to confer or withdraw legitimacy.

The identification of who is exerting pressure on corporation's legitimacy is extremely important in any attempt to manage legitimacy. The dynamic nature of the variables in Mitchell et al's

(1997) model, however, must be noted as a limitation on its practical applicability. None of the stakeholder attributes is steady state. Power can be gained or lost by both companies and its external stakeholders; legitimacy may be present or absent and is based on perceptions of either or both corporate management and external stakeholders; urgency varies over time and between management and external stakeholders.

Each of these attributes is a socially constructed perceptual phenomena and may be perceived correctly or falsely by the external stakeholder, corporate management or others within a corporation's internal environment. While recognising the subjective and dynamic nature of stakeholder/management relationships, for the purposes of this investigation, it is proposed that management have some expertise in being able to identify stakeholders able to influence the firm's legitimacy.

### 3.6 DEFINING LEGITIMACY, LEGITIMATION AND LEGITIMACY THEORY

At this stage, it is time to revise the developing definition of legitimacy by incorporating the additional factors identified in the previous discussion. First, the inclusion of issues being a catalyst for the determination of a firm's legitimacy and, second, the identification of specific stakeholder groups to which the issue is important and the extent management believe these groups are in a position to be able to confer or withdraw legitimacy.

Suchman's (1995) definition of legitimacy, referred to in the previous section, is the most comprehensive developed in the literature to date and forms the basis of the definition to be used in this research, but with two caveats attached. It is considered important enough to reproduce here:

*"a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." (p.574)*

The first caveat relates to the exclusion from the definition of the importance of issues and issues management, being the catalyst for the launching of strategies by management to deal with legitimacy threats. The second caveat is that the phrase in Suchman's definition "within some

socially constructed social system” is both inclusive and exclusive. Inclusive in that any group of individuals could be part of a socially constructed social system. Exclusive in that the term does not identify who are the major audiences legitimization tactics are devised to pacify.

These caveats do not disqualify Suchman’s definition or work. They merely highlight the limitations of the definition for the purposes of this research. Therefore, the definition has been revised and adapted for use in this investigation. The revised definition of legitimacy, viewed from a management perspective, is:

**“a perception or assumption, held by a corporation’s conferring publics, that the actions of the corporation, in response to issues/events the corporation has identified as possibly threatening its reputation or existence, are desirable, proper or appropriate within the socially constructed system of norms, values, beliefs and definitions of the corporation’s conferring publics.”**

There are three important additions and one deletion from Suchman’s (1995) definition. The first addition includes specific reference to corporations as the organisational form. Second, this definition explicitly identifies corporate issues/events as being the major antecedents of threats to a corporation’s legitimacy. The third addition to Suchman’s definition is the inclusion of a specific audience at which any legitimization process may be aimed.

In adopting this approach, the term “generalised”, which Suchman used to link legitimacy to multiple issues or events, has been deleted. Suchman used the term generalised in relation to perceptions or assumptions to indicate what he called an “umbrella evaluation” (p. 574). He suggested, and it is agreed, that legitimacy may be resilient to particular issues or events, but is dependent on a history of events. For example, an oil company may have survived, with some damage to its legitimacy, a moderate oil spill, but if the company or oil industry had been linked to continuing oil spills of the same magnitude, its legitimacy may have been lost for all time.

If one is to begin to manage legitimacy, however, an initial identification of individual issues/events and their possible effect on a corporation’s legitimacy must be undertaken before any umbrella evaluation can occur. Including a direct reference to issues and their management

in this definition removes the more oblique reference to issues Suchman made. It also makes the presence or absence of legitimacy more testable, as they can be linked to discrete issues or events.

It is assumed that once legitimacy is threatened, a corporation will embark on a process of legitimation in order to manage legitimacy only for those whom it perceives to be its “conferring publics”. Other researchers have used terms such as relevant publics (Buhr, 1998, Lindblom 1994, Neu et al, 1998), constituents (Bansal, 1995) and social actors (Ashforth & Gibbs, 1990, Deephouse, 1997, Pfeffer & Salancik 1978), to describe stakeholders who may be potentially influential in determining an organisation’s legitimacy. The term “conferring publics” is both a tightening and an amalgam of these terms and it is asserted that only those stakeholders who have the optimum mix of attributes necessary to affect a corporation’s legitimacy are considered by management in the determination of a corporation’s legitimacy. A definition of conferring publics, which will be used in this investigation is:

**“those groups or individuals whom the organisation perceives have the necessary attributes to be able to influence the conferring or withdrawing of legitimacy”**

Perceptions or assumptions are the reactions of others to the organisation as they view it. Suchman (1995) argued that legitimacy is possessed objectively but created subjectively. This part of the definition is linked to the awareness of the observer. If a corporation’s activities involved a departure from accepted social norms or beliefs, but this departure was not brought to the conferring publics’ notice, legitimacy would remain.

For example, if an environmentally damaging oil spill had been of a significant magnitude, but had not occurred in a pristine natural environment and did not capture the publics’ imagination, it may not have received a great deal of media coverage. Paradoxically, it may not have captured the publics’ imagination because it did not receive enough media coverage. The perceptions or assumptions of the corporation’s conferring publics towards the oil company may not have changed dramatically and the organisation would have maintained whatever level of legitimacy it already possessed.

This does raise the question as to how corporate actions linked to social issues, which may compromise an entity's legitimacy, are initially brought to the notice of society. Research indicates that the main way in which legitimacy threatening issues are brought to the notice of society is through the media (Ader 1995, Brown & Deegan, 1999, Mayer, 1980, McCombs, 1981, Meznar & Nigh, 1993, Neu et al, 1998, Wartick, 1992). The influence of the media as both a creator and reflector of public pressure, public policy and social values is analysed in more detail in Section 4.3.3.1.

The social constructionist nature of legitimacy is that it reflects a shared value system (Buhr 1998, Suchman, 1995, Woodward et al, 1996). The behaviour of a legitimate entity should be compatible with the shared beliefs of its conferring publics. An entity's activities may deviate from some individual's values but retain legitimacy because the deviation draws no disapproval from its conferring publics. If a pattern of corporate behaviour has legitimacy, it may be that a group of observers, as a whole, accept that behaviour, despite any concerns that an individual might have about any apparent transgression of behaviour. Legitimacy may still be retained even if the accepting group have reservations about what views other observers might have and despite reservations that observers may have, if they were to observe more.

In using the previous oil spill example, environmentalists living in the vicinity of the oil spill may be concerned over the corporation's behaviour, but the majority of locals, other citizens and global opinion may resolve that the spill was not serious and conclude that the risk of that type of event occurring has to be accepted. This may be the current outcome, even though the locals, other citizens and global opinion may believe that further investigation could strengthen the environmentalists' case.

This suggests that where the degree of importance of an issue differs between multiple conferring publics, the corporation is in a more powerful position to manage legitimacy than if there were fewer conferring publics, but the reason the issue was important was common across these fewer groups. This position has been supported by both Oliver (1991) in her hypothesis that the greater the degree of constituent multiplicity, the greater the likelihood of a corporation's resistance to institutional pressures and Goodstein (1994) who showed that when there are multiple

constituents with potentially conflicting objectives, the potency of institutional pressures is weaker. A supporting view, in relation to the conferring of legitimacy, was provided by Bansal (1995) in her dissertation when she hypothesised that the greater the degree of multiplicity between constituents, the less the influence the constituents have over the firm.

While it is contended that a corporation's concern with its legitimacy is mainly reserved for the groups who it believes are in a position to grant or withdraw legitimacy, much work is still to be done in this area. Mitchell et al's (1997) seven group classification for determining which stakeholders are important to organisations and what attributes these groups of stakeholders must possess in order to be considered important to management is a good starting point in identifying which groups have the power to confer or withdraw legitimacy. Further, and more important for examining organisational legitimacy from a strategic viewpoint, there has been little research to date aimed at discovering which groups in society corporate management perceive to be the most influential in deciding a corporation's legitimacy in relation to specific legitimacy threatening issues or events (Elsbach, 1994, Elsbach & Sutton, 1992).

Based on this definition of legitimacy, the following revised definition of legitimation will be used in this research. Legitimation will mean:

**“the process whereby a corporation justifies to its conferring publics its right to continue to operate”**

Legitimacy theory, as it is applied in this investigation, combines the concepts of legitimacy, the idea of important conferring publics and the process of legitimation. For the remainder of this investigation, legitimacy theory is taken to mean:

**“The greater the likelihood of adverse shifts in a corporation's conferring publics' perceptions of how socially responsible a corporation is, the greater the desirability on the part of the corporation to adopt legitimation tactics in an attempt to manage these shifts in social perceptions”**

### **3.7 SUMMARY**

The concept of organisational legitimacy and its component parts was the focus of this chapter. The origins of the concept of legitimacy were discussed. This was followed by a discussion on how legitimacy relates to organisations and, in particular, the corporate form of organisation. Assumptions about the scope of legitimacy for the purposes of this investigation were then included. A detailed evaluation of the factors and influences with respect of corporate legitimacy were identified and evaluated to assist in the development of definitions of legitimacy, legitimation, conferring publics and legitimacy theory to be used in this investigation.

## CHAPTER 4 - MANAGING LEGITIMACY: THEORETICAL AND PRACTICAL PERSPECTIVES

### 4.1 INTRODUCTION

For this investigation, a key component of legitimacy theory is the desire of corporations to *manage* shifts in others' perceptions of the corporation - managing legitimacy. The purpose of this chapter is to place the processes involved in managing legitimacy into an appropriate theoretical framework and to identify and discuss the many practical features of which corporations need to be cognisant when managing legitimacy. The theoretical perspectives analysed are drawn from an examination of three main organisational behaviour theories; institutional, resource dependence and impression management. Legitimation processes are an important part of each of these theories. The practical considerations centre around identifying specific public pressure variables which may threaten a firm's legitimacy and how these may affect management of legitimacy.

This is followed by an evaluation of the literature, which indicates that corporations manage legitimacy by choosing from a number of legitimacy tactics. It is argued that the choice of these tactics often result in annual report disclosures and are dependent upon whether the corporation's purpose is to gain, maintain or repair legitimacy. A detailed discussion of the characteristics of the different legitimacy purposes and the many legitimation tactics, which firms may choose from, is conducted. Reasons for the decision to use four legitimation tactics/responses for the data to be collected in Phase III (a) of this investigation follows this discussion. The chapter concludes with a discussion on how and why corporate management make use of the annual report to legitimise corporate actions and activities.

### 4.2 THEORETICAL PERSPECTIVES

It is interesting to note that over the last three decades, management and organisational behaviour researchers have considered the concept of legitimacy as an integral part of their research, but few had defined it in any detail (DiMaggio & Powell, 1983, Meyer & Rowan, 1977). This is, no doubt, in part due to the difficulties in determining a relevant definition for an abstract concept which relies on the perceptions of those outside the entity for its existence.

Further, it appears that concepts developed in relation to the retention of organisational legitimacy as a motive for types of organisational behaviour have only covered limited aspects of the phenomenon as a whole and little attention has been devoted to systematising alternative legitimisation processes. From a theoretical position, in investigating motives behind different types of organisational behaviour, many of the writers in institutional (DiMaggio & Powell, 1983, Meyer & Rowan, 1977), impression management (Goffman, 1973, Tedeschi, 1981) and resource dependence theories (Greening & Gray, 1994, Oliver, 1991, Pfeffer, 1982) place the concept of organisational legitimacy as a core element. In each of these theories, legitimacy appears to be similarly represented, but there has been a lack of cross-fertilisation of the ideas encompassed in each of these theories.

For example, Elsbach (1994) claimed that two major theoretical perspectives have described the management of organisational legitimacy; institutional and impression management, and that institutional theory is by far the most relevant in describing how organisations manage legitimacy. Others (Ashforth & Gibbs, 1990, Oliver, 1991) have added a resource dependence perspective to this in attempting to explain the importance of analysing motives for organisations seeking legitimacy.

A key construct in all three theoretical approaches is that most organisations face numerous and frequently conflicting demands from a variety of stakeholders (Pfeffer, 1982). Each of the theories also posit that organisations will attempt to maintain stability and legitimacy. What priority is given to these demands from different groups of stakeholders and, in turn, what strategies management adopt to resolve these conflicts in order to remain stable and legitimate, or not to become illegitimate, is where these three theories appear to differ.

In Chapter 3, it was suggested that legitimacy is linked to issues, so it is important to develop a framework which has issues management as the antecedent to any legitimisation process for managing legitimacy threats. This framework supports the proposition that the retention of organisational legitimacy has as much to do with initial legitimacy awareness-raising issues and events, as it does with the broader philosophies espoused in institutional, resource dependence or impression management theories (Greening & Gray, 1994).

Included in Table 4.1 is an outline of the previously discussed importance of issues management to the existence of organisational legitimacy. It was asserted (Section 3.5.2) that issues/events are a major cause of legitimacy threats. The concepts outlined in Table 4.1 will be used as a basis for the ensuing discussion which is designed to reinforce the connection between the concept of organisational legitimacy and issues management and to illustrate both the overlap and lack of synthesis among institutional, resource dependence and impression management theories in relation to the management of organisational legitimacy.

**TABLE 4.1 - THEORETICAL FRAMEWORK FOR THE MANAGEMENT OF ORGANISATIONAL LEGITIMACY**

	References	Relevance to Legitimation
Issues Management Perspective	Greening & Gray, 1994, Wartick & Mahon, 1994, Meznar & Douglas, 1995, Nasi et al, 1997	The predominant cause of threats to an organisation's legitimacy is one or more issues the organisation is associated with bringing the organisation into conflict with current social values or expectations.
Related Theory	References	Legitimacy Management Approach
Institutional	Meyer & Rowan, 1977, DiMaggio & Powell, 1983, Baum & Oliver, 1991, Oliver, 1991, Greening & Gray, 1994, Deephouse, 1997	Organisation adopts widely used and accepted social practices or aligns itself with other influential organisations in order to survive and to influence external constituents.
Impression Management	Goffman, 1973, Tedeschi, 1981, Leary & Kowalski, 1990	Individuals' (managers') personal beliefs, coupled with strong managerial discretion, will largely determine tactics which may be used to manage organisational legitimacy.
Resource Dependence	Pfeffer & Salancik, 1978, Pfeffer, 1982, Oliver, 1991, Greening & Gray, 1994	Relationships with power centres that control vital resources are crucial for the maintenance of organisational legitimacy. Management must determine: <ul style="list-style-type: none"> <li>(i) who controls the vital resources; and,</li> <li>(ii) the power of their own organisation within its institutional framework</li> </ul> Management of legitimacy is based on a combination of these two determinations plus any discretion management may have to make individual choices within these constraints.

### **4.2.1 INSTITUTIONAL THEORY**

Institutional theory (DiMaggio & Powell, 1983, Meyer & Rowan, 1977) focuses on how organisations may manage pressures by adopting and maintaining widely used and accepted practices. Institutional theorists have proposed that an organisation is more likely to survive if it obtains legitimacy and social support from either external constituents of its institutional environment (Baum & Oliver, 1991) or if it behaves, or appears to behave, in a similar way to other comparable organisations within its institutional environment (Deephouse, 1997).

Institutional theory contends that organisations may imitate or reproduce other legitimate organisations' structures, behaviour, processes or routines in response to external pressures. In utilising this approach, an organisation may seek to achieve legitimacy by conforming with what it believes is current conventional practice. The emphasis in this aspect of institutional theory is maintaining social worthiness (Oliver, 1991).

The crucial point in this theory is that the management of legitimacy is carried out from an organisational, not an individual manager's or management group perspective. Decisions about managing legitimacy are made in a highly institutionalised framework and it is these institutional pressures which dictate any approaches to managing legitimacy. Elsbach (1994) also asserts that, from this perspective, the framework to manage legitimacy is firmly established and organisations are pro-actively prepared for legitimacy threats rather than having to respond to them. One could argue, however, that the mere presence of an institutionalised structure does not always prepare organisations for isolated legitimacy threatening issues and events which may be unique and of a magnitude which could, if managed poorly, bring down an organisation.

The Exxon Valdez oil spill in Alaska (Rubinstein, 1989) and the Union Carbide Bhopal gas leak in India (Blaccionierre & Patten, 1992) are examples of organisations operating in a well established institutional framework which did not "prepare" the organisations simply to adopt institutional practices in order to repair lost legitimacy. Further support for decoupling the link between corporate responses to external pressures, including legitimacy threats, and institutional theory as an explanation, was found by Oliver (1991). After an exhaustive examination of the

institutional literature, she claims that organisations do not invariably conform to the rules, myths or expectations of their institutional environment when responding to external pressures.

#### **4.2.2 IMPRESSION MANAGEMENT THEORY**

Impression management refers to the process by which individuals attempt to control the impression others form of them (Leary & Kowalski, 1990). In relation to managing legitimacy, impression management theories (Goffman, 1973, Tedeschi, 1981) focus on how an individual manages personal legitimacy by taking on roles, displaying social affiliations and providing verbal explanations of behaviour following image threatening events.

Impression management theory emphasises the role of self-interest and, in this context, it is argued that managers' individual perceptions, impressions and accounts of issues, may be crucial in determining approaches to managing organisational legitimacy. Significantly, qualitative empirical research (Dutton & Dukerich, 1991, Elsbach & Sutton, 1992, Sutton & Callahan, 1987) supports the thesis that both individuals and their organisations use impression management strategies to protect their image. Image, in a corporate context, is closely related to legitimacy. This approach is not dissimilar to an agency theory perspective, that is, principals will always act in their own self-interest, (Jensen & Meckling, 1976) as discussed in Chapter 2.

Elsbach & Sutton's (1992) research results imply that, if viewed from a longitudinal perspective, what may initially appear to be an individual acting in his/her own self-interest (impression management theory) in the short term, is actually related to the achievement of long term organisational goals (institutional theory). They concluded that organisational spokespersons use impression management tactics to manage organisational legitimacy and that individual managers will attempt to use institutionalised practices to justify actions or bolster excuses. The use of "justifications" and "excuses" are two of the impression management strategies Elsbach & Sutton (1992) concluded were used on behalf of the companies in the study they conducted into how companies managed legitimacy threats in the Californian cattle industry.

Institutional theorists have commonly neglected the role of managerial self-interest, opting instead for the role of social norms and accepted institutional structures when attempting to explain

management of legitimacy. It seems logical, however, that depending on how powerful any particular senior managers or management group are, some legitimation approaches adopted could have elements of both institutional pressures and an individuals' personal perceptions and values.

Impression management theory can contain elements of both resource dependent and institutional theories depending upon an individual's personal constructs of legitimacy. For example, Bansal (1995) categorises impression management theories as being consistent with what she calls "social responsibility" motives for firms becoming more socially responsible and aware. That is, if a firm adopts what she defines as a "socially responsible" approach, it does so more because of the social beliefs and values of its executive managers than because of institutional pressures. This position has been supported by research conducted in order to discover reasons behind the increasing emphasis on corporate environmental management (Corbett & Wassenhove, 1993, Mitroff, 1994).

#### 4.2.3 RESOURCE DEPENDENCE THEORY

Resource dependence theorists contend that large organisations controlling important resources are less susceptible to external social control than other organisations (Meznar & Nigh, 1995). Resource dependence theory has two broad tenets. First, organisations are constrained by, and depend on, other organisations or institutions that control critical resources for them; and second, organisations attempt to manage uncertainty and their dependencies on external groups in order to acquire more autonomy and freedom (Oliver, 1991, Pfeffer & Salancik, 1978).

In responding to external pressures, while institutional theorists have not directly addressed managerial discretion, resource dependence theorists have been more explicit, suggesting that managers make strategic choices within constraints (Marcus, 1988, Pfeffer & Salancik, 1978) in attempting to mitigate the influence of external pressures on their firms. Oliver (1991) explains this as:

*"the organisation having control or influence over the resource environment or the organisation's exchange partners for purposes of achieving stability" (p.149)*

In contrast to institutional theorists, whose main legitimacy emphasis appears to be social acceptance and conforming to external pressures, a resource dependence position would suggest that the best way to retain legitimacy is to ensure continuance of resources necessary for the business to continue and to control any external threats to the continuance of these resources. If these resources are mainly financial, then continuing to satisfy the resource providers first is necessary to give the organisation's management choices in respect of social acceptance. In order to do this, the organisation has to identify which groups or institutions they are most dependent upon for critical resources. Any initial approach to legitimise the organisation would be primarily aimed at the resource providers. The possession of resource power makes powerful and legitimate stakeholders important to management, especially if the double-edged notion of legitimacy, that power is transferable between management and powerful stakeholder groups, is taken into consideration.

This theory seems to sit somewhere between institutional and impression management in that approaches to managing legitimacy may be based on established frameworks (institutional) but influenced in varying degrees by the strategic judgement of top management. This judgement is, in part, based on management's perceptions of whom the organisation is dependent upon for resources. These resources could be financial, political or social, depending on what mix of institutional pressures, management perceptions or manager's self-interest and individual values (impression management) exist. The judgement is also based on how powerful the organisation is within its own institutional framework, meaning, can the organisation influence the institutional framework?

In attempting to discover why firms respond in different ways to external issues, Greening & Gray (1994) concluded that a combination of firm size, which it is agreed is a reasonably reliable proxy for institutional power, institutional pressures and managerial discretion account for the differences.

Resource dependence theory, unlike institutional theory, is very reliant on the assumption that resource providers are the *important stakeholders*. If this view is adopted, then organisations are trying to connect with, or legitimate to, resource providers as the conferring publics. It appears

that identifying who these conferring publics are (as was discussed in Sections 2.5.1.2 and 3.5.3) is of critical importance to any theory developed in relation to the managing of organisational legitimacy.

#### **4.2.4 A STRATEGIC FOCUS**

Studies involving, first, the understanding of, and, second the management of, organisational legitimacy seem increasingly divided into what Suchman (1995) categorised as either institutional and strategic groups and these groups often appear to be in conflict.

Proponents of the institutional group adopt the view of institutional theorists (DiMaggio & Powell, 1983, Meyer & Rowan, 1977), that legitimacy is gained or held by an organisation when it operates within an accepted institutional framework. Writers in the strategic group (Dowling & Pfeffer, 1975, Elsbach & Sutton, 1992, Pfeffer, 1982) adopt a managerial perspective and emphasise ways in which organisations may manipulate and employ evocative symbols to garner legitimacy. This approach appears to fit better with resource dependence and impression management theories.

While the substance of these conflicts appears real, to a large extent the distinction between these approaches is a matter of perspective. From a strategic viewpoint, legitimacy is considered from the view of management looking out at what they believe it takes to legitimise the entity in the eyes of the public. The assumption here is that management has a high level of control over the legitimisation process. Institutional theorists adopt the viewpoint of society looking in and legitimisation is based on an understanding and appreciation of what the public wants; management respond rather than control. Resource dependence theory is consistent with the strategic position, in that legitimacy is an operational resource which an organisation needs to achieve its goals. Impression management theorists' positions may be either strategic or institutional, or a combination of the two, dependent on both the personal construct of legitimacy a manager has and the power a manager has over any social policies of the organisation, and the power the entity has over the institutional framework of which it is a part.

In crystallising the conflict, Suchman (1995) suggests that from a strategic viewpoint, legitimation is purposeful, calculated and frequently opposed to the wants of stakeholders, whereas the institutional approach adopts legitimacy as a set of stakeholder beliefs and downplays management and stakeholder conflict.

Although cognisant that both perspectives are influential in any strategy management may be likely to embrace in managing legitimacy, the strategic position will be adopted in this research. As a major focus of this research is investigating managers' intentions in choosing legitimation tactics and related annual report disclosure approaches, it is argued that the annual report is produced from a strategic rather than institutional focus. As the annual report is an internally produced publication for managers to use in a way of their choosing, it is *more likely* to be used to characterise corporate strategies in order to appease conferring publics' demands and concerns, rather than being used to report substantive changes in corporate policies developed as a result of institutional pressures.

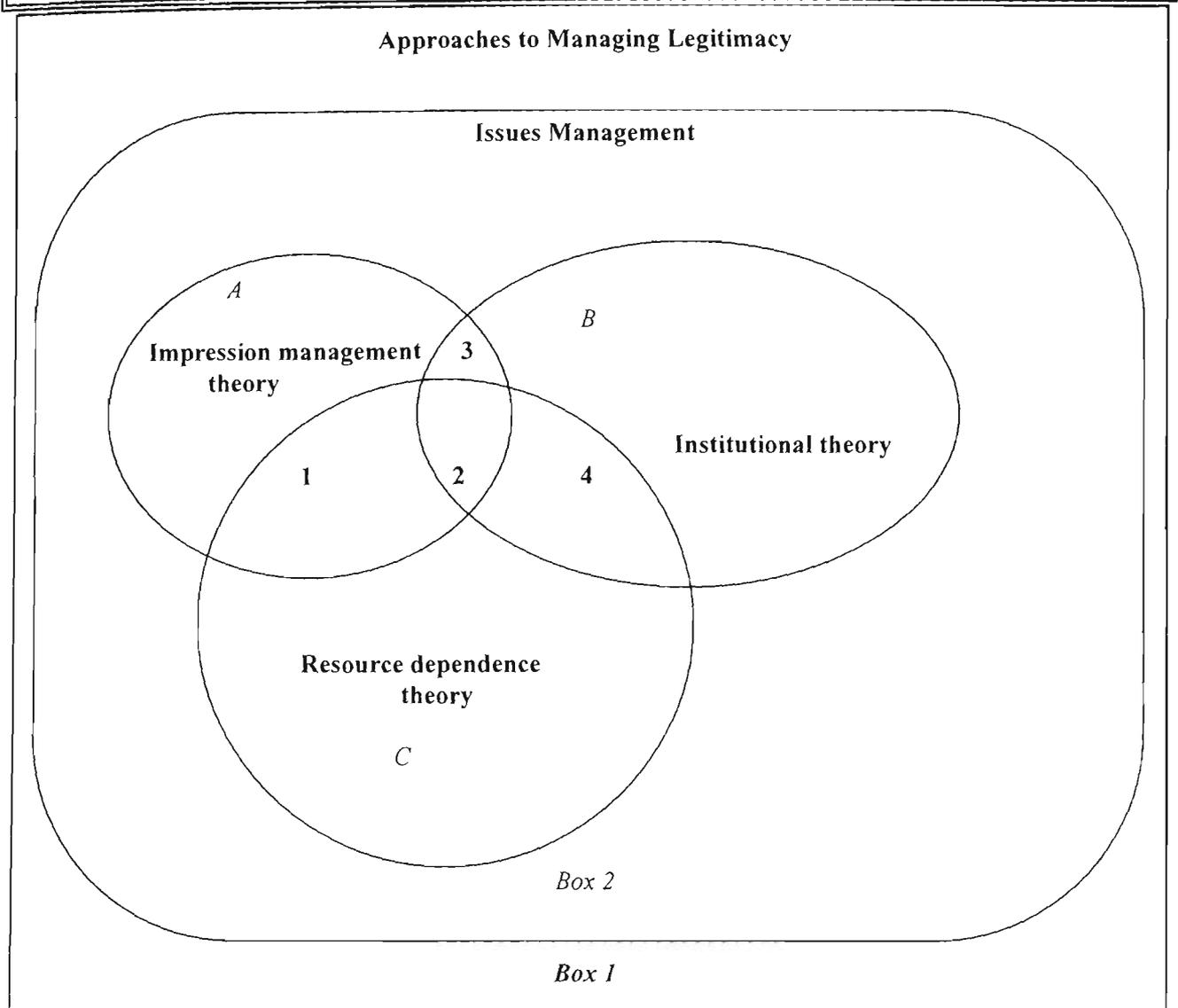
This is not to say that the annual report would never be used to communicate information brought about or related to institutional pressures. This may very well occur, especially when substantive changes to organisational practice have obviously occurred because of institutional pressures. It is, however, supported in the corporate social responsibility literature (Deegan & Rankin, 1996, Kernisky, 1997, Neu et al, 1998, Patten, 1995) and asserted for the purposes of this investigation, that voluntary annual report disclosures aimed at managing legitimacy, especially in relation to social or environment issues, tend to concentrate on symbolism, manipulation and "good" news stories, rather than reporting actual or planned changes as a response to external pressures.

#### **4.2.5 REVIEW**

Organisations tend to lose public support and legitimacy when they have been negatively associated with a significant issue or event. Legitimacy is threatened when an entity's conferring publics' perceptions of the entity, based on social values, are at odds with the entity's actions or activities in relation to the issue/event. This suggests that in order to manage legitimacy, organisations must manage issues, or more discrete events that are linked to broader issues. To manage issues the organisation must, first, identify to which group or groups the issues are

important and, second, decide to what extent these groups possess the right balance of essential stakeholder attributes of power, legitimacy and urgency which renders them able to confer or withdraw legitimacy.

The foundations on which organisations manage legitimacy threatening issues form integral parts in each of institutional, resource dependence and impression management theories. In summarising the literature, Figure 4.1 depicts the relationship between legitimacy theory, issues management and the three theories discussed and illustrates the first stages of a model to develop the concept of organisational legitimacy into a better defined and robust “legitimacy theory”.

**FIGURE 4.1 - LEGITIMACY THEORY DEVELOPMENT**

Box 1 represents possible approaches to managing organisational legitimacy. The placing of the slightly smaller issues management (Box 2) within these approaches indicates that approaches to managing legitimacy will most often arise from legitimacy threatening issues/events. Circles A, B and C represent approaches to managing organisational legitimacy consistent with views of impression management, institutional and resource dependence theorists. The areas where the three circles intersect represents some commonality of approach (Areas 1, 2, 3 and 4). For example, Area 2 may represent a management response to an environmental issue that conforms with institutional pressures and also (perhaps coincidentally) is consistent with a managerial decision made independently by a senior manager based on his or her environmental values and the response is aimed at the stakeholder group which controls resources critical to the organisation.

The parts of Circles A, B and C which do not overlap with each other represent the differences of each theoretical perspective in relation to managing organisational legitimacy. Finally, all areas outside Circles A, B and C, illustrate the belief that even a combination of these theories does not include all possible approaches to legitimacy management, notably identification of *all important* conferring publics (Box 2) and the possibility that something other than an 'issue' may cause a threat to an organisation's legitimacy (Box 1).

There are many similarities in respect of organisational legitimacy in each of these theories. Although the three theories discussed above differ in important ways, they all share a fundamental interest in corporate responsiveness. Each leads to a different general prediction regarding the type of corporate response undertaken and how it is generated in the face of a social issue.

More specifically, the main differences between the theories in response to external pressures and expectations are the focus on conformity, passivity and acceptance of institutional theorists compared to the resistance, active and manipulative tactics of resource dependent theorists. As stated previously, impression management theorists believe that an individual manager armed with his or her individual beliefs is primarily responsible for managing legitimacy, whereas institutional theorists suggest that the organisation, field or society manages legitimacy.

The above discussion illustrates that the concept of legitimacy has occupied a significant role in organisational behaviour research over the last two decades. While it is integral to theories of organisational behaviour, questions relating to why it is important and how it should be managed have not been addressed in a cohesive manner. This can only inhibit the flow of information from theorists to practitioners. It appears from an analysis of organisational legitimacy literature, that the idea of a single, robust "theory of organisational legitimacy" or "legitimacy theory", which is testable at a micro-level, does not yet exist.

To further a theory of organisational legitimacy, any strategies corporate management may or do adopt in order to be legitimate must first be identified. It is clear that much worthwhile theorising and research has been conducted in this area (Ashforth & Gibbs, 1990, Davidson, 1991, Dowling & Pfeffer, 1975, Dutton & Dukerich, 1991, Elsbach & Sutton, 1992, Staw et al, 1983). From a

corporation's viewpoint, it is also apparent that further research must be conducted on two additional fronts. First, to what extent is the perceived significance of an issue/event, which could be a potential threat to a company's legitimacy, a determining factor in the choice of any legitimation tactics adopted; and second, to what extent can the specific purpose of any organisational response to an issue/event be linked to the choice of legitimation tactics. Using environmental issues/events as a trigger, these areas will be addressed in this research. The corporate annual report is used in this investigation as a means of communicating the theme of the corporation's responses which are linked to legitimation tactics decided on by the corporation.

### **4.3 MANAGING ORGANISATIONAL LEGITIMACY: PRACTICAL FACETS**

Corporations need to be aware of the chance of losing legitimacy. At a broad level it appears that legitimacy gaps may arise because:

- (i) corporate performance changes while societal expectations of corporate performance remain the same;
- (ii) societal expectations of corporate performance change while corporate performance remains the same; and
- (iii) both corporate performance and societal expectations change, but they either move in different directions or they move in the same direction, but at different rates (Wartick & Mahon, 1994).

If a corporation consciously changes its activities, one would assume that managers would be aware of possible effects on legitimacy caused by the change in activities. In other circumstances however, identifying this awareness can be difficult, because a corporation could lose legitimacy even though it does not change its activities. If one adopts the notion of a conferring public, this may happen to a corporation because:

- (i) of a change in the composition of its conferring publics;
- (ii) its conferring publics' values alter because of:
  - (a) evolving social awareness;
  - (b) regulatory or institutional pressures;

- (c) media influences;
- (d) interest group pressures;
- (e) corporate crises.

To manage its legitimacy effectively a corporation must be able to identify factors which cause changes in its conferring publics' values and/or perceptions of the corporation. In addition to this, it is expected that a corporation's conferring publics will change over time, even during the life-cycle of a single issue/event. One obvious reason for this would be a change in the composition of its shareholders. It is beyond the scope of this research to investigate reasons why a corporation's conferring publics may change.

Each of the factors mentioned above, which may influence a corporation's conferring publics' values and/or perceptions of the corporation, could be important in isolation or may be interconnected, causing a flow-on effect. For example, media or interest group pressures could cause regulatory or institutional pressures which could lead to an evolving social awareness on the part of an entity's conferring publics.

In each of these areas, management must be cognisant of any issues which may precipitate a threat to its legitimacy. For a corporation to manage legitimacy effectively, it must:

- (i) establish what its conferring publics' social and environmental values and perceptions of the corporation are (public pressure variables);
- (ii) decide on the purpose or aim of any potential organisational response to legitimacy threats; and
- (iii) decide what tactics are available and suitable for managing legitimacy, related to the purpose of the organisational response.

#### **4.3.1 LOSING LEGITIMACY: PUBLIC PRESSURE VARIABLES**

It was determined, in Section 3.5.2, that the identification of issues/events which have been linked to corporate actions and which help to create conferring publics' perceptions that the corporation is not acting in accordance with its values, is the main antecedent for any threats to a

corporation's legitimacy. Working on the assumption that a corporation is legitimate until an issue/event, or multiple issues/events, threatens its legitimacy, a subsequent question must be answered before a corporation can begin to manage this threat. What factors influence changes in the perceptions of a corporation's conferring publics?

General management researchers, as well as social and environmental reporting researchers, have established that corporate management interpret what issues are important to society by taking into account media reports (Ader, 1995, Brown & Deegan, 1999, Wartick, 1992), current legal requirements (Deegan & Rankin, 1996, Lindblom, 1983), community views (Elsbach & Sutton, 1992), current political issues (Marcus & Goodman, 1991), the power and influence of institutionalised processes (Oliver, 1991), the influence of pressure groups (Tilt, 1994) and the personally held social values and beliefs of managers (Sutton & Callahan, 1987).

#### **4.3.1.1 Media Influences**

While the media have little direct control over the transfer of resources to organisations, they can have considerable influence on the allocation decisions of others. Research indicates that main stream news media is the most appropriate indicator of social values and public pressure in relation to an organisation's legitimacy. Studies by Mayer (1980) and McCombs (1981) into the effect of media on the public, suggest that the news media, and, in particular, the print media, positively influence the way most people decide what is an important public issue. Media bias and effects have also been shown to shape social values and attitudes (Chen & Meindl, 1991, Gans 1979). This is consistent with media agenda-setting theory as discussed and tested by Zucker (1978). In terms of causality, this theory proposes that increased media attention leads to increased community concern for a particular issue.

There have been numerous studies which have used local, regional and national media as indicators of public pressure in relation to the reputation or legitimacy of an organisation. The extent of the relationship between corporate reputation, which is closely linked to legitimacy, and media exposure was tested in a study by Wartick (1992). He studied the effects that prominent, negative media exposure, related to single incidents, had on twenty-nine companies. He found a significant association between the media exposure and adverse changes in corporate reputation.

These results are supported by Deephouse (1997), Elsbach (1994) and Dutton & Dukerich (1991), who all concluded that the use of media reports influenced public pressure and placed in jeopardy the legitimacy of organisations.

Of more relevance here is the study by Ader (1995), who found that the extent of media attention on pollution issues positively affected community concern for the same issues. Further support for this position is found in Brown & Deegan (1999) who discovered a relationship between levels of negative media attention on environmental issues and positive levels of corporate annual report disclosures. This research suggests that society will most often discover information about corporate conduct, especially in relation to environmental issues, through the media. This information can ultimately translate into public pressure or expectations of certain standards of corporate behaviour.

#### **4.3.1.2 Interest Group Influences**

The media is not the only source of pressure that is important for corporations to consider in deciding on its conferring publics' values and perceptions, leading to possible threats to its legitimacy. Regulatory and statutory pressures are crucial to an organisation's legitimacy. As was discussed in Section 3.4, however, for the purposes of this research, legitimacy is to be viewed from the level of social acceptance, which, almost without exception, would include obeying all regulatory and statutory obligations.

Community groups, activist groups (e.g., Greenpeace) and other issue specific groups may exert pressure on corporations in relation to their social activities. If interest groups are deemed by the corporation to have power and legitimacy and the issue which they have chosen to adopt is considered urgent, there appears little doubt that a corporation will have to act to defend its legitimacy. These interest groups would be part of the corporation's conferring publics.

How does a corporation decide when an "interest group" has enough stakeholder attributes to be considered a threat to its legitimacy? It appears that only a few researchers have acknowledged minority interest groups as a direct source of external pressure on legitimacy (DiMaggio & Powell, 1983, Oliver, 1991, Tilt, 1994), mainly because it is perceived that these interest groups

tend to be “one-offs” and they only gain prominence if they become more important to the corporation than the combined importance of other multiple conferring publics. This may occur if these interest groups can attract the attention of the media, thus becoming more powerful and legitimate themselves. This can best be illustrated by reference to Elsbach & Sutton’s (1992) study which investigated the influence of two radical social movement organisations and how eight “illegitimate” actions by these groups led to increased publicity for the groups and their cause. This increased the group’s exposure, power and, ultimately, legitimacy.

In relation to corporate social responsibility disclosures, including environmental reporting, Tilt (1994) described a “pressure group vacuum” in the literature in investigating for whom corporate social reporting was designed. She concluded that most pressure groups were engaged in lobbying and this signified that they were attempting to influence corporate social performance. She did not test whether companies were aware of, or responded, to this pressure. More conclusive support for the position that pressure groups influence disclosure practices, resulting in support for legitimacy theory, was found in a study on the environmental disclosures in the annual reports of 197 Australian companies over 5 years between 1980 and 1991 (Deegan & Gordon, 1996). They discovered that the increase in the mean amount of environmental disclosures between 1988 - 1991 was positively correlated to increases in environmental group memberships over the same period. Thus, companies were responding to the increased demands of one group of stakeholders, environmental groups, by increasing annual report disclosures.

In summary, it appears that interest groups will, most likely, uncover information about corporate actions from a number of sources, including corporate annual reports, advertising and, to a relatively lesser extent than “non-interest” groups, the media (Zehghal & Ahmed, 1990). Interest groups appear to be keenly interested in corporate activities, but research to date suggests that corporate management is not as interested in responding to these interest groups, unless they are considered a threat to the firm’s legitimacy.

#### **4.3.1.3 Crises**

There can be many types of corporate crisis. It has been argued that crises reflect a deficiency in the industrial infrastructure and a failure of safeguards against the externalities of technological

development (Perrow, 1984). Product safety recalls, corporate crimes and scandals, airline disasters and environmental disasters are some examples of crises that quickly come to mind.

Firm crises, disasters and catastrophes are obviously legitimacy threatening events which are usually linked to wider social issues. While there are direct victims of any crisis, it is usually the groundswell of public opinion that follows a corporate crisis that leads to a change in values, perceptions and perhaps, composition of an entity's conferring publics. In this sense *organised* stakeholders often demand redress and structural changes (Carroll, 1989) or greater accountability from the organisation (DiMaggio & Powell, 1983).

An example of a corporate crisis, which was important to the development of legitimacy theory, was the Exxon Valdez oil spill. This incident was a major impetus for research into annual report disclosures being used to communicate responses designed to repair legitimacy (Patten, 1992, Rubinstein, 1989, Walden & Schwarz, 1997). Other crises, such as Union Carbide's Bhopal chemical leak, have been used as the basis for research into the relationship between the crisis and possible effects on share value (economic legitimacy) (Blaccionierre & Patten, 1994) and management responses to the crisis (Marcus & Goodman, 1991). While legitimacy theory development was not a direct purpose of Marcus & Goodman's (1991) research, they carried legitimacy research a step further in investigating the types of response corporations may make to a crisis. They concluded that depending on certain variables, a firm will be either accommodating or defensive in its responses.

In summary, crises indicate future institutional pressures and clearly influence stakeholders' perceptions of a firm's legitimacy. It is asserted that, initially at least, the media will still influence the majority of a firm's conferring publics' perceptions and values in relation to corporate crises.

The nature of a crisis results in it being news worthy and it is in this way that the public will discern aspects of the crisis and form opinions on the activity of the managers and corporations in the crisis. If it is to manage legitimacy effectively, management need to be aware of the effect that a crisis, and the way the media reports it, has on its conferring publics' values and perceptions of the corporation.

### **4.3.2 PURPOSES OF ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS**

Before a corporation decides upon an organisational response to legitimacy threats, it has been contended that it must be aware of the different purposes or aims of any organisational response. Ashforth & Gibbs (1990), Oliver (1991) and Suchman (1995) argue that legitimisation techniques/tactics chosen will differ depending on whether the organisation is trying to gain or to extend legitimacy, to maintain its level of current legitimacy or to repair or to defend its lost or threatened legitimacy.

There has been a number of empirical studies into managing organisational legitimacy in the general management area, for example, Elsbach (1994), Salancik & Meindl (1984) and Sutton & Callahan (1987). Moreover, there has also been an increase in the amount of empirical social and environmental reporting research, related to legitimacy theory, for example, Buhr (1998), Guthrie & Parker (1989), Patten (1991, 1992, 1995). In the main, this research has been concerned with management responses to issues or events, identified as having large negative social consequences for the corporation, thus most likely affecting the organisation's legitimacy. These issues/events were widely publicised and brought the industry or corporation in question into the public spotlight. These studies have only been concerned with organisational responses consistent with the purpose of repairing or defending legitimacy.

An evaluation of the literature in this area suggests that the organisational response will take on a different form and will have different characteristics, depending upon the purpose of the response. Table 4.2 illustrates this idea.

**TABLE 4.2 - PURPOSES AND CHARACTERISTICS OF ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS**

PURPOSE	CHARACTERISTICS
Gaining/extending legitimacy	Management are pro-active; risk minimising strategy; issue- or event-based
Maintaining legitimacy	Management are generally pro-active; generally issue-based
Repairing or defending legitimacy	Management are generally reactive (short term); response to a crisis; generally event-based, but linked to wider issues

Adapted from Suchman (1995)

The main distinction between a pro-active and a reactive response, from a management perspective, is the general level of current public awareness or concern over the issue or event. Generally, if the purpose of the response is to gain or maintain legitimacy, the level of current public concern would be negligible. This is because management either know more about the issue or event, at this stage, than the public (gaining), or that management decides the issue may be of concern to the public in the future (maintaining). Obviously, in a crisis situation, management responses will always be reactive, at least in the short term, as they are responding to an event that has been brought to the public's attention, usually in a dramatic manner, via main stream media reports, and the event generally demands an immediate public response (repairing).

This classification of purpose partly explains why a corporation may respond to public pressure by adopting legitimisation tactics, and possible annual report disclosure approaches, in some instances and not in others. That is, the decision to respond, and in any particular way, may be able to be at least partly explained by identifying whether the corporation is attempting to gain, maintain or repair legitimacy (Ashforth & Gibbs, 1990, Oliver, 1991, Suchman, 1995).

In Table 4.3, legitimisation techniques, based on Suchman's (1995) work, which can be used in relation to these three organisational legitimisation purposes are listed. Suchman (1995) argued that these *general* legitimisation techniques were inclusive enough to be applicable in most circumstances where a firm wanted to gain, maintain and repair legitimacy. He also classified three other types of organisational legitimacy: pragmatic; moral; and cognitive, with which he

linked specific legitimation techniques. It is not intended to evaluate or use the pragmatic, moral or cognitive classifications for the purposes of this investigation.

<b>Purpose</b>	<b>Gaining Legitimacy</b>	<b>Maintaining Legitimacy</b>	<b>Repairing Legitimacy</b>
<b>Technique</b>	Conform to Environments	Perceive Change	Normalise
	Select Among Environments	Protect Accomplishments - monitor operations - communicate subtly - stockpile legitimacy	Restructure
	Manipulate Environments		Avoid Overreaction

(Adapted from Suchman, 1995, p.600)

The focus in this research is on what corporation's disclose in the annual report and how these disclosures indicate the intention behind the choice of specific legitimation tactics. Suchman's (1995) three legitimation purposes will be used to identify and classify legitimation techniques/tactics and specific corporate annual report disclosure approaches linked to these purposes. In order to explain the distinctions between gaining, maintaining and repairing legitimacy and the relationship between these purposes and specific legitimation techniques, the following sub-sections include a brief explanation of each of the purposes and the techniques which can be used for each purpose.

It should be kept in mind that Suchman (1995) referred to the 'audience' at which these techniques were aimed at as stakeholders, whereas the more precise 'conferring publics' is used to identify the target group for legitimation tactics in this research. In order to preserve the meanings of Suchman's interpretations, his term stakeholders will be used in the following sections.

### 4.3.2.1 Gaining Legitimacy

If a large corporation moves into a new, largely uncharted, area for itself and its stakeholders it will face the task of gaining acceptance, either for the propriety of the new activity in general, or for management's own validity as managers. This is a "liability of newness" (Ashforth & Gibbs, 1990).

Gaining legitimacy presents two challenges. First, if new ventures face technical problems or are poorly institutionalised, the entity must devote time to gaining legitimacy. An example of both of these challenges can be seen in the nuclear industry. The US government in the 1950's constructed the concept of civilian nuclear power and differentiated it from the manufacture of nuclear weapons (Gamson & Modigliani, 1989) in an attempt to overcome institutional and perceived technical problems. Second, new corporations or existing corporations entering new areas must find new supporters and find or gain support from existing legitimate entities.

In attempting to gain legitimacy, management would be taking a pro-active stance. They have advance knowledge of the change which could possibly threaten the organisation's legitimacy. Because of this they should, in most instances, be able to control the dissemination of information. Management could use a number strategies to gain legitimacy. Suchman (1995) has categorised these strategies as conforming to environments, selecting among environments and manipulating environments.

#### 4.3.2.1.1 *Conform to Environments*

Managers may seek to make their organisations legitimate by aligning them with an accepted institution or socially accepted icon (Dowling & Pfeffer, 1975). These conformist strategies signal allegiance to the social order and should result in a degree of acceptance for an entity. This strategy also means that managers do not have to change a prevailing cognitive domain as it can be implemented by meeting the needs of various audiences through various communication media already in use by the entity. For example, a new corporation moving into uranium mining for the first time would need to establish some social (and economic) legitimacy for this venture. In conforming to the environment in which it is to operate, it may adopt "world-best practice" for

the rehabilitation of sites. It would communicate this decision through marketing, advertising or annual report disclosures.

It could be argued that where corporations need to gain legitimacy for new activities, the influence of media reports in shaping public opinion and values, which may result in the use of corporate disclosure approaches to legitimate, may have relatively less impact than if the media were in a position to initiate the story themselves. The pro-active nature of this technique would suggest that the corporation could initiate the story, thus minimising any impact later media reports may have.

#### **4.3.2.1.2      *Select Among Environments***

If management wishes to avoid being categorised or labelled in relation to the “image” of any new activity, it should move beyond conformity to being pro-active. For example, an existing or new corporation moving into uranium mining for the first time might not only seek support from the institutional environment in which it is operating (e.g. the mining industry) but also from external sources such as environment groups and governments. These external sources are, presumably, representatives of interested publics or the community at large.

The intent of any disclosure approach used in this context could be to let the conferring publics know that the corporation has the support of these reputable institutions. Presumably, these institutions have power, authority and are themselves legitimate. They have the reputation of being socially responsible in the area which may be of concern to society (environment groups), or are held in high esteem by sections of society, because of the process followed in gaining legitimacy (e.g., democratically elected governments).

#### **4.3.2.1.3      *Manipulate Environments***

It would appear that most organisations gain legitimacy through conformity and environment selection. In some instances these techniques may not be sufficient. If the corporation is planning to do something very innovative and there is no established social value in place, suspicion or distrust could arise. Robert Noyce (the Intel Computer chip founder) attempted to gain

legitimacy for early microprocessor technologies when predicting the coming of a computer on a silicon chip at a public audience, he replied to the critical remark;

*“Gee I wouldn’t want to lose my computer through a crack in the floor”, that the critic had it all wrong. He would have 100 more computers sitting on his desk, so it wouldn’t matter if he lost one (Rogers & Larson, 1984, p.105).*

At that time, society could not equate silicon chips and computers. By likening paper clips to computers, Noyce made the benefits of miniaturisation seem possible.

Another example of manipulation of environments may be a corporation forming a specific industry association to give legitimacy to a new type of production process it plans to use. The forming of the association in some ways legitimises the new process. A disclosure approach which could be adopted would constitute educating the public about the new process or vision and reinforcing the idea that the formation of an industry association will ensure that there are external sources looking after society’s well being.

It has recently been claimed that Australian corporations have been funding and orchestrating employee and local citizen protests against environmental groups (Strong, 1998). This covert support for anti-green groups may have been used by these corporations as a vehicle for gaining legitimacy in the eyes of the wider society. If these claims are true, the corporations may need to disclose information about the support from local citizens and employees, for the position they have taken, which is able to be independently verified. This type of disclosure may have some affect in getting society to accept the corporations’ anti-green views on any new issues being protested about.

#### **4.3.2.2 Maintaining Legitimacy**

In general the task of maintaining legitimacy is thought to be far easier than either gaining or repairing it. According to Ashforth & Gibbs (1990),

*“once conferred, legitimacy tends to be largely taken for granted....Reassessments of legitimacy become increasingly perfunctory if not mindless (p.183)”*

The challenge for management in maintaining legitimacy is to identify that audience needs and wants change over time. Legitimacy represents a relationship with stakeholders that the organisation must keep current. Stakeholders (or conferring publics) are not a homogeneous group. Organisations who do not keep abreast with social values, run the risk of becoming isolated and not acting in harmony with what society may expect of them. Organisations need to observe, or even, anticipate change and protect past accomplishments if they are to maintain their legitimacy.

#### **4.3.2.2.1 Perceive Change**

In perceiving change, a corporation must guard against thinking that a potential problem does not exist or is not serious enough to warrant attention. Techniques management could use here are those of a bridging nature. These strategies relate to monitoring stakeholders views and, specifically looking at disclosure strategies, reflecting those views in what information is disclosed by the corporation.

If an organisation, such as “The Body Shop”, which promotes itself as extremely socially and environmentally responsible, is to maintain its legitimacy, it would need to “keep one step ahead” of what its conferring publics would expect of it. By way of example, The Body Shop has prided itself on not stocking products which in any way involve the use of animals and it is well known for the stance it has taken on this. It does, however, sell many of its products in plastics that are not totally recyclable. It may need to maintain its legitimacy or status in relation to recycling, which is perceived by its conferring publics as an issue about which it should be concerned. It could legitimise its approach to recycling by disclosing information in the annual report which is relevant to the entity’s stance on recycling.

A potential problem arises if one is to test the maintenance of legitimacy from a management perspective. A distinction needs to be made between corporations which have different levels of legitimacy to maintain. If a corporation is accepted as a good corporate citizen, acts responsibly or even in a pro-active manner in regard to social issues, the expectations of the public in relation to the organisation maintaining a standard of legitimacy will be higher. The less legitimacy an

existing organisation has to begin with, the less it needs to maintain. Oliver (1991) points this out in reference to institutional pressures on corporations:

*“When an organisation's performance and survival are only moderately dependent upon the good opinion of the public (e.g., arms manufacturers) avoidance tactics.....may be the extent of an organisation's responsiveness to institutional rules and expectations” (p.164)*

It follows that an organisation which is dependent for its survival on the support of the public would need to conform more to the institutional pressures or, at least, be innovative in the way it would convince the public of its continued legitimacy.

#### **4.3.2.2.2      *Protect Accomplishments***

A second technique in relation to maintaining legitimacy is for the corporation to protect the legitimacy it has already acquired. Suchman (1995) argues that this essentially boils down to three tasks: first, preventing miscues; second, curtailing highly visible legitimisation efforts; and third, developing a stock of supportive beliefs, attitudes and accounts. Each of these tasks would, in normal circumstances, need to be communicated to stakeholders in a public forum, in order to maintain legitimacy.

If stakeholders believe the corporation is continuing in a business as usual state, then the corporation does not want events to occur to reawaken scrutiny. In preventing miscues, the corporation needs to give stakeholders evidence of its environmental performance with periodic disclosures along the lines of “business-as-usual”. These disclosures should eliminate uncertainty and engender a sense of stakeholder control.

It is essential that a corporation does not overreact. If, as an organisation, it has society on side, it should be careful about “going over the top” in legitimising its activities. Opponents to the corporation may seize on self-laudatory disclosures, which could lead to more scrutiny by supporters of the corporation.

A ‘stockpile’ of goodwill and support may be used when the corporation deviates from the social norms and it can illustrate to stakeholders that it can be trusted or that it is held in high esteem.

A corporation may highlight its history of being a good corporate citizen and continually disclose instances of its acting in the best interests of society during its history to prove that it can be trusted. This is a perfect example of a continuing preventative maintenance strategy. Additionally, if a corporation has a long history of donating to worthy philanthropic causes, it may be forgiven the odd indiscretion, because of the esteem in which it is held. It would need, again, to have disclosed, continually, information in relation to issues/events that grant it approval in society's eyes.

#### 4.3.2.3 Repairing Legitimacy

As mentioned in Section 4.3.1.3, repairing or defending legitimacy has been generally related to different levels of crisis management (Davidson, 1991, Elsbach & Sutton, 1992). A crisis, however, can be either or both immediate and evolving. An example of an *immediate* crisis was the September 1998 explosion at Esso - BHP Ltd's Longford gas plant in Victoria. The explosion caused the death of two employees and the disconnection of gas supplies to eighty percent of all industry and individuals in the State, affecting approximately three million people, for a period of two weeks. Legitimation tactics adopted for this *immediate* crisis may be different from those which would be adopted for an *evolving* crisis. For example, the tobacco industry has been losing legitimacy for at least two decades (Davidson, 1991, Pava & Krausz, 1997). It is logical to assume that tactics it may adopt in response to this *evolving* "crisis" would be different to those adopted by Esso-BHP and its *immediate* crisis.

The task of repairing legitimacy is, in some ways, similar to gaining legitimacy. If a "crisis" is evolving some pro-active strategies may need to be adopted. Generally, however, the main difference is that repairing legitimacy is reactive, usually to an unforeseen and immediate crisis, whereas techniques to gain legitimacy are usually *ex ante*, pro-active and not normally related to a crisis. Some disclosure approaches adopted, could be similar, however.

An environmental accident of the magnitude of the Exxon Valdez oil spill is an example of a crisis that would warrant repairing legitimacy. Legitimation techniques used predominantly to gain and maintain legitimacy would tend to be less useful in these instances, as they would already appear

to be discredited to a great extent. The occurrence of the crisis itself could suggest that previous legitimisation techniques were:

*“nothing more than puffery regarding performance (Ashforth & Gibbs, 1990, p.183).*

While many of the tactics used to gain legitimacy could be used to repair legitimacy, the corporation must first address the immediate crisis, before commencing more global legitimisation strategies. Suchman (1995) refers to this as an attempt to *normalise* the crisis.

#### **4.3.2.3.1 Normalise**

As the task of repairing legitimacy relates to threatening revelations, corporations can attempt to bring some normality back into the situation. Empirical researchers (Ashforth & Gibbs, 1990, Elsbach, 1994, Staw et al, 1983) have identified that in attempting to normalise a threat to legitimacy, management may either:

- (i) deny the problem exists or that it relates to the organisation;
- (ii) excuse the problem, by questioning the corporation's involvement (it was not the corporation's fault);
- (iii) justify the incident by appealing to moral beliefs by redefining means and ends after the event (make the incident appear to be compatible with prevailing moral beliefs and accepted social values); or
- (iv) if strategy 3 is not effective in eliminating moral responsibility, management may choose to explain the events in a way that preserves known beliefs (the corporation may have been morally wrong, but no other corporation could have been expected to do more).

Each of these normalisation approaches must be communicated to the stakeholder by the corporation. The communication medium used will depend on many variables, including the

severity of the crisis, the level of publicity it attracts, the geographic location and the timing of the crisis. One constraint in deciding to use the annual report as a medium may be the time lag between the event and reporting date.

#### **4.3.2.3.2 Restructure**

An obvious approach to legitimation is to acknowledge that the corporation was wrong. Selective confession of wrong-doings followed by promises of actions to remedy the specific faults is a technique which can be adopted. This acknowledgement of fault and promise of restructuring to reduce the chances of the problem occurring again would need to be communicated to the stakeholder. As in normalisation, the timing of the crisis may influence whether an annual report disclosure is considered useful in these circumstances.

Specifically, restructuring may take one of two forms: first, the creation of monitors or watchdogs, either by the entity itself, or imposed by regulatory authorities; second, and more common, is the disassociation from negative influences. This may be in the form of management restructuring, executive replacement, or in extremes, geographic moves. For example, the Levi Strauss corporation went to great lengths to publicise it was ceasing to operate in mainland China because of concerns over China's human rights record.

#### **4.3.2.3.3 Avoid Overreaction**

If an organisation, presented with a legitimacy crisis, is seen to overreact, it may give the appearance of not managing well. The impression may be that it "manages by crisis" and this may impair decision making and led to organisational failure. This technique is similar to some which may be used to gain legitimacy, in that both require a subtle touch and evaluation of prevailing social values and attitudes. This technique may not be reflected in a discrete disclosure approach: rather, it could be reflected in the qualitative content of any disclosures made.

### **4.3.3 ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS**

Accepting that the three general legitimation purpose (gaining, maintaining, repairing) are linked to specific responses to legitimacy threats, one must investigate what responses organisations may utilise to manage legitimacy. Empirical studies, for example see Elsbach (1994) and Marcus &

Goodman (1991) and theoretical work, for example see Ashforth & Gibbs (1990) Dowling & Pfeffer (1975) and Lindblom (1994) in this area, indicates there are many ways organisations may respond to attempt to ensure continued legitimacy. A common thread in each of these studies is that for the response to have any impact, it must be communicated to the public. The communication medium may take many forms, including media releases, advocacy advertising and annual report disclosures (Zeghal & Ahmed, 1990).

It is important to note that only Ashforth & Gibbs (1990), Suchman (1995) and, to a lesser extent, Oliver (1991), have attempted to link legitimisation tactics with the purposes of the organisational response as depicted in the three general purposes adopted for this research. No empirical work has yet been published which attempts to tie specific legitimisation tactics to the three distinctive purposes of any organisational response. This research fills this gap.

One of the earliest sets of legitimisation responses was considered by Dowling & Pfeffer (1975). They claimed that an organisation could do any or all of three things to become legitimate: first, adapt its outputs, methods and goals to conform with prevailing perceptions of legitimacy; second, attempt to alter the definition of social legitimacy (society's perceptions) so that it conforms with the organisation's present actions; and third, to identify itself with institutionalised symbols or values which have a strong base of social legitimacy. All three, but particularly the second and third responses, must be communicated to society for the legitimisation process to be effective.

The majority of researchers concerned with investigating various organisational responses to legitimacy threats, after Dowling & Pfeffer (1975), used these three strategies as the basis for expanding the number and types of response which may be adopted. With this in mind, it was decided to use these three basic strategies as the foundation for data collection.

With the exception of Arnold et al's work (1996), which looked at pro-active legitimisation techniques used by the large US retail store, Wal-Mart, the empirical work completed to date has, at its core, the purpose of repairing legitimacy in relation to an issue which is perceived by the corporation involved to have caused a legitimacy gap (Elsbach, 1994, Elsbach & Sutton, 1992,

Marcus & Goodman, 1991, Sutton & Callahan, 1987, Salancik & Meindl, 1984, Staw et al, 1983). There appears to be little significant empirical work on legitimation techniques/tactics used to either maintain or gain legitimacy.

It has been theorised that, apart from the three identified purposes of organisational responses to legitimacy threats, firms can make either substantive or symbolic responses to these threats (Ashforth & Gibbs, 1990). Substantive responses involve real, material changes in organisational goals, structures, processes or socially institutionalised practices. Symbolic responses are those where the firm does not actually change its actions, but it makes a response it believes is consistent with social values and perceptions. It is the symbolic response set that the corporate annual report would be used for most. In Section 4.3.3.1 various legitimation tactics, linked to substantive responses, are listed, using a number of tables and are explained. In Section 4.3.3.2 legitimation tactics linked to symbolic responses are listed in a number of tables and are also explained. Three response categories, based on those identified by Dowling & Pfeffer (1975) were used, these being: first, conforming with social values; second, attempts to alter social values; and third, attempts to alter social perceptions of the corporation. A fourth response category, avoidance, often overlooked in early writings, is also included. It is important to include this avoidance or inertia strategy, as it is possible that a corporation may purposely choose to ignore an issue/event as part of a deliberate legitimation tactic.

There are two objectives for compiling these tables. The first is to indicate the many types of management approaches one could adopt in response to legitimacy threats. The second is to categorise the various legitimation tactics, identified in the literature, into the four basic categories previously described in order to be able to test for the existence of these responses during the data collection phases of this project.

The placing of many of the legitimation tactics into more than one category indicates the subjective nature of many of these classifications and the different ways these tactics may be used by different firms in the face of unique circumstances at specific points in time. To minimise duplication, each technique was matched to one of the four approaches, based on the original researchers' interpretation of the term and the context in which it was used. Even so, it became

obvious that many of the specific tactics could be applied to more than one of the four legitimization responses. It is not claimed that these classifications are indisputably correct and can be applied in all or any specific situations. The purpose is to highlight that there are many legitimization tactics and that, among institutions, they may be aligned with more than one legitimization response.

#### 4.3.3.1 Substantive Legitimation Tactics

Substantive change involves a change in a corporation's goals, structures, processes or practices. The nature of substantive change signifies that only tactics indicating conforming with social values and attempts at altering social values would be used as legitimization tactics. Tactics intended to alter others' perceptions of a corporation and avoid an issue/event are not considered to be applicable in relation to substantive change. Hence, these two response groups are not included for substantive legitimization purposes.

##### 4.3.3.1.1 *Conform with Social Values*

The tactics used to conform substantively to social values are listed in Table 4.4. The most obvious form of substantive change for a corporation faced with a legitimacy gap is to change its activities to conform with the expectations and values of society (Lindblom, 1994, Sethi, 1978). This is shown in the table as **changing practices**. The term "**restructuring**" is used by Suchman (1995) in a similar context.

TABLE 4.4 - SUBSTANTIVE LEGITIMATION TACTICS: CONFORM WITH SOCIAL VALUES
Change practices
Restructure
Acquiesce: comply; habit;
Role performance
Coercive isomorphism
Bridging
Compromise: balance; pacify

One of Oliver's (1991) strategic responses to institutional pressures involves **acquiescence**, or acceding to external pressures. One of the more discrete tactics in this strategy is to obey rules and accept norms (**comply**). Another tactic is to follow invisible or taken-for-granted norms, referred to as **habit**.

In adopting a resource dependent view, **role performance** (Ashforth & Gibbs, 1990) implies that any changes made are only done so to appease the important “*actors*” a firm has; those on which it depends for critical resources. Lindblom (1994) similarly implies that the conforming approach is designed for a firm's relevant publics, but leaves this open by not identifying resource providers separately. This position is consistent with use of Ashforth & Gibb's (1990) **coercive isomorphism** tactic, which posits that organisations may seek legitimacy by conforming to the values, norms and expectations of its constituents. Constituents in this instance are broader than merely resource providers and can include many stakeholders of a firm (Bansal, 1995).

Two other tactics which possess elements consistent with substantive management legitimation practices are **compromise** (Oliver, 1991) and **bridging** (Meznar & Douglas, 1995). Oliver (1991) suggests that where firms are faced with conflicting demands they may use compromising tactics, to pacify or create a balance between various external constituents. **Balancing** tactics refer to the accommodation of multiple constituents' demands and, in essence, mean conforming to at least some stakeholder perceptions. **Pacifying** tactics also encompass partial conformity with some constituents' demands.

**Balancing** may mean the firm conforms with whom it determines is its most influential group of conferring publics. Pacifying involves appeasing institutional pressures, with minor levels of resistance. For example, if a firm is under pressure regarding the manufacture of a potentially harmful product, it may continue to manufacture the product because it is highly profitable and it determines that the shareholders are the most important conferring public in this issue and they would want the product to continue to be manufactured. The firm would, however, pour considerable effort and financial resources into efforts to make the product as safe as possible, thus partially conforming with other conferring publics' demands.

Meznar & Douglas (1995) state that **bridging** implies:

*“that the firm actively tries to meet and exceed regulatory requirements in its industry or that it attempts to quickly identify changing social expectations in order to promote organisational conformance to those expectations” (p.976)*

**Bridging** is said to occur when a firm adapts its activities to conform with external expectations. A bridging strategy, therefore, denotes more substantive than symbolic change and is obviously an attempt to conform to external pressures.

#### 4.3.3.1.2 *Alter Social Values*

In Table 4.5, a list of the tactics corporations may use to alter social values, in a substantive context, is presented. If one adopts a resource dependent perspective, one way in which a corporation would not need to conform with its critical resource providers would be to become less dependent on them. Ashforth & Gibbs (1990) refer to this as **altering resource dependencies**.

TABLE 4.5 - SUBSTANTIVE LEGITIMATION TACTICS: ALTER SOCIAL VALUES
Alter resource dependencies
Avoid: escape
Restructure
Alter socially institutionalised practices
Compromise: bargain
Manipulate: co-opt

In a strict sense, a firm is not really altering social values if it alters those on whom it is dependent for its critical resources, but it is not conforming with its conferring publics' values. It is changing its constituents, presumably to a group whose expectations are more congruent with the firm's current activities. This is consistent with Oliver's (1991) **avoidance** tactic of **escape** where a firm leaves the domain within which pressure exists and also part of Suchman's (1995) explanation of **restructuring**. From this perspective, the firm is altering its conferring publics' values by choosing different conferring publics. For example, a firm could relocate to another region where

the population's needs, wants and perceptions are different from those in the location in which the corporation currently operates. This may often be the type of substantive change a multinational corporation could make by moving its operations to a country whose economic needs carry far greater weight than social needs (Nigh & Cochran, 1994).

Ashforth & Gibbs (1990) also suggest that companies may attempt to **alter socially institutionalised practices** so as congruence exists with its own objectives. Again the tobacco industry is a relevant case in point. Some of the industry's responses to the health and smoking controversies include lobbying against government legislation, advertising, sponsoring popular social and sporting events, providing research grants and even building a base for refuting that smoking damages health. Each of these tactics is more substantive than symbolic in that the industry is pro-actively attacking institutionalised perceptions.

**Bargaining** is the one tactic in Oliver's (1991) **compromise** approach which lends itself to a substantive management approach in relation to attempts to alter social values. This tactic involves some effort on the part of the firm to extract concessions from external constituents in relation to demands and expectations. In this sense, this tactic is aimed at achieving a change in the social values of at least some of its constituents.

Oliver (1991) implies that a **manipulation** strategy, comprising three tactics - co-opting, influencing or controlling, is the most active form of legitimation a firm may adopt. She defines manipulation as:

*"the purposeful and opportunistic attempt to co-opt, influence or control institutional pressures and evaluations" (p.157)*

This strategy and related tactics would appear to be symbolic, but it is possible that if one adopted a resource dependence perspective, that **co-opting** may involve getting a firm's critical audience to change its views. For example, if a nuclear power corporation co-opted Greenpeace, the source of the pressure, to support the firm and its policies publicly, this would lead to at least some alteration in society's perceptions of the corporation's social and environmental standing.

### 4.3.3.2 Symbolic Legitimation Tactics

Symbolic tactics are concerned with the way a corporation manages its image in relation to legitimacy. It may send the right messages to stakeholders, without necessarily substantively changing its practices, outputs or goals. Communication of these messages is an integral part of any symbolic strategy. Most of the empirical and theoretical researchers who have investigated legitimation approaches have been concerned with symbolic management.

#### 4.3.3.2.1 Conform with Social Values

It is much easier for a corporation to portray its awareness of social perceptions and describe that it is going to change its actions to in line with this awareness, than it is to change. This is demonstrated by the number and types of tactics which fall under this heading (Table 4.6).

TABLE 4.6 - SYMBOLIC LEGITIMATION TACTICS: CONFORM WITH SOCIAL VALUES
Accommodate: accept responsibility; admit problems exist; express guilt, remorse; intent to make better; apologies
Acknowledge
Espouse socially accepted goals
Ceremonial conformity
Imitate
Avoid: actively conceal
Intent to improve

Being **accommodating**, mainly when a firm is trying to repair lost legitimacy, is a tactic which has been employed by managers as a response to three types of corporate crisis; accidents, scandals and product safety incidents (Marcus & Goodman, 1991). Accommodative signals, such as **accepting responsibility, admitting problems exist, statements of intent to make restitution, apologies** and **expressions of guilt, remorse and shame** are considered to be, in part at least, an attempt to portray empathy with social perceptions. The “**acceptance of responsibility**” tactic was also used, as a stigma management strategy (Sutton & Callahan, 1987), by some US managers, whose firms filed for protection under Chapter 11 of the Federal Bankruptcy code. When the purpose of the organisational response is not to repair legitimacy,

a firm may make statements to the effect that it intends to improve its performance and activities. This is a pro-active tactic which may apply more to the purposes of gaining or maintaining legitimacy than repairing it.

If **acknowledgement** of any wrong-doing is considered in isolation, it could be classified as an accommodating tactic. Research suggests that acknowledgement, however, is generally followed by justifications or defences as attempts to alter social values or alter social perceptions of the firm (Elsbach, 1994, Lindblom, 1994).

Firms may use the tactic of **espousing socially accepted goals** as a conforming approach, but may not actually follow through so that this then becomes a substantive change (Ashforth & Gibbs, 1990). A firm may, for example, publicise the formulation of ethics policies but procedures for the monitoring of ethics may not be in place. This is similar to another legitimation tactic known as **ceremonial conformity** (Meyer & Rowan, 1977) in which conforming structures may be put in place to provide an appearance of action. This is not dissimilar to mimicking institutional models or **imitating**, a tactic which suggests the firm may be conforming, but there may not be a lot of substance in the decision to conform (Oliver, 1991).

A similar, but more subtle, form of symbolic conforming is where a corporation disguises a lack of conformity behind a facade of acceding to external pressures. Oliver (1991) refers to this as **concealment**, which she categorises as an avoidance strategy. Concealment can be **active**, when managers make deceptive statements, or **passive**, when managers do nothing to correct ignorance of the facts of a situation (Sutton & Callahan, 1987). This tactic could be used to portray that a firm's values are congruent with social values and perceptions, when, in fact, the corporation is doing nothing more than telling the public what it believes the public wants to hear. For example, a firm may make statements about its elaborate plans and procedures in response to a legitimacy threatening issue/event in order to disguise that it does not intend to implement any such plans.

#### 4.3.3.2 *Alter Social Values*

Any attempt to alter generalised social values is a difficult task for organisations. No firm, especially one involved in diversified activities, could hope that all of its actions were congruent with all of society's perceptions and values. In this sense, a corporation does not need to worry

unduly about trying to alter all social perceptions of it. This would be a task beyond any firm's capabilities. What a corporation can control, at least to some extent, are the perceptions of its conferring publics in relation to legitimacy threatening issues/events with which the firm is associated. Attempts to alter the social values of a firm's conferring publics, in relation to issues/events, is a feasible objective, at least from a symbolic standpoint, as can be seen from the many alternative tactics outlined in Table 4.7.

TABLE 4.7 - SYMBOLIC LEGITIMATION TACTICS: ALTER SOCIAL VALUES
Educate and inform
Define: uniqueness; misunderstanding
Manipulate: co-opt; influence; control
Enhance
Control: buffering
Justify
Defy: dismiss; attack; challenge

It is claimed that many communications, made with this response in mind, are aimed at **educating and informing** (Lindblom, 1994, Sethi, 1978). If a firm attempts to educate and inform this suggests that the firm either believes the audience really does not understand the issue and the corporation needs to explain how things really are, or that the corporation has an opportunity to communicate its point of view on the issue in a cogent manner. Elements of Sutton & Callahan's (1987) **defining** strategy are consistent with this tactic. In attempting to educate its audiences about the true nature of filing for protection under Chapter 11 of the Federal bankruptcy code, a number of managers adopted either of two strategies. First, they tried to give the impression that the audience **misunderstood** the real meaning of bankrupt; or second, they claimed that the circumstances which led to the firm being declared bankrupt were unusual and **unique**. It may be that these tactics were used to legitimise the corporation and/or the managers but, in either case, the tactics can be interpreted as attempting to alter the values of conferring publics. Depending on the timing and urgency of the issue, these 'messages' appear especially suited to being communicated in the annual report; a document produced internally for external

consumption over which the firm has discretion in relation to the quantity, tone and wording of disclosures.

One of Oliver's (1991) three **manipulation** tactics, **co-opting**, was included as a substantive change. It could also be used as a tactic to portray a change in the way a corporation perceives an issue/event. In turn, the aim could be that society's values and perceptions of both the issue/event and the corporation may be altered. For example, a firm under environmental pressure from sections of society, may communicate that it intends to enlist leading members of green groups to its board of directors. Whether the intention becomes reality or not is irrelevant, as the symbolism is aimed at altering social perceptions. The intention is symbolic, the appointment to the board of directors would be substantive.

Any attempts to **influence** value systems under which an organisation is judged is also considered to be a manipulating tactic (Oliver, 1991). An attempt by a corporation to influence regulatory bodies into changing rules could be an example of this tactic. If successful, the result is an "independent" regulation being developed which the corporation would champion as reflecting prevailing social values. Oliver's third manipulation tactic; **controlling**, comprises specific efforts to establish power and dominance over external pressures. It is more aggressive than co-opting or influencing as the intent is to dominate the issue. As mentioned earlier, it has recently been claimed that Australian corporations have been funding and orchestrating employee and local citizen protests against environmental groups (Strong, 1998). This tactic is clearly aimed at gaining more control over society's perceptions of environmental issues/events.

In adopting manipulation tactics, a firm may first need to decouple itself from the issue/event in order to retain its legitimacy (Suchman 1995, Elsbach 1994). In this context, decoupling is a broad legitimisation tactic which implies that a firm must disassociate itself from the issue/event. While decoupling would not likely be used to alter social values, it may be a necessary precursor to the use of other tactics.

Accentuating the positive side of any issue, or **enhancing** (Elsbach & Sutton, 1992, Lindblom, 1994, Salancik & Meindl, 1984, Staw et al, 1983), is a tactic whereby the firm may take credit

for perceived positives that arise from a corporation's negative association with an issue/event. For example, a Greenpeace protest at a chemical corporation's plant in Laverton, Victoria resulted in much negative publicity for the corporation (Anderson & Gibson, 1993). It was later claimed by the corporation, that even though Greenpeace had erroneously targeted the corporation, it had reviewed its environmental management practices as a result of the incident and that everybody would benefit as a result of this. Communicating information of this type may be used to alter social values or society's perception of the corporation.

One description of **buffering**, which relates both to attempts to alter social values and social perceptions of a firm implies that a firm either resists environmental change or tries to **control** it (Meznar & Nigh, 1995). It is the second of these points, trying to control change, which may result in attempts to alter social values. Lobbying, advocacy advertising and contributions to political parties are but three ways a corporation could actively try to influence the environment in which it operates.

**Justification** tactics may be used to influence values of a firm's stakeholders and simultaneously to alter the social perceptions of an organisation (Ashforth & Gibbs, 1990, Elsbach, 1994, Elsbach & Sutton, 1992, Staw et al, 1983). For example, if a corporation was found to be irresponsibly, but not illegally, selling faulty products, justifications which may be forthcoming could include "every other firm is doing the same" or "the product is still safe". The aim may be to alter social expectations of the product safety issue as well as to alter social expectations of the firm's performance. Similarly, a firm may claim that its treatment of a particular issue was justifiable as it had exhausted every other possibility in relation to the issue. An example of this type of justification was used by BHP Ltd in claiming that it was, for all practical purposes, technologically impossible to build a safe tailings dam at the site of its copper mine at the OK Tedi river in Papua New Guinea (Drake, 1994). The resultant flow of tailings downstream into the river caused massive environmental damage and the corporation was ultimately successfully sued by the OK Tedi villagers as a result of this damage.

**Defiance** is an active strategy which involves the tactics of either dismissing, attacking or challenging (Oliver, 1991). In **dismissing** social perceptions, a firm may be suggesting that social

perceptions are incorrect, not important or of little consequence. For example, a firm may choose not to recycle its office paper because it thinks it is not a big issue. Management may choose to handle the issue symbolically, either by dispassionately disclosing its point of view (altering social values and social perceptions of the firm), or as would appear more likely, to ignore the issue as unimportant, which is an avoidance tactic.

**Challenging** tactics involve a more active departure from what may be expected by society. For example, if a firm intensely believed that recycling was detrimental to the environment, it may attempt to get this message across in an annual report. **Attacking** tactics are more aggressive still and may involve the firm in confronting its critics on recycling head-on in an attempt to denounce widely held social values on recycling. The difference between challenging and attacking is in how aggressive a firm is in defying (Oliver, 1991). Ashforth & Gibbs' (1990) tactic involving a firm **redefining its means and ends** could be classified in this category.

#### 4.3.3.2.3 *Alter Social Perceptions of the Corporation*

Tactics identified in this response group are even more concerned with symbolism than responses which aim to conform with, or alter, social values. Tactics categorised as part of this response suggest a firm has to know how it is currently perceived by society. It is argued that any success at altering social values, in relation to an issue/event, can only be achieved if a firm's conferring publics believe the corporation is legitimate to begin with and that it has a 'positive' social reputation. As a result of this, many legitimation tactics intended to alter perceptions of a corporation, were also classified as tactics used in attempts to alter social values. Tactics included here, and in the previous category, are **manipulation, enhancing, justifying, defining, redefining means and ends** and **buffering**. Included in Table 4.8 is a list of these tactics. In order to avoid repetition only the tactics unique to this response and/or the avoidance response group are discussed here.

**TABLE 4.8 - SYMBOLIC LEGITIMATION TACTICS: ALTER SOCIAL PERCEPTIONS OF THE CORPORATION**

Manipulate: co-opt; influence; control;
Enhance
Justify
Define: uniqueness; misunderstanding
Redefine means and ends
Distract: identify with symbols; identify with structures
Control: buffering
Defy: attack; challenge
Explain
Excuse
Defend: deny intent; alleviate doubts
Decouple: blame others; deny responsibility

**Distracting** the audience by identifying with accepted structures or symbols occupies a prominent place in the literature on managing legitimacy (Dowling & Pfeffer, 1975, Salancik & Meindl, 1984, Sethi, 1978). Purposes in using these tactics can range from deliberately exploitative (Elsbach, 1994) to more matter-of-fact representations of institutional conformity. The key in the adoption of this tactic is to portray the corporation in a positive light by one of two means: first, direct reference to positive links between the corporation and the broader issue in question; and second, by concentrating and communicating other positive social messages the corporation may feel it is necessary to send.

The communication of past positive social achievements, (Suchman, 1995), either in direct relation to the issue at stake or from other notable corporation-specific social activities is an example of the first point. An example of “good news” reporting, in the face of “bad news” being around in relation to the same or similar issues/events, was discovered in a study of environmental disclosures in annual reports (Deegan & Rankin, 1996). Ashforth & Gibbs’ (1990) similar redefining means and ends tactic encompasses some examples of the second point. They state

that product endorsements by celebrities and sponsorship of sporting and community events are examples of identifying with accepted symbols consistent with attempts to portray the organisation in a positive light. The tobacco industry has for many years attempted to legitimise itself by aligning itself with celebrities and by the sponsorship of community events (Davidson, 1991).

**Explaining** why an issue was treated in the way it was may be used to repair legitimacy (Suchman, 1995). This symbolic legitimation tactic may be used in a way that attempts to preserve the support for itself that a firm may have established. If the explanation is accepted then the firm has gone at least part of the way to altering perceptions of it and to restoring lost legitimacy.

In relation to repairing legitimacy, offering **excuses** (Ashforth & Gibbs, 1990, Suchman, 1995) is another tactic which a firm may adopt to deny or minimise its responsibility for a given event. This tactic is similar to other tactics aimed to **defend** a firm about its association with an issue/event (Marcus & Goodman, 1991). Again, the use of these tactics would appear to be almost solely related to purposes of repairing legitimacy by attempting to alter social perceptions of the organisation. Sending signals which either **deny intent** on the part of the firm, claim that a problem does not exist or **alleviate doubts** about the firm are all defensive signals aimed initially at influencing social perceptions of the organisation. Defences of innocence, whether management believe the truth of the defences or not, is another defensive tactic which may be utilised.

The use of **decoupling** tactics is also relevant in this response group. To **deny responsibility** for a legitimacy threatening crisis may be a high risk tactic, but if a firm believes it has nothing much to lose, as was the case with many of the managers of bankrupted firms (Sutton & Callahan, 1987), then using this tactic to decouple the firm from the issue is designed to save the reputation of a corporation. Similarly, decoupling also includes **blaming others** for the negative nature of any association between the corporation and an issue or event. For example, the Exxon Corporation instigated a law suit against the US Coast Guard for issuing the captain of its own oil tanker with a seaman's licence, on the grounds that he had a known drinking problem and had

lost his motor vehicle driver's licence on more than one occasion for drink-driving offences (Davidson, 1990).

#### 4.3.3.2.4 Avoid

Merely avoiding a present or future legitimacy threatening issue/event appears to be an obvious response firms may take in this context. While on the surface this response appears to be simple, it is clear that there are a number of tactics available, involving varying degrees of complexity, a firm may adopt if it wishes to avoid a legitimacy threatening issue/event. Many are closely linked with distraction or decoupling tactics and are jointly aimed at altering the perceptions society may have of the organisation. In Table 4.9 a list of avoidance tactics is presented. As was the case with the other three responses groups, there is some duplication of tactics. Apart from revisiting the tactic of distracting, only those tactics which are different from the ones already explained are discussed in this section.

**TABLE 4.9 - SYMBOLIC LEGITIMATION TACTICS: AVOID**

Avoid: passively conceal; ignore; buffering
Distract: identify with symbols; identify with structures
Decouple: deny
Withdraw
Defy: dismiss

A firm may actively or **passively avoid** a current or potential legitimacy threatening issue. **Passively concealing** the negative facts of an issue from the public can be classified as an avoidance response (Oliver, 1991, Sutton & Callahan, 1987). There may be many factors underlying passive concealment in relation to an issue/event. For example, a corporation may do nothing because other things are deemed more important to manage in the short term. While actively concealing facts may be considered to be a tactic aimed at appearing to conform with social values, not telling the story or leaving out salient points, is arguably less deceptive and more of an avoidance tactic. Totally **ignoring** an issue/event is another example of an extreme avoidance tactic. **Buffering**, as an **avoidance** tactic, refers to corporate attempts to reduce the extent to which it is externally inspected (Oliver, 1991). From a resource dependence perspective,

if an issue were important to a firm's major resource providers, it would appear to be a misguided tactic for the firm to attempt to avoid examination of the issue by the firm's resource providers. Alternatively, if a firm decided that it was strong enough to weather protests from powerful constituencies, it may seek to keep information on the issue from the public. It would seem that this avoidance tactic is suited to larger, more politically visible, firms with multiple conferring publics (Oliver, 1991, Suchman, 1995).

The use of **distracting** tactics, by identifying with accepted institutional structures or concentrating on other social positives not related to the issue in question, obviously has a dual purpose. With the one communication or disclosure, a firm could both indicate it is either doing what is acceptable (others are doing the same) or aligning itself with popular symbols. This type of communication may convince some sceptical audiences that the corporation is no bigger part of the problem than others (altering social perceptions of the corporation) or by identifying with popular symbols, cause the sceptical audiences to downgrade the issue and concentrate on the good things the corporation has brought to society.

Elsbach (1994) claimed that **denial** was a **decoupling** tactic used by spokespersons to separate their organisations from controversial events in their attempts to manage the legitimacy of the Californian cattle industry in the face of health scares about the quality of beef. If the form of this denial proposed that "it didn't happen" or "we weren't involved", this tactic is closely aligned with avoiding or ignoring the issue.

**Withdrawing** from an organisational audience is more often than not a short term avoidance tactic designed to buy the firm time (Sutton & Callahan, 1987). The success of this tactic is dependent upon the severity and possible long term effects of any issue/event. If a firm believes it can withstand the public storm and that the issue will fade away, it may choose this short term tactic. This tactic may initially be employed by a firm facing a legitimacy crisis in order to gauge public reaction, but the penalty for not managing the timing of any response properly could be damaging. This was the case when Exxon's CEO was conspicuous by his absence for the first few days after the Exxon Valdez oil spill (Davidson, 1990). A more risky tactic, dependent on the power position of the firm relative to its conferring publics, may be to ignore the issue totally, in

both the short and long term. It would seem that this would not be an appropriate crisis management tactic, but may be suited to maintenance of legitimacy.

Attempts to **defy** external pressures by **dismissing** an issue may be chosen because of the conflicting perceptions of multiple conferring publics. It is within a resource dependence perspective that this may be considered an avoidance tactic. If, for example, financial stakeholders' demands conflict with the demands of environmentalists over a corporate issue, the firm may decide to dismiss the demands of the group on which it is less dependent for critical resources, in favour of the other. The corporation decides that, while both may be conferring publics, one group is more important to appease than the other (Neu et al, 1998). It has also been argued that one aim of dismissing one group's demands may be a tactic to avoid granting legitimacy to that group itself (Mitchell et al, 1997, Oliver, 1991).

#### 4.3.3.3 Classification Dilemmas

In reality, any firm which is attempting to manage its legitimacy would most likely avail itself of many of the above tactics in relation to any single issue/event. The choice of tactics would be dependent on many of the variables previously discussed as well as the interconnectedness of the variables. These are:

- (i) the issue/event and its significance to the firm;
- (ii) the identification of the both the firm's stakeholders and conferring publics in relation to the issue/event;
- (iii) the salience of each of these sub-groups to the corporation;
- (iv) the purpose of the organisational response; and
- (v) the economic and public policy pressures being exerted on the firm at the time the issue is at its zenith in the public arena.

The subjectivity of any categorisation of legitimacy tactics, as depicted in Tables 4.4 to 4.9, is common across all the previously mentioned studies in this area. For example, Ashforth & Gibbs (1990) used ten categories to identify responses to legitimacy threats, Oliver (1991) identified five and Marcus & Goodman (1991) used two main and seven subordinate categories. Upon careful

analysis, it is clear that many management responses to various threats to an organisation's legitimacy could fit into several categories. This should not be viewed as a problem. It does highlight, however, the subjective nature of attempting to categorise, in a fool-proof manner, responses which flow from myriads of subjective factors. Two examples of the constraints of classification, using the tactics of enhancing and the broader tactic of avoidance, will help to explain this dilemma.

The tactic of enhancing is included as a symbolic legitimation tactic appropriate for attempts to alter social values and alter social perceptions of the organisation itself. This dual classification is compatible with both the life cycle of an issue (Nasi et al, 1993) and any short and long term aims of an organisation in relation to legitimacy. Elsbach & Sutton's (1992) research into how the radical actions of ACT UP, an extremist social group, eventually helped gain organisational legitimacy for the group, can be used as an example. If one looks at the use of enhancements as an element of a decoupling tactics, the dual classification is obvious.

Members of ACT UP decoupled any illegitimate actions from ACT UP by performing actions as anonymous individuals, or as part of other affinity groups, much as Sinn Fein and the IRA, once seen as synonymous, are increasingly decoupled today. Spokespersons for ACT UP, while stressing that ACT UP was not responsible for any illegitimate activities, tried to enhance its member's illegitimate actions by asserting those actions would ultimately benefit all of society. It is clear that using this enhancing tactic was designed, in the short term, to alter social perceptions of ACT UP, leading, in the longer term, to an attempt to alter social values.

Avoidance tactics appear under two of the four response headings, once in the conforming response category as a substantive legitimation tactic and three times in the avoidance response group. It could also be included as a "fifth" response, if a "non-issue" is totally ignored because it is not considered a threat to a firm's legitimacy. This indicates that four ways avoidance tactics could be used by management in order to manage legitimacy symbolically may be:

- (i) to appear as though the corporation is conforming with its conferring public's wishes (**active concealment**);

- (ii) to ignore completely as a premeditated legitimation tactic (**ignore**);
- (iii) to leave out some important facts when communicating about the issue (**passively concealing**); and
- (iv) to stay silent on the issue because the firm believes it is more powerful than any or all of its conferring publics (**buffering**).

These examples illustrate the interconnectedness of many of these legitimation tactics. These tactics cannot, for practical purposes, be viewed or classified in isolation from the issues or the unique situation any corporation may find itself in at the time it is decided that legitimacy needs managing.

It is not possible to claim that it is possible to predict accurately which approaches or tactics would be used in response to specific legitimacy threats. What is claimed, and will be tested during this investigation, is that specific environmental issues/events are a cause of public pressure and, if considered significant enough to the firm, will result in the adoption of specific types of legitimation tactics, in the form of annual report disclosure approaches. The legitimation tactics adopted are likely to be different depending on whether the purpose of the organisational response is to gain, maintain or repair legitimacy. The more the various legitimation tactics can be collapsed and classified into a manageable number, the more likely it is that useful data can be collected to achieve this aim. The four legitimation response categories referred to in Tables 4.4 to 4.9 will be used for this purpose. A synthesis of the ideas and tactics from the aforementioned studies, using an example of a uranium mining corporation and environmental issues as the legitimacy variable appears in Table 4.10

<b>TABLE 4.10 - POSSIBLE ORGANISATIONAL RESPONSES TO LEGITIMACY THREATS</b>	
<b>RESPONSE</b>	<b>SAMPLE RESPONSE: MINING CORPORATION INVOLVED IN MINING URANIUM IN AN ENVIRONMENTALLY SENSITIVE AREA</b>
1. Avoid	Do not enter public debate on the issue of uranium mining
2. Attempt to alter social values	Educate the public on the positive uses of uranium
3. Attempt to shape society's perceptions of the organisation	Reiterate past social and environmental achievements of the corporation
4. Conform to social values	Cease uranium mining in line with social and environmental expectations

The majority of empirical and theoretical research into the use of legitimation tactics has been concerned with the purpose of repairing lost legitimacy. There has been no substantial work conducted in associating specific legitimation tactics to the purposes of gaining or maintaining legitimacy. This investigation is concerned with exploring and identifying the relationships between legitimation tactics and the purposes of gaining, maintaining and repairing legitimacy.

#### **4.4 ANNUAL REPORT DISCLOSURES AS A MEANS OF MANAGING LEGITIMACY**

The use of the corporate annual report as a major way that corporations communicate with different groups of stakeholders was discussed in Section 2.3. It is worth revisiting this issue at this time for the purposes of placing annual report disclosures into a legitimacy theory context.

As the argument is developing, a major tenet of legitimacy theory is that an entity wishes to operate within the bounds of what its conferring publics view as acceptable. For a corporation to be viewed as acceptable to its conferring publics, its activities should be in keeping with the current social values, norms and perceptions of these conferring publics. More specifically, conferring publics require confirmation that the entity is not engaging in activities which would attract strong social disapproval.

As corporate legitimacy is granted or withdrawn primarily on the perceptions of those external to the corporation, managing legitimacy is about managing the perceptions of others. Literature

on managing legitimacy both explicitly and implicitly states that controlling and *communicating* messages related to the aims of tactical responses is one clear means of managing legitimacy (Dowling & Pfeffer, 1975, Gray et al, 1995, Lindblom, 1994, Sethi, 1978, Suchman, 1995).

If a corporation feels that its legitimacy is threatened, it may seek to minimise the effects of this threat by publicly disclosing information in various media including the corporate annual report (Zeghal & Ahmed, 1990) as a way of legitimising its activities. The corporate annual report provides corporations with a cost effective way of responding to stakeholder concerns regarding corporate activities. The narrative sections of an annual report allow management to tell their story in their way, as well as allowing them to aim messages at groups with which they are primarily concerned. As explained in Section 2.3, the annual report may also be used as a medium to respond to public pressure, including the media (Simmons & Neu, 1998). Voluntarily including social and environmental information in the annual report may convey the impression that the corporation is acting in a socially responsible manner.

This position was supported and extended by Neu et al (1998) when they argued that narrative disclosures are preferred by management because they can be worded to specific audiences in a way that is effective in managing public impressions. This, in conjunction with the organisation's control over the design of the annual report, allows the corporation to shape the way readers:

*“know and feel about the corporation” (Neu et al, 1998, p.279).*

From the perspective of which audiences annual report social disclosures are aimed at, Ullman (1985) claimed that formulating social responsibility programs as well as disclosing their existence, is viewed as part of the arsenal of dealing with more than one segment of any firm's stakeholders. Further he claimed that:

*“there is considerable evidence that annual reports to shareholders are used to influence the level of external demands originating from many different constituencies, not just shareholders” (p.554)*

This belief was supported by Neu et al's (1998) empirical study into why firms disclose environmental information in the corporate annual report, in that they identified that corporations

used the annual report to legitimise, to financial stakeholders first, and regulators, second, as the most important groups. Environmentalists were ranked third most important with the general public the least important of the four.

It is determined, then, that voluntary social disclosures in annual reports provide corporations with an effective method of managing public impressions (Nasi & Nasi, 1993, Neu et al, 1998), which is a fundamental element of legitimacy theory. Evidence also suggests that voluntary social disclosures, besides being important to shareholders (Anderson & Epstein, 1995, Epstein & Freedman, 1994), are also useful to and used by special interest groups such as environmental groups (Deegan & Gordon, 1996, Tilt, 1994). Cumulative evidence then suggests that management make use of the annual report as a means of communicating the legitimacy of corporations to their conferring publics. As a result of this analysis, the annual report is to be used, for the purposes of this investigation, as the main vehicle a corporation will use to legitimise its environmental actions and activities.

#### 4.5 SUMMARY

In this chapter, the literature related to the management of organisational legitimacy was reviewed. In particular, legitimacy, and how it is identified and managed, was discussed in the context of three organisational behaviour theories: institutional theory; impression management theory and resource dependence theory. It was concluded that legitimacy is an important component of each of these theories, but how it is identified and the means of managing it differ in each of these theories and this is retarding the development of legitimacy theory. While the development of these three theories is *not* a major purpose of this research, the further development of legitimacy theory should assist in better locating the theory in either the institutional, resource dependence or impression management camps.

To help in the development of legitimacy theory, the literature was examined further in order to identify public pressure variables which may cause a corporation's legitimacy to be threatened. Moreover, a review of the literature led to the conclusion that a corporation may act to gain, maintain and repair legitimacy, depending on the significance and characteristics of any particular legitimacy threatening issue/event. A number of specific legitimisation tactics were then identified,

examples of these tactics were described, and in what situations they might be used was examined. These tactics were then classified into four response types for subsequent use in the data collection phases of this investigation. Finally, in examining the literature on the use of annual reports as a means of communicating responses related to chosen legitimation tactics, it was concluded that using the annual report is a major way a corporation could manage its legitimacy.

## **CHAPTER 5 - ENVIRONMENTAL DISCLOSURES AND LEGITIMACY**

### **5.1 INTRODUCTION**

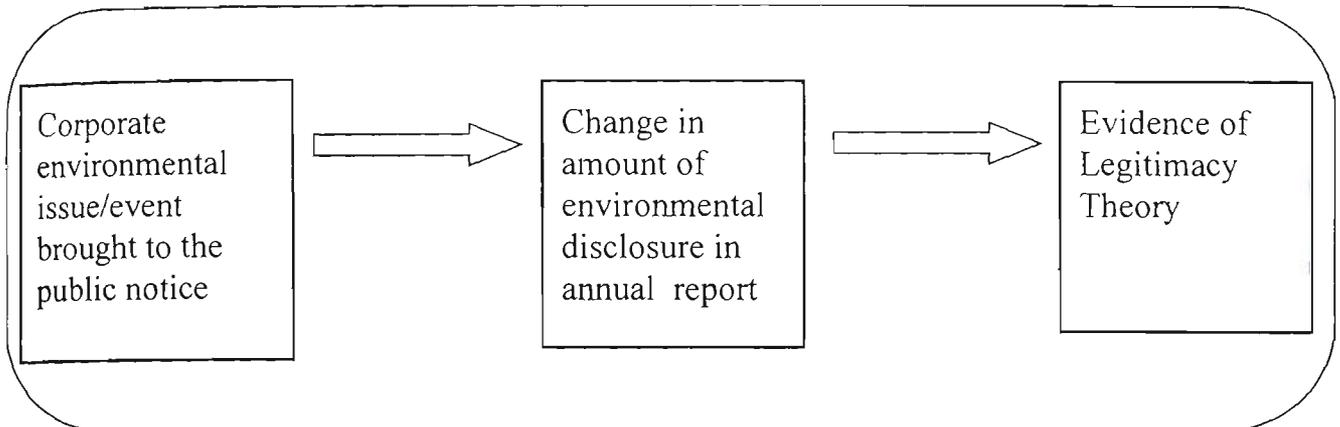
The purpose of this chapter is to summarise and evaluate prior research which has attempted to link voluntary corporate environmental reporting in the annual report to legitimacy motives. The usefulness, validity and limitations of this research is discussed with two aims in mind: first, to determine to what extent voluntary environmental annual report disclosures are used as a legitimisation technique; and second, to help to identify ways in which legitimacy theory may be tested and developed at a micro-level. In the penultimate section of this chapter, a recapitulation of the importance of the organisational legitimacy literature reviewed in Chapters 3 through to Chapter 5 is included.

### **5.2 ENVIRONMENTAL ANNUAL REPORT DISCLOSURES AND LEGITIMACY**

It has been asserted that one way a company can maintain its legitimacy and apply a process of legitimisation is to use the corporate annual report to disclose information about its social and environmental activities (Lindblom, 1994, Mastrodanas & Strife, 1993, Nasi et al, 1993, Neu et al, 1998 ). This technique of legitimisation has been applied predominantly as a response to issues or events (Wood, 1991, Patten, 1992) identified as posing a possible threat to, at best, an organisations' reputation, or at worst, its very existence. It has been claimed that any process of legitimisation is a corporate response to public pressure (Preston & Post, 1975).

A general summary of the basis of the empirical research concerned with investigating legitimacy theory as an explanation for increases in the incidence of corporate social and environmental reporting is presented in Figure 5.1.

**FIGURE 5.1 - PREMISE UNDERLYING PRIOR STUDIES OF ENVIRONMENTAL DISCLOSURES AND LEGITIMACY THEORY**



This figure depicts the major premise underlying the studies conducted attempting to verify whether motivations for increased social and environmental disclosures are consistent with legitimacy theory. The majority of studies to date have been concerned with attempting to establish a positive correlation between a legitimacy threatening issue or event and the increased frequency of environmental disclosures in the annual report, thus confirming legitimacy theory. Appendix A is a summary of the main features and findings from these studies. A discussion on the most salient and important points deduced from a critique of these studies follows.

#### *Hogner (1982)*

In one of the first studies conducted into motivations behind corporate social responsibility reporting and legitimacy, Hogner (1982) examined the annual reports of US Steel over an 80 year period (1901-1980) with a view to establishing that corporate social reporting was a long-established practice and that these disclosures were the result of societal forces and behaviours, which is consistent with legitimacy theory. The study identified social disclosures in terms of general narratives, statistical record, statistical yearly comparison and nature of activity. These data were then analysed on a year-to-year basis. In relation to legitimacy theory, Hogner hypothesised, but did not test, that US Steel's social disclosures were motivated by and indicative of corporate needs for legitimacy in the eyes of the general public.

*Guthrie & Parker (1989)*

The 1989 study conducted by Guthrie & Parker, used Hogner's study as a basis for looking at social disclosures made by Broken Hill Proprietary Ltd (BHP) over a 100 year period. The study had two aims; first, to determine whether a similar history of social disclosures was apparent in the Australian steel industry using BHP Ltd; and second, to discover whether the pursuit of corporate legitimacy was a primary rationale for disclosures. In examining the extent of corporate social disclosures, 177 yearly and half-yearly annual reports were examined and corporate social disclosures were identified and recorded across six main themes. These were environment, energy, human resources, products, community involvement and others.

Unlike Hogner (1982), who merely hypothesised that US Steel's social disclosures were linked to legitimacy theory, Guthrie and Parker (1989) attempted to assess the available evidence for the legitimacy theory explanation. To assess the applicability of legitimacy theory, a data bank of major events and issues relating to BHP was assembled from a number of different sources. The disclosures were then related to the significant concurrent events which occurred in the history of BHP and its immediate environment. Guthrie & Parker (1989) argued that if annual report disclosures occurred at, or about, the same time as related issues/events, the disclosures were evidence of a legitimising explanation for BHP's corporate social disclosures. Their study failed to confirm legitimacy theory in five of the six identified areas of social disclosure. Importantly, they found the highest level of applicability of the theory occurred with regard to post 1970 environmental disclosures.

*Patten (1991)*

A general study of whether social disclosures were related more to profitability than to public pressure was conducted by Patten (1991). He looked at the social annual report disclosures of 128 corporations for the year 1985. Patten (1991) hypothesised that the level of social disclosure is more related to public pressure than to profitability. He concluded that public pressure variables (size and industry classification) were significant explanatory variables associated with increased social disclosure. Profitability variables were not significantly associated with the extent of social disclosure. This result is consistent with other studies which examined the relationship between corporate size, industry classification and the incidence of social disclosures (Belkaoui

& Karpik 1989, Cowen et al, 1987, Deegan & Gordon, 1996, Trotman & Bradley, 1981). Patten (1991) concluded that increased social disclosure was linked to legitimacy theory as his findings suggested the cornerstone of legitimacy theory, increased public pressure, had an effect on the quantity of social disclosures made by a corporation.

#### *Patten (1992)*

The Exxon Valdez oil spill in Alaska in 1989 has, arguably, generated more research into corporate environmental practices and reporting than any other single incident (Rubinstein, 1989). Both Patten (1992) and Walden & Schwartz (1997) used this accident as the catalyst for their research to test support for legitimacy theory. Patten (1992) tested whether the corporations in the petroleum industry, as represented by members of the Alyeska Pipeline Service Corporation<sup>7</sup> (Alyeska), attempted to legitimise their existence by increasing environmental disclosures in their annual reports in the year immediately following the Exxon Valdez oil spill.

Patten (1992) used all petroleum corporations as listed in Fortune 500<sup>8</sup> as the basis for his sample selection. He found that Exxon significantly increased its environmental disclosure post-accident and, of itself, this increased disclosure was consistent with legitimacy theory. More importantly, however, he tested for and found that the oil industry, as a whole<sup>9</sup>, significantly increased environmental disclosure in the annual reports, post-accident. This finding supported legitimacy theory in that corporate perceptions (and reactions) related not just to Exxon, or the oil spill itself, but rather to the general impact of the spill on public attitudes towards firms in the petroleum industry.

#### *Walden & Schwartz (1997)*

Walden & Schwartz's (1997) findings regarding the quantity of environmental disclosures by corporations in the oil industry, post-Exxon Valdez support Patten's (1992) conclusions. Walden

---

<sup>7</sup> These members are a group of public petroleum corporations which operate the Alaskan oil pipeline.

<sup>8</sup> The Fortune 500 is an annual list of the top 500 US corporations by market capitalisation.

<sup>9</sup> As represented by 21 of the 23 publicly traded corporations, other than Exxon, included in the petroleum segment of the 1989 Fortune 500.

& Schwartz (1997) also looked at pre and post-Exxon Valdez oil spill environmental disclosures of corporations in three other environmentally sensitive industries (chemical, consumer products and forestry) and found increased corporate environmental disclosures in each of these industries. This suggests that corporations, operating in industries perceived by society to be environmentally sensitive, believed that at the time immediately after the Exxon Valdez oil spill, the environment was a particularly sensitive social issue, which required some legitimation on the corporation's part. Walden & Schwartz (1997) concluded that disclosures related to the firm's self-interest and were both time and issue or event specific. Each of these conclusions support legitimacy theory.

Walden & Schwartz (1997) also attempted to measure the quality of environmental disclosures, by arbitrarily assigning points to the significance, timing, specificity and quantification characteristics of the disclosures. They claimed that the quality of environmental disclosures increased post-Exxon Valdez. This research represents one of the few attempts at investigating quality of disclosures, which is important in establishing legitimation motives. The methods used in this study to depict quality are, however, quite speculative. For example, the location of environmental disclosures included in either the letter to shareholders or the financial statements were considered significant in respect of quality. Although not stated, presumably disclosures in other sections were not considered as significant in regard to quality. The use of narrative text in annual reports, however, allow managers to echo, enlist and amplify dominant societal themes and values (Lehman & Tinker, 1987, Neu et al, 1998).

#### *Brown & Deegan (1999)*

Public pressure, as measured by media influences, was also the hypothesised cause in three important studies into the increased incidence of social and environmental disclosures in the corporate annual report (Brown & Deegan, 1999, Neu et al, 1998, Simmons & Neu, 1998). Conclusions in each of these studies supported the broad constructs of legitimacy theory. In these studies, possible correlations between the frequency of print media articles on environmental issues or events, linked to either the corporation or the industry in which the corporation operated and the amount of environmental disclosures in the annual reports of the corporations, were investigated. The print media articles accessed were predominantly negative in tone towards the industry or corporation. For example, media reports of environmental fines were used as an

independent variable by Neu et al (1998) and Simmons & Neu (1998). A correlation was found between increases in the amount of environmental information being disclosed following media exposure.

Brown & Deegan's (1999) study included media articles of a positive and neutral nature as well as those of a negative nature, but concluded that only higher levels of negative media exposure resulted in higher levels of environmental disclosure in annual reports. These findings, which suggest that corporations are using the annual report to convey specific messages in the face of negative public perceptions (symbolic legitimation), are enhanced by Deegan & Gordon's (1996) and Deegan & Rankin's (1996) studies, who both sought to classify responsive environmental disclosures as either portraying "good" or "bad" news. In both studies, the authors concluded that corporate environmental disclosures were predominantly positive and that these positive disclosures increased in response to negative associations made between the firm and its environmental activities.

#### *Neu et al (1998)*

The originality of Neu et al's (1998) research was the attempt to identify the importance of environmental disclosures to specific stakeholders, whom they referred to as relevant publics. Using media reports linking the 33 corporations in the study to environmental issues, they tested whether corporate management believed that different types of media reports were important antecedents to specific relevant public's perceptions of the organisation. They hypothesised that if these media reports were considered important measures of public pressure for each of the specific relevant publics identified, this would result in an increase in the amount of environmental disclosures in the annual report.

In this context, they measured two groups of financial stakeholders' concerns; shareholders, using profit as a variable and creditors, using a financial debt to equity "logarithm"(sic). They measured regulatory challenges by the amount of media exposure each corporation received in relation to environmental fines levied against the corporation. Environmentalists' concerns were measured by the number of media articles that contained environmental or other criticisms of the organisation's activities by people or groups who had an "indigenous" link to the land and societal

concerns were measured using the number of media articles which referred to the 'environment' in general.

In finding shareholder, regulatory and societal concerns were associated with increased environmental disclosures, legitimacy theory was supported. In finding that creditor and environmentalist concerns were not associated with increased environmental disclosures, legitimacy theory was not supported. This lack of a consistent response to all groups led to the conclusion that when multiple stakeholders with conflicting interests exist, environmental disclosures will accommodate the interests of whom management decide are the more important stakeholders. This finding both adds to and supports results of other research into the impact conflicting external interests may have on managers' choice of legitimation tactics (Bansal, 1995, Goodstein, 1994, Oliver, 1991).

From the perspective of this research and the literature previously evaluated, an important limitation on any findings by Neu et al (1998) was that the public pressure proxies were not directly linked to specific issues/events. They looked for mention of the corporation and the environment in media releases. This media content may not have been issue or event specific. For the purposes of this investigation, it is asserted that concentrating on the general environmental activities of a corporation, as Neu et al (1998) did, makes it more difficult to isolate and identify any legitimation tactics management may adopt, than it would be if a specific issue or event was to be used as a key variable.

While Neu et al's (1998) findings advanced the status and acceptability of legitimacy theory, the choice of the proxies representing public pressure for the identified relevant public groups are problematic. For example, in claiming that a corporation with a negative performance result is more likely to include environmental information in its annual report than corporations which make a profit, an implied assumption is that the only important concern for shareholders is profit. This assumption also ignores the fact that shareholders are not a homogeneous group and individual shareholders may hold views congruent with the views of other relevant publics identified by Neu et al (1998), environmentalists and members of the general public.

The finding that the level of creditor concerns was not associated with a change in the amount of environmental disclosures may be as much a result of the choice of the proxy for public pressure as it is an indication of an absence of legitimization motives. The use of a debt to equity “logarithm” (sic) as an indicator of financial concerns for creditors may be useful in itself, but there does not appear to be a satisfactory explanation of how a change in this ratio might relate to the disclosure of environmental information.

The lack of correlation between environmentalists’ concerns and increased environmental disclosures may be a result of the corporation deliberately choosing to avoid the issue, so as either not to expose themselves to more public pressure, or, to grant environmentalist groups legitimacy in their own right (Oliver, 1991). Neu et al’s (1998) conclusion also appears to be at odds with Deegan & Gordon (1996) who found corporations were responding to the increased demands of one group of stakeholders, environmental groups, by increasing annual report disclosures. This was inferred from a direct correlation between the rise in environmental group membership and the amount of environmental disclosures during the same time period.

Further, looking only at environmental media coverage related to the organisation itself, as a measure of environmentalists’ concerns, ignores the idea that increased environmental disclosures may relate to a combination of corporation, industry-wide and general environmental issues or events. While their conclusion may still be valid, the measure of environmentalists’ concerns is flawed if the media coverage is linked only to the organisation itself.

Notwithstanding these limitations, Neu et al’s (1998) research has advanced legitimacy theory in relation to environmental disclosures, in that there is evidence suggesting that a firm does respond to publics it believes are relevant to the organisation. Importantly, firm’s do consider the general public to be an important relevant public, at least in relation to the audiences identified as important with respect of annual reports.

#### *Buhr (1998)*

The most comprehensive work on environmental disclosures and legitimacy theory to date was the longitudinal case study of Falconbridge, a Canadian nickel and smelting corporation,

conducted by Buhr (1998). Buhr (1998) identified an event (the emission of sulphur dioxides as part of the larger environmental issue of air quality) and followed through Falconbridge's treatment of this issue, especially looking at annual report disclosures, over the 28 year period from 1964-1991. She broke the 28 year period into 6 identifiable periods demarcated by six discernible periods of government regulation in relation to air quality. The aim of Buhr's (1998) study was to test to what extent annual report disclosures, concerned with the broad issue of air quality management and Falconbridge's sulphur dioxide emissions, could be explained by either legitimacy theory or political economy theory.

In using a case study approach, Buhr (1998) utilised both content analysis of environmental disclosures in annual reports and the influences of other internal and external media relating to the air quality and sulphur dioxide issue, as well as semi-structured interviews with senior Falconbridge personnel. The use of interview methods adds validity to the findings in relation to legitimacy theory, as this theory is dependent upon understanding managers' thoughts and perceptions about issues/events and any possible impacts management believe their activities may have on external perceptions of the corporation's social and environmental performance.

Buhr's (1998) methods were original in that while she did take into account the quantity of environmental disclosures, as prior studies had, she also looked at the "nature and tone" of the disclosures before concluding that any disclosure was consistent with a legitimacy or political economy theory approach.

It was noted that Falconbridge disclosed relatively little general social or environmental information over the period of the study. It did disclose some information about the issue in question during the 28 years, with peak disclosures occurring between 1976-79 and 1985-88. These two periods coincided with the highest order of government regulation. Buhr (1998) noted that the tone of most environmental disclosures in the 28 year period was more technological than social or political, a result, she concluded which was due to the engineering background of most of the senior management of the corporation over that time. The tone of the disclosures, however, evolved from "hard" technological to a more persuasive use of technological arguments to support that Falconbridge was concerned for social well-being in relation to air quality. She

classified Falconbridge's disclosures, in more recent times as being more political in nature, that is, it included more reference to government regulation in conjunction with "soft" technological disclosures.

Despite the complexity of the study and some mixed messages in the data, Buhr (1998) concluded that legitimacy theory offered a better explanation for Falconbridge's treatment of managing sulphur dioxide abatement than did political economy theory. Her basis for this conclusion rested with Falconbridge's efforts in changing its actions in relation to sulphur dioxide abatement over the period. This approach is consistent with the substantive legitimation response of conforming with social values by changing corporate practice so that it is in congruence with social values. She also concluded that the shift over time from "technological" to "political" environmental disclosures is consistent with a social constructionist approach of attempting to legitimise corporate actions by establishing institutional conformity, confirmed by congruence with and in excess of regulations.

It is clear, then, that the prior research investigating legitimacy theory as an explanation for increased environmental disclosures supports the position that annual reports are used as a legitimation device and that reasons behind increased environmental annual report disclosures are consistent with the general constructs of legitimacy theory. To date, no discernible patterns of corporate environmental annual report disclosures, consistent with specific purposes of legitimation or legitimation responses or tactics, have been identified or categorised.

### **5.2.1 LIMITATIONS OF PRIOR STUDIES**

In most of the studies, summarised in Appendix A, the researchers attempted to identify the existence of a relationship between increased social and environmental disclosures in the corporate annual report to key events involving social issues which may have precipitated these disclosures. In each of the studies on legitimacy theory in Appendix A (Buhr, 1998 excepted), content analysis, using annual reports and various other documented data, has been the primary data collection technique.

Content analysis has been used widely in investigating corporate social reporting. Abbot & Monsen (1979) defined content analysis as:

*“..a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity.” (p.504)*

Content analysis, as used in many studies into social and environmental disclosures, has taken many forms. Some studies have commenced by simply counting the instances of social and environmental disclosures, for example, Harte & Owen (1991), O'Donovan & Gibson (1994) Trotman (1979), whereas others have attempted to look at more complex relationships, including corporate size and characteristics (Cowen et al, 1987) and various measures of social and environmental performance (Abbot & Monsen, 1979, Belkaoui & Karpik, 1989, Epstein & Freedman, 1994).

The usefulness of content analysis in enabling some comparability of results between discrete pieces of research is enhanced if the data are collected in a consistent way. In effect, this means that, where possible, definitions employed in measuring important variables should be similar. For example, some specific limitations in using content analysis with regard to quantity of environmental disclosure in annual reports may be varying sizes of pages, different margins, different type faces. Limitations in relation to categorising qualities and type of environmental disclosures are more complex, again. As Ullman (1985) pointed out, the usefulness of much of the research in the area of social and environmental reporting has been problematic, as the methods of data collection have not been consistent. Any interpretation of results of studies involving motivations explaining increased social and environmental reporting should be evaluated with this in mind.

A further limitation, of relying solely on content analysis as a data collection technique, is that analysing and codifying content means the investigator is limited to the ‘content’ in trying to seek explanations. Any inferences or conclusions drawn from content analysis alone, especially in relation to information voluntarily disclosed by a firm, may be disputable, as the researcher cannot determine the reasons behind the choice of the disclosed content or why other possible content

was discarded. Moreover, as the existence of corporate legitimacy is based on *managers'* interpretations of the views and perceptions held by the firm's conferring publics, predominantly in relation to specific issues/events, merely using content analysis does not allow for a direct interrogation of managers' views. These limitations suggest that collecting data from an ex ante perspective, directly from management, in conjunction with the collection of ex post data, will be more useful for developing legitimacy theory, than just collecting ex post data using content analysis.

The results of the studies summarised in Appendix A support the existence of legitimacy theory, as indicated by increased environmental disclosures in the corporate annual report. It is difficult to confirm the explanatory power of legitimacy theory based on the results of these studies alone, however, as, despite some similarities, definitions used and variables chosen in attempting to measure legitimacy, as well as data collection techniques used, differed greatly. This does not mean that the results are to be ignored; it merely highlights one of the constraints of relying predominantly on content analysis for data collection.

The nature of the content analysis method also necessitates that any data collected are of an ex post nature. While ex post information is important to the development of legitimacy theory, the fact that the theory depends on management perceptions and eventual choices between legitimisation tactics, suggests that its development would be enhanced if research into managers' thinking about possible legitimisation tactics was conducted ex ante. Woodward et al (1996) supported this view when they stated that one of the dangers in much of the research exploring reasons for corporate social responsibility disclosures was that:

*"the information provided indicates what a company has done within corporate social responsibility reporting but not necessarily why it has been done" (p. 344)*

In order to broaden testing of legitimacy theory, more specific evidence of a link between public pressure and managers' decisions about the amount and nature of environmental disclosure needs to be discovered. This can best be done by directly questioning the decision makers in relation to discrete issues or events, rather than by attempting to establish a correlation between two (or more) sources of content analysis. It cannot be over-emphasised that in order to determine

whether legitimacy theory is a credible explanation for increased environmental disclosures, one needs to determine management thoughts and perceptions in regard to the reasons environmental information is being disclosed.

This position was supported by Bebbington et al (1994) and Woodward et al (1996) who claimed that any content analysis using annual report disclosures should be either reinforced by, or used to reinforce, private views obtained from interviews. Woodward et al (1996) also claimed that:

*“Investigation by interview is therefore considered to be an alternative, and potentially richer method of extracting information” (p.344)*

Only Buhr's (1998) study tested legitimacy theory directly from a management perspective. She used semi-structured interviews with corporate personnel in an attempt to flesh out corporate motivation for any reductions in sulphur dioxide emissions and the corporate philosophy regarding the management of sulphur dioxide emission reductions. Her data were a rich, complex mixture of interview and content analysis of material produced by the corporation as well as externally, which has added as many questions as answers pertaining to the applicability of legitimacy theory. While adding much to the theory, all of the data collected were ex post. The validity of these data, especially the interview data, may be problematic in that management were already aware of Falconbridge's responses and disclosures to the air quality issue over the 28 year period of the study. Responses to questions on corporate motivation for past actions may cause interviewees, at least to some extent, to rationalise any choices and disclosures actually made, rather than provide information about what alternatives were considered and why they may have been dismissed. The collection of interview data, ex ante, would address this problem.

In the context of this research, it is argued that the further development of legitimacy theory can best be achieved in two ways: first, by identifying and interviewing individuals directly involved in the preparation of environmental information for inclusion in the annual report; and second, by gathering ex ante data from these individuals in order to discover, the thought processes entertained in any decisions which ultimately result in specific legitimisation tactics and annual report disclosures. It is also argued that the best way to proceed is to use specific environmental

issues/events as an indicator of increased public pressure and attempt to discover what responses and disclosure approaches would be adopted in response to these issues/events.

### 5.3 ORGANISATIONAL LEGITIMACY: SUMMARY

It is opportune at this time to recap the main points identified in the organisational legitimacy literature reviewed in Chapter 3 through to Chapter 5 and considered important to the remainder of this investigation. In looking at the origins of the concept of legitimacy, two important groups were identified, the holders of legitimacy and the group(s) which have the power to grant legitimacy to, or withdraw the legitimacy from the holder. Legitimacy exists when a group has both power and the authority to use that power. It was concluded that a corporation requires legitimacy to continue to operate and achieve its aims.

Several key suppositions emerged from the literature review. These were that:

- (i) the possible loss of legitimacy for a corporation is initially linked to an issue or event;
- (ii) in order to deal with this a corporation must:
  - (a) recognise to what extent the issue/event poses a threat to its legitimacy;
  - (b) identify the key groups who are exerting pressures on the organisation and why they are exerting this pressure;
  - (c) decide whether the purpose of any response is to gain, maintain or repair legitimacy;
  - (d) choose appropriate tactics, associated with the purpose of the corporate response, in an attempt, at least to portray, that the corporation's actions and beliefs are congruent with those of whom it considers to be important in respect of the ability to confer or withdraw legitimacy; and
  - (e) communicate the messages related to the aim of the tactics chosen to its target audiences.

From a corporation's viewpoint, the target audiences have been referred to as its "conferring publics". The move towards congruence between a corporation's actions and what the corporation perceives are its conferring publics' views and values is aimed at reducing any

perceived legitimacy gap. It was concluded that a corporation will use the corporate annual report to communicate messages pursuant to the aims of any legitimization tactics chosen.

It was argued that, for a corporation to manage its legitimacy effectively, it should, before choosing any legitimization tactics, establish whether the purpose of any response is to gain, maintain or repair legitimacy. It was also asserted that any legitimization tactics adopted, as well as being issue and firm specific, may also differ depending on whether the purpose of the organisational response is to gain, maintain or repair legitimacy. Suchman (1995) supported this when suggesting that an area which merited future empirical attention was:

*“suggested correspondences between specific legitimacy-management strategies and specific challenges of legitimacy creation, maintenance and repair” (p.603)*

For data collection purposes and in order to optimise the proposed development of legitimacy theory, the large number of specific legitimization tactics identified in the literature were combined into four categories: avoidance; attempts to alter social values; attempts to alter social perceptions of the firm and conforming to social values.

Research to date, using ex post data and content analysis techniques, has generally supported the position that increased environmental disclosures in the corporate annual report can be explained by legitimacy theory. Recognising the methodological limitations of this prior research, it was argued that in order to develop legitimacy theory further and strengthen the link between environmental disclosures and legitimacy theory, ex ante data should be collected directly from corporate management. Corporate management should be interviewed in order to obtain the firm's views about its conferring publics' perceptions of the firm's actions in relation to a specific environmental issue/event. Moreover, management should be directly questioned as to the types of legitimization tactics and voluntary environmental disclosures in the annual report they may be likely to adopt in relation to an issue/event. The aim of these questions should be to seek answers about why certain responses were adopted and others were not. This important area was noted by Neu et al (1998), in stating that their empirical study:

*“is not at the level of detail to allow us to analyse the specific communication strategies contained in these narrative (annual report) disclosures” p.274*

Neu et al (1998) also concluded that their analysis:

*“...highlight(s) the need for additional research examining micro-legitimisation strategies used within such (environmental) disclosures. For example, it would be useful to identify the situations when organisations are likely to attempt to educate and inform relevant publics as opposed to changing external perceptions or simply changing the focus of attention” p. 279.*

In the remainder of this investigation, these issues are addressed and the other limitations of prior studies are rectified in order to explore, at a micro-level, to what extent corporate environmental annual report disclosures can be explained by legitimacy theory.

#### **5.4 SUMMARY**

In this chapter the extant literature on environmental disclosures and legitimacy was reviewed. Conclusions from this review indicated that, at a macro level, legitimacy theory is an explanatory factor behind the voluntary disclosure of environmental information in the annual report. It was recognised, however, that the methodological limitations in relation to the extant research had inhibited the development of legitimacy theory and, in particular, the ability to establish the extent of any relationships between the purpose of any corporate response, the use of specific legitimisation tactics and the intent of annual report disclosures.

The next steps in this research are to develop a model of legitimacy theory, based on the literature review and then to test the model. There are two aims in developing this model: first, to depict legitimacy theory as constructed from a detailed critique of the extant literature; and second, to use the model as the basis for collecting much of the data to be used for the remainder of this investigation.

## CHAPTER 6 - THE LEGITIMACY THEORY MODEL

### 6.1 INTRODUCTION

The purpose of this chapter is to illustrate *micro-level* aspects of legitimacy theory in the form of a model and to describe how the model works. The model has been developed based on the literature reviewed in Chapters 3 - 5 and will form the basis of the data collection and analysis phases of this research. It is envisaged that the model and, hence, legitimacy theory, will be further refined and revised throughout the three data collection and analysis phases of the research.

Using environmental issues/events as an indicator of public pressure and environmental disclosures in the corporate annual report as a determinant of the existence of legitimacy theory, the model incorporates key principles of legitimacy theory identified from the literature. It also includes elements which address the limitations recognised from an evaluation of prior research on managing legitimacy.

In Section 6.2, the aims in developing the legitimacy theory model are described. An overview and description of the model is provided in Section 6.3. In the ensuing sections the development of three integral parts of the model, important for the data collection phases of this investigation, are discussed. The first part relates to the importance of identifying and classifying conferring publics. In the second part, an examination of how management may choose specific legitimisation tactics is covered and in the third part, the significance of the purpose of the corporate response to the choice of legitimisation tactics is examined. To help explain the use of the model, examples of environmental issues/events and how a corporation might identify its specific conferring publics and then manage what it perceives to be its conferring publics' views, are used where appropriate. A short discussion on how the model is to be used in this investigation to test and further develop legitimacy theory is then included.

### 6.2 AIMS IN DEVELOPING THE MODEL

It is clear from the literature reviewed in Chapter 2, that corporate activities which have an affect on the natural environment are viewed by both society and the corporations themselves as being an important social issue. A review of the literature in Section 5.2 led to the conclusion that a firm does act to ensure its legitimacy in relation to environmental and other social issues and it is

argued that increased voluntary environmental disclosures in the corporate annual report is one way a firm can safeguard legitimacy.

Three variables important for the testing of and advancement of legitimacy theory were identified and discussed in Chapters 3 - 5. These three variables are: first, a legitimacy threatening environmental issue/event; second, the purpose of the corporate response; and third, the identification of a firm's conferring publics. A recapitulation of these three variables and the importance they have for the remainder of this investigation follows.

### **6.2.1 THE ENVIRONMENTAL ISSUE/EVENT**

In developing the model, the need to be able to isolate a *single* environmental issue/event as a key cause of increased public pressure was acknowledged. Although it is recognised that the existence of legitimacy is dependent upon views and perceptions in relation to multiple issues and events, it was not considered possible, in this investigation, to identify and correlate specific legitimisation tactics to multiple issues or to determine in what proportion any legitimisation tactic may have been chosen in relation to one or more multiple issues/events. Given the exploratory nature of this research, the identification of a single significant issue/event as an indicator of public pressure, which influences a firm's choice between a limited number of annual report disclosure approaches, should allow for a significant contribution to be made to the development of legitimacy theory.

### **6.2.2 THE PURPOSE OF THE CORPORATE RESPONSE**

It is important to identify whether the purpose of any corporate response is to gain, maintain or repair legitimacy. The model incorporates the view that different annual report disclosure approaches are related to specific legitimisation tactics and the choice of tactics is dependent upon the purpose of the corporate response (gain, maintain or repair legitimacy). The majority of studies to date have been concerned with identifying tactics aimed at repairing legitimacy. It is argued that these tactics are not necessarily transferrable to, or suitable for, the purposes of gaining and maintaining legitimacy.

### 6.2.3 IDENTIFYING CONFERRING PUBLICS

At the same time as deciding the purpose of the corporate response, a corporation needs to identify its conferring publics. Based on Mitchell et al's (1997) identification of stakeholder attributes, any response to a firm's conferring publics in relation to an issue/event, involving the choice of alternative legitimation tactics and environmental disclosures in the annual report, is dependent upon management deciding:

- (i) the amount of divergence and congruence that exists between the firm's multiple conferring publics in relation to its views on the firm's actions, in order that management can decide who are the most important conferring publics;
- (ii) the relative power and legitimacy of the firm's conferring publics compared to other stakeholders who do not perceive the corporation's actions as illegitimate; and
- (iii) the urgency of the issue, in combination with the power and legitimacy of the firm's conferring publics.

The complex nature of these three interconnected points, coupled with the fact that, at any point in time, a firm may have multiple conferring publics interested in a broad range of issues, has resulted in the following delimitations being identified to make the legitimacy theory model operational. Although the model could be used to assist in discovering particular stakeholder attributes and the level of interconnectedness between the three identified stakeholder attributes (power, legitimacy and urgency) leading to the identification of specific conferring publics, it is not being used for these purposes in this investigation.

It is acknowledged, and incorporated into the model, that a firm will have multiple conferring publics and that these must be identified before any attempt to manage legitimacy, using alternative legitimation tactics, aimed at satisfying these conferring publics can be effective. It is not an aim of this investigation, however, to discover the identify of specific conferring publics. In applying the model to this investigation, an assumption is made that, in order to manage legitimacy, a firm initially needs to be conscious of the connections between an *individual* issue/event and to decide, simultaneously, who its conferring publics are in relation to that

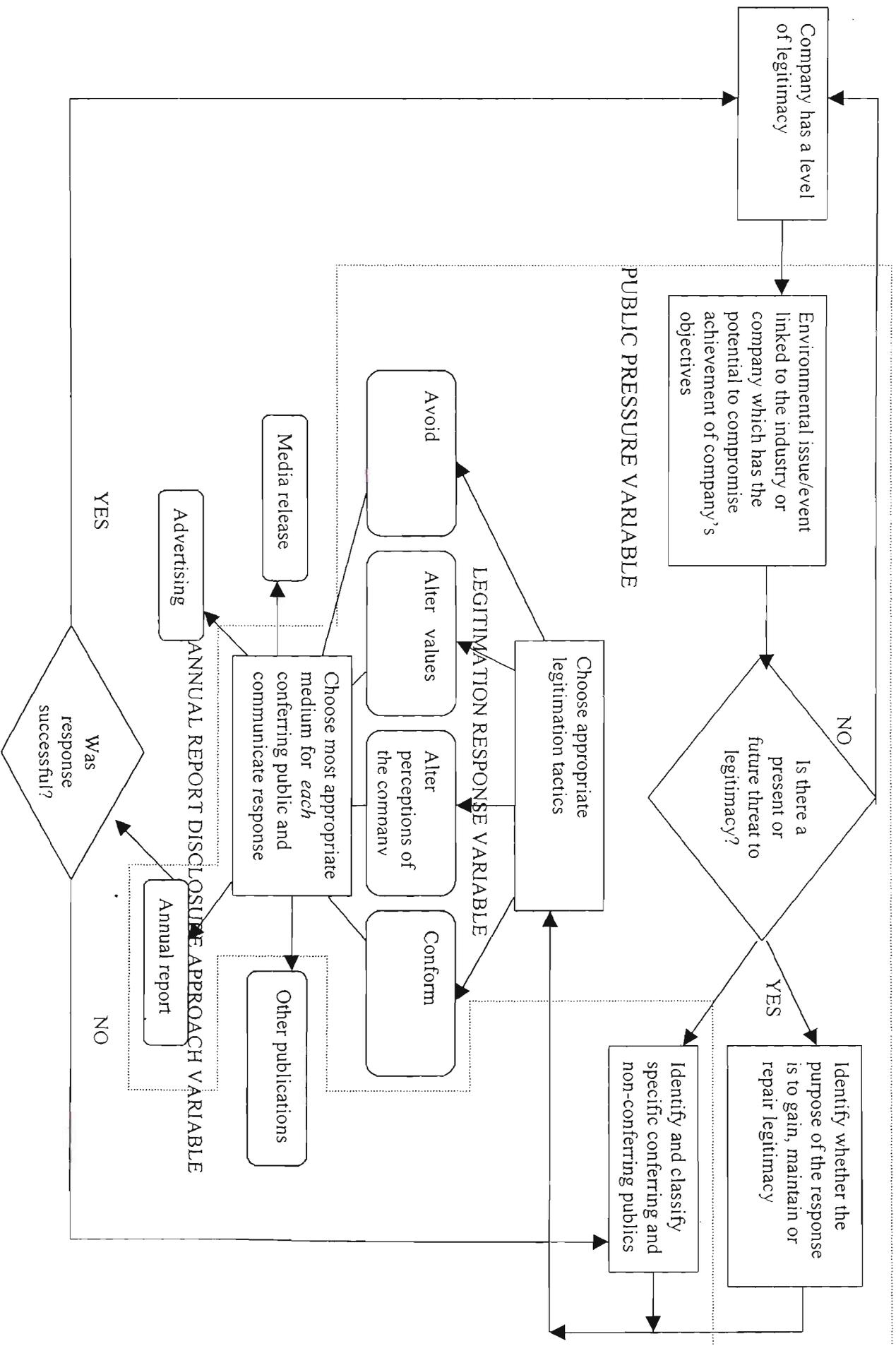
issue/event and the purpose of any response before it chooses one of the four legitimation responses/tactics and making annual report disclosures.

### 6.3 OVERVIEW OF THE MODEL

Figure 6.1 provides the basics of the legitimacy theory model which has been developed. For the purposes of this investigation, the intention is to test that part of the model enclosed by the broken line. While the data collection phase of this investigation is not specifically concerned with discovering the identity of specific conferring publics, a discussion of this important component of the model is included in Section 6.4.1.

The model begins with the presumption that the corporation has an established level of legitimacy in society (it is legitimate). The catalyst for a threat to the corporation's legitimacy is a present or perceived possible future increase in public pressure on the corporation in relation to an environmental issue or event with which the corporation or industry is, or is likely to be, associated. This pressure emanates from a perceived divergence between the corporation's or industry's actions or activities in relation to the environmental issue or event and the expectations and views society may have about the corporation's actions.

FIGURE 6.1 - OVERVIEW OF LEGITIMACY THEORY MODEL



Corporate management must decide whether there is a present or potential threat to the corporation's legitimacy. This would partly be done by attempting to gauge general public reaction to the corporation's actions, or proposed actions, in relation to the issue/event. If a threat is probable, the corporation must then decide whether the purpose of any response is to gain, maintain or repair legitimacy. At the same time as the purpose of the corporate response is determined, the corporation must identify the specific groups in society that it believes may be able to threaten the existence of the corporation's legitimacy (conferring publics) in relation to the issue/event. The subsequent choice of appropriate legitimization tactics is dependent upon both the purpose of the response and the identification of the firm's conferring publics.

One or more of the four legitimization responses adopted for the purposes of this investigation: avoid the issue; attempt to alter values; attempt to alter perceptions of the corporation; and conform to social values, would then be chosen. In order for any legitimization response to be successful, the substance of the response must be communicated to both the conferring publics and the general public. The model illustrates that the firm could use a number of communication mechanisms, depending on the 'urgency' and the magnitude of any one issue/event. For the purposes of this research, the annual report has been chosen as the medium of communication. It was asserted in Section 4.4, that the corporate annual report allows the corporation the greatest effective control in managing the way that the messages related to legitimization tactics are communicated. The model allows for the probability that corporations use many forms of communication, other than the annual report, to manage legitimacy and that the four legitimization responses included in the model are applicable to these forms as well. While the focus of this investigation is on the annual report, it has been concluded corporations use a number of different means to disclose social and environmental information (Zeghal & Ahmed, 1990). This could be a focus for future research.

The corporation would need to monitor any issue through its life cycle in order to establish whether its attempts to manage legitimacy were successful. If they were not successful, the firm would need to repeat the process, commencing with an identification of its conferring publics. If the legitimization responses/tactics chosen and communicated were repeatedly unsuccessful, it

is possible that in the short term, the corporation will lose customers and its reputation and, in a long term worst-case scenario, its very existence.

#### 6.4 THE LEGITIMACY THEORY MODEL: THE SPECIFICS

In Chapters 3 - 5 various components of legitimacy theory were identified and discussed and the model was developed. This section represents an advance on what was discussed in relation to the literature reviewed in Chapters 3 - 5 in that three specific components of the model are illustrated and described at a *micro-level*, in order to optimise the quality of the data to be collected to test the model. In Section 6.4.1, the importance of identifying and classifying conferring publics is evaluated. In Section 6.4.2, how management may choose between legitimisation responses/tactics is discussed and in Section 6.4.3 the importance of the purpose of the corporate response to any legitimisation responses/tactics chosen is examined.

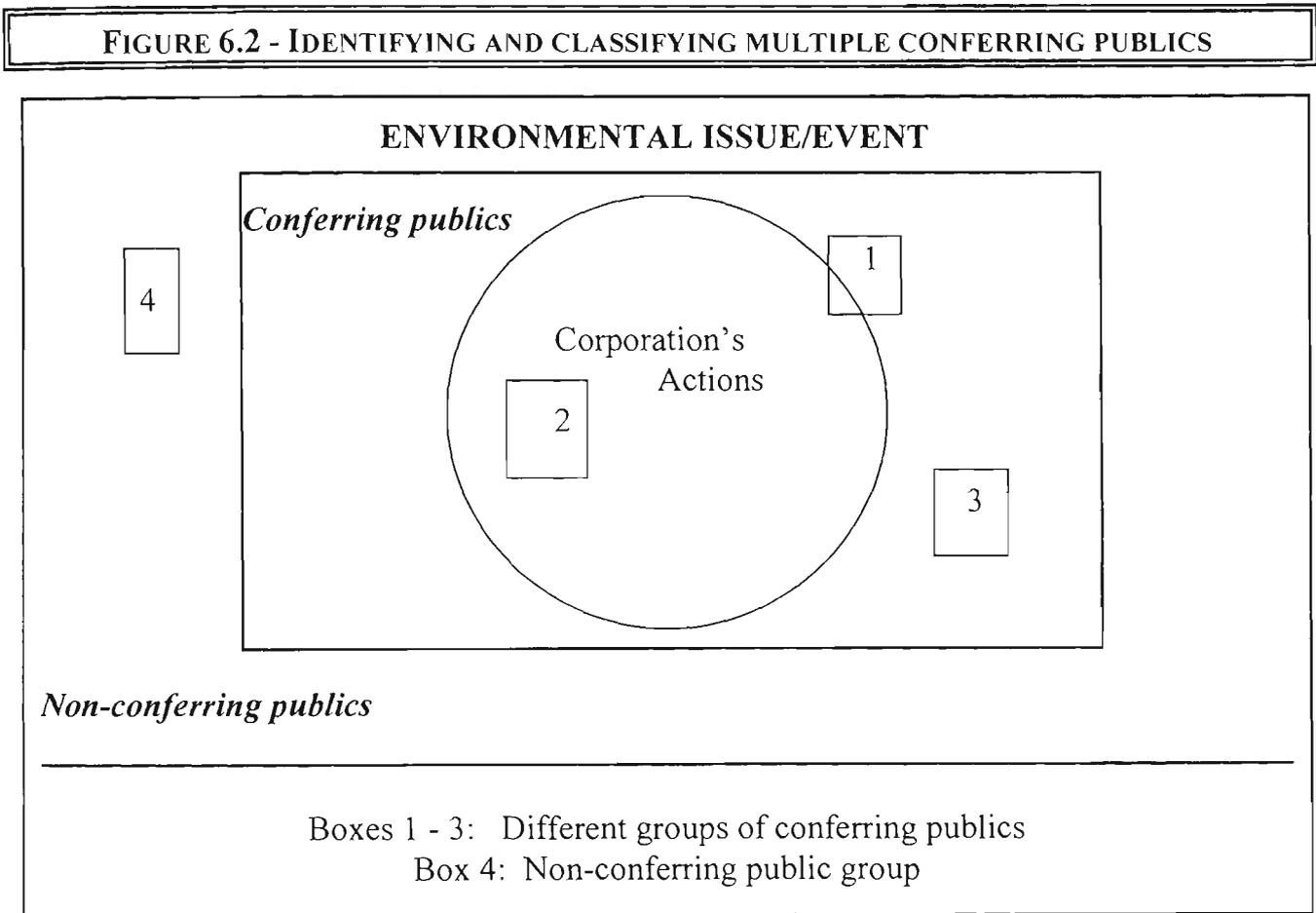
The explanation about these parts of the model are not presented in the order that they appear in Figure 6.1. Each of these parts of the model are interconnected and it is considered that it is easier to explain these interconnections if the order in which they are explained differs from the order in which they appear in the model.

In Figure 3.1, organisational legitimacy was illustrated as existing when there was congruence between society's norms and values and an organisation's actions and activities. In Figure 3.3, the same principle was adopted but organisational legitimacy was illustrated as being issue specific. It is argued, in this research, that, in seeking legitimacy, a corporation aims for congruence between its actions and what it perceives to be the views and the perceptions of its conferring publics, rather than society as a whole.

As it was depicted in Figures 3.1 and 3.3, the ability to test legitimacy theory is restricted. There is no identification of a firm's conferring publics and their different demands, there is no scope for testing the purpose of any organisational response and there is no attempt to identify alternative micro-legitimation tactics. An explanation of the specifics of the legitimacy theory model in the remainder of this chapter will show how the developed model attempts to overcome these limitations.

**6.4.1 IDENTIFYING AND CLASSIFYING CONFERRING PUBLICS**

The usefulness of testing legitimacy theory without acknowledging that a firm has multiple conferring publics is problematic. As it is contended in this research that firms target legitimation responses, in the form of voluntary annual report disclosures, primarily to important conferring publics, Figure 3.3 requires amendment to acknowledge the existence and importance of multiple conferring publics. In Figure 6.2 this amended position is illustrated and is followed by an explanation of the contents of the figure.



In relation to a specific environmental issue or event, boxes 1 - 3 represent groups of stakeholders the corporation believes have the ability to confer or withdraw legitimacy (conferring publics). Box 4 represents a stakeholder group which the corporation does not presently believe has the necessary attributes to affect the corporation's legitimacy (non-conferring publics). The circle represents the corporation's present actions or activities in relation to a specific environmental issue/event. The legitimacy gap in this figure is represented by the parts of each of the conferring public's boxes (boxes 1 - 3) that are not in the circle.

In this illustration, management of the corporation believe that:

- (i) one conferring public (box 2), situated inside of the circle, has views that are congruent with the corporation's actions;
- (ii) one conferring public (box 3), situated outside of the circle holds views that are totally divergent from the corporation's actions;
- (iii) one conferring public (box 1), situated partly in and partly outside the circle, hold some views that are congruent and some that are divergent from the corporation's actions; and
- (iv) one non-conferring public (box 4), whatever its views, are at this time not considered either powerful, important or interested enough to be able to influence the corporation's legitimacy.

An examination of Figure 6.2 highlights that there may be multiple conferring and non-conferring publics for any firm dealing with a possible legitimacy threatening issue/event. The corporation decides which groups make up its conferring publics and exactly where they are situated in relation to the corporation's actions. In separately recognising a non-conferring public, the corporation realises that it is possible that this group may become a conferring public in the course of time.

Having identified and situated conferring publics relative to the corporation's actions, management must then decide how best to manage the divergent views and perceptions of its conferring publics. Management must decide on appropriate legitimisation tactics and responses, one result of which may be increased annual report disclosures.

#### **6.4.2 MANAGING LEGITIMACY: CHOOSING LEGITIMATION RESPONSES/TACTICS**

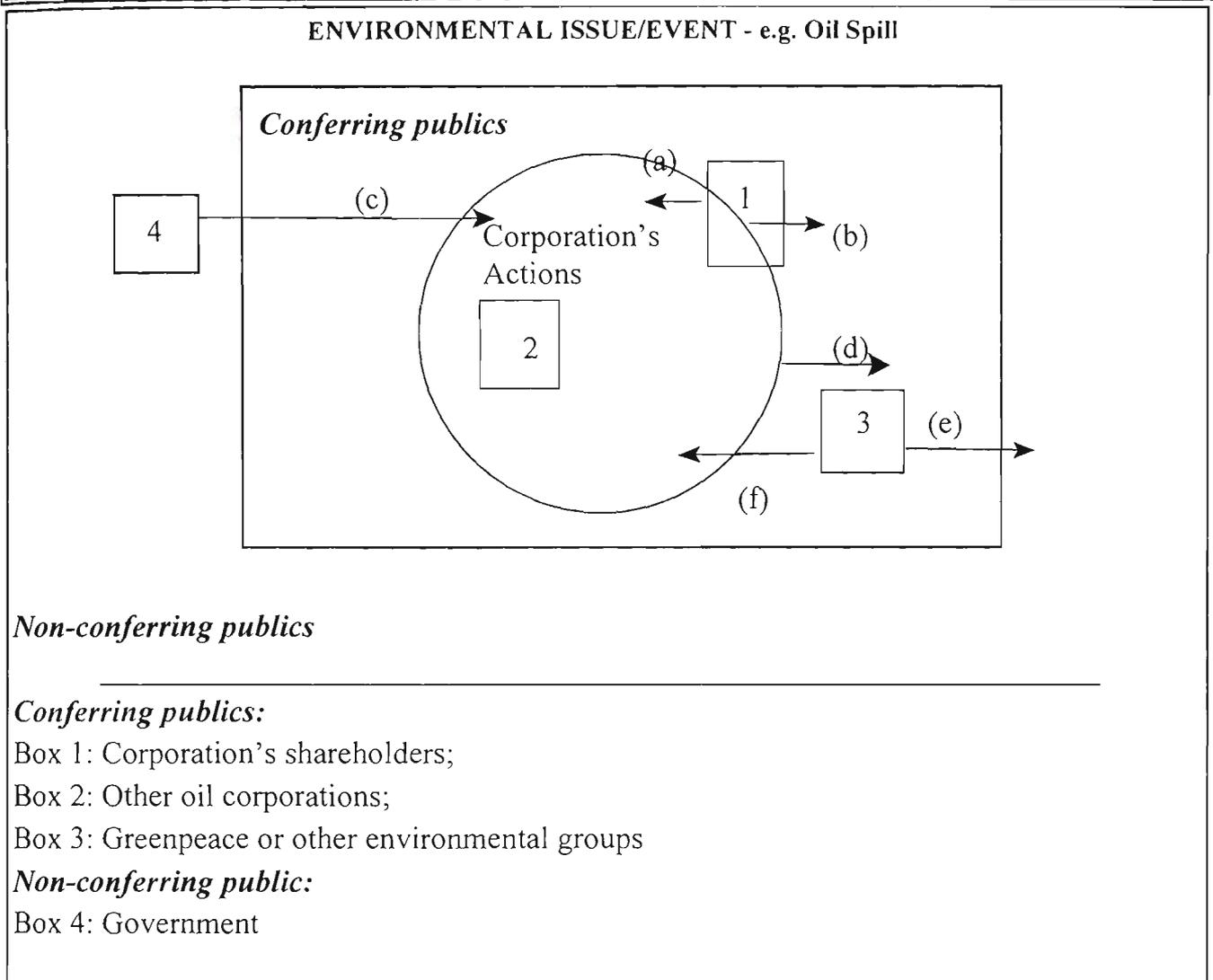
In order to manage legitimacy a firm aims to reduce the legitimacy gap. Basically this involves a convergence of its conferring publics' views about the corporation with the corporation's actions. In Chapter 4, four legitimisation responses were identified; avoid the issue, attempt to alter values, attempt to alter perceptions of the corporation and conform to prevailing values, which may be used to reduce any legitimacy gap. The purpose of this section is to examine how

implementing each of the four possible legitimization responses is intended by management to affect the relationship between the corporation and its conferring publics.

Referring to Figure 6.2, the corporation has to decide whether to move the boxes into or out of the circle (alter its conferring publics' values and/or perceptions) or, whether to expand or contract the circle (alter its actions to conform with its conferring publics' values). Alternatively, the firm could adopt tactics consistent with avoiding the issue/event, which may be chosen if it believes that, as the issue proceeds through its life cycle, any legitimacy gap will diminish without the need for the firm to intervene as directly as it otherwise may if it chose any of the other three legitimization responses. In this context, avoiding the issue/event is the minimalist tactic of the four.

Figure 6.3 illustrates a fictitious example where an oil corporation's legitimacy has been threatened because of its activities in relation to an oil spill. This example will be used in the remainder of this section to assist in explaining some of the more detailed decisions managers face in making these choices concerning legitimization tactics and its conferring publics.

In this example it is assumed that the firm has initially decided that its shareholders (box 1), other corporations operating in the oil industry (box 2) and Greenpeace (box 3) are important conferring publics. The corporation has also decided that, at present, the Government (box 4) is a non-conferring public. The arrows in the diagram represent the possible legitimization tactics which may be used to influence each conferring public in order to reduce any legitimacy gap. The importance of these conferring publics and the affect the 'placement' of these conferring publics, in relation to the corporation's activities, has on the choice of legitimization tactics is now explained.

**FIGURE 6.3 - CHOOSING LEGITIMATION TACTICS FOR SPECIFIC CONFERRING PUBLICS**

The corporation may decide that some of its shareholders might tolerate the corporation's actions and some might not. This is illustrated by box 1 being placed partly inside and partly outside the circle which represents the corporation's activities. The corporation may decide that other corporations operating in the oil industry (box 2) will not be antagonistic towards it, because they are operating in the same industry and as an 'institution', corporations in the oil industry may want to show some solidarity in the face of increased public pressure because of the oil spill. This is illustrated by box 2 being placed totally within the circle, indicating views congruent with the corporation's actions.

The corporation would probably believe that environmental groups, such as Greenpeace, would be an important conferring public, but these groups' views would be totally incongruent with the corporation's activities in relation to the oil spill. This is depicted by box 3 being positioned

completely outside the circle. The corporation might consider that government authorities might not presently be an influential stakeholder (box 4), hence, it is indicated as a non-conferring public. It is important not to ignore totally this group, however, as it may become an important conferring public, of the government's own choosing, or at the direct instigation of the corporation, during the life cycle of the event. The positioning of box 4 indicates that the corporation does not consider the government to be an important influence on its legitimacy at this time.

For optimal legitimacy to exist, the sum of all of the firm's conferring publics' perceptions about the corporation's actions must be congruent with the corporation's actions or, that the conferring publics cease to be important to the corporation's legitimacy. In other words the boxes representing the firm's perceptions of its conferring publics' views (boxes 1 to 3), should be located in the circle representing the corporation's actions or, outside of the area which includes conferring publics. In practical terms, legitimacy can be achieved by using a combination of the four legitimation responses to move the boxes towards the circle, out of the circle completely or by expanding the circle towards the boxes.

A firm will attempt to achieve legitimacy by adopting one or more of the four legitimation responses and by using the corporate annual report to communicate specific tactics, commensurate with these responses, to its conferring publics. Using the oil spill illustration, samples of some possible specific tactics linked to the four responses, are illustrated in Table 6.1. It is easy to see, from this table, how the sample legitimation tactics may be reproduced in the intent, tone and wording of any voluntary annual report disclosure.

<b>TABLE 6.1 - SAMPLE RESPONSES TO LEGITIMACY THREAT</b>	
<b>Response/Tactic</b>	<b>Sample</b>
A. Avoid	(a) Do not enter public debate on the affects or aftermath of the oil spill  (b) Do not publicise what may be perceived as negative information
B. Attempt to alter conferring public's values	Educate the public on the risks associated with transporting oil and the positive uses of oil with respect of standard of living measures
C. Attempt to shape conferring public's perceptions of the organisation	(a) Reiterate past social and environmental achievements of the corporation  (b) Indicate the corporation did not breach any current legislative guidelines for transporting oil
D. Conform to conferring public's values	Announce an immediate inquiry into the cause of the spill and assure the public that any measures necessary to ensure this type of accident does not happen again will be undertaken

Using the oil spill illustration, the responses and tactics the firm may adopt in order to ensure legitimacy will be explained by referring to the directions of the arrows in Figure 6.3. Figure 6.3 should be read in conjunction with Table 6.2, which provides a summary of the likelihood of the firm choosing the four legitimisation responses to influence its conferring publics' views. An explanation of why these choices may have been made, together with a practical description of how this impacts on the placement of the components of Figure 6.5, follows Table 6.2.

Legitimation Responses	Avoid		Alter Values		Alter Perceptions		Conform	
	Box	Arrow	Box	Arrow	Box	Arrow	Box	Arrow
Expand or move circle to box							1 3	b d
Move box to circle			1 3	a f	1 3	a f		
Move box out of conferring public box	3	e						
Move box into both conferring public box and circle			4	c	4	c		
No change	1 2 3 4	If the firm decides not to alter the current situation, the position of the circle and each box would remain as they are. The corporation would not try to change either its actions or perceptions of its actions.						

The only pro-active **avoidance** tactic illustrated in this example relates to how the corporation responds to Greenpeace (box 3) as a conferring public. The corporation may decide that a group such as Greenpeace would not be likely to alter its values or perceptions about an oil corporation in the event of a significant oil spill. In reality, organisations such as Greenpeace would probably seek to gain an advantage, by using the oil spill to raise awareness of the environmental impacts of corporations operating in the oil industry. In this circumstance, the corporation may aim to negate this group's influence by avoiding them completely in the hope that they cease to have an influence (arrow e). The corporation's aim is to ensure that Greenpeace become a non-conferring public. Other avoidance tactics chosen could include attempts at decoupling Greenpeace from the corporation and the event or by publicly questioning Greenpeace's credentials in commenting on the event.

A second **avoidance** tactic involves no movement of any of the figures in the model (all boxes and the circle). This indicates that, at the time a decision about a possible response is made, the corporation believes the best tactic is to preserve the status quo. For example, the firm may decide to do nothing in order buy some time and see what happens if they do not immediately respond to the legitimacy threat. This response is an obvious one for a corporation to use if the

conferring public's views are presently congruent with the corporation's (box 2 inside the circle). In this example the conferring public, whose views are considered congruent with the corporation's actions, is other corporations operating within the oil industry. By placing this group inside the circle, the firm is assuming that other oil corporations are important to its legitimacy and, given the situation, are at present supportive of its actions. As there is perceived congruence between this conferring public's view and the corporation's actions in this situation, the use of an avoidance response is indicated. Over the life cycle of this event, however, other corporations in the oil industry may try to gain an advantage by isolating the corporation responsible for the oil spill. If this occurred, the corporation would need to realign the placement of the other oil corporations to outside the circle, at least partly, meaning the corporation would most likely need to choose a legitimation response, other than avoiding, in order to ensure congruence with the views of other oil corporations.

If a firm chooses legitimation tactics reflecting attempts, either to **alter the perceptions** its conferring publics' have about the corporation or, **alter the values** of its conferring publics, it is contended that the firm is attempting to move the boxes representing the conferring publics' views into the circles (boxes 1 and 3 with arrows a and f). That is, the corporation is not intending to change its actions, rather it intends to change the values of its conferring publics or its perceptions of the firm and its actions. In this example, the corporation may choose tactics and annual report disclosures that attempt to alter its shareholders' values, so that they are congruent with the corporation's actions (box 1 - arrow a). The corporation may also try to get an environmental group (in this example Greenpeace) to support, or at least not be too critical of its actions, by attempting to alter its values or perceptions (box 3 - arrow f).

If a firm chooses to **conform** to what it perceives to be its conferring publics' social values, it is posited that the firm will either change its actions, or portray an intention to change its actions, in line with its conferring publics' views, depicted as the circle expanding or moving to a stationary box (boxes 1 and 3 with arrows b and d). In this example, the corporation may decide to change its actions, or at least portray the image of an intention to change its actions, to ensure shareholder support (box 1 - arrow b). If the corporation decided the oil spill was particularly damaging to its reputation, it may signal that it intends to conform with the wishes of an

environmental group such as Greenpeace (box 3, arrow d), predominantly known for its strong anti-corporate views.

Further a corporation may actively seek to enlist the support of a group previously identified as a non-conferring public (box 4 - arrow c). This is illustrated as an attempt to move the box depicting the non-conferring public from the non-conferring public area into both the conferring publics' box and the circle representing the corporation's actions (box 4 - arrow c). This would presumably only be done in an attempt to either alter the social values and/or perceptions of that group, or, as is more likely, to attempt to alter the social values and/or perceptions of other conferring publics. In the example used, the corporation may seek institutional (government) support for its position, thereby actively seeking to treat the government as a conferring public whose views are congruent with its actions.

#### **6.4.3 THE PURPOSE OF THE CORPORATE RESPONSE: GAIN, MAINTAIN AND REPAIR LEGITIMACY**

To complete the explanation of the legitimacy theory model, one needs to appreciate the relationship between possible legitimation responses and the purpose of the corporate response. The view is espoused that different legitimation responses and annual report disclosure approaches are likely to be chosen depending on whether the purpose of the corporate response is to gain, maintain or repair legitimacy.

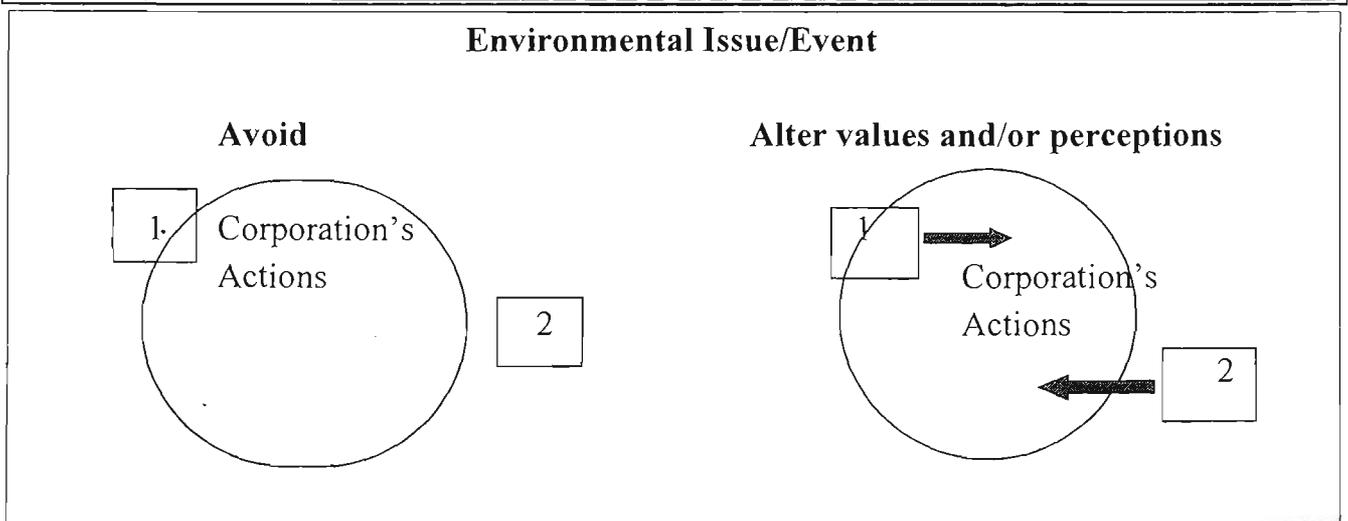
In referring to the overview of the model (Figure 6.1), the process involving determining the purpose of the corporate response is carried out simultaneously with the identification and classification of a firm's conferring publics. This implies that a firm's conferring publics may differ depending on whether the firm is trying to gain, maintain or repair legitimacy. This, in turn, suggests that the choice of an appropriate legitimation response (and any micro-legitimation tactics) will also be dependent upon the purpose of the corporate response. The importance in identifying whether the purpose of any response is to gain, maintain or repair legitimacy is now discussed.

### 6.4.3.1 Gaining Legitimacy

If a firm needs to gain legitimacy in anticipation of an issue/event, it is usual that its conferring publics and society will, initially at least, not be all that knowledgeable about the issue/event. This is generally due to the “newness” of issues coupled with a lack of public awareness and pressure about the issue. In determining a suitable legitimation response, it is suggested that management are in a position to be pro-active. This may result in the corporation avoiding the issue, as it may decide that little or no current public pressure warrants a response. Conversely, a corporation may act to influence its conferring publics’ values/perceptions about the issue/event while it is in a relatively advantageous position.

Figure 6.4 illustrates the belief that the purpose of gaining legitimacy will most likely result in either an avoidance response or an attempt to alter the values of the firms conferring publics or alter the perceptions of the firm held by conferring publics. It is considered to be highly unlikely that firms would need to conform to prevailing values, as in most cases, these prevailing values may not be known or well developed in relation to the issue/event.

**FIGURE 6.4 - LEGITIMATION RESPONSES AND GAINING LEGITIMACY**

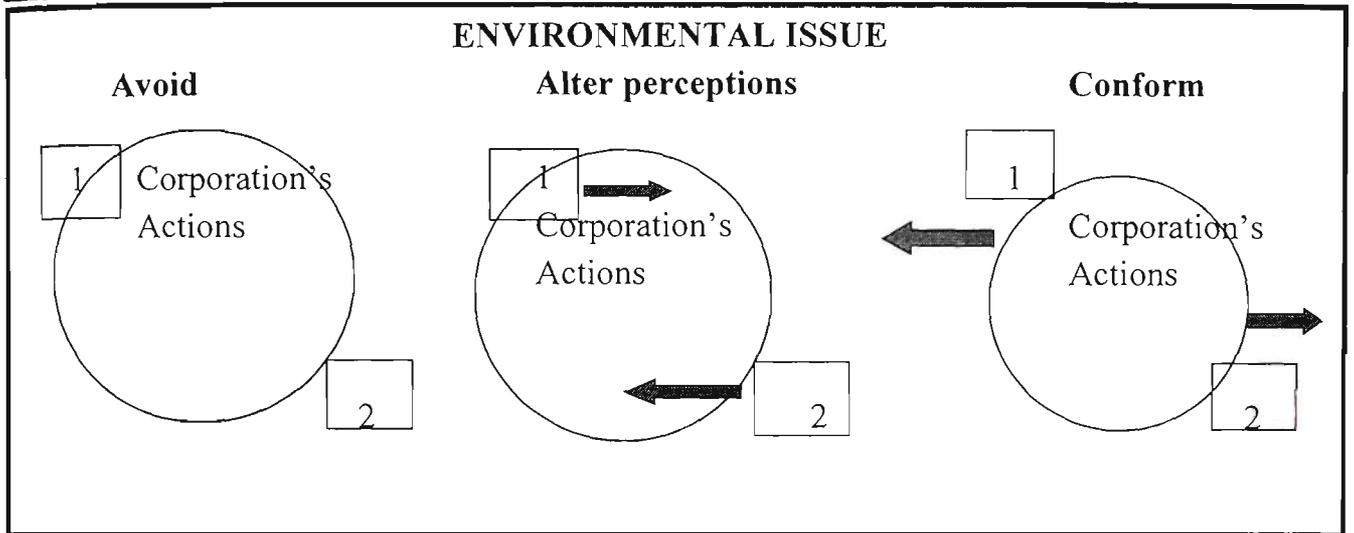


The avoidance response is depicted by no movement of the two conferring publics’ boxes (1, 2), or the circle. It is argued that to gain legitimacy, in most circumstances, the corporation may be expected to attempt to influence social values or perceptions of its conferring publics, depicted as moving the boxes representing the conferring publics into the circle.

### 6.4.3.2 Maintaining Legitimacy

It was illustrated in Table 4.2, that maintaining legitimacy was generally issue rather than event-based, so reference to events is not included in this section. In attempting to maintain legitimacy, a firm must attempt to identify when the make-up of its conferring publics changes and when conferring publics' wants and needs change. A firm must also be aware of what demands its conferring publics may have. Depending on the level of social standing and legitimacy a firm has to begin with, the purpose of maintaining legitimacy, in relation to an identified issue, may not be an important consideration. For example, a firm which does not depend on a high level of continuing public acceptance for its success may not need to worry about actively maintaining its legitimacy. This type of firm may only be concerned with repairing legitimacy if a need arises.

In essence, the notion of maintaining legitimacy is based on a "business as usual" approach, so it is difficult to assess which legitimation responses may be more suited to this purpose. One firm, which sees itself as being dependent upon continued high levels of legitimacy, may attempt to conform to its conferring publics' values, whereas another which views the importance of legitimacy similarly, may see the need to reinforce the prevailing perceptions of the corporation. This need to reinforce prevailing perceptions, while not an entirely convincing argument, could be classified as being consistent with attempts to alter perceptions of the corporation. A firm also needs to be careful not to over-react in attempting to maintain legitimacy, as this may actually initiate some public pressure or suspicion. In this sense some firms may be best served by avoiding the issue. It would seem to be unlikely that corporations would attempt to alter social values as a maintenance strategy. Altering an existing value implies changing a strongly held belief. Any attempt to change another's value is not consistent with the idea of maintaining what one already has. An illustration of these positions is included in Figure 6.5.

**FIGURE 6.5 - LEGITIMATION RESPONSES AND MAINTAINING LEGITIMACY**

The explanations behind the positioning of both the conferring publics' boxes (1,2) relative to the circle, in respect of the avoidance and altering perceptions responses are as explained in the previous section on gaining legitimacy. In conforming to its conferring publics' values, in an attempt to maintain legitimacy, the corporation would either alter its actions or portray that it intends to alter its actions, in order to expand the circle so that its conferring publics (boxes 1,2) would be included in the circle. This represents congruence between the corporation's actions and the prevailing views and expectations of the corporation by its conferring publics.

#### 6.4.3.3 Repairing Legitimacy

A firm may need to repair legitimacy, usually in response to a highly sensitive public event (and possibly issue) with which it has been negatively linked. As was discussed in Section 4.3.1.3, researchers have often used crisis management as an indication of an event which necessitates the repairing of legitimacy. Dependent upon many variables, including the sensitivity of the event or issue of which it is a part, the magnitude of the event in respect of the public pressure brought to bear and the degree of convergent or divergent views amongst conferring publics in relation to the event, the firm usually needs to act quickly to repair corporate image and legitimacy in the short term.

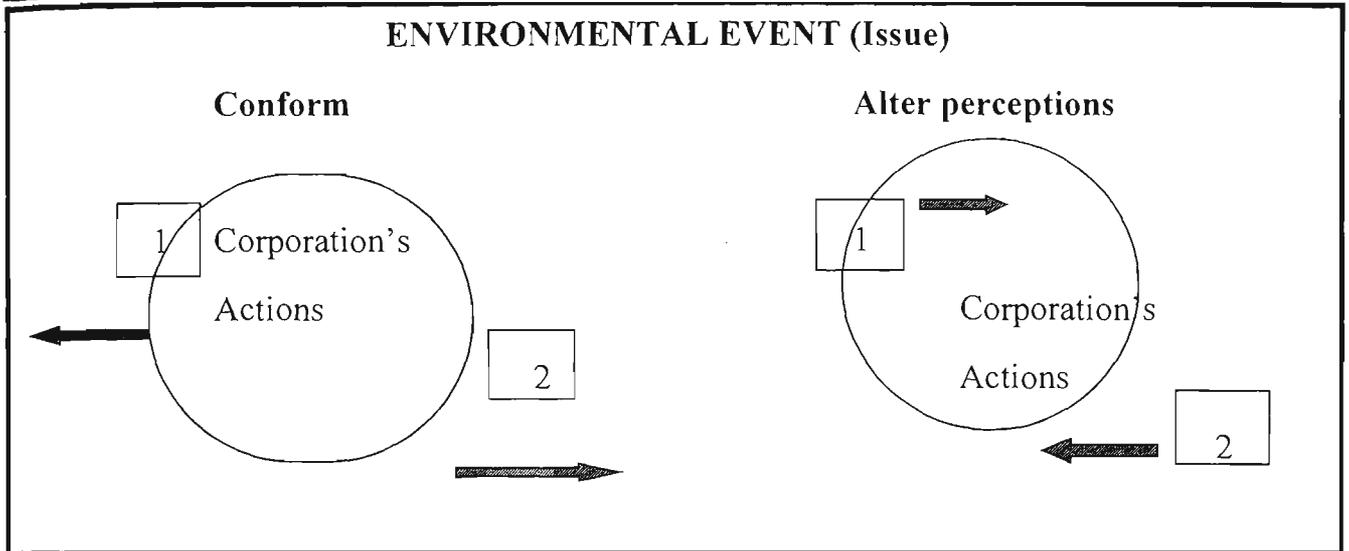
The characteristics of this purpose suggest that most responses will be reactive in nature and conceived more for short term rather than long term effect. It is contended that the number of a firm's conferring publics and the intensity of their views on the event, may generally be greater

in instances where legitimacy requires repairing than in those where the purpose is to gain and maintain legitimacy.

In this sense, it would initially seem illogical to avoid the issue. However, as was explained in Chapter 4, many of the micro-legitimation avoidance tactics involve manipulative ways of avoiding an issue/event. Even allowing for the presence of these tactics, it is suggested that a firm would be highly unlikely to base its legitimacy management strategies primarily on avoiding the event. There is generally too much public scrutiny and pressure for this response to be successful. A firm may use distracting tactics, which could be considered consistent with an avoidance response, but it is conjectured that this would not be used in isolation or chosen as the main response.

It is also suggested that attempts to alter the social values of conferring publics would not be the first response a firm would choose in this situation. Whatever has caused the corporation's legitimacy to be questioned has already been well aired and attempts by the corporation to suggest that the general consensus about the event is misguided may not be received very well.

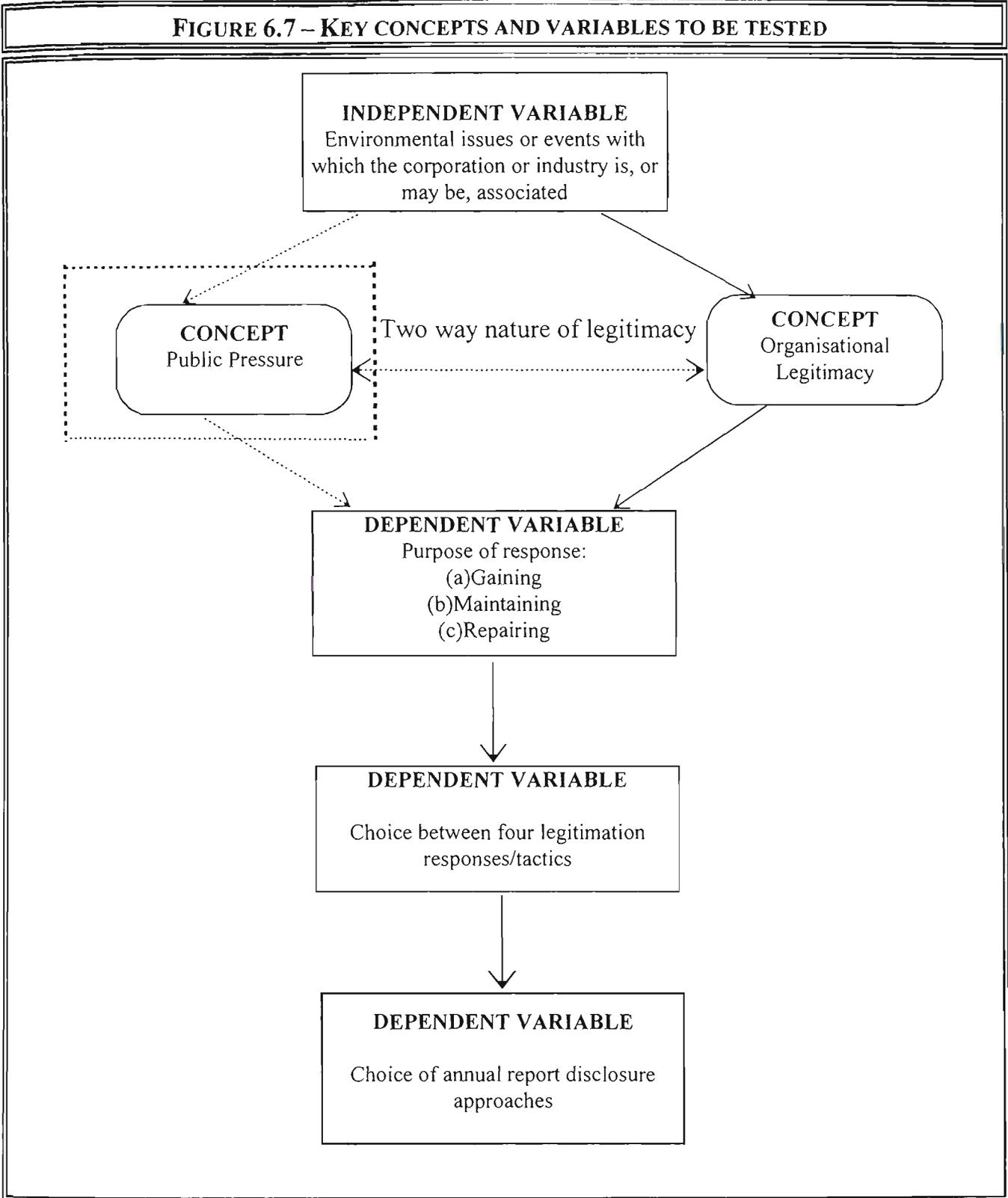
In the short term a firm may attempt to portray that it is cognisant of its conferring publics' views, and it may indicate that it is willing to conform to the majority of these views. A conforming response may appease the firm's conferring publics and buy the corporation some time. At the same time, a firm may be likely to attempt to cash in on its past, present or planned achievements, by identifying with established and legitimate symbols or structures and using any "goodwill" it had accumulated. The firm may aim to alter current negative perceptions of it while perhaps not directly referring to the issue/event, by establishing that it is a good corporate citizen. These positions are depicted in Figure 6.6.

**FIGURE 6.6 - LEGITIMATION RESPONSES AND REPAIRING LEGITIMACY**

To repair legitimacy, it is suggested that a corporation is most likely to attempt either to, alter its conferring publics' perceptions of it, and/or conform. The first is a response consistent with conforming with prevailing values, even if it is symbolic rather than substantive. An attempt to conform is shown in Figure 6.6 by making the circle larger, so the corporation's actions are congruent with the views and expectations of its conferring publics (boxes 1,2). The response aimed at perceptions its conferring publics have of the firm is illustrated by attempts to move the boxes (1,2) into the circle to reduce any legitimacy gap. This could most likely be done without not directly mentioning the legitimacy threatening issue or event, but by disclosing information which shows the firm in a positive light with respect of past social or environmental achievements.

### 6.5 TESTING THE MODEL: IMPLICATIONS FOR DATA COLLECTION

In Figure 6.7 the specific parts of the model to be tested and developed in this investigation are illustrated. The separate but related concept of public pressure (depicted inside the broken line box in Figure 6.7) is not investigated in this research.



The aim in collecting data to test this model was to begin to explain relationships observed between an environmental issue/ event and:

- (i) the purpose of the corporate response (gain, maintain or repair);

- (ii) the choice of legitimation responses/tactics likely to be adopted; and
- (iii) the choice of alternative annual report disclosure approaches.

The data collected during Phase III of the data collection process (see Figure 1.1) tested for these interconnected relationships, in order to develop the specific parts of the model illustrated in Figure 6.7 and to further develop legitimacy theory. Before testing these parts of the model, data were collected about environmental disclosure decisions and processes (Phase I - data collection) and also about specific factors that the three corporation's believed were important in making environmental disclosure decisions (Phase II - data collection).

## 6.6 SUMMARY

The focus of this chapter was to introduce the legitimacy theory model as it was developed from the literature reviewed in Chapters 3 - 5. The aims in developing the model were discussed and a detailed explanation of three parts of the model: first, identifying conferring publics; second, the purpose of the corporate response, and third, the choice of legitimation responses and tactics, was included. A description of how specific aspects of the model work was discussed and how the model was to be used in the data collection phases of this investigation was explained.

## CHAPTER 7- METHODOLOGICAL FRAMEWORK

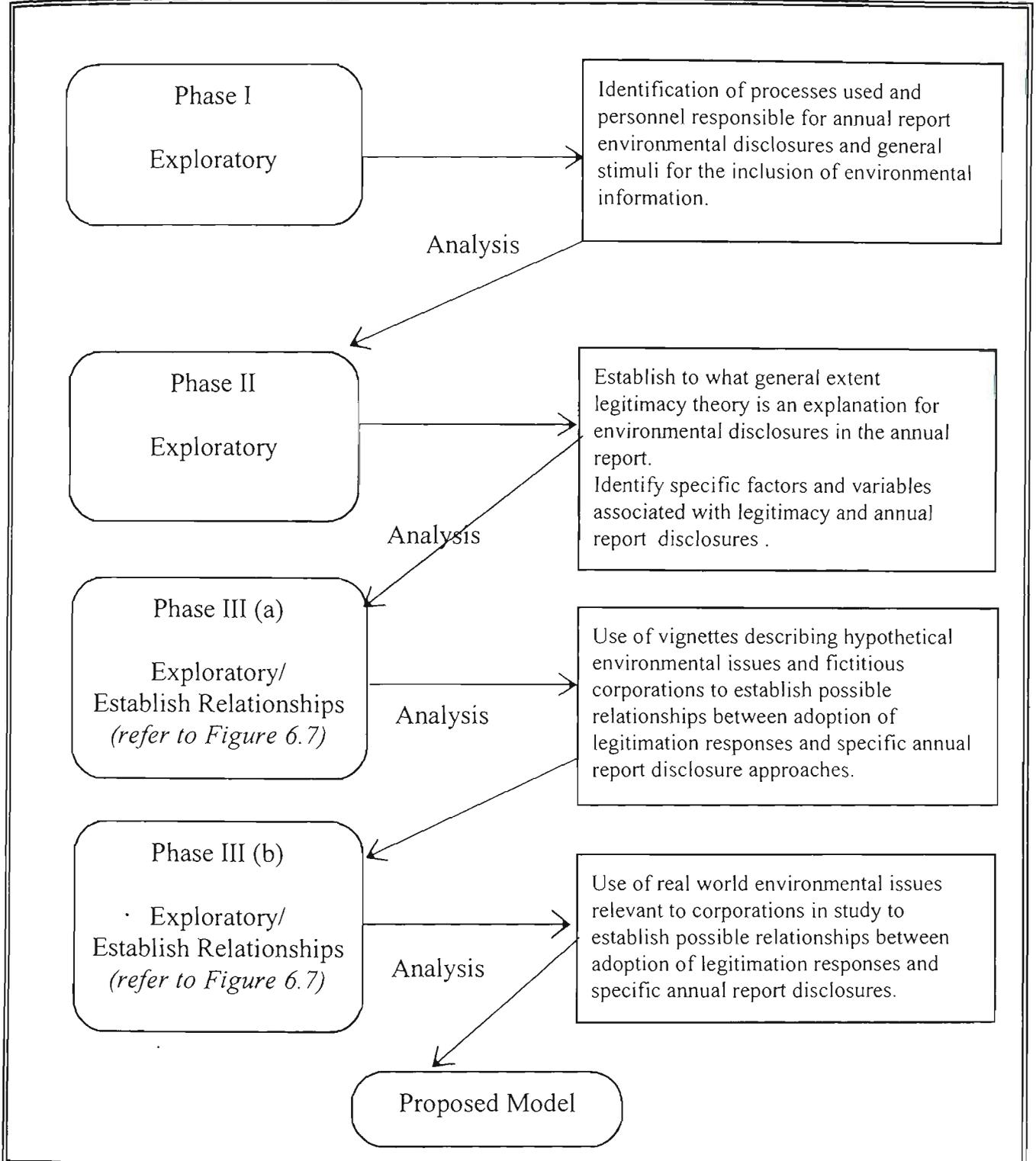
### 7.1 INTRODUCTION

The purpose of this chapter is to justify the methodological assumptions adopted, methods used in the light of these assumptions and research design issues. In classifying the purpose of the research as exploratory to quasi-explanatory, a justification for the use of a field study method and the decision primarily to collect qualitative data are also covered. Given the stated objective of 'theory building', a discussion on theory development using field studies is included (Section 7.5.2), along with a discussion on the inductive nature of this research (Section 7.5.2.1) and a justification for the analytic induction data analysis techniques used (Section 7.5.2.2).

Next, a detailed discussion of aspects of the research design phase, including a conventional discussion of the applicability of *general* data collection techniques used throughout the different phases of this project is included. Further, as an extension of the discussion on research design, an evaluation of the validity and reliability features of the research are covered. It is important to note that the intention is to develop legitimacy theory, not to explain the reporting practices or specific motives for the disclosure of environmental information of the three corporations used in this field study. A section on ethical issues relevant to this research concludes this chapter.

### 7.2 OVERVIEW OF DATA COLLECTION AND ANALYSIS

Field studies which use qualitative data for building theory often result in the overlap of data collection and analysis (Eisenhardt, 1989b, Glaser & Strauss, 1967). Data collection for this thesis was conducted in three distinct phases, with analysis being conducted during and after each phase. A detailed illustration of the data collection and analysis phases is included in Figure 7.1 and this can be used as a point of reference for the remainder of this chapter as well as Chapters 8 and 9. Due to both the flexible nature and the interconnectedness of the data collection and analysis, coupled with the three unique phases of data collection, it was decided to combine a detailed discussion of *specific data collection, analysis and reporting techniques* and the findings from the three phases into Chapter 8 (Phases I and II) and Chapter 9 (Phase III).

**FIGURE 7.1 - DESCRIPTION OF DATA COLLECTION AND ANALYSIS PHASES**

### 7.3 METHODOLOGICAL ASSUMPTIONS

It is important to identify some methodological assumptions before justifying the choice of methods used in this research. The choice of research methods is determined by a combination of the methodological or philosophical position of the researcher and the research problem to be

solved. In a broad sense, a research methodology is concerned with how one finds knowledge about the world. It has been described as:

*“the process, principles, and procedures by which we approach problems and seek answers. In the social sciences the term applies to how one conducts research” (Bogdan & Taylor, 1975, p.1)*

The ontological view adopted here is that there are many different ways in which people can perceive the world. In social research there is no such thing as one ‘real’ structure or an irrefutable set of results. Different forms of ‘reality’ exist. A major aim of this research is to gain an insight into how corporate management perceives and reacts to social pressure, by attempting to discover to what extent management chooses to legitimise its actions in respect of environmental issues and what tactics (specifically annual report disclosures) may be employed to do this. Management will perceive the issues through its own eyes, will interpret the facts and act according to its understanding of the situation. In this context, absolute conclusions may not be reached, due to the uncontrollable nature of the phenomena (individual managers’ perceptions about legitimacy and its conferring public’s views on the company’s legitimacy) being studied as well as one’s ability to understand its complex nature.

The epistemological views led to the rejection of the *extreme* positivist view that knowledge can *only* be based on observation, principally of ‘what is’ (Burrell & Morgan, 1979). The researcher believes that regardless of the research method used, in seeking to understand socially constructed phenomena, no researcher can be totally objective and independent. It is the view of this researcher that any ‘knowledge’ gained from corporate management about the concept of legitimacy and motives underlying tactics adopted in order to preserve it must be subjective, as it is based on a corporation’s perception of its conferring public’s view of ‘what is’. The positivist notion that data should be value free and objective is therefore rejected. It is assumed, as Easterby-Smith et al (1991) maintain:

*“that reality is socially constructed rather than objectively determined” (p.24).*

Chua (1996) suggests that ‘positivists’ seek a particular type of empirical knowledge that enables prediction, explanation and control. From a positivist viewpoint, some insights into corporate

motivations behind environmental disclosures could be observed solely through annual report disclosures, environmental reports and media reports, but discussion with individuals is necessary to complete the picture. It is not claimed that definitive explanations or assured predictive outcomes will result. What is claimed, however, is that a better understanding of what corporations believe constitutes legitimacy, how it is managed, and what ways voluntary disclosures in the corporate annual report are used to legitimise the corporations will be discovered.

This research is not totally 'anti-positivist' in its application, however. Attempts to discover 'what management would do' (ex ante) in relation to specific environmental issues/events are conducted, which should result in a clearer identification of any variables involved in determining legitimacy and may assist in future efforts to predict, explain and control.

In this sense, the optimal way to acquire the data required for this investigation is based on an ideographic methodology. This involves obtaining first hand knowledge and getting inside situations, by adopting an exploratory focus, and by using case or field study methods to collect predominantly qualitative data, rather than using what Burrell & Morgan (1979) call nomothetic methodologies, that depend almost exclusively on scientific methods and analysis of quantitative data.

#### 7.4 RESEARCH PURPOSE: EXPLORATORY/EXPLANATORY

In arguing for a system to classify *empirical* social research studies, Tripodi et al (1983) posited that research typologies should have:

*"reliable categories such that different persons should be able to read a research study and independently assign it to the same category. For example, experimental research should be distinct from a study which is assigned to the category of exploratory research" (p.19).*

They developed a multi-tiered classification system consisting of experimental, quantitative-descriptive and exploratory studies. The distinction between these three studies is based on the major purposes of research with respect to how answers were sought and in terms of the various types of method (survey, experiment, case study) employed to get the answers. These

classifications have been applied and added to by other researchers. For example, from an accounting discipline perspective, Ryan et al (1992) suggest that exploratory studies allow the researcher to generate hypotheses about the reasons for particular accounting practices. In support of this, Marshall & Rossman (1989) suggest that exploratory research has three objectives:

- (i) to investigate little understood phenomena;
- (ii) to identify or discover important variables; and,
- (iii) to generate hypotheses for further research.

Ryan et al (1992) added an 'explanatory' purpose, when the objective of the research is to generate or modify theories which provide good explanations. While there is a distinction between these two classifications, it appears to be somewhat ambiguous. Ryan et al (1992) concede as much and imply the two classifications are complimentary in stating:

*"An exploratory study, for instance, may be concerned with generating initial ideas which will form the basis of an explanation of accounting practices"*  
(p.116).

Golden (1976) identified a research purpose of establishing relationships. This is similar to the purpose of explaining. In establishing relationships, two or more variables are related. They go together in that they occur at the same time or changes in one phenomenon are accompanied by changes in the other. Showing that such a relationship exists, however, does not necessarily establish 'causality', that one variable leads to the other.

It is in this context that the purpose of the research undertaken in this investigation should be initially classified as exploratory leading towards a quasi-explanatory purpose, incorporating the establishment of relationships between some identified variables. As indicated in the literature reviewed in Chapters 2 to 5, there is little evidence, in respect of:

- (i) the identification of the processes used and personnel involved in the disclosure of environmental information in the corporate annual report;

- (ii) a corporation's views and perceptions about why it voluntarily discloses environmental information in the annual report; and
- (iii) what specific types of annual report disclosures may be adopted in response to potential legitimacy threatening issues/events.

These empirical weaknesses and a relatively simplistic theoretical approach to the whole issue of corporate environmental management also support the exploratory purpose adopted for this research. This approach to the "greening of industry" was articulated by Gladwin (1993) who stated:

*"The review of existing work on industrial greening indicates that most of it is merely descriptive, boiling down to journalistic storytelling. Too little of it is driven by theory and rigorous methodology." (p.44)*

While a number of competing and complimentary theories have been developed (Gray et al, 1995), existing theories to do with why corporations engage in corporate environmental management and reporting indicate simply that there are various pressures placed on firms to be environmentally responsible. Little theoretical insight is offered into the nature of the underlying mechanisms of these theories, including legitimacy theory. This lack of empirical and theoretical development in the area adds credibility to the position that an initial purpose of data collection conducted in this research project should be mainly exploratory. Applying Marshall & Rossman's (1989) three objectives of exploratory research (depicted in **bold print**) to this project illustrates its applicability. These are:

- (i) **little understood phenomena were investigated;**
  - (a) identification of processes and personnel involved in the determination of and inclusion of environmental information in the corporate annual report;
  - (b) motivations behind the disclosure of environmental information in the corporate annual report; and,

- (c) the concept of organisational legitimacy for corporations as a response to public pressure in relation to environmental issues/events.
- (ii) **important dependent and independent variables were identified**, which had not been discussed at the *micro-level* in relation to possible annual report disclosures;
- (iii) **propositions were generated** (through the application of a model) to attempt to explain how the dual concepts of public pressure and organisational legitimacy may result in a company adopting legitimisation responses and communicating these through specific annual report disclosures.

As the research progressed through its various stages, the purpose evolved from purely exploratory to quasi-explanatory which involved further developing and testing the legitimacy theory model related to the discovery of relationships between the dependent and independent variables.

In essence, after identifying who was responsible for the disclosure of environmental information in the corporate annual report, the research was concerned with discovering the likelihood that corporate management would attempt to remain legitimate by adopting specific types of voluntary annual report disclosure approaches in response to increased public pressure as indicated by possible legitimacy threatening environmental issues or events.

The explanatory/establishing relationship purpose is appropriate for two further reasons. The first is that, in developing the model, some innovative testing (from an *ex ante* basis) for the existence of relationships was conducted. In attempting to establish relationships, one is moving away from purely exploratory approach. The second reason is that, if one adopts Ryan et al's (1992) description of an explanatory classification, no matter how much one '*modifies*' legitimacy theory, it is still modification of an existing theory rather than hypotheses generating to develop a 'new' theory. While legitimacy theory is not well developed, it does exist. Ultimately, however, it is the

intention of the researcher which determines the classification of the research in each instance. In the early phases of this study the purpose was primarily exploratory. In later phases, explanatory techniques were used to establish relationships between important variables.

## 7.5 FIELD STUDY METHOD

Field or case study methods are usually taken to mean studies of social practices in the field of activity in which they take place. Based on a review of several method texts,<sup>10</sup> field research may be differentiated from either survey or experimental methods due to;

- (i) the topic of research being studied in its own natural surroundings;
- (ii) the researcher having direct, in-depth contact with the researched;
- (iii) multiple sources and types of data being collected, principally through a combination of observation, interview or archival search; and
- (iv) highly structured hypotheses not being a necessary precondition for the conduct of field research; both hypotheses and research design may change during the research process.

It is important to note that the terms case or field study are often used interchangeably in the literature. Yin (1989) implied the terms are interchangeable when he stated that a researcher can use more than one organisation as part of a multiple case study approach, whereas Birnberg et al (1990) stated that a case study involves only a single organisation and field work involves two or more organisations. Spicer (1992) suggests that a distinguishing feature between field and case studies involves the amount of time spent on site. His position is that field studies involve relatively short visits, as opposed to case studies that involve intensive site visits over an extended period. Chua (1996) suggests there is much confusion in the use of the terms and in accounting research the terms field study and case study are used synonymously. Ryan et al (1992) add to this confusion by claiming that “fieldwork” is often used in conjunction with case study research. The distinction may be a question of semantics. The essence of any research lies in choosing a method which best deals with the research problem(s) being investigated.

---

<sup>10</sup>

See for example, Bryman, 1988, Bryman & Burgess, 1994, Denzin, 1989, Ferreira & Merchant, 1992, Yin, 1989.

The term *field study* will be used throughout this thesis, based mainly on the identified differences between field and case studies noted above (Birnberg et al, 1990, Spicer, 1992). In this investigation, these differences are:

- (i) the use of multiple (three) corporations for this study; and
- (ii) a number of relatively short visits to each company.

Justifications for the choice of the method, however, are drawn from literature using both the terms, case and field study. The definition of the method applicable for this thesis is:

*"...an empirical inquiry that investigates a contemporary phenomenon within its real life context when the boundaries between phenomena are not clearly evident and in which multiple sources of evidence are used" (Yin 1989, p.23).*

#### **7.5.1 JUSTIFICATIONS FOR USE OF THE FIELD STUDY METHOD**

The literature review conducted in Chapters 2 - 5 and the subsequently developed legitimacy theory model (Chapter 6) have provided guidance as to the methodology and methods most suited for this investigation. Gaps were identified in the literature on two fronts: first, in the lack of research into whose responsibility it is for reporting corporate environmental information and; second, the lack of sufficient evidence supporting legitimacy theory, at a micro-level, as a motivation for the disclosure of environmental information in the corporate annual report. As discussed in the previous section, the newness of this research indicates that an exploratory approach is the best way to proceed.

With respect to legitimacy theory, the gaps related mainly to methodological limitations of prior studies. In almost exclusively utilising content analysis of archival and documentary data to test legitimacy theory, these prior studies could not test the fundamental basis on which legitimacy theory is founded, the perceptions of management. Corporate legitimacy is an abstract concept based on the perceptions of management about their conferring public's views about the corporation's actions. Unless one discovers and then comprehends information about these perceptions, the future development of legitimacy theory will be retarded. To gain a thorough understanding of management perceptions, which may result in specific annual report disclosure

approaches, it is argued that a field study method has the following advantages over alternative methods:

- (i) research occurs in natural settings;
- (ii) the level of contact with research subjects;
- (iii) the collection of multiple types of data from multiple sources; and
- (iv) the development of highly structured hypotheses are unnecessary.

These advantages indicate that a field study method is appropriate for this thesis. A discussion of each of these advantages of the field study method follows.

#### **7.5.1.1 Research Occurs in Natural Settings**

Apart from the obvious functional link between exploratory purposes and the use of field study methods, one of the comparative strengths of field work is the ability to investigate phenomena in naturally occurring settings (Birnberg et al, 1990, Tunnell, 1977). The researcher has a better chance of having access to 'real-world' practice. Chua (1996) argued that researchers are becoming increasingly aware that static, large sample, cross-sectional research methods provide little knowledge of what goes on in organisations. It is also claimed that researcher's knowledge about management behaviour is often based not on studying actual decisions but on stylised models of firm behaviour which had not been developed for or tested on actual businesses (Kaplan, 1984). In this research, the need to explore management perceptions about the pressures which result in environmental annual report disclosures indicated that field study methods enabling the collection of primarily qualitative data from a few selected cases would result in a better outcome than would the collection of data using survey or experimental methods.

This position is consistent with a phenomenological, rather than a positivist, approach to inquiry. This phenomenological perspective utilises a naturalistic approach, which involves the use of qualitative techniques such as interviews and observation to gather data (Easterby-Smith et al, 1991). The focus is on understanding meanings and interpretations in each situation (case) rather than reducing events to simple elements and looking for causality and fundamental laws.

Neither experimental nor survey research methods lend themselves to these natural settings as they are artificial in construction. Experimental studies are based on volunteer or other convenience samples and a variety of abstractions that are not found in the real world. Survey research is constructed in a way that may exclude critical stimuli, either consciously because of space limitations, or unconsciously due to a lack of knowledge. Additionally, aspects of natural contexts included in survey questions and the researcher's knowledge of what specifically to ask may limit response alternatives. This may not correspond to how respondents organise knowledge of a situation. No methodological approach can replicate natural settings perfectly but, in using interviews as part of a field study, the natural setting is more closely approximated than survey or experimental research methods could attain. This advantage is considered important to the aims of this investigation.

#### **7.5.1.2 Level of Contact with the Research Subjects**

Field study methods appear particularly suited to answering more complex 'how' and 'why' questions that cannot be easily subdivided into discrete sections. If people are seen as sensible beings who react to 'things' on the basis of the subjective meanings that 'things' (such as legitimacy) have for them, then social reality cannot be regarded as being able to be 'properly' measured, scaled and revealed as findings (Chua, 1996).

If the researcher can gain in-depth knowledge of what 'things' mean to people, and how they might respond, then the usefulness of these data, especially for theory development, is greatly improved. It is this adaptability and flexibility of field study research, along with the techniques most commonly used to collect data, participant and non-participant observation, interviews in conjunction with content analysis of archival data, relative to data collection techniques used in other research methods, which gives the researcher an important benefit.

For example, using unstructured or semi-structured interviews gives both the researcher and the subjects the flexibility to explore issues in 'real-time' during the interviews. This keeps open the possibility of accessing information during the interviews, which may not have been thoroughly considered in developing the interview questions. Any differences identified at this stage should be catalogued for future investigation as any 'new' ideas and concepts, that the researcher was

not originally looking for, may alter theory development or change the nature of any hypotheses or model being developed. With this more direct level of contact, questions and methods are more easily adapted to meet the aims of the research.

Research methods such as mail surveys or experiments lack the flexibility to identify social reality. This reality emerges through people continuously interpreting and making judgements about human behaviour, expectations, perceptions and experience. Denzin (1989) criticises survey and experiment methods as detached and distant. In adopting a field study method for this research, a comprehensive analysis of a firm's perceptions of legitimacy and its views about the way the corporation's conferring publics perceive corporate actions is able to be made. This flexibility would not be present when using surveys and, in particular, mailed questionnaires.

### 7.5.1.3 Multiple Sources and Types of Data Collected

The advantages of having direct, thorough contact with the a number of research subjects is closely linked to having access to multiple sources of data or evidence. The field study is viewed as a more holistic mode of engagement than surveys or experiments, because of its use of *multiple sources and types of data* and the possible use of multiple case studies (Yin, 1994).

This advantage is only relevant if the research is well designed and conducted. In essence, it has much to do with effective data collection and *construct validity*, which is covered in more detail in Section 7.7.1. At this stage, it is important to state that a field study method gives the researcher access to multiple sources and types of evidence that would not be ordinarily available using experiment or survey techniques. For example, one is able to conduct multiple interviews over a long period with targeted respondents, collect and use archival data in order to prepare interview questions and/or to compare interview responses to the archival data and supplement this with either direct or indirect observation, if it is deemed necessary.

Gathering evidence from multiple sources and accessing different types of evidence therefore results in the opening up of new ideas and interpretations about situations, issues or events that would not be possible using other research methods.

#### 7.5.1.4 Highly Structured Hypotheses Are Unnecessary

This justification has its origins in the classification of the purposes of many pieces of field research as exploratory. A key aspect of exploratory research is that, if one is exploring less understood phenomena, then testing hypotheses based on poorly developed theories is self-defeating (Marshall & Rossman, 1989). Survey research, in particular, is concerned with the testing of hypotheses developed from the literature about (presumably) well developed existing theories.

If one is conducting exploratory research due to the lack of a suitable theory, or an absence of quality research which the researcher believes has led to a poorly developed theory, then hypothesis generation leading to the development of 'new' theories or the significant improvement of poorly developed ones is more appropriate than testing poor hypotheses. Furthermore, Ryan et al (1992) also contends that researchers who favour field studies *solely* to test hypotheses would usually be unsuccessful because of the limited number of observations.

It has been asserted that in attempting to establish relationships between variables, control may be difficult to achieve in field studies (Golden, 1976), thus limiting the usefulness of any established relationships. In this research, this possible weakness was addressed by concentrating on one key independent variable, a legitimacy threatening environmental issue or event. Once it was established that legitimacy theory was a possible explanation for environmental annual report disclosures, an environmental issue or event was used to test for likely legitimation tactics leading to annual report disclosures. For the purposes of data collection in relation to developing the model, these tests were conducted using both fictitious corporations and environmental issues/events (hypothetical vignettes) and real-world environmental issues/events related to the corporations in the study (real-world cases).

#### 7.5.2 THEORY DEVELOPMENT

A major objective of this project is to develop legitimacy theory. The purpose of theory development is to allow both academics and practitioners to understand and ultimately to predict behaviour. With such capabilities they may be better able to fashion desirable organisational behaviour. As Gladwin (1993) argued:

*“Without theory it is difficult to organize existing findings, to produce important generalisations accurately, to generate new ideas, to carefully shape and guide empirical inquiry, and to produce useful corporate and public policy interventions”.* (p. 44)

A well developed legitimacy theory should help explain why corporations choose to disclose specific types of corporate environmental information in response to potential legitimacy threatening issues or events.

It is generally accepted that a theory is a representation of the relationship between phenomena, facts, observations or ‘things’ (Burrell & Morgan, 1979) and that any theory is composed of concepts, definitions and hypotheses or propositions. The relationship of each of these components to legitimacy theory is discussed in the next few paragraphs.

Concepts, according to Denzin (1989), are the most 'critical elements' of any theory. They can make or break research. The concept shapes the theory in three ways: first, by offering a new perspective of the phenomena being observed; second, by offering the vocabulary to understand the phenomena; and third, by offering new approaches to deductive reasoning, thereby uncovering new insights (Blumer, 1931).

As was detailed in Chapter 3, both organisational legitimacy and its ‘partner’, public pressure, are concepts. Concepts, like these, are socially constructed and often their meanings are taken for granted so that a specific definition is difficult to ascribe. Terreberry (1968) noted that:

*“An input called 'legitimacy' is popular in sociological circles but highly resistant to empirical specification”.* (p. 608)

This research project is particularly complex because of the ambiguity of the concepts of organisational legitimacy and public pressure. Whereas many people understand the terms few can actually define them or, more importantly, ever have the need to define them. Definitions help alleviate the problems associated with the multiple meanings associated with concepts. It was considered beyond the scope of this research to define or test ‘public pressure’, however, the concept of organisational legitimacy is most important in relation to the emerging legitimacy theory and because of this a precise definition of legitimacy was developed for use in this research

(Section 3.6). Because of the abstract and subjective nature of the concept of legitimacy, it was considered important to refrain from using the term 'legitimacy' during the data collection phase of this research, when attempting to discover how a corporation perceived and managed threats to its legitimacy. This ensured that a definition was not forced on the respondents. This was necessary to avoid tainting any conclusions reached.

The final component of theory development is the development of hypotheses or propositions. These are tentative statements which identify some relationship between two or more variables. Denzin (1989) indicated that propositions must suggest unequivocally the causality between variables whereas Golden (1976) argued that establishing cause and effect is often counter-productive. Causality is often difficult to isolate because the concepts or variables may be interdependent or may be dependent on unidentified variables. For example, the concept of public pressure and the two-way nature of legitimacy (Figure 3.2) indicates these concepts are interdependent, one has an affect and may cause a change in the other and vice-versa. In this research, the development of a model for legitimacy theory does, in effect, establish a number of propositions to explain relationships between the key independent variable (a significant environmental issue or event) and the dependent variables, as depicted in Figure 6.7.

Theory development also differs from theory testing in other ways. One way is that the sampling process differs. In theory testing, the researcher aims to collect data from representative samples or the entire population, if possible. In theory development, the researcher attempts to maximise diversity, while seeking simultaneously to generalise within that group.

Another difference concerns the level of generalisability. Theory testing seeks statistical generalisability, where it is possible to make inferences about the population based on the sample data. Theory development offers analytical generalisability, not statistical generalisability. That is to say, the propositions developed, or relationships established, should predict behaviour within similar contexts. The theory gains strength if data are predicted more accurately than under alternative theories (Yin, 1994). The issue and level of generalisability in relation to theory development are covered in more detail in the section on *external validity* (Section 7.7.3).

A further difference is that new theories open up new research agendas. Theory testing, on the other hand, closes off research directions, while simultaneously opening up opportunities for data analyses which are not fully explained by the theory. It is claimed by Eisenhardt (1989b) that building theory from field study research is most appropriate in the early stages of research on a topic or to provide freshness in perspective to an already researched topic or theory. In this research, freshness is provided with regard to the concept of corporate legitimacy in relation to environmental issues and research into *micro-level* legitimation tactics and resultant annual report disclosures which has not been previously conducted.

#### 7.5.2.1 Qualitative Methods: Inductive Vs. Deductive Techniques

Miles & Huberman (1994), stated that Kerlinger (*'quantitative researcher par excellence'* p. 40) once said to them that "There's no such thing as qualitative data. Everything is either 1 or 0." Berg (1989), on the other hand, claimed that *all* data are basically qualitative. The quantitative/qualitative argument is not really relevant here and is counter-productive. The issue is not quantitative versus qualitative, but whether an *inductive* or *deductive* approach (or a combination of the two) is the most appropriate means to understand the complex nature of variables and any relationships between them.

Hypothesis testing has been called *deductive* research (Golden, 1976), whereas hypothesis generating is *inductive* research. The former proceeds from hypothesis to data whereas the latter, from data, and in some cases prior research, to hypothesis. In exploratory and some explanatory research leading to theory development, inductive as opposed to deductive techniques of analysis are most often used to analyse data.

Quantitative methods fit more easily into deductive research, where statistical generalisability is important in order to support (or to reject) an existing theory. The generalisability of qualitative studies, some argue, is limited. However, Yin (1994) points out that a qualitative study seeks to be 'analytically' generalisable through its generation of theory as opposed to being statistically generalisable.

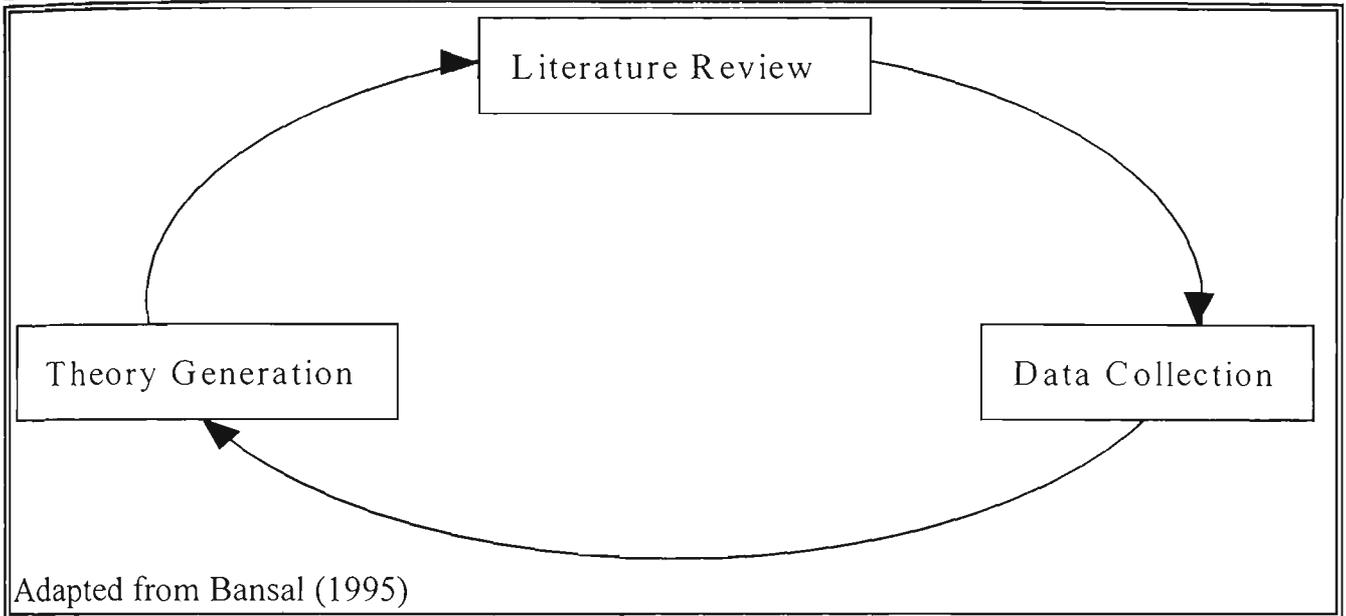
An objective of this project was to extend the theoretical understanding of why corporations may adopt certain corporate environmental disclosure approaches. This required an examination of the intentions and perceptions behind decisions rather than merely outcomes. In general, qualitative methodologies and data are more appropriate for this purpose, although some quantitative analysis techniques were used to assist in detecting recurring themes or responses and for analysis and presentation purposes (these are discussed in more detail in Chapter 9). In probing or exploring issues using interview techniques, qualitative inductive data collection methods seemed appropriate for this investigation because they allowed both the researcher and the respondent to flag the important issues and direct the research project (Eisenhardt, 1989b, Marshall & Rossman, 1989). The two most common techniques associated with theory generation and building are grounded theory (Glaser & Strauss, 1967) and analytic induction (Manning, 1982).

#### **7.5.2.2 Analytic Induction**

Analytic induction techniques were chosen rather than grounded theory. Grounded theory is grounded in and generated inductively from data only. Theory is not seen as separate from data, rather theory and data are seen as mutually informing and testing one another (Chua, 1996, Eisenhardt, 1989b). A researcher using grounded theory builds theory grounded in data. Analytic induction is similar in that data are used to build theory, but differs in that the starting point is usually an existing theory, or parts of a theory.

In choosing analytic induction techniques over grounded theory techniques, for this investigation, it was acknowledged that legitimacy theory existed, but was not well developed. Using analytical induction techniques on qualitative data allowed the researcher to go beyond statistical correlations by providing explanations of relationships between variables. The investigation involved iteration between the extant literature, data collection and theory generation. Investigations of this type conclude and some type of closure is achieved when the differences between the theory developed and the data collected is small (Eisenhardt, 1989b). This technique is illustrated in Figure 7.2.

FIGURE 7.2 - THE PROCESS OF ANALYTIC INDUCTION



In this investigation, the primary concern was with developing a model of legitimacy theory which explained the extent of any relationships identified between a legitimacy threatening environmental issue/event, the purpose of the corporate response, the choice of legitimation tactics and any resultant annual report disclosure. In a strict sense, this did not involve *testing* hypotheses. In conducting a detailed analysis of *all* interview questions, particular notice was taken of the outliers, extreme or unusual responses, and these responses were incorporated when determining subsequent data collection or the model was altered to allow for these extremes. This accommodated the concern of ensuring that ‘negative’ cases were accounted for by a redefinition or reformulation (Denzin, 1989).

## 7.6 RESEARCH DESIGN AND METHOD

Research design is predominantly a plan for the researcher to follow in that the activities undertaken are done in an organised and consistent manner in order to get from an initial set of questions to a set of conclusions (Yin, 1994). This should lead to a more focussed collection and analysis of data than would occur if this plan were not evident. Design decisions in relation to the selection of corporations and the *units of analysis* applicable to this study are discussed in detail in the next section.

### 7.6.1 SELECTION DECISIONS

An important point to remember about selecting cases, units of analysis or variables to be tested in field research, is that these items are not necessarily chosen for the purpose of being representative of a larger population. Yin (1994) writes that cases used in field studies should not be conceived as 'sampling units', because a sampling logic is inapplicable to the conduct of single or multiple cases. Further discussion on this issue is covered in Section 7.7.3 on *external validity*.

Given the stated aims of this research, two selection choices regarding the most appropriate cases were identified. The first was whether a single corporation or multiple corporations should be used and the second was to identify the *units of analysis* in this study.

#### 7.6.1.1 Single Or Multiple Cases

A number of authors proffered that field study work is best suited for two purposes, replication and theory development (Chua, 1996, Eisenhardt, 1989b, Ryan et al, 1992, Yin, 1994). They have argued that in applying replication logic, which is similar to that used in multiple experiments, multiple cases are selected so that they either: predict similar results or relationships (literal replication); or produce contrary results but for predictable reasons (theoretical replication).

In addition to the above, Eisenhardt (1989b) adds that multiple cases may also be chosen to fill theoretical categories or provide examples of opposite types. The use of multiple cases also increases the *external validity* of the research.

Multiple cases were used in this research. In using multiple cases instead of a single case design, it is argued that both theoretical and literal replication (Yin, 1994) are achieved. Three corporations were considered satisfactory to satisfy both the literal and theoretical replication criteria. More specific reasons for the choice of the three corporations and the industry groups from which they come are covered in Chapter 8.

A single case is appropriate where a case is either extremely representative, is unique or is revelatory. Where a theory and major research issues are well defined, it may be possible to select

a critical case (Ryan et al, 1992), which is directly representative of these issues. A unique or extreme case (Yin, 1994) is one where the case is so rare that studying it adds to theory. This is often justified in studies into rare medical conditions. Similar to this is a revelatory case (Yin, 1994), where researchers have not previously had access to the phenomenon being studied. The case may not be unique, but access to it may be.

At a micro-level, legitimacy theory has not been thoroughly tested or well defined, so a single critical case was not deemed appropriate. Prior studies investigating why corporate environmental disclosures were made have not indicated that any one corporation has developed a unique motivation for disclosing environmental information. From a revelatory viewpoint, while it is acknowledged that there is a dearth of evidence to do with managers' perceptions about environmental reporting, studies have indicated that a large (and increasing) number of corporations are disclosing similar types of environmental information in the annual report, so there was a danger that any single case chosen would not be a revelatory case.

More importantly, as a purpose of this investigation was to establish relationships using a selected environmental issue/event as the independent variable (Figure 6.7), this issue/event may have had different significance for different corporations, resulting in different annual report disclosure approaches. If a single corporation were chosen the results could not be relied on to add to the theory.

During the data collection and analysis phases the technique of choosing 'cases' to fill theoretical categories was performed and literal and theoretical replications were sought. The choice of 'cases' to fill theoretical categories was devised in Phase III (a) of the data collection by *contriving* an environmental issue or event and linking it to a specific legitimization purpose, either gaining, maintaining or repairing. In Phase III (b) real-world environmental issues/events were *selected* and linked on the same basis. Dependent on the legitimization purpose, literal replication was achieved by discovering the extent to which similar annual report disclosure approaches were chosen and theoretical replication was achieved by seeking the reasons for the choice of different annual report disclosure approaches. In this context, the corporations became the vehicles for the

identification of more discrete units subsequently used for data collection, data analysis and theory generation purposes.

### 7.6.1.2 Units of Analysis

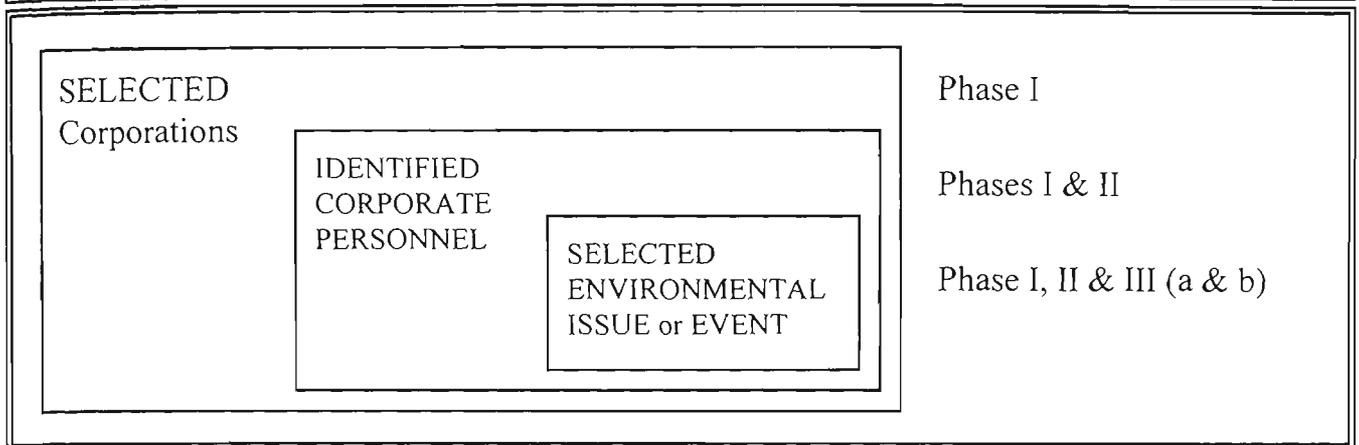
A key component of the success of any field study is to identify the *units of analysis* in any particular study correctly. Yin (1994) claims that this is a fundamental problem in field studies; defining what the ‘case’ is. A *unit of analysis* can be as large as a country or as small as one individual’s inner-most thoughts. Yin (1994) states that while a generally accepted definition of a unit of analysis is elusive, as a general rule the definition is constructed in relation:

*“to the way the initial research questions have been defined”.* (p.22)

When developing theory using field studies, the aim is to be able to generalise analytically rather than to generalise statistically. This involves an assessment of the extent to which a set of cases generalises to a theory, or helps build a theory, rather than being an assessment of the extent to which units of analysis are representative of a population (Brownell, 1995).

Multiple *units of analysis* were used in this research. They are interconnected and they became more precise during subsequent data collection phases (illustrated in Figure 7.3). During Phase I, the unit was the corporation, Phase II, the units were the corporation and the corporate personnel identified in Phase I, and in Phase III, they were the corporation, the corporate personnel and an environmental issue or event.

FIGURE 7.3 - UNITS OF ANALYSIS



Given the iterative nature of the data collection, analysis and theory development process, it was the more precise (selected environmental issues/events) units of analysis in Phase III that were predominantly used in developing the part of the legitimacy theory model illustrated as a *Legitimation Disclosure Response Matrix* in Chapter 9.

### 7.6.2 TRIANGULATION

When collecting data, the use of multiple sources of evidence is often referred to as *triangulation*.

The idea of triangulation refers to the use of either multiple investigators, applying multiple theories, accessing multiple sources of data, the use of multiple research methods, or any combination of these (Patton, 1987). Another form of *triangulation* is multiple data collection methods (Eisenhardt, 1989b). Two *triangulation approaches* were adopted in this thesis. The first related to using *multiple sources of evidence* and the second was the use of *multiple methods of data collection*.

#### 7.6.2.1 Multiple Sources of Data

The *multiple sources* of data and evidence were three differently constructed interviews with eighteen senior management personnel from the three corporations in the study and corroborative documentary data.

The titles of the personnel initially contacted and those subsequently interviewed through the data collection phases are listed in Table 7.1. Each of the personnel identified in Phases I through III was interviewed during each phase of the data collection.

TABLE 7.1 - CORPORATE PERSONNEL CONTACTED AND/OR INTERVIEWED

Corporation	Initial Contact - Letter	Data Collection Phase - Title of Person Interviewed		
		Phase I (unstructured interview)	Phase II (semi-structured interview)	Phase III (semi-structured interview with some 'closed' questions)
A	Managing Director	Corporate Affairs - Manager  Corporate Affairs - General Manager - Corporate Development	Corporate Affairs - Manager  National Manager - Safety, Environment & Assets - (Business) Group	General Manager - Safety & Environment  Manager - Environment & Safety (Business) Group
B	Office of the Managing Director- Head - External Affairs	Director - Health, Safety & Environmental Affairs  Publications Manager - Corporate Public Affairs  Corporate Public Affairs - Group Manager Investor Relations	Director - Health, Safety & Environmental Affairs  Publications Manager - Corporate Public Affairs  Group Manager - Investor Relations - Business Group	Director - Environment & Community Affairs  Manager - Investor Relations Services  Group Environment Coordinator - Business Group
C	Head - Corporate Advisory Group	Safety, Health & Environment Division - Environmental Specialist  Corporate Affairs - Community Relations Manager  Corporate Affairs - Communications Manager	Safety, Health & Environment Division -- Safety & Environment Manager  Corporate Affairs - Communications Manager	Corporate Affairs - Editor  Corporate Safety, Health & Environment - Manager - Safety, Health & Environment

### 7.6.2.1.1 Interviews

Interviewing is a complex method of data collection, but was the preferred method for this research. As a major aim of the research was to discover managers' perceptions in relation to the

managing and reporting of environmental issues, interviews were considered more likely to be a source of rich data consistent with the nature of the phenomena being investigated.

A combination of unstructured and semi-structured interviews was used throughout the data collection phases of this research. First round interviews, designed to discover general stimuli for the inclusion of environmental information in the annual report and the personnel responsible for, as well as the processes involved in, the disclosure of environmental information were predominantly unstructured. Subsequent interviews using the personnel identified from the first round of interviews, were semi-structured, and became more focussed and specific throughout subsequent data collection phases, as one would expect as the model became more precise.

The use of unstructured interviews conducted during the exploratory phases of data collection gave the interviewees an ability to provide commentary on other evidence already gathered, and the ability to suggest or even provide avenues of further potential evidence (Brownell, 1995). The semi-structured interviews used in subsequent data collection, while possibly causing the interviewees to be slightly less expansive, were flexible in construction and allowed the interviewee, at each step, to give reasons for any answers given.

In Table 7.1, the eighteen different management personnel that were interviewed throughout this investigation are listed. In all, twenty-six interviews were conducted. These consisted of one initial unstructured (Phase I) and three separate semi-structured interviews (one in Phase II and two separate interviews in Phase III) conducted with these personnel between November 1995 and September 1998. Most of the interviews were between 45 - 60 minutes in length. Twenty-three of the twenty-six interviews were audio-taped and subsequently transcribed for analysis purposes. Detailed interview notes were taken and later typed for interviews not audio taped. The interconnected data collection and analysis process, outlined in Figure 7.1, entailed a continual refinement of questions and theory throughout the subsequent data collection phases.

#### **7.6.2.1.2      *Documentary Sources***

The collection of various forms of documentary evidence was carried out in conjunction with other data collection methods. During Phase I of the data collection, past annual reports of the

corporation were collected and archival data, including internal corporate documents and organisation charts, were collected to assist in the understanding of the processes that culminated in environmental information being disclosed in the annual report.

During Phases II and III, past annual reports of the corporations were used in order to identify the quantity and quality of environmental information being disclosed as well as the types of environmental issues being reported by the corporations to external stakeholders. It was also considered important to identify environmental issues the corporations deemed important to report to internal stakeholders. It was assumed that each corporation, apart from wanting to cater to internal stakeholder needs, would identify that internal stakeholders' views and values were, in part, representative of wider social values and that environmental issues important to them may subsequently become important to the wider community. In this context, internal corporate publications, such as employee newsletters, local site brochures and issue-based publications were also used to ascertain what types of environmental information was considered by management to be important to report to internal stakeholders.

In Phases II and III, further documentary data collected were chosen based on the public reporting of environmental issues/events. These sources included main stream media reports, state and federal government reports and media releases and environmental information publicly released by influential environmental organisations such as Greenpeace and the Australian Conservation Foundation (ACF). These data were collected during the periods before and between interviews and were used for three main purposes: first, to help generate subsequent interview questions; second, to give the researcher some background as to which environmental issues/events were important to corporations and the general public; and third, to identify general environmental issues/events suitable for use as the main independent variable for the vignettes and the subsequent corporation/industry specific environmental issue/event phase (Phase III). This documentary data were collected on the basis of a direct or indirect association between the corporation (or industry) in the study, to the reported environmental issues and events.

In addition to being used to assist in identifying consistent or *convergent lines of inquiry* (Yin, 1994) with the interview data, the documentary data were used to corroborate the content of

interview transcripts in each of the data collection phases. This exercise included probing obvious discrepancies between what the interviewees perceptions or explanations of the environmental reputation of the corporation was when compared to evidence analysed from the documentary data.

### 7.6.2.2 Multiple Methods of Data Collection

Triangulation in the form of *multiple methods of data collection* was also used to assist in developing *convergent lines of inquiry* (Yin, 1994). Although using the interview technique across all three phases of data collection, the structure and context of the interviews in each phase was markedly different. Yin (1994) noted that open-ended interviews, focussed interviews and structured interviews are considered as separate sources of evidence and Eisenhardt (1989b) suggested that they are different data collection methods. For the purposes of this research, the different types of interviews, used for different purposes, were considered different methods of data collection.

In this research, the continuous, interconnected nature of the data collection and analysis led to uniqueness in the construction, nature and framework of the interviews conducted in each of the three data collection phases. As one would expect, if the research was progressing well with respect of theory development, each subsequent data collection phase would become more focussed and explicit in its aims, leading to more specific and 'narrower' interview questions being asked. An explanation of these differences in the construction of the three interview phases follows.

#### 7.6.2.2.1 Different Interview Methods

In Phase I, the interviews were basically unstructured, commencing with three pivotal questions, with subsequent questions being asked as both the interviewee and the researcher identified salient points to pursue. During this phase, the purpose of the research was purely exploratory.

In Phase II, the semi-structured interviews consisted of a number of pre-developed questions, requiring open-ended answers, which were designed to discover information on two fronts. The first was the importance of public pressure in relation to what extent environmental issues/events

effected the corporation's legitimacy and how management both perceived and managed this and the second was the identification of important variables related to the first point. While still exploratory, the purpose here was more specific in relation to legitimacy theory than in Phase I.

The semi-structured interviews conducted during Phase III were developed in a very different manner to the earlier interviews. Using variables identified in Phase II, interviews in Phase III (a) were constructed using hypothetical vignettes coupled with both structured questions and semi-structured questions. In each vignette, the interviewee was given some facts involving a fictitious corporation and a hypothetical environmental issue/event (independent variable) which was *contrived* on the basis that it most likely would have had some significance to the continued legitimacy of the corporation. The interviewees were asked both structured and open-ended questions regarding choices between four given types of annual report disclosure to be adopted.

A similar structure was adopted during Phase III (b), with the two major differences to Phase III (a) being that, first, the environmental issues/events were real and were *chosen* because of the probability of an association between it and the corporation/industry; and second, a fifth type of annual report disclosure approach was included. The addition of a fifth annual report disclosure approach was deemed necessary after analysis of the data collected in Phase III (a) of the investigation. The basis for the decision to add a fifth approach is discussed further in Chapter 9. The interviews in Phase III were far more structured than those used in the earlier phases of the investigation and the purpose had moved from exploratory to one of attempting to establish relationships between identified variables.

## 7.7 RESEARCH VALIDITY AND RELIABILITY

Reliability and validity are requirements for both the design and measurement of research. At a general design level, research is valid when its conclusions are accepted and it is reliable when its findings are able to be reproduced.

There are three types of validity: construct, internal and external. Construct validity refers to how well operational measures are constructed in relation to the concepts and variables being studied. Research is said to have construct validity when it properly identifies or names the variables under

study (Kidder, 1981). Research is said to have internal validity when it accurately identifies causal relationships (Brownell, 1995, Kidder, 1981). External validity is present when the results of the research show that something is true beyond the narrow limits of the study (Kidder, 1981). Reliability can be described as the degree to which a measure gives consistent and reproducible results. The same measure should give consistent sets of results from one time to the next (Golden, 1976).

As a general rule, (Yin, 1994) suggested that tactics used to establish external validity should be considered during the design phase, construct validity and reliability, during the data collection phase and internal validity during the data analysis phase. This general rule has been followed in this research and is explained in the following sections. It is also noted that many of the suggestions made by qualitative researchers (Brownell, 1995, Kidder, 1981, Miles & Huberman, 1994, Yin, 1994), to ensure that the three types of validity and reliability are present, appear to overlap. At times the same ideas or techniques are suggested for different types of validity and reliability. Keeping this classification dilemma in mind, other general techniques applied in this research to ensure validity and reliability are also discussed in Sections 7.7.1 to 7.7.4.

### 7.7.1 CONSTRUCT VALIDITY

Critics of field studies often suggest that this approach is flawed in relation to its construct validity because the investigator fails to develop a sufficiently operational set of measures and that "subjective" judgements are used to collect data. While acknowledging this to be a limitation with some field studies, it may be overcome by collecting evidence from multiple sources, establishing chains of evidence and/or having the draft case study report reviewed by key respondents (Yin, 1994).

As was discussed in Section 7.5.1.3, collecting data from multiple sources or using multiple methods is referred to as *triangulation*. The benefit in adopting *triangulation* techniques in order to make the research constructs more sturdy and defensible can be seen in the following example. If researchers are attempting to interpret perceptions of managers gained from being an observer at a board meeting, they should not rely solely on 'evidence' gained from attending and observing

or interviewing single subjects on only one occasion (at one meeting) to formulate a conclusion. Rather the researchers should also use other techniques as well as the observation method (e.g., multiple interviews with a number of senior management backed up with documentary evidence), to substantiate or refute results collected from the board meeting.

Brownell (1995) supported this argument related to field studies and construct validity by stating;

*"..the core evidence that something may have taken place may take the form of responses to unstructured interview questions addressed to focal individuals. But if this single piece of evidence can be incorporated within a "scenario" or chain, its validity can be much enhanced (p. 61)."*

Apart from utilising triangulation techniques, construct validity is also enhanced by *establishing a chain of evidence* (Brownell, 1995), using the evidence collected from multiple sources or multiple methods. This is a similar notion to that used in criminal investigations (Yin, 1994), whereby the reader can see how the multiple pieces of evidence (data) fit together.

Through the three phases of data collection in this investigation, construct validity was enhanced in the following ways.

- (i) Collecting data from multiple sources (Brownell, 1995, Yin, 1994);
  - (a) twenty-six interviews with eighteen different management personnel from the three corporations in the study;
  - (b) environmental information included in documents from corporate sources (annual reports, internal publications, local site brochures);
  - (c) documentary data from external sources in relation to both general and corporate specific environmental issues or events (news media, government sources, peak environmental groups<sup>11</sup>);
  - (d) archival data (internal corporate organisational charts).

---

<sup>11</sup>

For example, Australian Bureau of Statistics reports with respect of the importance of environmental issues to Australians; reports by both Federal and State government departments and agencies on environmental issues, both daily and weekly local, state and nationwide news paper reports and reports from groups such as Greenpeace and the Australian Conservation Foundation.

- (ii) Collecting data using multiple methods (Brownell, 1995, Yin, 1994);
  - (a) the use of different types (semi-structured and open-ended) of interviews for different purposes;
  - (b) content analysis of various documentary and archival data.
- (iii) Establishing a chain of evidence (Brownell, 1995, Yin, 1994);
  - (a) compiling verbatim interview transcripts from audio tapes for twenty-three of the twenty-six interviews;
  - (b) taking notes during and immediately after interviews;
  - (c) collecting documentary evidence and writing case notes detailing how the documentary evidence was linked to subsequent data collection purposes.

### 7.7.2 INTERNAL VALIDITY

The concern of the researcher was to enhance the accuracy of any data as much as possible. The general idea of research being internally valid is mainly concerned with how successfully a cause can be attributed to a studied variable (Kidder, 1981). Research is internally valid if the researcher has effectively ruled out rival hypotheses or explanations. In general, internal validity is more applicable to experimental or quasi-experimental methods than to field studies. In relation to field studies, Yin (1994) states that internal validity is only of concern for causal or explanatory field studies. Field studies which are purely descriptive or exploratory are not concerned with establishing cause and effect and, therefore, internal validity, while not totally ignored, is not a crucial consideration.

Tactics used to ensure internal validity are adopted in the data analysis phases of research. If field studies are concerned with establishing causality, then the dilemma of making inferences without being able to observe every event arises. This can be overcome if the researcher has anticipated these problems. Both Yin (1994) and Brownell (1995) identify pattern matching logic, explanation building and time-series analysis as data analysis tactics which may be used to enhance

internal validity. A combination of explanation building and pattern matching tactics was used in the data analysis phases of this research.

Pattern matching involves comparing an empirically based pattern(s) with a predicted one(s). Assuming the field study is explanatory, the patterns may be related to either or both the dependent or independent variables in the study. If there is a large number of variables being tested and the results are as expected one could draw solid conclusions as the chance of rival explanations being causal would be minimal. One would expect, however, that the greater the number of variables, the greater the chance that initial 'predictions' would be problematic. If a smaller number of variables (simpler pattern matching, Yin, 1994) were being tested, it would appear likely that theoretical outcomes (main and rival predictions) would be more defensible. The fewer the variables tested, however, the more obvious any degree of 'matched patterns' would need to be.

Explanation building, unlike pattern matching, is an iterative process in that any final explanation comes about after a series of iterations. The goal in using this tactic is to build an explanation about specific cases or units of analysis, rather than starting with predicted outcomes. In this tactic evidence is examined, theoretical propositions are revised, evidence (new and existing) is examined again (perhaps from a different perspective) and this process continues until a final explanation is reached. This is consistent with the explanation for the choice of analytic induction methods of data analysis adopted as explained in Section 7.5.2.2.

The purpose of the data collection and analysis in Phases I and II of this research (see Figure 7.1) was purely descriptive and exploratory, so the problem of internal validity was not relevant. In Phase III, the data analysis was concerned with attempting to establish relationships (rather than direct causality) between one independent variable (an environmental issue/event) and various dependent variables. This is consistent with Yin's (1994) idea of explanation building. The data collection methods were set up in order to test the belief that certain relationships existed between the variables and these may result in certain outcomes in the form of annual report disclosure approaches.

Internal validity was strengthened, especially in Phase III of the data collection and analysis phase, by analysing data using analytic induction methods incorporating a combination of explanation building and simple pattern matching tactics. The more detailed aspects of the data analysis techniques adopted during each of the phases, including coding techniques used, the development of context (flow) charts, checklist matrices and two-variable conceptually ordered matrices (Miles & Huberman, 1994) are discussed in detail in Chapter 9.

### 7.7.3 EXTERNAL VALIDITY

External validity is concerned with applying the particular to the general. In field study (and, indeed, any) research, this issue should be considered during the design phase as it involves the decisions about the number and type of cases to be chosen. Three issues in relation to external validity and field studies are considered in this section: first, the generalisability of results; second: the choice of ‘sampling units’; and third, the number of cases to be chosen.

Survey research is concerned with statistical generalisation in which a set of units of analysis is representative of the population of such units (Brownell, 1995). In field studies, external validity is enhanced by being able to generalise “analytically” a set of results to broader theories (in this case, legitimacy theory) rather than a population. As mentioned in Section 7.5.2, using field studies is appropriate for theory development where theory is not well developed. Using a single or small number of cases allows the researcher better to identify variables relevant to the emerging theory (Ryan et al, 1992). The results of these ‘cases’ can be used to generate hypotheses or models which can be subsequently tested using more ‘scientific’ methods.

Linked to this are decisions about the number and type of cases to be chosen. External validity is strengthened if multiple cases are chosen, especially in relation to theory development. This strength is based on the idea that results are more robust if replication (literal and theoretical) is accomplished.

The choice of ‘which’ specific cases and units of analysis is also important. These cases and units of analysis do not have to be representative of a greater population in field studies if the aim of the studies are designed for theory development. They should be chosen on the basis of the ability

to improve the theory by allowing for the identification and testing of the variables considered important to the theory.

External validity was accomplished in this thesis by using multiple (three) corporations as the vehicles to identify the subsequent multiple units of analysis (the corporate personnel to be interviewed). It was further enhanced by gathering data, using these personnel, about sets of possible multiple *a priori* actions in response to sets of specified environmental issues and events. The choice of three corporations and the gathering of responses from eighteen different people provided fertile opportunities for contrast and variation in the emerging theory, which is a relative strength of qualitative research.

#### 7.7.4 RELIABILITY

There is an obvious link between external validity and reliability. Kidder (1981) suggests that the only way to assess external validity 'objectively' is to see if the results can be reproduced. In this sense, external validity is similar to reliability. Both are demonstrated by repeating or replicating findings. The main difference is that whereas external validity should be considered in the design phase, ensuring reliability is more concerned with organising data during the collection phase.

One has to guard against bias when collecting and analysing data. Yin (1994) uses the analogy of an auditor being able to verify what an accountant has done in preparing sets of financial statements. Just as the auditor should be able to produce the same results as the accountant if the same procedures are followed, the field study researcher should aim for reliability in the same way. The objective in ensuring reliability in a field study context is that, if a later investigator followed exactly the same procedures as described by an earlier investigator and conducted the *same case study*, not a different case, all over again, the second investigator should arrive at the same findings and conclusions. Yin (1994) suggests that one prerequisite for allowing a second investigator to repeat earlier work is the need to document procedures followed in the initial case. Four ways of ensuring reliability with respect to documenting the research process are: first, to use a *case study protocol*; second, to create a *case study database*; third, to *maintain a chain of evidence* (Yin, 1994), as opposed to the previously discussed *establishment* of a chain of evidence; and fourth, to *conduct a pilot study*. To what extent these tools are formalised or

structured, in order to enhance reliability, will depend upon how each individual researcher approaches the research task and the unique nature of the research problem. There is no agreed prescription for the compilation of case study protocols or databases.

The *case study protocol* serves both as a procedure guide and a historical document (Brownell, 1995). It can be used to guide the researcher through discrete data collection phases and it can also be used as an accurate record of what was done and how it was done. It can contain a project overview, a list of field procedures used or considered, a set of substantive questions reflecting the actual inquiry and a plan which anticipates the style of presentation in the final report. All of these steps can assist in focussing the researcher to possible data collection issues.

For this investigation, a project overview was developed prior to data collection and was continually refined throughout the various data collection phases to reflect emerging aspects of legitimacy theory. Field procedures adopted included keeping notes on when, where and how information was collected during field visits. More specifically, other tasks included keeping a log of details on the people contacted in each organisation and what roles they played in the disclosure of environmental information. A form of 'check-list' was used to assist in developing specific interview questions to be asked. This was developed to ensure that the specific questions asked of the interviewees were complete, consistent and comparable. Finally, the case study report framework was a preliminary plan of how the results were to be written up.

The *case study database* is a tool for collecting and collating all the evidence obtained for cases in the study. It is made up of four separate categories; the case notes, documents, tabular material and narratives (Yin, 1994). For this investigation *case notes* were, in the main, handwritten notes kept in chronological order. These notes included observations about both untranscribed and transcribed interviews. Detailed notes and comments were written about the intended use of the documentary evidence gathered to assist in the formulation of the questions and 'closed' responses for the vignettes and real-world situations in Phase III of the data collection. For example, notes about the significance and relevance, to the developing model, of news reports (and other indicators of what constituted topical environmental issues) were made in order to

maximise the chances of choosing the most appropriate environmental issues or events for Phase III of the data collection process.

The *documents* gathered included all the physical evidence gathered from the corporations, including annual reports, internal publications, local site brochures, media releases and organisation charts. Other documents gathered included news reports and other publicly available information about current significant environmental issues/events. These documents were cross-referenced to case notes, other comments and interview transcripts. The *narratives* in this investigation were transcribed interviews of twenty-three of the twenty-six interviews conducted.

Closely linked to the creation of a case study database is the maintenance of the evidence. If another researcher wanted to reproduce a particular field study, having a case study protocol and case study database may not be sufficient. Logically, during the original study, the investigator should *maintain a chain of evidence*. This primarily means 'keeping' the evidence and indicating how different pieces of evidence were linked to each other.

For this investigation the researcher maintained:

- (i) original audio tapes of all twenty-three interviews;
- (ii) printed verbatim transcripts of all twenty-three interviews, with copies on diskettes;
- (iii) originals or photocopies of documentary evidence;
- (iv) observation notes and comments (sometimes written on documentary evidence);
- (v) originals of all interview questions (in hard copy and copies on diskette);
- (vi) both computer and handwritten copies of tables and charts developed from Phase I data analysis;
- (vii) originals and photocopies of answers to structured questions for Phase III of the data collection process;
- (viii) computer generated spreadsheets and graphs for answers to structured questions from Phase III of the data collection process; and
- (vix) computer printed copies of all matrices developed.

The majority of interview transcripts were typed by professional transcribing services and were double-checked by the researcher to ensure accuracy. On three occasions, the researcher transcribed the interviews in order to check the accuracy of the transcription service. Further to this, after Phase I data were collected and analysed, context charts (Miles & Huberman, 1994), a type of flow-chart, presenting the results of the environmental reporting process were sent to interviewees to check for accuracy. After Phase II, transcribed interviews were returned to the interviewees for correction and verification. As corrections were negligible and Phase III data collection questions were more structured, this was not deemed essential after Phase II.

As a final preparation for the all important Phase III data collection, a *pilot study* of the hypothetical vignettes was conducted with a senior manager from the corporate services division of the Victoria University of Technology. The aim of the pilot study was to test the understandability of the content, the clarity of the procedures to be followed by the interviewees and the plausibility of the hypothetical vignettes, with respect to the characteristics of the fictitious corporations and the legitimacy threatening environmental issues or events. The choice of the subject for the pilot study was made on the basis that he had been a manager at a senior level in several large corporate organisations, apart from the Victoria University of Technology and he was accessible. The fact that the pilot study was not conducted with the actual subjects of the study, or even a person from an organisation similar to the corporations in the study, was not significant. As Yin (1994), points out, if the purpose of the pilot study is to refine the content of the questions, the choice of a subject for the pilot study can be made for reasons unrelated to the criteria for selecting the final cases in the case study design.

## 7.8 ETHICAL CONSIDERATIONS

There were two main ethical considerations in this investigation. The first related to the reliability of the data being collected and how objectively it was analysed, and the second concerned privacy and confidentiality matters.

Ethical issues permeate many aspects of the research process and may be different depending on the type of methodologies adopted. Using qualitative methodologies in field study research creates ethical issues of a different type to those that would be present when using quantitative

methodologies via a mailed out questionnaire. It could be argued that an awareness of ethical considerations is more important when conducting interviews in a field study context than when using a mailed survey because, with field studies, the researcher has direct contact with personnel within real organisational settings. According to Patton (1992):

*“Because qualitative methods are highly personal and interpersonal, because naturalistic inquiry takes the researcher into the real world where people live and work, and because in-depth interviewing opens up what is inside people - qualitative inquiry may be more intrusive and involve greater reactivity than surveys, tests, and other quantitative approaches” (p.356)*

Furthermore, it has been argued that the field researcher has more choice and control over how data are collected and recorded and how they are analysed and interpreted than would the researcher using surveys and predetermined statistical tests (Easterby-Smith et al, 1991). The main ethical consideration, with respect to this aspect of this investigation, relates to how actively or passively the researcher may have influenced the data being collected during the interview phase and the appropriateness of data analysis procedures used. Much of what was done in this investigation to ensure an appropriate balance between passive and active collection and analysis of data was discussed in Section 7.7.4 on reliability. In short, it was argued that the data collection and analysis techniques adopted in this investigation were set up in a formalised enough way to ensure that the findings could be reproduced by another researcher using the same case and procedures. This allays any ethical concerns about the reliability of the design and the data.

The second ethical issue of privacy and confidentiality was important to this investigation because the data being collected were concerned with:

- (i) identifying internal corporate processes involving the disclosure of environmental information in the annual report;
- (ii) individual corporate personnel’s perceptions about the reasons the corporations in the study disclosed environmental information; and
- (iii) discovering the types of environmental disclosures the personnel suggested the corporation would make in response to certain hypothetical and real-world environmental issues or events.

While much of the data collected were not commercially sensitive, the corporations used for this investigation are all high profile corporations and are well known in both financial markets and society in general. To protect the anonymity of the corporations, the names of the corporations will not be used in this thesis. The fact that certain individuals within each corporation were acting as agents for the corporation in giving responses led to the decision that the individuals should not be linked directly to the responses in the write-up of results. Thus, individual's names are not mentioned in this thesis. The positions each interviewee held within the respective corporations are included, but they are reported in such a way as to protect the anonymity of the connection between the person and the corporation. Each of these conditions was explained to each interviewee in a prescribed consent form<sup>12</sup> (a requirement of the Victoria University of Technology Human Research Ethics Committee), which was signed by each of the interviewees prior to the interviews being conducted. Each interviewee was also asked prior to each interview for permission to audio-tape the interview. Only one interviewee declined to be audio-taped.

Access to the audio-tapes and interview transcripts is limited to the researcher and his supervisors. Proper physical security of the consent forms, audio tapes, disks, typed transcripts and written responses will be adhered to. The researcher also provided the interviewees copies of the typed interview transcripts, if requested. Promises to provide copies of the final thesis or any papers emanating from this investigation were also given to each of the interviewees.

## 7.9 SUMMARY

This chapter contained a discussion on the broader methodological issues relevant to this investigation. In particular the focus of this chapter was to explain the methodological assumptions adopted by the researcher and to justify the use of a field study method and the collection of qualitative data as being the optimal way of achieving the objectives of the research, especially in relation to theory development. A general discussion about using analytic induction techniques as the most appropriate method of data analysis was covered and was followed by a description of the importance of research design and method issues to this investigation and how these issues were addressed. A discussion about *specific* data collection and analysis matters and

---

<sup>12</sup>

See Appendix C for a copy of the consent form .

the findings from the three data collection phases of this investigation is included in Chapters 8 and 9.

## CHAPTER 8 - PHASES I AND II: IDENTIFYING FACTORS WHICH AFFECT THE LEGITIMACY THEORY MODEL

### 8.1 INTRODUCTION

The purpose of this chapter is to discuss the *specific* data collection and analysis techniques used during Phases I and II of this investigation and to report findings from these phases of the investigation. Phases I and II of the data collection were concerned with *exploring* factors which affect environmental disclosure decisions and are related to legitimacy theory. Phase III of the data collection was concerned with testing legitimacy theory to help *establish relationships* between the factors identified during Phases I and II. An evaluation of Phase III is covered in Chapter 9. As the theory was developed both during and between one data collection and analysis phase and the next, it was decided that a chronological approach was the optimal way of reporting the findings of the data analysis. Table 8.1 can be used as a guide for the remainder of this chapter. Included in Table 8.1 are details of the Phase I and II data collection and analysis phases, links between the phases and a summary of the findings from each phase.

Also included in Table 8.1 are statements of the aims of each of the distinct data collection phases and a list of both the primary and main secondary data sources of data collected to achieve these aims. A list of the main qualitative data analysis techniques used during Phases I and II are included in a separate column, followed by a summary of the findings. A row is included immediately after each data collection phase which contains a description of how the findings from that phase influenced the data collection for subsequent phases, including a link to Phase III (see Table 9.1). The outcomes became more detailed and are more 'legitimacy theory' specific in each successive phase. To help guide the reader pointers to the main sections of the chapter containing detailed discussion on the content of each of the columns in Table 8.1 are included in the 'Date/Data Collection Phase' column of the table.

The remainder of this chapter has three main sections. The first has a discussion on how the corporations were selected. In the next two sections the data collection, analysis and findings are discussed. Also included as part of these two sections is a discussion on the implications of the findings for subsequent data collection.

TABLE 8.1 - CHRONOLOGY AND OVERVIEW OF PHASES I AND II DATA COLLECTION AND ANALYSIS

Date/Data Collection Phase	Aim	Primary data source	Secondary data sources	Analysis methods	Outcomes
<p><b>PHASE I</b> Mid 1995</p> <p>Exploratory/ Descriptive</p> <p>Refer to Section 8.3</p>	To identify general motivations for the disclosure of environmental information	Unstructured interviews with senior management personnel from each corporation	Extant literature on corporate environmental reporting  Internal organisation charts  Internal environmental publications	Content analysis of transcribed interview tapes and case notes  General data reduction and display; context charts.  Construction of tables describing environmental disclosure processes followed by corporations	Preliminary evidence of motives for disclosing environmental information consistent with legitimacy theory  Discovered process involved and personnel responsible for the disclosure of environmental information

**Link to Phase II (and beyond)**

Preliminary evidence of legitimacy theory as a possible motive for corporate environmental reporting. Gained a thorough understanding of the process of reporting environmental information in the annual report of the corporations in the study and most importantly identified the personnel (or more appropriately the positions they occupied) who needed to be interviewed in the subsequent data collection phases.

<p><b>PHASE II</b> Late 1995 - Early 1996</p> <p>Exploratory</p> <p>Refer to Section 8.4</p>	To identify the extent to which legitimacy theory was a motivating factor behind the disclosure of environmental information in the annual report.  Identify specific variables associated with legitimacy and annual report disclosures	Semi-structured interviews senior management personnel identified in phase I.	Extant literature on legitimacy theory  Reliable indicators of environment as a source of public pressure (news and other sources)  Past annual reports of the corporation	Content analysis of transcribed interview tapes and case notes  Question-by-question matrix (and memoing)  Checklist matrix	Disclosures linked to issues  Specific issues lead to different purposes of corporate response  Different purpose leads to different types of disclosures  Voluntary annual report environmental disclosures are a response to public pressure and are linked to existing image of corporation  Annual reports aimed at general users  Annual reports used to shape public opinion (image of co.)  SUPPORTS LEGITIMACY THEORY
--	--	---	--	---	---

**Link to Phase III (see Table 9.1)**

Established support for legitimacy theory as an explanation for environmental disclosures in the annual report. Identified two important variables to be subsequently tested. First, that public pressure is mainly related to either single or a combination of specific issues or event. Second, in conjunction with the most recent literature, that different legitimisation responses may be chosen depending on whether a corporation is trying to gain, maintain or repair its image (legitimacy). Phase III was used to test for any relationship (with explanations) between an environmental issue (independent variable) and three dependent variables; purpose of the legitimisation response, choice of legitimisation tactics and choice of four given specific legitimisation annual report disclosures (see Figure 7.1).

## 8.2 SELECTION OF CORPORATIONS

As was reported in Chapter 2, the kinds of corporation most likely to disclose environmental information are those operating in environmentally sensitive industries (Elkington, 1994, Gorman 1992a), are large in size<sup>13</sup> (Blaccionierre & Patten, 1994, Patten, 1992) and place more emphasis on the longer term than those corporations who do not disclose (Cowen et al, 1987, Trotman & Bradley, 1981).

For this investigation, one corporation was chosen from each of three potentially environmentally damaging industries. The industries chosen were mining, chemical and paper and pulp. Stakeholders and, in particular, environmentalists view these three industries as being amongst the most likely to have a detrimental impact on the environment (Elkington, 1994) or consider them to be "dirty" corporations (Gorman 1992b). In addition to operating in environmentally sensitive industries, being politically visible and large<sup>14</sup>, each of these corporations was, historically, the leading Australian discloser of environmental information in the annual report within its industry group (O'Donovan & Gibson, 1994).

For ethical reasons, in the remainder of this thesis, the three corporations are referred to as Corporations A, B and C. The assignment of the letters to the corporations was done randomly and is applied consistently throughout the thesis. As was explained in Section 7.8 (Ethical Considerations), it was important to identify and name the management position of each interviewee, but in order to protect the confidentiality of the personnel interviewed and the corporations by which they were employed, these positions have not been linked to the corporation in the remainder of this thesis.

---

<sup>13</sup> In these studies size was based on market capitalisation. Corporations listed, for example, in the Fortune 500, are the largest 500 corporations on the basis of market capitalisation.

<sup>14</sup> The measure of largest corporations was based on market capitalisation of public corporations listed on the Australian Stock Exchange as at 30 June 1994.

### **8.3 PHASE I - EXPLORING REASONS FOR ENVIRONMENTAL DISCLOSURES: IDENTIFYING THE PERSONNEL INVOLVED AND UNDERSTANDING THE PROCESS**

There were two major aims of this exploratory phase of the data collection. The first was to get a general feel for the motives that the corporations had for disclosing environmental information in the annual report, in order to establish whether legitimacy motives applied to them. The second aim was to identify the people most directly involved in both the decision to include and the writing of this information for publication in the annual report as these people would be the most appropriate to use as the main interview subjects in subsequent data collection phases. To achieve this aim, it became necessary to understand the processes involved in environmental information being voluntarily disclosed in the annual report.

#### **8.3.1 DATA COLLECTION**

Two primary data sources were used during this phase of the data collection: unstructured interviews; and the annual reports published by each of the corporations.

##### **8.3.1.1 Documentary Data - Annual Reports**

Prior to the interviews, recent annual reports for each corporation were examined in order to be forewarned about what environmental information had been disclosed and what sections of the annual report contained environmental information. It was decided to use the three most recent annual reports (1992 - 1994) because the personnel to be interviewed would, in all probability, have been familiar with the processes involved in compiling those annual reports.

##### **8.3.1.2 Unstructured Interviews**

The specific aims of the interviews conducted during this phase were to discover:

- (i) what the interviewees believed were the main reasons for the disclosure of environmental information in the annual report; and
- (ii) who was responsible for the decision to include and the authoring of environmental information for disclosure in the annual report.

As part of the second aim, a further aim was to discover:

- (a) who writes the first draft of environmental information for inclusion in the annual report;
- (b) whether the first draft was edited and, if so, how was it edited, to what extent and by whom;
- (c) the process underlying the writing and inclusion of the original and subsequently edited environmental information in the annual report; and
- (d) who (if anyone) gives final approval on whether the "proposed" environmental information is suitable for inclusion in the annual report.

Given the exploratory aims of the data collection in this phase, it was decided that unstructured interviews would result in the most useful data being collected.

Table 8.2 contains a list of the personnel contacted in each of the corporations and displays the order in which these personnel were contacted, which was an important part of the 'exploratory investigation' conducted in this phase. Initial communication with the corporations was made through letters<sup>15</sup> of introduction addressed to an appropriate senior contact (Initial Contact column in Table 8.2). In each case, the person initially approached directly contacted the person(s) listed in the 'Next Contact' column of Table 8.2. Each of these corporate representatives then contacted the researcher and an initial interview was arranged. The personnel listed in the 'Further Contacts' column were subsequently contacted and interviewed as a result of discoveries made from interviews with personnel identified in the 'Next Contact' column.

---

<sup>15</sup>

A copy of one of the letters is included in Appendix B.

**TABLE 8.2 - PHASE I - PERSONNEL CONTACTED AND/OR INTERVIEWED**

COMPANY/POSITION	INITIAL CONTACT - LETTER	NEXT CONTACT - INITIAL INTERVIEWS	FURTHER CONTACTS - INTERVIEWS
A	Managing Director	<i>Interview No. 1</i> Corporate Affairs - General Manager - Corporate Development  Corporate Affairs Manager (joint interview)	Not applicable
B	Office of the Managing Director- Head - External Affairs	<i>Interview No. 2</i> Director - Health, Safety & Environmental Affairs	<i>Interview No. 3</i> Publications Manager - Corporate Public Affairs  Corporate Public Affairs - Group Manager Investor Relations (joint interview)
C	Head - Corporate Advisory Group	<i>Interview No. 4</i> Safety, Health & Environment Division - Environmental Specialist	<i>Interview No. 5</i> Corporate Advisory - Corporate Affairs - Community Relations Manager  <i>Interview No. 6</i> Corporate Advisory - Corporate Affairs - Corporate Communications Manager
The shaded areas indicate the interview was not audio-taped			

Further to this, other personnel (predominantly business group representatives) were also identified during interviews with people listed in both the 'next contact' and 'further contacts' columns of Table 8.2. These staff were subsequently interviewed during Phases II and III of the data collection process. The positions held by these people and descriptions of their environmental reporting responsibilities are discussed in Section 8.3.4.1.

Six interviews, each lasting between 45-60 minutes, were conducted during this phase. Four of the interviews were with individuals and two were conducted with two personnel (noted in Table 8.2). The interviewees did not have a written copy of the questions prior to or during the interview. The interviews were unstructured and revolved around the answers to three open-ended questions (Appendix D). Depending on the responses to these 'formal' questions, a number of 'improvised' questions were asked. The improvised questions were asked in order to

'flesh out' more specific information relating to the aims of the interviews. To ensure a degree of comparability between interviews, the broad themes of any 'improvised' questions to be asked were established prior to the interviews being conducted.

After introducing myself, explaining the ethical issues and outlining the purpose of the research, each interview began by asking why the interviewees believed the corporation voluntarily disclosed environmental information in the annual report. This was followed by questions relating to specifics about the environmental reporting process. Using the three basic questions and some improvisation during the interviews worked well as the interviewees clearly indicated which responsibilities came under their control, what their perceptions were about the environmental reporting process were, how the environmental reporting process worked and they also suggested who else within the corporation, should be contacted to gain further relevant information about environmental disclosure decisions. In most instances, the interviewee contacted these relevant people and assisted in arranging subsequent interviews.

### **8.3.2 ANALYSIS TECHNIQUES**

The primary analysis techniques used for these data were content analysis<sup>16</sup> of the annual reports and a series of qualitative data analysis procedures, as outlined by Miles and Huberman (1994), for the unstructured interviews.

#### **8.3.2.1 Documentary Data - Annual Reports**

Two rudimentary content analysis techniques were used on the annual reports. The first consisted of noting the specific location of environmental information in the annual report, such as the chairman's/director's report, separate environment section, business group sections or the financial reports. Classifying the environmental disclosures as either descriptive (e.g., narrative text or pictures), quantifiable non-financial (e.g., graphs, charts or non-financial figures) or financial (e.g., dollar amounts in financial statements or notes to the accounts) was the second technique used. These disclosure categories (or similar) have been used previously in studies into the amount and types of social and environmental annual report disclosures (American

---

<sup>16</sup>

See Section 5.2.1 for Abbot & Mosen's (1979) definition of 'content analysis' used for the purposes of this research.

Accounting Association, 1975, Gray et al, 1995, Guthrie & Parker, 1990, O'Donovan & Gibson, 1994).

### 8.3.2.2 Unstructured Interviews

The four audio-taped interviews were transcribed using a professional transcription service and were proof-read by the researcher for accuracy. Disk and hard copies of the transcripts were supplied to the researcher. To double-check the accuracy of the transcription service, two of the audio-tapes were also transcribed by the researcher and the text compared to the transcription service text. Notes taken during the two interviews, which were not audio-taped, were written and then typed up in more detail immediately following the two interviews.

Content analysis of the typed transcripts and detailed interview notes was then conducted. General data reduction and display principles for qualitative analysis, as outlined by Miles & Huberman (1994), were used to assist in analysing the data to meet the specific aims of the interviews. Data reduction is:

*“the process of selecting, focussing, simplifying, abstracting and transforming the data that appear in written up field notes or transcriptions.” (Miles & Huberman, 1994, p.10)*

Data display was defined by Miles & Huberman (1994) as:

*“an organised, compressed assembly of information that permits conclusion drawing and action.” (p. 11)*

The format of many of the answers being sought in this phase, together with the exploratory purpose of the data collection, indicated that, rather than using complex matrices, graphs and charts in order to reduce and display data, simpler reduction and display methods could be employed (Miles & Huberman, 1994). A colour-coded reduction and display technique was adopted.

Responses related to ‘why’ the corporation disclosed environmental information were highlighted in green. Information related to ‘who’ was responsible for the disclosure of environmental

information was highlighted in yellow and text related to 'how' the environmental disclosure process worked was highlighted in blue.

Direct quotations from the transcriptions and inferences from the detailed notes were used to support claims of the evidence of legitimacy motives and are evaluated in Section 8.3.3. A detailed analysis of specific legitimacy motives and any related annual report disclosures was not an aim of this phase of the investigation. Subsequent data collection and analysis were concerned by delving deeper into specific legitimacy motives and resultant annual report disclosure approaches.

More detailed analysis techniques were used to identify the personnel involved and to understand the procedures in the environmental reporting process. Patterns and processes identified from the highlighted text were used to assist in preparing written context (flow) charts to illustrate the environmental reporting process for each corporation. Miles & Huberman (1994) described a context chart as a:

*“network, mapping in graphic form the interrelationships among the roles and groups (and, if appropriate, organisations) that go to make up the context of individual behaviour.” (p.102)*

These context charts were prepared to allow the interviewees to verify the correctness and completeness of the environmental reporting process identified. A copy of the relevant process chart was given to the person identified as the key person responsible for the production of the annual report in each corporation (in all cases, one of the interviewees). This person was asked for comments and suggestions as to the accuracy of the representation of the environmental disclosure process. In each case, some minor alterations were suggested by this key person and these were incorporated into each of the charts. This key person indicated that the context charts, if amended as suggested, would be an accurate representation of the environmental disclosure decision process as part of the annual report production process.

To ensure that no personnel, significantly involved in the environmental reporting process, were overlooked, the three most recent annual reports (1992 - 1994) for each corporation were

examined to discover in which specific sections of the annual report environmental information was located. These data were used both before and after the interviews. By identifying the location of these disclosures before the interviews, the researcher was able to establish, during the interviews, whether all personnel responsible for environmental disclosures from the previous three years had been identified and contacted, or whether the process had changed and whether the personnel responsible for the previous three years' disclosures were still part of the reporting process. After the interviews, the transcribed text was examined for any references to specific locations of environmental disclosures in the annual report which had not been previously identified.

In addition to this, after the responses and suggested amendments to the context charts had been received, follow-up telephone calls were made to each of the interviewees to establish, once more, whether any personnel responsible for environmental disclosures had been overlooked. In no instances was any additional personnel identified as being integral to the environmental reporting process.

### ***8.3.3 FINDINGS - PHASE I - MOTIVES FOR DISCLOSING ENVIRONMENTAL INFORMATION: EVIDENCE OF LEGITIMACY THEORY***

An evaluation of whether interviewees' responses, about the reasons they believed the respective corporations disclosed environmental information in the annual report, were consistent with the broad tenet of legitimacy theory is contained in this section. The analysis in this phase was not concerned with identifying or classifying specific legitimation tactics or responses.

In analysing the interview transcripts, the researcher was looking for direct quotes, identified themes or other evidence, which pointed to social or environmental annual report disclosures being made in an attempt to influence public perceptions of the corporation. If discovered, it could be concluded that, to some extent at least, managing legitimacy was one motive the corporations had for disclosing environmental information in the annual report.

Evidence supporting the general tenet of legitimacy theory was found in each of the six interviews. Some of the analysis uncovered many references to legitimacy motives in single

interviews, while in others, only one or two references or other evidence could be construed as being consistent with legitimacy theory. Three direct quotations, in response to direct questioning on the reasons for environmental disclosures, and typical of many other responses received to ancillary questions, which supported this position, were:

*"WE INCLUDE A SECTION ON THE ENVIRONMENT, NOT BECAUSE WE ARE OBLIGED TO, BUT TO SHOW THAT WE ARE A GOOD CORPORATE CITIZEN AND THAT WE PUT A LOT OF EFFORT AND RESOURCES INTO THAT AREA." - INTERVIEW NO. 1*

*"THERE IS NOT A LIST THAT IS DETERMINED EACH YEAR IN TERMS OF WHAT ARE WE GOING TO TALK ABOUT, BUT MOSTLY THEY ARE DETERMINED, SIMPLY BY THE IMPERATIVES, WHAT DO WE HAVE TO TALK ABOUT, WHAT WE HAVE TO TALK ABOUT YEAR TO YEAR IS REALLY 80% PROBABLY PREDETERMINED BY WHAT THE PUBLIC EXPECTS OR WHAT IS FASHIONABLE AT THE TIME" - INTERVIEW NO. 3*

*"I GUESS THE THEME THROUGHOUT ALL OUR COMMUNICATIONS WITH STAFF OR ANY OF THE AUDIENCES ON THE ENVIRONMENT IS THAT WE ARE TRYING TO DEMONSTRATE THAT WE ARE OPEN AND EVEN IF WE DON'T PROVIDE HEAPS OF INFORMATION, WE WOULD LIKE TO GIVE THE IMPRESSION THAT IF YOU WANT MORE COME TO US, IT IS AVAILABLE." - INTERVIEW NO. 6*

Each of these quotations (one from each corporation) indicated attempts at influencing public perceptions. The first quote emphasises both the voluntary and responsible nature of any disclosures made. The second clearly states that disclosures are directly linked to public expectations, or more correctly, what managers believes are public expectations. The third quotation emphasises the 'openness' message the corporation is trying to get across.

Each of the three interviewees from one of the corporations emphasised that, apart from the annual report, many other communication media (media releases, local site brochures, employee newsletters, local newspapers) were also important for disclosing environmental information.

This point was also emphasised in the following quotation:

*"WE PRODUCED A SEPARATE BOOKLET ON OUR ENVIRONMENTAL ACTIVITIES IN 1994 TO SPECIFICALLY FULFILL REQUESTS FROM THE GENERAL PUBLIC, SCHOOLS AND GOVERNMENT OFFICIALS TO INDICATE THAT WE WERE MANAGING OUR ENVIRONMENTAL RESPONSIBILITIES." - INTERVIEW NO. 2*

In addition to the evidence which directly supported legitimacy motives, two other discoveries linked to the concept of legitimacy were made: first, the opinion that negative public perceptions about corporate environmental activities were often ‘created’ through media reports; and second, that the initial impetus for negative public perceptions was most often linked to specific environmental events or related environmental issues. Support for these claims are found in the following quotation:

*“IF WE HAVE A DISASTER LIKE THE IRON BARON<sup>17</sup> OIL SPILL OFF THE COAST OF TASMANIA OR THE OK TEDI ISSUE<sup>18</sup> IN NEW GUINEA, THEN THOSE EVENTS HAVE PROMPTED WHOLE BURSTS OF INFORMATION, AND I MIGHT SAY MISINFORMED MEDIA REPORTS, FROM OUTSIDE AND WITHIN THE CORPORATION. WE NEED TO RESPOND TO INFORMATION GENERATED OUTSIDE OF THE CORPORATION” - INTERVIEW NO. 3*

Most of the interviewees mentioned the need to respond to public pressure or ‘meet the public’s expectations’ in disclosing environmental information in the annual report, and, as the above quotation concisely encapsulates, they believed that this public pressure was often caused by erroneous reporting of environmental issues or events. The observation that media reports about environmental issues or events create public perceptions is supported in the literature (Brown & Deegan, 1999, Deegan et al, 1999, Mayer, 1980, Mc Combs, 1981) as is the contention that issues management is important if corporations are to respond to stakeholders’ needs and to manage legitimacy (Nasi et al, 1997).

#### **8.3.4 FINDINGS - PHASE I - IDENTIFYING THE PERSONNEL AND UNDERSTANDING THE ENVIRONMENTAL DISCLOSURE PROCESS**

The main purpose of this part of the data collection and analysis was to identify the personnel and to describe the processes involved in the disclosure of environmental information in the annual report in order to assist in subsequent data collection. It was not the intention to compare or contrast environmental disclosure practices or processes. The results discussed in the following section are, therefore, limited to those processes and procedures considered important for

---

<sup>17</sup> The Iron Barron is the name of an oil tanker which ran aground off the coast of Tasmania in 1995 and spilled a considerable amount of oil. The spill received a great deal of media attention.

<sup>18</sup> The OK Tedi incident was referred to in Sections 1.1 and 1.3.

subsequent data collection purposes only. Unless explicitly stated, the environmental reporting processes for each of the corporations are similar.

As part of the analysis, some general parameters were developed which limited the number of personnel considered to be important to the environmental reporting process. During the interviews it became apparent that, in each corporation, a number of personnel had varying degrees of direct and indirect input into originating the content of environmental information (for inclusion in the annual report). Only the personnel considered to have a *major* influence on the decision to include environmental information in the annual report and/or considered to be the *main* authors of environmental information for disclosure in the annual report, were included in the discussion of results and used for subsequent data collection.

The data analysis led to the identification and classification of five tasks and responsibilities linked with the personnel identified as being mainly responsible for environmental disclosures in the annual report. These tasks and responsibilities were:

- (i) primary designer and coordinator of the annual report (hereafter referred to as the primary annual report writer);
- (ii) main writer(s) of first draft of environmental information;
- (iii) main editor(s) of first and subsequent drafts of environmental information;
- (iv) main reviewer(s) of subsequent drafts of environmental information; and
- (v) approval of final draft of environmental information for inclusion in the annual report.

Using these five identified tasks/responsibilities as headings, a list of the personnel linked to these tasks and a description of the tasks and responsibilities is included in Section 8.3.4.1. This, in turn, is followed, in Section 8.3.5, by some observations and insights about the environmental reporting processes considered to be important for future data collection decisions.

### 8.3.4.1 Description of Tasks and Responsibilities

#### *Design and coordination of the annual report process (primary annual report writer)*

In Table 8.3, the positions of the people, in each of the corporations, considered to be mainly responsible for the design and writing (of non-financial information) of the annual report and coordination of the annual reporting process, are listed. This responsibility extended to the inclusion of environmental information in the annual report.

**TABLE 8.3 - PRIMARY ANNUAL REPORT WRITERS**

<b>Corporation</b>	<b>Personnel</b>
A	Corporate Affairs - Corporate Affairs Manager
B	Corporate Public Affairs - Publications Manager
C	Corporate Affairs - Communications Manager

In each corporation a designated person from the corporate affairs section (or similarly named) was identified as being primarily responsible for the production of the annual report. In Corporations B and C, this task was specifically designated as part of the person's job description. In Corporation A, the responsibility was evident, but was not part of any formal job description. In the three corporations studied, the basic techniques for gathering environmental information for inclusion in the annual report were not significantly different to the techniques used to obtain any other information to be disclosed voluntarily in the annual report.

Prior to the 'formal' annual report production process commencing, an agreement on the general themes or issues to be considered for the annual report and the general layout of the annual report is established as a result of discussions between the primary annual report writer and senior management from corporate affairs. An annual report 'pro-forma' or 'template' is developed by the primary annual report writer and this is distributed to personnel from areas designated to contribute information for the annual report. Sections of the annual report designated for environmental information are included in this process. This pro-forma typically contains suggested headings and sub-headings, along with a description of what is required under each heading as well as a suggested word limit.

**Main writer(s) of first draft environmental disclosures for inclusion in the annual report.**

In Table 8.4, a list of the personnel who were identified as being mainly responsible for the actual content of the first draft of environmental information to be considered for inclusion in the annual report is provided.

<b>TABLE 8.4 - MAIN WRITER(S) OF FIRST DRAFT ENVIRONMENTAL INFORMATION FOR INCLUSION IN THE ANNUAL REPORT</b>		
<b>Corporation</b>	<b>Personnel</b>	
A	<b>Separate Section of Annual Report</b> Corporate Affairs: Manager; General Manager	<b>Business Division Section of Report</b> Safety, Assets & Environment - National Manager (Business Group Head)
B	<b>Separate Section of Annual Report</b> Health, Safety & Environmental Affairs - Director	<b>Business Division Section of Report</b> Group Manager - Investor Relations (Business Group Head)
C	<b>Separate Section of Annual Report</b> Corporate Affairs - Communications Manager; Safety, Health & Environment Division - Safety & Environment Manager	<b>Business Division Section of Report</b> As per separate section of the annual report

In most instances, the main writer(s) refer to author(s) of environmental information which ultimately, in some edited form, appears as part of the final annual report. The main writer(s) was (were) found to be some combination of the primary annual report writer, a business division (e.g. petroleum division for the mining company) representative and/or a senior person from a separate environment department of the corporation.

Environmental information was designated, by the primary annual report writer, to be disclosed under two broad areas: first; it was to be disclosed in a separate environment section or as part of a 'community' type section; and/or second, a small part of each business group's section of the annual report was allocated for the disclosure of environmental information.

In Corporations B and C, the primary annual report writer *contributed* most of the original environmental information, either directly or in the form of very prescriptive guidelines for others in the corporation to follow. In Corporation A, the primary annual report writer *collected* the

majority of the original environmental information from others but subsequently edited it to fit in with the guidelines the primary annual report writer had predetermined.

In Corporation C, the General Manager of Corporate Affairs appeared to have much of the responsibility for overseeing the environmental reporting process, but it became clear that the Corporate Affairs Manager was the person actually doing most of the coordination, writing, editing and reviewing. While the General Manager has been included as a main writer and editor (see next section), in reality it appeared that the tasks in relation to environmental reporting were not substantively carried out by the General Manager.

#### **Main editor(s) of first and subsequent drafts of environmental disclosures in the annual report**

The people responsible for the editing of the first and subsequent drafts of environmental information are listed in Table 8.5. Editing in this context refers to the rewriting, refinement, summarising and adding or removing of text and pictures from the draft annual report.

<b>TABLE 8.5 - MAIN EDITOR(S) OF FIRST AND SUBSEQUENT DRAFTS OF ENVIRONMENTAL INFORMATION</b>		
<b>Corporation</b>	<b>Personnel</b>	
A	Corporate Affairs - Corporate Affairs Manager; General Manager	
B	<b>Separate Section of Annual Report</b> Health, Safety & Environmental Affairs - Director Corporate Public Affairs - Publications Manager	<b>Business Group Section of Report</b> Group Manager - Investor Relations (Business Group) Corporate Public Affairs - Publications Manager
C	Corporate Affairs - Communications Manager	

The editing process is continued through many drafts of the annual report. In this area of the study only the primary annual report writer and the main writers, from separate environment departments, were found to do the major edit of the first drafts of original environmental information. Subsequent drafts of environmental information were, in most instances, edited by the primary annual report writer alone. Only in Corporation B, did the main writers, from the business groups and separate environmental section, as well as the primary report writer get to edit subsequent drafts of the original information.

***Main reviewer(s) of subsequent drafts of environmental disclosures in the annual report***

The people (mainly senior executive directors) responsible for reviewing subsequent drafts of environmental information are listed in Table 8.6. Reviewing relates to the evaluation of the draft annual report for suitability of content. Suggestions from various reviewers are communicated, predominantly in an informal manner (phone, fax, email), to the primary annual report writer and are deemed to be part of the review process.

<b>TABLE 8.6 - MAIN REVIEWER(S) OF SUBSEQUENT DRAFTS OF ENVIRONMENTAL INFORMATION</b>	
<b>Corporation</b>	<b>Personnel</b>
A	Corporate Development - General Manager; Managing Director; Deputy Managing Director; Finance & Administration - Executive Director, Business Group Heads/Delegates
B	Health, Safety & Environmental Affairs - Director; Business Group Executive General Managers; Office of the Managing Director - Executive General Manager; Managing Director; Chief Financial Officer; Corporate General Manager Investor Relations and Corporation Secretary
C	Managing Director; Corporation Secretary; Finance Director (all drafts) Individual Directors (final draft)

In the main, the review process was conducted by senior management personnel, consisting primarily of corporation directors who had little or no direct input into the choice of issue or event or the writing and editing of environmental disclosures for the annual report. Of the main writers of environmental information, other than the primary annual report writer, only the Director - Health, Safety & Environmental Affairs from Corporation B and the National Manager - Safety, Environment & Assets from Corporation A, formally received a copy of later drafts of environmental disclosures, which had originated from them, for review purposes.

***Approval of final draft of environmental disclosures in annual report***

In Table 8.7, a list of the personnel responsible for giving final approval with respect to environmental disclosures, before the annual report is released to the public, is provided. The

approval function refers is the penultimate act prior to the release of the annual report to shareholders and the public.

**TABLE 8.7 - APPROVAL OF FINAL DRAFT OF ENVIRONMENTAL INFORMATION FOR INCLUSION IN ANNUAL REPORT**

Corporation	Personnel
A	Individual Directors (informal approval)
B	Board of Directors (informal approval)
C	Elected sub-committee of Board of Directors (Managing Director; Corporation Secretary, Finance Director) give formal approval

In each case, individual corporation directors would give final approval of the whole annual report, including environmental disclosures. In Corporation A and Corporation B this was a relatively informal, dynamic, process. Indeed, it was mentioned during one interview that as directors were not always able to be contacted, it was not always possible to enable every director to view or approve the final draft of the annual report. In Corporation C, the process was a little more formal, with approval being sought, akin to a final 'signing off', by an elected sub-committee of the board of directors.

### **8.3.5 FINDINGS - PHASE I - OBSERVATIONS AND INSIGHTS ABOUT THE ENVIRONMENTAL REPORTING PROCESS**

The purpose of this section is to present specific observations and insights uncovered about the environmental reporting processes. Unless otherwise stated, the observations and insights discussed can be assumed to be applicable to all of the corporations in the study.

#### ***Deciding on environmental issues or themes***

Decisions made about which environmental themes or issues to address, in any particular year's annual report, are very much at the instigation and discretion of the primary annual report writer. They may sometimes informally ask for suggestions from colleagues within the corporation, but generally the themes or issues are initially decided by the primary annual report writer alone.

Analysis of the interviews indicated that only on one occasion, in the case of Corporation B, did the decision about which environmental issues or themes should be included in the annual report, come from outside the corporate affairs section (in this instance, board level). This disclosure directive was related to the much publicised problems Corporation B had (and have) with regard to significant environmental damage caused at one of its copper mines.

The board's 'intervention' in the normal reporting process was not unexpected considering the magnitude of the environmental problems uncovered and subsequently reported in the main stream print and television news media. The 'intervention' did not involve drastic changes to most of the annual reporting process, however. The main changes related to who initially chose the environmental issue or topic to discuss in the annual report (in this instance the chief executive) and how closely the executive directors reviewed the subsequent drafts of environmental information for inclusion in the annual report (Table 8.6). This issue aside, the analysis led to the conclusion that the primary annual report writer in each corporation was the person most directly responsible for choosing environmental issues or themes to be included in the annual report.

The fact that this environmental issue/event was referred to consistently throughout the interviews by the personnel from Corporation B, suggested that media reports were an important factor when deciding what issues/events should be considered for inclusion in the annual report.

### ***Iterative review process***

A multi-stage iterative review process based on a number of successive drafts of the annual report, including sections on environmental disclosures is conducted. The actual number of drafts prepared by each corporation differs from corporation to corporation and can differ intra-corporation on a year-to-year basis. The reviewing of subsequent drafts of the annual report (Table 8.6) tended to take place on an informal basis.

### ***Location of environmental disclosures in the annual report***

Analysis of the interview transcripts, corroborated by the content analysis of the most recent annual reports, led to the conclusion that environmental information is most likely to be disclosed in specific business group sections and separate social, community or environmental sections of

the annual report. Depending on the perceptions of the primary annual report writers, and possibly managing directors, of the relative significance of specific environmental issues/events at the time of preparing the annual report, some environmental information also appeared as part of the chairman/managing director's report.

### *Types of environmental disclosures*

The majority of environmental information disclosed is narrative or pictorial, as opposed to financial or quantifiable non-financial (e.g., graphs of levels of emissions) and is voluntarily disclosed<sup>19</sup>, indicating that managers have a great deal of discretion as to what is reported, how it is written or displayed and how much is included. Some information was disclosed in the financial statements section of the annual reports, but these disclosures tended to be mandated by legislation<sup>20</sup>. In Table 8.8, the quantity of environmental disclosures, according to types, made by each corporation in the three years immediately preceding the time the Phase I interviews were conducted is provided.

---

<sup>19</sup> This is consistent with the findings of studies into the amount and types of environmental disclosures in annual reports (Deegan & Gordon, 1996, Frost & Wilmshurst, 1998, O'Donovan & Gibson, 1994)

<sup>20</sup> For example, Corporation B regularly disclosed financial information in the form of provisions for rehabilitation of mining sites. These disclosures were, to a large extent, mandated by accounting standard AASB 1022, Accounting for the Extractive Industries and the Corporations Act (1989).

**TABLE 8.8 - AMOUNT OF ENVIRONMENTAL DISCLOSURES, ACCORDING TO TYPES OF DISCLOSURES, IN ANNUAL REPORTS OF CORPORATIONS STUDIED: 1992-1994**

Corporation		Corporation A	Corporation B	Corporation C
Year	Type of disclosure	% of annual report pages	% of annual report pages	% of annual report pages
1992	Financial	0.2	0.2	0.1
	Quantifiable non financial	0.4	0.0	0.8
	Descriptive	4.3	2.1	0.4
1993	Financial disclosures	0.0	0.2	0.3
	Quantifiable non financial	0.0	0.0	0.8
	Descriptive	4.0	1.8	3.2
1994	Financial	0.0	0.6	0.2
	Quantifiable non financial	0.0	0.0	0.0
	Descriptive	4.9	1.7	2.6

***Leadership style and power of the primary annual report writer***

One of the more important observations made concerned the relative power the primary annual report writers had over the environmental reporting process and how that power was used. The primary annual report writer was clearly the most influential person in the environmental reporting process. The amount, type and content of environmental disclosures were extremely dependent on how much autonomy the primary annual report writer had and whether that person's leadership style was autocratic or democratic. This, in part at least, seemed to be related to how long the person had been in charge of preparing the annual report and how formalised and 'inclusive' they had decided to make the information collection process.

For example, the primary annual report writer in Corporation C was very experienced and had been producing annual reports for seven years. The information gathering approach taken was quite autocratic and process-driven. The person's level of seniority and experience in the job was used to expedite the process of including environmental information in the annual report. Conversely, in Corporation A, the primary annual report writer was newer in the job, had been 'delegated' responsibility from the General Manager and had a different, more democratic and

inclusive approach. This person collected a diverse range of environmental disclosures from many corporate sources and left themselves:

*“...THE RATHER UNWIELDY TASK OF EDITING A GREAT DEAL ENVIRONMENTAL INFORMATION AND STILL HAVING TO ULTIMATELY DECIDE WHAT WAS TO BE INCLUDED IN THE ANNUAL REPORT. I MIGHT HAVE BEEN BETTER SERVED TO WRITE MUCH OF IT MYSELF IN THE FIRST INSTANCE AND ASK FOR COMMENTS FROM OTHERS.” - INTERVIEW NO. 1*

Furthermore, the analysis revealed that the primary annual report writer's level of autonomy, leadership style and use of power, often made it difficult to identify the boundaries between writing, editing and reviewing. For example, in one instance, where one of the main writers was a person other than the primary annual report writer, the main writer claimed that their original contribution was often edited to such an extent in the final product that it was barely recognisable.

### ***Space allocated to environmental disclosures***

A result of using 'templates' and 'pro-formas' to collect environmental information is that the amount of space allocated to environmental disclosures, usually at the discretion of the primary annual report writer, is relatively limited. At the time of the Phase I interviews, the amount of space allocated to discrete environment (or combined with safety and health) sections of the annual report was limited to about two pages. Environmental disclosures contained in business group sections were generally limited to a few paragraphs and chairman's or managing director's references to environmental disclosures in the director's or chairman's report, while not limited by the primary annual report writer, tended to consist of no more than one to two paragraphs.

It is stating the obvious to say that the effectiveness of any environmental message that a corporation is attempting to get across to readers of the annual report would be influenced by the *amount* of information that will ultimately be included. There was some evidence that space (and deadline) constraints caused some of the 'primary annual report writers' and the 'main writers' of environmental information to believe that the actual content was relatively unimportant. If this is the case, then it is possible that less thought and effort may be being put into the writing of environmental disclosures than would otherwise be the case if more space were allocated to them.

One interviewee suggested:

*“THAT IT WAS NEXT TO IMPOSSIBLE TO DISCLOSE ANYTHING MEANINGFUL OR WITH ANY SUBSTANCE IN ONE OR TWO PARAGRAPHS OF ENVIRONMENTAL DISCLOSURES”. - INTERVIEW - NO. 6*

### ***Time and deadline constraints***

The power and leadership styles of the primary annual report writer became more important to the environmental reporting process as the time for the production of the annual report drew closer. In some instances, the environmental reporting process had been designed to include a ‘semi-formal’ editing and review preference. As deadlines loomed, the review process tended to become more ‘informal’. Communications about annual report content were increasingly done by phone or fax, rather than by any formal exchange of signed documents (Tables 8.6 and 8.7). In addition to, or perhaps because of, this, the primary annual report writer appeared to exercise more authority and, as a result, gained more autonomy than he/she had earlier in the process. This concern was kept in mind during subsequent data collection, as it created opportunities for the primary annual report writer to by-pass some of the more formal review processes as the annual reporting date drew nearer.

### ***Delegation issues***

The degree to which delegation of the task of actually writing environmental disclosures was handled varied depending on the individuals involved in each step of the process. For example, in Corporation B, the Director, Health, Safety & Environmental Affairs indicated that, up until two years before, after he received the templates from the primary annual report writer, he would send the template to various sites of his choice, collect the replies and edit them into a form suitable for sending to the primary annual report writer. He decided after a couple of years, that given the limited number of words required, the process was inefficient. At the time the Phase I interview was conducted, he wrote the information himself, sent this to various sites for comment and approval and forwarded this on to the primary annual report writer.

While it appeared that some delegation of the actual writing took place, it was decided that only the main and primary annual report writers were *major* contributors of environmental information and only they needed to be interviewed for subsequent data collection purposes.

### ***The influence of the managing director***

How top corporate personnel see the role of the corporation in regard to the environment can also influence what and how much environmental information is disclosed. A theme arising from the interviews suggests that if the managing director or chairman indicated an active interest in corporate environmental issues, this would have had an effect on environmental disclosure practices. If the managing director became openly involved in the environmental reporting process, it would obviously have an influence. As mentioned previously, however, this had only occurred once for one corporation (Corporation B) based on the recollection of all of the interviewees.

If the managing director was not openly involved in the environmental reporting process, but it was well known that he/she had a genuine concern for the environment and the environmental reputation of the corporation, the primary annual report writer was likely to put more effort into the quality of environmental information being reported than would have been the case if the managing director's views were negative towards the environment or not well known.

### ***The influence of the publication of separate environmental performance reports***

At the time the Phase I interviews were conducted the importance of separate environmental reports was just beginning to emerge. Corporation C published its first separate annual environmental performance report in 1994. Typical of themes identified in the interviews conducted with Corporation C personnel, was:

*“ENVIRONMENTAL REPORTING IN THE ANNUAL REPORT CAN BE PRETTY LIMITED, IT IS NOT AN EXTENSIVE PROCESS AND IT IS PRETTY SORT OF SPACE DRIVEN IF YOU LIKE. THIS IS ESPECIALLY SO NOW, BECAUSE I KNEW THE ENVIRONMENTAL REPORT WAS REALLY GOING TO TAKE UP A LOT OF THAT SLACK” . INTERVIEW NO. 6 (PRIMARY ANNUAL REPORT WRITER)*

The publication of separate environmental performance reports became more common place in the corporate world during the data collection phases of this investigation (1995 - 1998). Of the corporations in this study, Corporation B published its first annual environmental performance report in 1997 and Corporation A plans to produce a similar report from the year 2000. It is possible that the production of these separate reports has led to a change of emphasis on the

annual report as a means of communicating environmental information. Any change in emphasis on the annual report as a means of disclosing environmental information does not invalidate the data collected for this investigation. While data collected subsequent to Phase I was only concerned with the annual report, careful note was taken of any impact the introduction of separate environmental reports had on environmental disclosures in the annual report.

### **8.3.6 IMPLICATIONS FOR SUBSEQUENT DATA COLLECTION**

The findings in relation to the general aim of discovering why companies disclose environmental information indicated support for the general tenet of legitimacy theory. As a result of these findings, it was decided that, to explore legitimacy motives in more detail, questions in Phase II should be asked to discover:

- (i) the effect other means of disclosing environmental information have on decisions to use the annual report;
- (ii) the effect media reports have on decisions to include environmental information in the annual report; and
- (iii) the importance of specific environmental issues or events to the corporation when deciding on environmental information to be disclosed.

Moreover, observations and insights discovered from the examination of the environmental disclosure decision process indicated that a number of factors should be considered when collecting data in successive phases. These were:

- (i) the way the primary annual report writer used the power and autonomy he/she had to influence environmental disclosure decisions. This was considered especially important to this investigation if the person responsible for environmental reporting had changed during the course of the investigation;
- (ii) whether the primary and main writers of environmental information believed environmental disclosures were important for the corporation's reputation and image;

- (iii) whether the primary and main writers of environmental information believed the way current environmental information was being disclosed was effective for the corporation;
- (iv) who the primary and main writers of environmental information thought the external users of this information were and did they believe that the information disclosed was useful to these users; and
- (v) to what extent do senior executive management influence the environmental disclosure decision process.

#### **8.4 PHASE II - REASONS FOR, AND INFLUENCES ON, THE DECISION TO INCLUDE VOLUNTARY ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT**

The analysis conducted in Phase I led to the conclusion that corporate management are aware of the need to 'legitimise' the actions of the corporation to the public and this need to be 'legitimate' is an explanatory factor for *some* of the environmental information voluntarily disclosed in annual reports. The analysis also resulted in the identification of personnel, in each of the corporations, most responsible for the decision to include environmental information in the annual report and the processes which resulted in these disclosures being made.

There were two general aims in Phase II of the investigation. The first aim was to identify the *extent* to which legitimacy theory was a motivating factor in the decision to include environmental information in the annual report. Many of the questions developed for this phase were based on the specific findings from the interviews conducted in Phase I. The second aim was to explore whether any *specific* factors exist which may be linked to legitimacy motives and, if so, to identify these factors and begin to seek explanations for any links identified. The iterative nature of this investigation means that it was planned to use relevant findings from this phase to assist in constructing detailed data collection instruments to be used during Phase III.

##### **8.4.1 DATA COLLECTION**

The main source of data for this phase of the data collection were semi-structured interviews with the senior management personnel identified during Phase I. The extant literature on legitimacy and environmental reporting and documentary data in the form of past annual reports of the

corporation and news media reports about environmental issues/events were also used to facilitate the development of questions for the interviews.

#### 8.4.1.1 Documentary Data

To determine to what *extent* legitimacy motives influenced managers' decisions to disclose environmental information in the annual report and what *specific factors* might influence environmental disclosure decisions, it was essential to have some idea of what environmental information the corporations had reported in the recent past and which environmental issues or events were the most prominent for the public during the same period.

With this in mind, the documentary data were mainly used for two purposes: first, to assist in the development of interview questions, designed to test for the existence of *specific* legitimacy motives in disclosing environmental information in the annual report and; second, to allow the researcher to be better prepared to ask about possible specific factors which may be influential in any environmental disclosure decisions made. In addition to the extant literature, other secondary sources of data collected, relating to the years prior to the interviews, were:

- (i) the 1993 - 1995 annual reports of each of the corporations in the study;
- (ii) media reports featuring current environmental issues/events during 1994 and 1995; and
- (iii) media reports linking any of the corporations in the study, or the industries in which they operated, to environmental issues/events during 1994 and 1995.

As the researcher had been working on this project from early 1994, printed news reports, pertaining to general environmental issues and particularly news reports linking the corporate sector (including corporations in the study) to environmental issues, were regularly collected. The main newspaper sources included The Australian, The Financial Review and The Melbourne Age. Business magazine periodicals such as the Business Review Weekly and The Bulletin were also frequently referred to during the investigation. Because of the researcher's interest in corporate

environmental reporting, reports of note in other media and through the World Wide Web<sup>21</sup> were also utilised to gain knowledge about topical environmental issues/events.

It should be noted that these data were only used to obtain an insight into which environmental issues/events may have been, or were, considered important to both the corporations and the public. No direct questions referring to *corporation or industry specific* environmental issues or events referred to in the annual reports or news media were formally asked during the interviews in this data collection phase.

#### 8.4.1.2 Semi-structured Interviews

Questions asked during the semi-structured interviews were designed to discover managers' perceptions about:

- (i) the significance that was placed on the disclosure of environmental information in the annual report;
- (ii) explicit factors which influence decisions to disclose environmental information; and
- (iii) the effects that the disclosure of environmental information have on the readers/users of the annual report.

The interviews were conducted with the people identified during Phase I as being mainly responsible for the inclusion of environmental information in the annual report. Table 8.9 lists the personnel interviewed during this phase of the data collection. As a result of the data analysis conducted in Phase I, three additional people were interviewed and four were deleted from the group interviewed during Phase I (see Table 8.2).

---

21

The World Wide Web was used more often during Phase III of the investigation, but was starting to become a means for corporations, media outlets and special interest groups to publicise information during 1995.

TABLE 8.9 - PHASE II - CORPORATE PERSONNEL INTERVIEWED		
Corporation	Interview No.	Personnel
A	No. 7 No. 8	Corporate Affairs - Manager National Manager - Safety, Environment & Assets - Business Group
B	No. 9 No. 10 No. 11	Director - Health, Safety & Environmental Affairs Publications Manager - Corporate Public Affairs Group Manager - Investor Relations - Business Group
C	No. 12 No. 13	Safety, Health & Environment Division -- Safety & Environment Manager Corporate Affairs - Communications Manager
Shaded area represents interview not audio-taped at interviewees request		

Two 'business group' representatives (Corporation A, interview no. 8 and Corporation B, interview no. 11, in Table 8.9) and the Safety, Health & Environment division manager for Corporation C (Interview no. 12, Table 8.9), were identified as being the main writers of first draft information for separate business group sections of the annual report (see Table 8.4) and were added to the list of interviewees for Phase II.

Responses from the interviews conducted in Phase I with representatives from Corporation A and B indicated that the environmental disclosure process was likely to be similar in each business group. Rather than interview a representative from every business group in corporations A and B, the main writer of environmental information from *one* business group was chosen. The choice of which business group representative to interview subsequently was left to the Phase I interviewees. The personnel interviewed from each corporation during Phase I contacted the appropriate business group representative (Interview nos. 8, 11, 12 in Table 8.9) to assist in arranging Phase II interviews.

It was not considered necessary to interview four of the people previously interviewed during Phase I. The positions these people held were:

- Corporation A - Corporate Affairs - General Manager - Corporate Development;
- Corporation B - Corporate Affairs - Group Manager Investor Relations;
- Corporation C - Environment Specialist - Safety, Health & Environment Division; and

Corporation C - Corporate Advisory - Corporate Affairs - Community Relations Manager (see Table 8.2).

The analysis conducted and findings reported in Phase I indicated that, while these personnel had some input into the environmental reporting process, they were not major contributors to the process. Interviews 7, 9, 10 and 13 (Table 8.9) were conducted with people who were identified as being major contributors to the inclusion of environmental information in the annual report and were previously interviewed during Phase I.

As this investigation moved from the descriptive and highly exploratory Phase I through to Phase II, the aim of the exploration became more focussed. Because of this the unstructured interview approach, which worked well in Phase I, was replaced by semi-structured interviews. A list of the questions, along with an explanation of the purpose of the questions, is included in Appendix E. Each of the interviews lasted approximately 60 minutes; six of the seven interviews were audio-taped. The interviewees were not given a written copy of the interview questions prior to or during the interview.

The interview questions were designed not to be corporation or issue-specific. They were developed to discover managers' thoughts and ideas about *what is (ex ante)* important and influential with regard to environmental reporting. Consequently, the questions did not contain *direct* reference to *specific* past annual report disclosures or *specific* past media reports, nor did they refer directly to specific ex post public pressure influences. The 'exploratory' style of the questions was intended to get the interviewee to proffer these specifics. A further reason for devising this style of question, instead of referring directly to past disclosures or specific influences, was to avoid getting answers which might be construed to be merely justifications or rationalisations for '*what was disclosed (ex post)*'.

This form of question is one of the unique strengths of this investigation. It helped to overcome two of the major limitations noted in prior studies into legitimacy theory (Section 5.2.1). These limitations were: first, conclusions reached were based on content analysis of historical

documents alone (ex post); and second, no data were collected from managers about their perceptions or thoughts with regard to what drives environmental disclosure decisions.

### **8.4.2 ANALYSIS TECHNIQUES**

Simple 'read' and 'recall' content analysis techniques and a variation on Brownell's (1995) pattern matching technique were used in relation to the documentary data referred to in this phase. Subsequent content analysis reduction and display techniques, based on Miles & Huberman's (1994) approaches for qualitative data analysis, were utilised for the semi-structured interviews in order to search for recurring themes and patterns.

#### **8.4.2.1 Documentary Data**

The documentary data referred to during this phase were primarily used to gain an understanding about current environmental issues or events, which may have been considered important to the corporation or the general public. The data were not considered crucial for future analysis purposes.

The previous three annual reports of each corporation and media reports and articles collected were read and the subject matter was coded and categorised. This first level coding (Miles & Huberman, 1994) is a form of pattern matching where the annual report contents and/or media reports were coded in order to summarise segments of data into like categories. Four categories were created and these were: general environmental issues; corporation specific data; industry specific data; and past annual report disclosures. Lists of key points under these four headings were developed for each corporation and taken to the interviews in the event that the points were deemed necessary to refer to during the interviews.

No interview questions containing direct references to environmental issues or events or past annual report disclosures were asked during interviews (refer to interview questions in Appendix E). Any decision made to refer to either general or corporation/industry-specific environmental issues or events was grounded in the documentary data and was made during the interviews and was based on the researcher's judgement about the completeness of the responses received to particular questions.

The following example indicates how this technique worked. Corporation C's 1994 annual report contained reference to the production of a site brochure about the level of waste emissions from a specific site and how these emissions were:

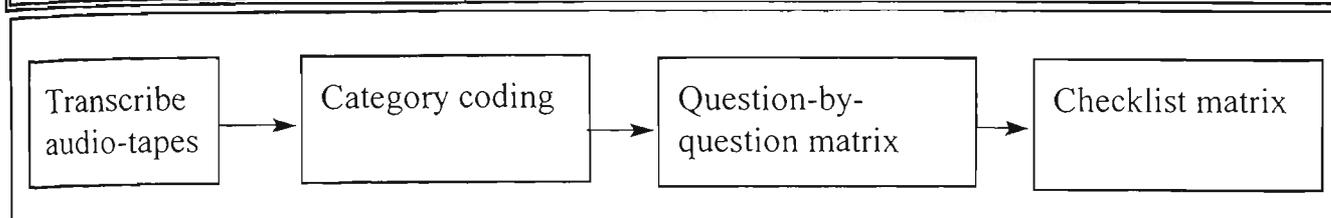
*"well below acceptable levels set by the New South Wales Environment Protection Authority and the Sydney Water Board. However, past activities at the site from a time when environmental standards were not as high, have contributed to some contamination." (p. 27)*

A point form description of this issue was included in a list of key points, relating to Corporation C, under the category heading 'Annual Report Disclosures'. If answers to questions about what environmental issues were considered most significant during the previous 4 years and whether these issues received any news coverage (Questions 21 and 22 from Appendix E) did not refer to the disclosure or issue mentioned in the list of key points, it *may* have been considered necessary to ask subsequent questions about the issue noted in the list of key points.

Furthermore, by referring to the full list of key points, ex post knowledge about negative publicity or pressure the corporation may have received in relation to its environmental actions also allowed the researcher the flexibility to raise these matters during the interviews, if it was considered that it would help identify factors or variables which may have resulted in a legitimization approach being adopted.

#### **8.4.2.2 Semi-structured Interviews**

For the semi-structured interviews, a four-step analysis process, illustrated in Figure 8.1, was undertaken. This involved transcription of the audio-taped interviews, category coding to identify the most significant responses to be used when subsequently reducing and displaying the data in a 'question-by-question' matrix and, ultimately, a checklist matrix.

**FIGURE 8.1 - PHASE II - DATA ANALYSIS: SEMI-STRUCTURED INTERVIEWS**

### *Audio-tape transcription*

The six audio-taped interviews were transcribed using a professional transcription service and were proof read for accuracy. Both disk and hard copies of the transcripts were supplied to the researcher from the transcription agency. Notes were taken during the interview that was not audio-taped (Interview no. 11, Table 8.9) and these notes were written, then typed up, in a more precise manner, immediately after the interview. Copies of the transcripts were sent to all interviewees to verify the accuracy of the transcripts. A copy of the precise notes written from the interview not audio-taped was sent to that interviewee for the same purpose. No significant changes were made by any of the interviewees to the answers they originally gave.

### *Category coding*

Detailed content analysis, involving coding, of the typed transcripts and interview notes was then conducted. Coding is an important part of qualitative data analysis. Miles & Huberman (1994) describe codes as:

*“tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study.” (p.57)*

and coding as:

*“how you differentiate and combine data you have retrieved and the reflections you make about this information.” (p. 57)*

Answers to specific questions were categorised as being either of high or low ‘significance’ in relation to the aims of the interviews and for subsequent data collection purposes. Answers that were considered to be of high and low significance significant were highlighted, using different

colours, on the typed transcripts or interview notes in the case of the interview that was not audio-taped.

The purpose of this data collection phase was still predominantly exploratory, so a decision was made that only responses to questions considered 'significant' were to be *directly* used for subsequent analysis purposes. In Table 8.10 a summary of the outcome of these decisions is included. It is important to note, however, that while responses deemed to be 'less significant' were, for the most part, not included in subsequent data displays, responses to these questions, which were deemed relevant to the aims of the investigation, were 'fitted' into the subsequently developed question-by-question matrix as part of the response to questions to which the researcher believed they most closely related. Table 8.10 is followed by a brief discussion which explains why responses were categorised as 'less significant'. The importance of the 'significant' responses to questions used directly in the question-by-question matrix, becomes more apparent in the detailed discussion of the results of the analysis (Section 8.4.3).

**TABLE 8.10 - PHASE II - INTERVIEW RESPONSES USED DIRECTLY FOR SUBSEQUENT DATA ANALYSIS PURPOSES**

Section and question no.	Aim	Used <i>directly</i> in subsequent question-by-question matrix
Section A 1-4	Reinforce findings from Phase I	Not used
Section B 5 - 8	Discover corporation's perceptions about the role of the annual report and other corporate publications.	5 - Used 6 - 7 Not used 8 - Indirectly used*
Section C 9 - 11	Discover the corporation's general attitude to environmental matters	Not used
Section D 12 - 14	Discover <i>specific</i> reasons for, and influences on, environmental disclosure decisions	Used
Section E 15	Level of direct intervention into environmental disclosure decisions by senior executives	Not used
Section F 16 - 22	Identify <i>specific</i> factors which influence environmental disclosure decisions	16 - Used (see Q8*) 17 - Not used 18 - 22 Used

Answers to the questions asked in Section A were designed to corroborate the results from Phase I and verify that were still relevant and applicable to the investigation. The category coding analysis conducted during this phase corroborated the results from Phase I so these were not considered for subsequent analysis purposes.

Answers given to Questions 6 and 7 in Section B, to do with the function of corporate publications other than the annual report, while enlightening, did not have a *direct* bearing on the objectives of the investigation. Answers to Question 8, about the influence of media reports on the corporation's decision to include *general* information in the annual report, were included for subsequent analysis, but as part of the responses to Question 16, which was a similar question, but referred specifically to *environmental* information. This decision was taken because the respondents concentrated on the environmental perspective when answering both questions.

While the answers to Questions 9, 10 & 11 ( Section C) were important in getting an idea as to the formal commitment each corporation gave to environmental matters, they were deemed not to be *directly significant* in relation to motivations for specific annual report disclosures. Section E consisted of one question only (Question 15), the purpose of which was to discover whether senior executives regularly intervened in the environmental disclosure decision process. If it was discovered that senior executives regularly intervened, any plans for subsequent data collection may have had to take account of this and these senior executives would need to be interviewed. Each interviewee indicated that this intervention *rarely* occurred, and when it did, it was only when a very significant environmental issue/event was seen to be threatening the image of the corporation. A judgement was made that these responses indicated that no further formal analysis need be undertaken on these responses.

All but one of the questions (Question 17) in Section F (Questions 16 - 22) were considered to be significant. In response to Question 17, which asked whether the corporation included contraventions of Environment Protection Authority (EPA) rules/laws or details of environmental fines in the annual report, only 1 of the 7 interviewees said they even remotely considered disclosing this information. Consequently, a conclusion was reached that the contravention of EPA regulations was not an important factor, from a public pressure (legitimacy) perspective, in

decisions to include environmental information in the annual report. Thus, it was not considered necessary to analyse responses to this question any further.

### ***Question-by-question matrix***

As a result of the category coding analysis, answers to 10 of the 22 interview questions (Table 8.10) were deemed to be most significant for more detailed analysis purposes. These 10 questions were placed in a question-by-question matrix which allowed the reduction and display of the interview data into a form which enabled an easier identification of key points or themes. Appendix F contains a sample of this matrix for Questions 5 and 12. The aim of this reduction and display technique was to be able to recognise recurring responses to each question, with a view to subsequently reducing and displaying the data in a more conceptual way.

The construction of this matrix resulted in the inclusion of the most pertinent quotations from the interviewees, followed by the use of a 'researcher memo', which was a note written for the researcher's own use. Miles & Huberman (1994) refer to this analysis technique as memoing. The usefulness of memoing is clear from the following quotation:

*"Memos are primarily conceptual in intent. They don't just report data; they tie together different pieces of data into a recognisable cluster, often to show that those data are instances of a general concept" (Miles & Huberman, 1994, p.72)*

The memos were synopses of each of the quotations and were written to assist in identifying recurring themes or patterns. The memos and the quotations were used jointly to assist in isolating recurring themes or concepts, consistent with the aims of the investigation, to be used in the next analysis step.

### ***Checklist matrix***

While the question-by-question matrix was a critical step for initially displaying and categorising the data, it was not explicit enough to allow the researcher to draw the types of conclusion which would satisfy the aims of this phase of the investigation. These aims were to identify the extent to which legitimacy theory motivated environmental disclosures and to identify factors or variables, linked to legitimacy theory, which affected environmental disclosure decisions.

Using a 'checklist matrix' (Miles & Huberman, 1994) for further reduction and display purposes allowed for more discrete identification and classification of recurring themes or concepts. Miles & Huberman (1994) describe a checklist matrix as a:

*“format for analysing field data on a major variable or general domain of interest. The basic principle is that the matrix involves several components of a single, coherent variable, though it does not necessarily order the components.”*  
(p. 105)

The exploratory nature of this data collection phase meant that the matrix was constructed to analyse the data with regard to the general domain of legitimacy theory with a view to identifying variables to be used subsequently in this investigation. A portion of the checklist matrix used in this part of the analysis is included as Table 8.11. An explanation on how it was constructed and used follows.

The matrix was set up with four columns and an undetermined number of rows. Included in column 1, were the recurring themes, identified in the question-by-question matrix, considered to be important components/conditions of legitimacy theory. In column 2, direct quotations from the interviewees which supported the components or conditions identified in column 1 were included. In column 3, a rating of strong, medium or low was given to signify how important the researcher judged the response to be. The brief quotations in the second column would be enough to communicate and to help another analyst judge, by going back to the question-by-question matrix or the transcripts, whether the rating is justified. Column 4 was used to allow the researcher to include a combination of direct quotations, researcher memos (from the question-by-question matrix) or researcher explanations to indicate why the component was important. It should be noted that some of the direct quotations were used in more than one row, as it was judged they related to more than one identified component. This is illustrated in the first response in each of the two rows contained in the column 1 of Table 8.11.

TABLE 8.11 - PHASE II DATA - CHECKLIST MATRIX

EXISTENCE OF LEGITIMACY MOTIVES AND IDENTIFICATION AND IMPORTANCE OF VARIABLES LINKED TO THE INCLUSION OF ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT			
Components	Examples	Rating - How important	Reason - Why important
<b>Key:</b> <i>italics: direct quotations</i> ; CAPITALS: RESEARCHER MEMO OR EXPLANATION			
Significance of specific environmental issues to environmental disclosures	<i>"The issues that are covered in the annual report really try to address matters of current concern as depicted in the media". Interview No. 8</i>	MEDIUM	<i>"We wanted to highlight in the 95 annual report recycling, which we thought related to the forestry issue." Interview No. 7</i>
	<i>"It is more a matter of looking at what are current issues. It is more issues driven than user driven." Interview No. 8</i>	STRONG	AT SOME STAGE ALL INTERVIEWEES TALKED ABOUT BEING PROACTIVE OR RESPONSIVE TO ENVIRONMENTAL ISSUES
	<i>"an annual time frame does not provide the vehicle for handling issues as they arise in a timely fashion." Interview No. 9</i>	MEDIUM	SUBJECT OF 'ISSUES' RAISED HERE IN ANSWERING RELATIVE IMPORTANCE OF ANNUAL REPORT AS A MEDIUM OF DISCLOSURE
Influence of the media	<i>"The issues that are covered in the annual report really try to address matters of current concern as depicted in the media". Interview No. 8</i>	STRONG	SHAREHOLDERS FIND OUT WHERE CORPORATION STANDS ON PUBLIC ISSUES
	<i>"apart from OK Tedi which has demanded attention from all areas of the corporation, news reports have more of a subtle influence". Interview No. 11</i>	MEDIUM	<i>"More general issues (greenhouse gases, etc) which attract news coverage would more likely be addressed in policy and procedural ways and again may have some subliminal effect on what ends up in the annual report." Interview No. 10</i>
	<i>"The environment was given the same weighting as everything else unless there was a large issue the media had gotten hold of which demanded our attention". Interview No. 12</i>	STRONG	MEDIA IS IMPORTANT TO RESPOND TO IF ISSUE IS SIGNIFICANT ENOUGH

By using this type of matrix, the recurrent themes or concepts identified from each question were consolidated into one matrix, which enabled an easier identification of important variables and the extent of legitimacy motives. The matrix was deliberately constructed to de-emphasise any differences between interviewees or the corporations they represented. Constructing the matrix in this way meant that the components and variables uncovered became the important units of analysis (see Section 7.5.1.2) for future data collection and analysis, not the individuals or the corporations they represented.

The main analysis tactic used to draw conclusions was noting patterns or themes. The basic technique involved looking across the rows of the checklist matrix for the *dynamics of components* in order to determine how and why they were important. The greater the number of direct quotations there were in the second column coupled with a strong level of importance (column 3) and quantity and quality of explanations (column 4), the more weight was given to that component when drawing conclusions.

### 8.4.3 FINDINGS - PHASE II

The key findings from the analysis conducted during Phase II were, that *managers perceive* that:

- (i) environmental disclosures are most often linked to environmental issues or events;
- (ii) (a) environmental disclosures are used to respond to current public pressure, or as an attempt to head-off possible future public pressure;
- (b) corporation or industry specific mainstream media reports (usually 'negative' in nature) are a significant indicator of public pressure;
- (iii) voluntarily disclosing environmental information in the annual report gives the corporation some control over its social and environmental image;
- (iv) given the limited amount of annual report space allocated to environmental disclosures, the disclosures are:
  - (a) targeted at shareholders or general users rather than specific environmental users; and
  - (b) of questionable value to more 'sophisticated' users; and

- (v) the nature, tone and content of any unique environmental disclosure is *probably* related to whether the corporation is trying to gain, maintain or repair legitimacy (the purpose of the corporate response).

For ease of explanation these findings will be discussed under each of these five headings. It is important to note, however, that in analysing the data, it became obvious that many of the interview responses categorised in the checklist matrix, overlapped into more than one of the five identified headings. Notwithstanding this, the findings reported in each of these five key areas support legitimacy theory as an explanation for environmental disclosures. The findings indicate a management perception that corporations need to capture the environmental agenda, or prevent it being totally captured by outside pressure groups, and a need to report on environmental issues to show the corporation in a positive light. These findings are discussed in detail and then the importance of the findings for subsequent data collection purposes is explained in Section 8.4.4.

#### *The importance of specific environmental issues and events*

It became apparent when analysing responses to the interview questions, that what managers perceive to be current or topical 'environmental issues' and 'events' has an overriding influence in the decision to disclose environmental information. Only the last 2 of the original 22 interview questions (Questions 21 and 22, Appendix E) sought answers about the importance of environmental 'issues' or 'events', yet interviewees consistently referred to environmental 'issues' or 'events' when responding to other interview questions. For example, in response to a question on whether the annual report was considered the main vehicle for disclosing environmental information, one interviewee responded:

*"AN ANNUAL TIME FRAME DOES NOT PROVIDE THE VEHICLE FOR HANDLING ISSUES<sup>22</sup> AS THEY ARISE IN A TIMELY FASHION." INTERVIEW NO. 9*

Moreover, many different *specific* factors discovered during the analysis (e.g., influence of media reports, influence of stakeholders, the importance of maintaining an appropriate corporate image), which influenced environmental disclosure decisions, were linked by a common thread. While

different factors were identified, they were each connected to issues or environmental incidents (events) by the interviewees. That is, the link between the factors was that they were all *issue/event* specific. A further example of the importance of issues was found in the following response to a question *not* directly asked about the importance of issues. When asked whether users of environmental information were considered when disclosure decisions were being made, one interviewee responded:

*"IT IS MORE A MATTER OF LOOKING AT WHAT ARE CURRENT ISSUES. IT IS MORE ISSUES DRIVEN THAN USER DRIVEN."* INTERVIEW NO. 8

This concentration on issues was not unexpected, as one would expect that public perceptions of a corporation's image or reputation would be predominantly influenced by the corporation's actions or activities in relation to current or topical environmental issues. These findings also support conclusions from prior research, that a crucial first step in managing legitimacy is identifying and managing issues (Greening & Gray, 1994, Meznar & Douglas, 1995, Nasi et al, 1997, Wartick & Mahon, 1994). Further evidence of the importance and influence of 'environmental issues or events' and the overlap in respect of other findings, is discussed in the following sub-sections.

### ***Environmental disclosures as a response to public pressure***

It has been asserted in this thesis, that if a corporation feels its legitimacy is threatened, it is usually as a result of a build-up of negative sentiment from significant conferring publics. This is referred to in the literature as a 'public pressure' variable (Patten, 1992, Preston & Post, 1975). The way a corporation responds to public pressure in order to preserve its legitimacy is a basic principle of legitimacy theory. Interview questions were asked in order to discover and 'unpack' these public pressure variables. Analysis of the data suggests that there were a number of specific factors which have an influence on the choice of types of response to public pressure and that many of these responses result in environmental disclosures in the annual report.

It was clear from the analysis that managers believe *media reports* are a major source of public pressure and that constant media reports, which linked the *corporation* to significant negative

environmental issues, are most likely to elicit a response in the annual report. Typical of the responses were:

*"...OBVIOUSLY ISSUES SUCH AS OK TEDI OR HIGHLY PUBLICISED ACCIDENTS INFLUENCE WHAT GOES INTO AN ANNUAL REPORT" INTERVIEW NO. 9*

*"IF THERE WAS SOMETHING THAT WAS GIVEN PROMINENT PRESS COVERAGE, YES. THIS YEAR AND LAST YEAR WE MENTIONED THE GROUND WATER SURVEY AT BOTANY AS IT ATTRACTED PRESS COVERAGE AND WAS IMPORTANT TO SYDNEY RESIDENTS." INTERVIEW NO. 12*

Interestingly, a somewhat dissenting view in relation to the level of influence corporation specific direct media reports may have on decisions regarding annual report disclosures, was illustrated in the response:

*"LESS SO NOW THAN IN THE PAST, WHEN WE DID NOT DISCLOSE AS MUCH INFORMATION AS WE NOW DO. IF ISSUES SUCH AS THE USE OF CHLORINE OR CFC'S GAINS MEDIA ATTENTION, WE ARE AWARE OF THIS, BUT DO NOT CONSCIOUSLY NEED TO ADDRESS THIS." INTERVIEW NO. 13*

This indicated that if managers considered that they had already voluntarily included significant amounts of environmental information, they would be less likely to respond to news reports. This suggests a proactive rather than a reactive strategy in protecting the legitimacy of the corporation.

Media reports linking the *industry* in which the corporation operated, to negative environmental issues, were also likely (but less so than corporation specific references) to elicit a response in the annual report. These industry-based media reports have more of a subliminal influence on whether managers decide to include environmental information in the annual report, than media reports which directly identify the specific corporation. Nonetheless, these were deemed an influential factor. The following two interview responses support this assertion.

"MORE GENERAL ISSUES (GREENHOUSE GASES, ETC) WHICH ATTRACT NEWS COVERAGE WOULD MORE LIKELY BE ADDRESSED IN POLICY AND PROCEDURAL WAYS AND AGAIN MAY HAVE SOME SUBLIMINAL EFFECT ON WHAT ENDS UP IN THE ANNUAL REPORT.... MORE OF A SUBTLE INFLUENCE. LATELY ISSUES SUCH AS CARBON TAXES AND GREENHOUSE GASES HAVE BEEN REPORTED. WHILE NOT DIRECTLY LINKED TO OUR CORPORATION WE WOULD TAKE THESE ON BOARD WHEN DECIDING ON ANNUAL REPORT DISCLOSURES." INTERVIEW NO. 10

"THE ENVIRONMENTAL ISSUES THAT ARE COVERED IN THE ANNUAL REPORT REALLY TRY TO ADDRESS MATTERS OF CURRENT CONCERN AS DEPICTED IN THE MEDIA. SHAREHOLDERS THEN GET AN UNDERSTANDING ON WHERE OUR CORPORATION STANDS ON ISSUES SUCH AS RECYCLING, FORESTRY, CHLORINE AND GREENHOUSE GASES." INTERVIEW NO. 8

One mildly dissenting view introduced the idea that *negative industry* media reports would not necessarily require an annual report response, based on the belief that public perceptions of certain 'dirty' industries will be negative anyway.

"IT IS A GIVEN THAT THE CHEMICAL INDUSTRY IS "ON THE NOSE", THAT SORT OF PRESS DOES NOT REALLY DRAW A RESPONSE." INTERVIEW NO. 12

Further evidence that media reports influence managers' thinking about environmental issues was found in responses to interview questions asked about what environmental issues were the most significant over the previous four years for the corporation and whether these issues attracted mainstream media attention. In every case, the interviewees indicated that the environmental issues they deemed as most significant had attracted mainstream media attention. These responses signify that what managers perceive as important environmental issues are in some way linked to what the media, and, by association, the public, regard as important, regardless of whether or not these issues are ultimately disclosed in the annual report.

While other public pressure influences, including the influence of shareholders, environmental groups and other users of the annual report, were noted and are discussed later, under the heading *Users, uses and the usefulness of environmental information in the annual report*, it became clear that pressure emanating from media reports, usually of a *negative* nature, was perceived to be the single most important factor in respect of determining the status of a corporation's legitimacy. Furthermore, the interviewees' repeated references to *media reports* and *specific environmental*

issues or events in the same context, supports the findings discussed earlier, with respect to the importance of issues and events.

### ***Annual report disclosures used to influence and shape public opinion***

It was clear from the data analysis that managers consider that the annual report can be used as a way of educating the public and influencing what opinions they may have formed about the corporation/industry and its environmental activities. This is consistent with a legitimation motive. One respondent viewed environmental disclosures in the annual report as a way of:

*"...EDUCATING THE PUBLIC. THERE IS A LOT OF FEAR ABOUT THE CHEMICAL INDUSTRY AND WE ARE TRYING TO ALLAY THOSE UNFOUNDED FEARS." INTERVIEW NO. 13*

Supplementary to the 'education' aim, the idea of correcting what the corporations perceived as misinformation was also a common theme, as evidenced in the following quotations:

*"...FOR EXAMPLE A STUDY A FEW YEARS AGO FOUND A LINK BETWEEN ALZHEIMER'S DISEASE AND ALUMINIUM PACKAGING, WHICH WE PRODUCE.....WE WOULD MAKE A POINT ABOUT GIVING OUR POINT OF VIEW ON THIS IN THE ANNUAL REPORT." INTERVIEW NO. 8*

*"THERE IS A LOT OF MISINFORMATION OUT THERE AND THIS GIVES US AN OPPORTUNITY TO TELL OUR SIDE." INTERVIEW NO. 7*

More generally, it appears that managers try to get across the general message that they are good corporate citizens, responsible environmental managers and that they act ethically. In response to an interview question (Question 13, Appendix E) asking why environmental information is disclosed in the annual report, typical of the responses was:

*"LARGELY TO DEMONSTRATE TO SHAREHOLDERS AND POTENTIAL SHAREHOLDERS THAT WE MANAGE THE ENVIRONMENT IN A RESPONSIBLE WAY AND WE HAVE SYSTEMS IN PLACE TO DO THIS." INTERVIEW NO. 9*

*"OUR CORPORATION HAS A GOOD ENVIRONMENTAL RECORD AND THE ANNUAL REPORT IS ONE WAY WE CAN TELL THE PUBLIC ABOUT WHAT IS BEING DONE IN THIS AREA. IF THIS WAS NOT DISCLOSED IN THE ANNUAL REPORT, SHAREHOLDERS AND THE GENERAL PUBLIC WOULD PROBABLY NOT FIND OUT ALL THE POSITIVE THINGS OUR CORPORATION IS DOING FOR THE ENVIRONMENT." INTERVIEW NO. 11*

A pattern noted during the analysis was the interconnectedness between the importance of issues, the media as a public pressure variable and the use of the annual report to respond to this public pressure. The following quotation most succinctly illustrates this:

*"...WE CAN USE (THE ANNUAL REPORT) TO SHOW THAT SPECIFIC INCIDENTS REPORTED IN THE MEDIA CAN BE SEEN IN CONTEXT AND (THAT THEY SHOULD) NOT BE REGARDED AS A REFLECTION OF THE SITUATION RIGHT ACROSS THE CORPORATION." INTERVIEW NO. 9*

#### ***Users, uses and the usefulness of environmental information in the annual report***

Managers view the annual report as a very important document for the disclosure of environmental information for *shareholders*, the *investment community* and the *general public*. They do *not*, however, appear to consider that the annual report is useful for the disclosure of *meaningful environmental information* to sections of the community with a special interest in the environmental impacts of corporate activities.

Evidence gathered in this phase supporting this finding, and corroborated in the findings from Phase I, relates to the space and word limit constraints imposed on the report preparers with respect of the disclosure of environmental information in the annual report. Whilst the quantity of environmental disclosures in annual reports is increasing (O'Donovan & Gibson, 1994), findings from Phase I indicated that a limited amount of space is normally allocated for the disclosure of environmental information as part of the normal annual report preparation process. This, coupled with the difficult technical nature of what managers considered to be 'useful' environmental information, suggests that people with a specific interest in the environmental activities of a corporation will not be well served by annual report disclosures.

Five of the seven interviewees stated that a consideration of what the users of environmental information wanted to see had little effect on what environmental information would ultimately

be disclosed in an annual report. This implied that managers were aware of what users wanted in the reports but suggests that they disclose environmental information for the corporation's, rather than users', purposes. This approach is consistent with a legitimacy theory perspective and could result in the corporation using legitimation tactics consistent with attempts to alter user values or alter user perceptions of the corporation or issue. Three examples, taken from answers to questions on why corporations do not disclose more environmental information in the annual report, support this conclusion.

*"PARTLY DUE TO SPACE CONSTRAINTS. THE ISSUING OF DETAILED INFORMATION SUCH AS EMISSIONS IS OF QUESTIONABLE VALUE AS THIS IS TOO TECHNICAL FOR THE COMMUNITY AT LARGE. GENERAL COMMENTS ON SUSTAINABILITY, FOR EXAMPLE, WOULD BE MORE USEFUL FOR THE COMMUNITY." INTERVIEW NO. 8*

*"...THE LANGUAGE OF THE ANNUAL REPORT HAS TO BE UNDERSTANDABLE TO THE NON-TECHNICAL PERSON. OUR USERS ARE SO BROAD, THAT PROVIDING USEFUL INFORMATION FOR THE MORE DISCERNING ENVIRONMENTAL USER COULD NOT BE ACHIEVED." INTERVIEW NO. 7*

*"...WHAT ENVIRONMENTAL INFORMATION USERS WANT IS NOT REALLY THAT IMPORTANT IN THE SENSE THAT WE CANNOT REALLY PROVIDE ENOUGH DETAIL. CLEARLY WE DO NOT TARGET INFORMATION TO SPECIFIC GROUPS." INTERVIEW NO. 13*

This raises an important issue regarding both the quantity and quality of environmental information disclosed in the annual report. One possible conclusion is that environmental information disclosed is of questionable value, at least to the more discerning environmental user, because it is lacking in both quantity (typically no more than about 2 to 3 pages of a 60 page annual report) and quality (not detailed enough for the "sophisticated environmental" user). Acknowledging that this may be the case, the continued inclusion of brief, general environmental information in the annual report, deemed suitable for the general user, suggests that corporations may be more concerned with image building and symbolism, than with the disclosure of anything substantive with regard to their environmental performance. This position is consistent with the legitimacy motive encapsulated by an attempt to alter the perceptions the annual report user may have about the corporation's environmental actions or activities (Lindblom, 1994).

The responses about a perceived lack of usefulness of this information may be explained by the interviewees being aware of the increasing incidence of separate environmental reports. Three of

the seven interviewees raised the topic of these separate reports and that these reports will, in the future, be used by the more sophisticated environmental user. These findings support the results noted during Phase I (Section 8.3.4.2) with respect to the influence of separate environmental reports. One respondent clearly stated this when he said:

*"THE ANNUAL REPORT IS JUST OF PASSING INTEREST TO MOST. GREEN GROUPS AND PEOPLE WITH ENVIRONMENTAL CONCERNS WILL BE LOOKING AT THE STAND-ALONE REPORT." INTERVIEW NO. 12*

Further support for this was found when the interviewees from Corporations B and C emphasised that the annual report still served a major purpose as a means of disclosing environmental information, but the target audiences and purposes of the annual report were different to those of the separate environmental report.

#### *The purpose of the corporate response and environmental disclosures in the annual report*

A more subtle pattern which emerged from the analysis related to the underlying purpose for the disclosure of environmental information in the annual report, in response to legitimacy threats. The purpose of any corporate response may, in turn, influence the nature and tone of any specific disclosures. Once managers acknowledge that a corporation's legitimacy may be problematic and they have identified where the pressure relating to this is emanating from, it appears that environmental disclosure decisions are also dependent on a combination of:

- (i) the perceived current or future significance (legitimacy threat) of an environmental issue or event;
- (ii) the stage the issue is at in its life-cycle; and
- (iii) the current level of legitimacy management believes they have.

What level of importance managers place on these three factors, and how they see the relative importance of each, may ultimately influence the content of any environmental disclosure. For example, Suchman (1995) and Ashforth & Gibbs (1990) asserted that the type of legitimisation response or tactic chosen depends on whether the purpose of any response by a threatened

organisation is intended to gain, maintain or repair legitimacy. The findings here indicate some support for this assertion.

To illustrate this, the management of Corporation B identified a major oil spill and a highly publicised law suit relating to environmental damage, as being the most significant environmental issues from the previous 4 years and that they warranted a mention in the annual report. Given the media attention both of these issues/events attracted, the public could not help but be aware of them. The management of Corporation B were very aware of the need to restore some faith in the corporation's public image; its legitimacy required repairing and they chose to use the annual report as one way of attempting to restore legitimacy.

The interviewees from Corporations A and C identified issues relating to continuing environmental impacts such as recycling and chemical emissions to the air as being most significant. These issues were identified as being important to manage, but not in direct response to any crisis or legitimacy threatening event. It could be argued that these corporations were concentrating on either gaining legitimacy or maintaining whatever level of legitimacy already existed.

Taking this assertion one step further, results of this data analysis support the contention that the decision to include environmental information and the content of environmental disclosures may differ depending on whether the legitimacy purpose is to gain, maintain or repair legitimacy. For example, in relation to the OK Tedi issue, each of the interviewees from the corporation involved indicated that the issue was extremely significant. One said it was:

*"ONE OF THE MOST SIGNIFICANT FOR THE CORPORATION'S IMAGE IN THE LAST 20 YEARS" INTERVIEWEE NO. 11*

The OK Tedi issue was given considerable space in each of the previous 3 annual reports. The rhetoric from the interviews, confirmed by the tone of the annual report disclosures, was that the annual report was being used to: defend and justify the corporation's actions in relation to OK Tedi; concentrate on the social positives concerning the corporation's operations at the OK Tedi location; and to give the corporation's side of the environmental impacts.

Compare this with the impression that the managers of Corporation C gave when they suggested that they disclose environmental information voluntarily because:

*" WE HAVE A VIEW NOW THAT ENVIRONMENTAL INFORMATION SHOULD BE AVAILABLE TO ANYBODY WHO IS SEEKING IT. (OUR CORPORATION) HAS AN OPEN ATTITUDE TO ENVIRONMENTAL DISCLOSURES." INTERVIEW NO. 12*

The same interviewee suggested that the industry in which his corporation operated suffered from a poor environmental reputation and that it is pro-active in disclosing environmental information in an attempt to improve that reputation. The purpose of pro-active responses, and subsequent disclosure approaches, appears designed to *gain* a level of legitimacy. One could speculate that the tone and content of any annual report disclosure would most likely be different from disclosures related to an issue such as OK Tedi. Part of the explanation for this difference may be the different purpose of the response, in one case to repair lost legitimacy and in the other case to gain legitimacy.

This is consistent with the ideas of Lindblom (1994) and Dowling & Pfeffer (1975) who theorised that there is a number of specific legitimisation responses or tactics that may be used in any given situation. Lindblom (1994) further implied that the annual report is used to communicate messages linked to these responses. These ideas are an important component of the development of the proposed model. The analysis conducted during Phase II, indicates some support for these ideas and they will be explored further during Phase III of the data collection phase.

#### **8.4.4 IMPLICATIONS FOR SUBSEQUENT DATA COLLECTION**

The findings, from Phase II, indicated that the disclosure of environmental information in the annual report is, to a large degree, designed either to respond to, or to avert, public pressure. This is consistent with legitimacy theory. The fundamental cause of public pressure stems from a negative association between the corporation, or industry in which it operates, and significant environmental issues or events. A major determinant of public pressure is current, or the possibility of future, corporation or industry-specific media reports, linking the corporation's, or the industry's, activities to environmental issue(s) or event(s).

Analysis of the findings raised the prospect that distinctive legitimization tactics may be chosen by a corporation depending on the purpose of the corporate response; whether it is trying to gain, maintain or repair its legitimacy. The choice of distinctive legitimization tactics may result in related distinctive annual report disclosure approaches.

Subsequent data collection was designed to test for the existence of any relationships between possible legitimacy threatening environmental issues or events (independent variable), and three interconnected dependent variables:

- (i) the purpose of the corporate response;
- (ii) the choice of distinctive legitimization tactics; leading to
- (iii) the choice and intent of annual report disclosure approaches.

A discussion on the specific data collection and analysis techniques utilised during Phase III is discussed in Chapter 9.

## **8.5 SUMMARY**

In this chapter, the specific data collection and analysis techniques used during the exploratory Phases I and II of this investigation were discussed and evaluated. The findings from these two phases were presented. The findings helped identify factors, related to legitimacy theory, which affect the environmental disclosure decision process. Implications in respect of these factors for data collection conducted during Phase III were discussed.

## CHAPTER 9 - PHASE III: ENVIRONMENTAL DISCLOSURES AND LEGITIMACY: ESTABLISHING RELATIONSHIPS

### 9.1 INTRODUCTION

The analysis conducted in Phases I and II led to the conclusion that a major reason that corporations voluntarily disclose environmental information in the annual report is to avert or respond to public pressure - an approach consistent with legitimacy theory. There was some indication in these findings, backed up by assertions in the literature (Dowling & Pfeffer, 1975, Lindblom, 1994, Neu et al, 1998), that a corporation may choose distinctive legitimation tactics which lead to particular patterns of annual report disclosures, depending on whether it is attempting to gain, maintain or repair its legitimacy.

The main aim of Phase III of the investigation was to explore and test the extent and intricacies of the relationship between increased public pressure and a corporation's decision to disclose environmental information in the annual report. Moreover, the aim was to establish the nature of any relationships between a public pressure variable (environmental issues/events) with the purpose of the response (gain, maintain, repair), the choice of distinctive legitimation tactics leading to the intention of environmental disclosures in the annual report (see Figure 6.7). The extent to which these relationships are established should enhance the development of the proposed legitimacy theory model.

The main purpose of this chapter is to discuss the *specific* data collection and analysis issues considered during Phase III and to report on the findings. Table 9.1 can be used as a guide for the remainder of this chapter. Data were collected and analysed in two distinct segments during this phase of the investigation. These segments are subsequently referred to as Phases III (a) and III (b). Included in Table 9.1 are details of the Phase III (a) and (b) data collection and analysis phases, links between the phases and a summary of the findings from each phase. Also included in Table 9.1 are statements of the aims of each of the distinct data collection phases and a list of both the primary and main secondary data sources of data collected to achieve these aims. A list of the main qualitative data analysis techniques used during Phase III is included in a separate column, followed by a summary of the findings. A row is included immediately after Phase III (a) which contains a description of how the findings from that phase influenced the data collection

in Phase III (b). A section number is included in the 'Date/Data Collection Phase' column of the Table to help guide the reader to the main sections of the chapter containing detailed discussion on the findings.

There are four main sections in this chapter. A detailed discussion on the development of the data collection instruments, for both Phase III (a) and (b), is covered and this is followed by an explanation of the analysis techniques used during both parts. It was decided that a chronological approach was the optimal way of reporting the findings from Phase III (a) and (b), as the findings from Phase III (a) were used in developing data collection instruments in Phase III (b). This was also the way that the extent of any relationships discovered unfolded.

TABLE 9.1 - CHRONOLOGY AND OVERVIEW OF PHASE III DATA COLLECTION AND ANALYSIS

Date/Date of Collection Phase	Aim	Primary data source	Secondary data sources	Analysis methods	Outcomes
<p><b>PHASE III (a)</b> Early 1998</p> <p>Exploratory/ Establish relationships</p> <p>Refer to Section 9.4</p>	<p>Developed vignettes with hypothetical corporations and environmental issues to test for relationships between purpose of corporate response to legitimacy threats and <i>four</i> specific annual report disclosure approaches</p>	<p>Partly semi-structured and partly structured interviews senior management personnel identified in phase I.</p>	<p>Extant literature on legitimacy theory</p> <p>Reliable indicators of topical environmental issues as public pressure variable (news and other sources)</p>	<p>Content analysis of transcribed interview tapes</p> <p>Question-by-question matrix (and memoing)</p> <p>Analytic hierarchy process (using trade-off concept)</p> <p>Two-variable conceptually ordered display matrix</p>	<p>Patterns of disclosure seem linked to different purposes of corporate response (gain, maintain, repair)</p> <p>Significance of issue seems to be an important variable</p> <p>Data and 'newer' literature suggested possible 5<sup>th</sup> category for disclosure approaches</p> <p>Refined model</p>
<p><b>Link to Phase III (b)</b></p>					
<p>Using "non-threatening" hypothetical vignettes, established ex ante explanations regarding the possible link between purposes of legitimization responses and four given annual report disclosure approaches. Identified the extent to which some of the variables identified in phase II were important. Analysis (along with a further review of the literature) suggested that a 5<sup>th</sup> category of disclosure approach be tested for. Using the same structure as phase III (a), phase III (b) tested the response choices (with explanations), <i>the corporations in the study</i> made in respect of real-world environmental issues linked to the corporation or industry.</p>					
<p><b>PHASE III (b)</b> Mid to Late 1998</p> <p>Exploratory/ Establish relationships</p> <p>Refer to Section 9.5</p>	<p>Used real-world environmental issues relevant to corporation/industry to test for relationships between purpose of corporate response to legitimacy threats and <i>five</i> specific annual report disclosure approaches</p>	<p>Partly semi-structured and partly structured interviews senior management personnel identified in phase I.</p>	<p>Extant literature on legitimacy theory</p> <p>Reliable indicators of corporation/industry specific environmental issues as an indicator of public pressure (news reports, legislation changes, government initiatives)</p>	<p>Content analysis of transcribed interview tapes</p> <p>Question-by-question matrix (and memoing)</p> <p>Analytic hierarchy process (using trade-off concept)</p> <p>Two-variable conceptually ordered display matrix</p>	<p>Similar outcomes to phase III (a) except that:</p> <p>The effect of "other variables" appears more pronounced</p> <p>The increasing use of stand alone environmental reports is leading to a de-emphasis on the annual report for certain audiences</p> <p>Refined model and "Legitimation Disclosure Response Matrix"</p>

## **9.2 DATA COLLECTION**

The main source of data for this phase was interviews with the senior people identified as being primarily responsible for environmental disclosure decisions. Phase III (a) data were collected during February and March 1998 and Phase III (b) data were collected during August and September 1998. Various forms of documentary data were also used to facilitate the development of the data collection tools used in both these sections.

To enhance the validity of findings from this phase, the same basic process was used to collect data in each section and the same people were interviewed. Any differences in the data collection in Phase III (b) compared to III (a) related first: to the way the questions for the interviews were developed; and second, that some of the questions asked during Phase III (b) were based on the findings from Phase III (a).

During Phase III (a) the interview questions were designed to generate responses relating to a series of factors described in four vignettes. These vignettes were used to describe scenarios involving hypothetical environmental issues/events and fictitious corporations. Phase III (b) interview questions related, where possible, to a series of 'real-world' situations, based on actual environmental issues/events relevant to the corporations/industries in the study.

The issues/events were chosen by the investigator and were designated to a specific response purpose. That is, the chosen issues/events were allocated to a response intended either to gain, maintain or repair legitimacy. An integral part of the interviews required the interviewees to make a choice as to the likelihood of adopting different types of annual report disclosures, provided to them, in response to the issue/event and the response purpose.

A list of the environmental issues/events, response purposes and the intention of the types of annual report disclosures, used for the four vignettes in Phase III (a), is included in Table 9.2. Four hypothetical situations, each one referring to a separate fictitious corporation and describing a different fictitious environmental issue/event were allocated to a specific response purpose, were developed.

<b>TABLE 9.2 - PHASE III (A) - FICTITIOUS ENVIRONMENTAL ISSUES/EVENTS, PURPOSE OF RESPONSE AND INTENTION OF DISCLOSURE APPROACH</b>			
<b>Vignette</b>	<b>Fictitious environmental issue/event</b>	<b>Designated purpose of response</b>	<b>Intention of annual report disclosure approaches provided</b>
Vignette 1 ABC Co Ltd	Decision to introduce new environmentally damaging technology	Gaining	A. Avoid  B. Attempt to alter social values  C. Attempt to alter society's perceptions of the corporation  D. Conform to society's expectations
Vignette 2 XYZ Cosmetics Ltd	Recycling - decision to be made about using plastics instead of recyclable paper	Maintaining - High	
Vignette 3 Military Hardware Ltd	Water pollution - housing estate being planned where corporation currently operates	Maintaining - Low	
Vignette 4 Ashforth Refining Ltd	Large oil spill in Australian capital city	Repairing	

One vignette was linked to a gaining legitimacy purpose, two to maintenance purposes and one for a repairing purpose. Reasons for setting up two vignettes for the maintenance purpose are discussed in detail in Section 9.2.4.3.2. The interviewees were given a choice between four annual report disclosures in this section. These disclosure approaches were consistent with legitimation tactics designed either to: avoid the issue; alter social values; alter society's perceptions of the corporation; or to conform to society's expectations. Specific reasons underlying the intention of the disclosure approaches provided in the interview questions are discussed in Section 9.2.4.3.4.

Three sets of 'real' environmental issues/events were set up during Phase III(b), one each allocated to the purpose of gaining, maintaining and repairing legitimacy (Table 9.3). Five alternative annual report disclosure approaches were also given to the interviewees to choose from. The decision to include a fifth disclosure approach, compared to the four supplied in Phase

III (a), eventuated as a result of the analysis of the data in Phase III (a), in combination with the extant literature on environmental disclosures and legitimacy theory. Specific reasons for the addition of the fifth annual report disclosure approach in this section are discussed in Section 9.4.7, implications for subsequent data collection.

**TABLE 9.3 - PHASE III (B) - REAL-WORLD ENVIRONMENTAL ISSUES/EVENTS, PURPOSE OF RESPONSE AND INTENTION OF DISCLOSURE APPROACH**

Corporation	Selected Environmental Issue/Event	Designated Purpose of Response	Intention of annual report disclosure approaches provided
A, B, C	National Pollutants Inventory (NPI)	Gaining	A. Avoid
A, B, C	Greenhouse Challenge Program	Maintaining	B. Attempt to alter social values
A	Cease Waste Paper Recycling ( <i>fictitious</i> )	Repairing	C. Attempt to alter society's expectations of the corporation's performance
B	Ongoing environmental damage caused by mining operations	Repairing	D. Attempt to alter society's perceptions of the corporation
C	Accidental release of toxic chemicals to the air in a suburban area ( <i>fictitious</i> )	Repairing	E. Conform to society's expectations

The four vignettes and questions asked during Phase III (a) are included in Appendices G - J. The initial question asked about the existing environmental reputation of the real-world corporations is included in Appendix K. The environmental issues/events chosen and questions asked during Phase III (b) are included in Appendices L - N.

During the interviews, it was considered critical that the interviewees' answers were not compromised in any way by being forewarned about the explicit purpose of the interviews, or by

any expectations the investigator may have had about possible relationships between the intention of the types of annual report disclosure approaches provided and the specific purpose of the response.

To address these concerns, at no stage, during any of the interviews, did the interviewees know which environmental issues/events were allocated to which legitimization purposes. In fact, at no time was the term “legitimacy” used by the investigator, or was the concept mentioned. Furthermore, the terms used to identify the underlying legitimization tactics and the intention of the annual report disclosures (e.g., avoid) were purposely not referred to in the written interview questions, or were they used by the investigator during discussions with the interviewees. The annual report disclosure approaches supplied to the interviewees were written so as to represent the intention, type and theme of the annual report disclosure considered consistent with the underlying legitimization tactic. They were not written to represent a sample annual report disclosure.

### 9.2.1 *DOCUMENTARY DATA*

Documentary data were used as a secondary source of data to help in the development of the vignettes, real-world cases and interview questions, to achieve the aims outlined for this data collection phase. Elsbach’s (1994) study, into how the Californian cattle industry managed its legitimacy in the face of legitimacy threatening events, utilised controversial events for the cattle industry as reported in the news media, to identify specific issues she subsequently used to guide the data collection process. A similar philosophy and approach were adopted for this investigation, except that more than one documentary data source (Elsbach only used news reports) has been referred to in developing the data collection instruments.

Indications about which environmental issues to include and what characteristics the fictitious corporations should possess, for inclusion in the vignettes developed during Phase III (a), were gained from an analysis of various documentary data. This documentary data<sup>23</sup> included the

---

<sup>23</sup> Documentary data used for the identification of issues or events and considered for the construction of vignettes and real-world cases was, for the most part, limited to the year immediately preceding the interview date. This time frame meant that the issues chosen were more likely to be considered topical and therefore significant in respect of potential legitimacy threats at the time of the interview.

extant literature on environmental disclosures and legitimacy theory, environmental disclosures from recent past annual reports of corporations from within and outside the investigation, current main stream media reports about environmental issues and events, world-wide-web sites specialising in environmental issues, state and federal government publications on the importance of the environment to society (e.g., Australian Bureau of Statistics, 1997) and the findings from Phases I and II.

In addition to the secondary documentary data sources used during Phase III (a), industry association<sup>24</sup> reports from the relevant industries, environmental group publications from organisations such as Greenpeace and the Australian Conservation Foundation, some Corporation A, B and C publications and findings from Phase III (a) analysis, were all used to help in choosing the issues/events and developing the interview questions for the real-world cases used during Phase III (b). The main distinction between the choice of environmental issues in Phase III (b) and those chosen in III (a), was that in III (b) the issues related to the corporation/industry in the study. In Phase III (a) the issues were hypothetical and related to fictitious situations.

### **9.2.2 INTERVIEWS**

A mixture of closed and open-ended questions, related to the issues/events described in the vignettes and real-world cases, was asked during the interviews in order to discover:

- (i) how likely it is that certain environmental disclosure approaches will be chosen when the specific purpose of the corporate response is either to gain, maintain or repair legitimacy;
- (ii) to what extent are other environmental disclosure approaches, different from those supplied in the closed questions, considered in relation to gaining, maintaining and repairing legitimacy;

---

<sup>24</sup> The three corporations in this study are members of industry groups. These groups are typically established by corporations within the industry, to act, amongst other things, as watchdogs for the industry. Some of the industry groups of which the corporations in this study are members include the Plastics and Chemicals Industry Association, the Minerals Council of Australia, the Australian Minerals and Energy Environment Foundation, Forestry Australia and the Australian Petroleum Production and Exploration Association.

- (iii) whether any relationship exists between the perceived significance of a potential legitimacy threatening issue/event and the choice of environmental disclosure approaches; and
- (iv) why the choices in (i), (ii) and (iii) were made.

The interviews were conducted with people identified as being most responsible for environmental disclosures in the annual report. These people's positions within the corporations are listed in Table 9.4. In most cases the positions held by these people were the same or similar to those held by the people interviewed during Phases I and II. While most of the positions were the same or similar, none of the people were the same as those interviewed during Phases I and II. This was mainly due to a combination of two factors:

- (i) about two years had elapsed since the Phase II interviews were conducted, and many of the personnel previously interviewed had either left the corporations or were working in different divisions; and
- (ii) in some instances, some changes to the environmental reporting process had been implemented which had resulted in different personnel becoming responsible for environmental disclosures in the annual report.

**TABLE 9.4 - PHASE III - CORPORATE PERSONNEL INTERVIEWED**

<b>TABLE 9.4 - PHASE III - CORPORATE PERSONNEL INTERVIEWED</b>						
	<b>Corporation A</b>		<b>Corporation B</b>		<b>Corporation C</b>	
<b>Phase/ Date</b>	<b>Int. No.</b>	<b>Personnel</b>	<b>Int. No.</b>	<b>Personnel</b>	<b>Int. No.</b>	<b>Personnel</b>
III (a) Feb - Mar 98	14	General Manager - Safety & Environment	15	Director - Environment & Community Affairs	18	Corporate Affairs - Editor
			16	Manager - Investor Relations Services	19	Corporate Safety, Health & Environment - Manager - Safety, Health & Environment
			17	Group Environment Coordinator - Business Group		
III (b) Aug - Sept 98	20#	General Manager - Safety & Environment	22	Director - Environment & Community Affairs	25	Corporate Affairs - Editor
	21*	Manager - Environment & Safety (Business Group)	23	Manager - Investor Relations Services	26	Corporate Safety, Health & Environment - Manager - Safety, Health & Environment
			24	Group Environment Coordinator - Business Group		

# Position was made redundant during June 1998. Even though the position was redundant, this person was interviewed because of her knowledge and experience in relation to the corporation's recent environmental reporting practices and disclosure decisions. This person also suggested the researcher contact and interview the Manager, Environment & Safety (Business Group) for a further perspective, given the environmental reporting process changes.

\* Additional person interviewed due to a change in annual reporting process between Phase III (a) and Phase III (b).

These changes did not affect the reliability of any of the data collected during earlier phases and do not affect the quality of the investigation. The importance of the data for this investigation was not related to the corporation or the individual from whom it was collected. The data were collected for their importance in helping to discover factors and variables vital for the development of legitimacy theory.

The six interviews conducted during Phase III (a) and seven conducted during Phase III (b) were audio-taped. All of the interviews were conducted face-to-face in the offices of the interviewees, except for Interview No. 23, which was conducted via the telephone, as the interviewee had

permanently moved interstate with his work. In this case, the real-world cases and the interview questions were faxed to the interviewee just prior to the interview. This ensured that the conditions under which this interview was conducted were as similar as possible to all other interviews conducted during Phase III. This interview was audio-taped from a speaker phone.

The format and structure of the interviews and questions were similar in each section. Each interview began by seeking manager's general views about the significance of the environmental issues/events in the vignettes and real-world cases and moved to more specific (closed) questions about the types of annual report disclosures they would be likely to make as a response to these issues/events.

Each of the four vignettes and three real-world cases were administered one at a time. To illustrate this procedure, the first vignette (ABC Company Ltd - See Appendix G), was given to each of the interviewees to read, in order to familiarise him or herself with the issues and facts about the case. After reading the case, they were given the question sheets, one page at a time, to fill in. The interviewees were asked to fill in answers to the closed questions on the sheets provided and to explain reasons for their choices. Each of the thirteen interviews lasted approximately one hour.

### 9.2.3 REASONS FOR USING VIGNETTES AND REAL-WORLD CASES

The main two limitations in most of the prior research conducted in an attempt to prove that legitimacy theory is a major reason for the disclosure of environmental information in the annual report pertained to the facts that, first: most of the data had been collected *ex post*; and second, data were gathered only using content analysis techniques, mainly limited to annual report disclosures (Section 5.2.1). Collecting *ex ante* data, by interviewing corporate management responsible for environmental disclosure decisions, overcomes both of these limitations.

It is asserted that, in concentrating on *ex post* environmental disclosures, any findings, based on information collected by interviewing managers about reasons for *past* environmental disclosures, may be untenable. Managers may be more inclined merely to justify and rationalise for the inclusion of environmental information rather than explain all of the factors considered in making

environmental disclosure decisions. Furthermore, using ex post data limits any investigation to disclosures made. These data do not allow for the possibility of discovering why certain issues were not reported. These observations indicate that relying solely on ex post data limits the usefulness of any findings.

By collecting information on an ex ante basis, relevant information about the thinking, perceptions and thought processes of management, are more likely to be discovered than would be the case if management were responding solely about why past disclosures were made. For example, by asking management about possible future environmental disclosures, one is more likely to discover why some environmental issues are considered more important than others as well as what other factors are likely to influence environmental disclosure decisions at any given point in time.

There were also several advantages in collecting the ex ante data a few months apart and in two distinct sections. Using the *fictitious* vignettes first minimised the possibility of the respondents initially being cautious and over-sensitive with regard to talking about corporation or industry specific environmental issues/events. It allowed the interviewee to be more open in answering questions about possible reasons that the 'fictitious' corporation may or may not disclose environmental information, than may have been possible if questions specific to the corporation were asked from the beginning. It also allowed for the possibility of the interviewer being able to 'push' a bit harder for information than otherwise might have been the case if the questions were corporation specific.

The iterative nature of the data collection and analysis enabled a more general exploratory focus to be adopted by using the vignettes first and the real-world cases second. Using the vignettes first meant not being constrained by corporation specific factors, which enabled a wider range of influences to be examined and subsequently analysed. Findings from the analysis of this data were then used to develop interview questions, to be used in the real-world cases, which were more relevant to the specific corporations in the study.

The vignettes were easier to set up and control than the real-world cases, as the investigator was able to choose the environmental issues/events to fit in with the purpose of the corporate response. The characteristics of the fictitious corporations were also developed to fit better with chosen environmental issues/events, the purpose of the corporate response and the annual report disclosure approaches. As will be discussed in Section 9.2.4.2.3, a limiting factor in attempting to establish the existence of relationships between the variables identified is the ability to control or predict how various external pressures may impact on a corporation's decision to disclose environmental information at any given point in time. Using the vignettes allowed the investigator a degree of control over these factors.

Comparing two sets of ex ante data collected using similar processes and collected from the same interview subjects allowed for a greater degree of reliability with regard to corroborating and clarifying the evidence collected and drawing any conclusions. For example, comparing the data collected from the fictitious vignettes to the real-world cases assisted in determining whether management discourse in regard to environmental disclosure approaches in relation to the fictitious scenarios was consistent with corporation specific disclosure approaches chosen in the real-world cases. If they are consistent, this adds weight to the findings. If they were notably inconsistent, it allows for the possibility of further investigation into reasons for any obvious inconsistencies.

It is argued that collecting ex ante data in two separate stages, *first*, using the vignettes and *second*, real-world cases, adds credibility to any findings and assists in the development of a more sound legitimacy theory.

#### **9.2.4 DEVELOPING THE VIGNETTES AND REAL-WORLD CASES**

A major consideration in the development of the vignettes and real-world cases was the choice of both the fictitious and real-world environmental issues/events. Given the aims of the data collection, these issues/events needed to possess characteristics considered unique to the specific purpose of the response. In Table 4.2 the specific characteristics of responses to legitimacy threats for the purpose of either gaining, maintaining and repairing legitimacy were noted.

These characteristics were taken into account when choosing the environmental issues and events, which were the crux of the vignettes and real-world cases. In developing the vignettes, some corporate characteristics and environmental histories were also included in order to place the scenario in some context regarding the fictitious firm's current levels of legitimacy. No direct questions were asked of the interviewees about how they perceived the image of the fictitious corporations based on these characteristics or histories, but it was expected that the interviewees' perceptions of the corporation's attitudes to environmental matters would have had some impact on the answers given. This was not necessary for the real-world cases, as the corporations in the study had an established history and possessed 'a real' level of legitimacy.

#### **9.2.4.1 Distinguishing Between Environmental Issues and Events**

The environmental *issues* decided upon needed either to be part of an acknowledged current social value system (e.g., climate change), or that there was a strong probability they would become important to future social value systems (e.g., alternative energy sources). Once facts surrounding any environmental issue become generally known, it is assumed that this would make the issue significant enough to attract the attention of legislators, governments, the media and other public policy agenda setting forces, leading to possible implications for business and society.

An environmental *event*, in this investigation, related to a specific act, happening or incident, which tended to be, but was not necessarily, corporation or industry-specific and was construed to be important to the general public and reflected currently held environmental values (e.g., Exxon Valdez oil spill). In all likelihood, any environmental event is a sub-set of a larger environmental issue.

The broader or more general an environmental issue is, the more likely it is that there will be many environmental and social events related to the issue. For example, air pollution would be defined as an environmental issue. The effects of air pollution are acknowledged throughout society as causing health and other quality of life problems. It requires the attention of governments, corporations and society in addressing problems the issue generates. In contrast, an event relating to air pollution would be more specific and a sub-set of the broader issue. A large chemical

corporation's response to an accidental toxic emission to the air could be defined as an event, which relates to the broader environmental issue of air pollution and social issue of human health.

When choosing environmental issues or events as the variables for the ex ante data collection, it was decided to include both a broad *issue* and more specific *event* relating to the purposes of gaining and maintaining legitimacy. These issues/events possessed the characteristics underpinning the purposes of the organisational response in attempting to gain or maintain legitimacy (Table 4.2).

By contrast, there has been a number of empirical studies investigating organisational responses for the purpose of repairing lost legitimacy (see Section 5.2. and Appendix A). Results from these studies support the position that characteristics inherent in repairing legitimacy are based more on responses to specific events and are not normally issue-based. It is argued, however, that any specific negative environmental events with which a corporation, or industry, has been associated, which requires a public response, are linked to wider, socially relevant environmental issues. For example, research into corporate responses to the Exxon Valdez oil spill concentrated on the specific relationship between Exxon Limited, the oil industry and the event, being the actual oil spill (Patten, 1992, Walden & Schwartz, 1997). It is asserted that the more general issue of environmental pollution is important in this case, not just the oil spill event. To explain further, if prevailing social values at the time of the oil-spill were ambivalent about the importance of the issue of environmental pollution, then the Exxon oil-spill *event* may not have necessitated responses consistent with the purpose of repairing the legitimacy of Exxon Limited.

This distinction between issues and events should be kept in mind in deciding whether repairing legitimacy is solely related to events. Nevertheless, the thrust of prior research suggests that a specific event needed to be chosen to test possible disclosure responses designed to repair legitimacy.

#### **9.2.4.2 Choosing the Environmental Issues/events**

A key determinant, in reference to legitimacy theory as it relates to this investigation, is how a corporation perceives and responds to public pressure in relation to environmental issues and events. There were three factors which needed to be considered in deciding upon environmental

issues or events for inclusion in the vignettes and real-world cases. The first was that the issues/events needed to be linked directly either to a gaining, maintaining or repairing legitimacy response. To help establish these links, a second and third factor were considered. The second was the political visibility of the corporation (its size and the industry in which it operates) and the third was other pressures on the corporation considered by the corporation to be significant during the life-cycle of the issue/event. These three factors will now be discussed in turn.

#### **9.2.4.2.1      *Linking Environmental Issues/Events to the Purpose of the Corporate Response***

Classifying a potentially legitimacy threatening environmental issue or event, likely to require an organisational response, into either gaining, maintaining or repairing categories is subjective. Management perceptions of the current or future social importance of an environmental issue or event together with how this relates to the perceived current social reputation of a corporation is a factor in deciding whether the response to be adopted fits best as a gaining or maintenance purpose. Repairing legitimacy has more to do with responding to immediate threats, not necessarily directly related to the existing social reputation of the corporation.

For example, a paper manufacturing corporation with a previously poor environmental record may decide that recycling is a topical environmental issue and so concentrate on this issue and related events in its annual report as part of a “we are changing” organisational response aimed at gaining legitimacy. Another paper manufacturing corporation, which perceives that it has a good environmental record, especially in recycling, may believe that the current environmental issue for the paper manufacturing industry is the increased use of toxins in paper production and so disclose information on this issue for the purpose of indicating a “business as usual” maintenance approach. This corporation may also deliberately choose not to disclose anything on recycling as part of a planned response to maintain the legitimacy which already exists.

In reference to the purposes of gaining or maintaining legitimacy, it is also possible that, in response to the same environmental issue, at one point in time, the purpose of any response may be to gain legitimacy and at a different point in time the corporation may choose a response in order to maintain legitimacy. It is unlikely that, at any time, an individual corporation’s view of

a significant negative environmental event, which threatened its legitimacy in the short term, would not result in management action consistent with the purpose of repairing lost legitimacy.

In setting up the scenarios for the vignettes the hypothetical issues/events were chosen specifically with the purpose of the corporate responses in mind. For example, in Case 2 (XYZ Cosmetics Ltd - Appendix H) recycling was chosen as the environmental issue and XYZ Cosmetics Ltd considered it had an excellent environmental reputation amongst the public. The scenario was set up to test responses related to the purpose of maintaining the high level of legitimacy XYZ believed it already had.

In the real-world cases, designating the environmental issues or events to a gaining, maintaining and repairing purpose was done primarily on the basis of the investigator's judgement about the social importance of the issue or event chosen and the characteristics consistent with those described in Table 4.2. In brief, only environmental issues or events which were considered to be important to current or immediate future environmental values and, in normal circumstances, should have been significant to the corporations in the study, were chosen. This made the decision to allocate the purpose of the response to the issues or events less difficult. The basis for choosing the specific environmental issues/events is covered in Sections 9.2.4.4.1 to 9.2.4.4.3.

In choosing or developing issues and events which best fit in with a *gaining legitimacy* purpose (see Section 4.3.2.1), the issue or event needed to be reasonably new and intimate knowledge of the issue or event not to be known by the general public at this stage. In other words, the issue or event has not had time to influence society's environmental values to any great extent.

In choosing or developing issues or events relating to *maintaining legitimacy* (see Section 4.3.2.2), the issue or event in question would, in normal circumstances, already be an established part of the social agenda and value system. Corporations need to predict and/or control future changes in social values and to protect their past accomplishments, if they are to maintain legitimacy. The task for the corporation is to decide exactly how best to handle the issue or event.

Choosing an event to be used for the purpose of *repairing legitimacy* (see Section 4.3.2.3) was a simpler exercise than it was for the two other purposes. Negative environmental events, which necessitate an immediate and continuing management response, are usually corporation or industry-specific, although they may be associated with broader environmental issues which have an existing degree of social validity. Nonetheless, a specific, significant (usually negative) environmental event, with which the corporation or industry has been directly linked and has been brought to public notice in a highly visible way, usually by the media, is considered a stimulus for any corporate response in order to repair lost legitimacy.

#### **9.2.4.2.2 Political Visibility - Corporation Size and Industry**

Prior research (Section 2.4.3) suggests that corporations perceived to be operating in environmentally damaging industries (Elkington, 1994) voluntarily disclose more environmental information than corporations operating in less sensitive industries (Blacconierre & Patten, 1994, Deegan & Gordon, 1996, Patten, 1992). Trotman & Bradley (1981) discovered that corporations disclosing social and environmental information were, on average, larger in size, had higher systematic risk and placed more emphasis on the long term than corporations which did not disclose this information. Cowen et al (1987) also found that corporate size and industry category were significant influencing factors in deciding which corporations were more likely to disclose environmental information.

These characteristics were taken into consideration in determining the features of the fictitious corporations in the vignettes. For example, each of the four corporations in the vignettes, were characterised as large public corporations which operated both locally and internationally and whose activities were well known to the general public. Three of the four corporations, set up in the vignettes, also operated in industries which would normally be considered to be potentially environmentally damaging.

#### **9.2.4.2.3 External Pressures on the Corporation**

The perceived significance of an environmental issue or event to a corporation may also vary according to extraneous factors present at the time the issue/event is at its peak with respect to

maximum public pressure. Some of these factors may include the existing public image or reputation the corporation has, financial pressures, local and/or international regulatory pressures, financial market expectations and local and international economic conditions. Examples of more specific factors may include planned changes to:

- (i) corporate strategic plans;
- (ii) markets and products;
- (iii) corporate investment strategies; and
- (iv) management structures.

Support for the assertion that these types of external pressure influence social and environmental disclosure decisions was found in studies conducted by Simmons & Neu (1998) and Neu et al (1998). An example will help to illustrate the importance of understanding these external pressures.

Assume a large corporation, operating in an environmentally damaging industry, is the target of a hostile takeover bid and is in a continuing financial crisis, both of which are the subject of high profile media speculation. It is unlikely that anything but a major negative environmental event, requiring a swift organisational response, would be considered significant enough to command time and effort in relation to possible annual report disclosure approaches. This decision may be taken irrespective of whether the corporation had a history of being environmentally responsible or not.

Conversely, if the same corporation were currently profitable and financially and economically stable, it may be more inclined to concentrate on disclosing social and environmental information in its annual report. This may be done in a tone and manner consistent with an attempt to improve its previously poor environmental image (gain) or, at the very least, in an attempt not to further damage whatever environmental reputation it currently has (maintain).

The scenarios developed as part of the vignettes included background information related to the existing public image of the fictitious corporations and sets of circumstances characterising some

of these external pressures. These external factors could not be controlled when asking questions related to the real-world cases. To reduce this potential problem in the real-world cases, two open-ended questions were asked. Question 1 (Appendix K) sought to discover what the corporation believed society's current views were about its environmental performance. This established what level of legitimacy management thought the corporation currently enjoyed. A second question<sup>25</sup> about the current, or future, significance of the selected environmental issue/event to the corporation for each of the three real-world cases, was expected to elicit responses about any other factors which may have influenced any legitimation tactics and annual report disclosure approaches likely to be selected. These questions allowed for the possibility of the interviewee introducing any relevant external factors in the real-world cases.

#### 9.2.4.3 Vignettes: Scenarios and Interview Questions

For the four vignettes, it was made clear to the interviewees (both in writing at the top of each case and verbally by the investigator), that they were to imagine that they were the senior person responsible for the decision to include environmental information in the annual report. When answering the questions they were told to adopt an approach consistent with what they perceived to be the corporate culture and social standing of the corporation, as described in the case. This facilitated comparison between the results in Phase III (a) and III (b).

It was expected that in answering questions related to *their* corporations in the real-world cases (Phase III b), they would respond as they believed the corporation would. By getting the interviewees to 'play a role' during the vignettes (Phase III a), the aim was, as closely as possible, to duplicate the circumstances in which the interviewees found themselves, that is, to respond in the way they thought the *fictitious* corporation would. This enabled the introduction of external factors into the vignettes that could not be artificially introduced in the real-world cases.

---

<sup>25</sup> The question asked about the significance of the issue/event to the corporation was asked as Question 2 in the real-world cases related to gaining and maintaining legitimacy and for Corporation B in relation to repairing legitimacy. It was preceded by a question which sought to discover the interviewees knowledge about the selected issue/event (i.e. NPI and the Greenhouse Challenge). For the fictitious events developed for Corporation A and C, in relation to the repairing purpose, it was asked as Question 1 as there was no selected event.

#### 9.2.4.3.1 *Gaining Legitimacy*

Vignette 1 (ABC Company Ltd - Appendix G) was designated for the purpose of *gaining legitimacy*. The “issue” in the case related to a *new* environmentally damaging mining technology, which the corporation had decided to use to significantly cut costs, given its perilous financial prospects. Knowledge about the technology itself and the decision to use it was known only to the corporation. The characteristics of this case, especially the newness of the technology and the fact that society was not presently aware of the decision or its effects, indicate that any disclosure decisions are predicated on gaining legitimacy.

#### 9.2.4.3.2 *Maintaining Legitimacy*

Two vignettes were developed to test the *maintenance of legitimacy* (Vignette 2 - XYZ Cosmetics Ltd; Appendix H, and Vignette 3 - Military Hardware Ltd; Appendix I). It is asserted that the level of maintenance needed, and, hence, the type of disclosure approach which might be adopted, would be dependent on the degree of public acceptance or legitimacy already possessed by the entity. The more socially and environmentally responsible the organisation appears to be, the more is expected of it. The less legitimacy a corporation has to begin with, the less it may need to maintain. With this in mind, the facts in Vignette 2 depicted a corporation which had a high level of legitimacy, while Vignette 3 described a corporation with a low level of legitimacy.

The scenario established XYZ Cosmetics Ltd as a corporation whose environmental record was a cornerstone of its success. A potential problem relating to a potential decision to introduce unrecyclable plastic packaging to replace recyclable paper packaging is the main issue/event in this vignette. XYZ has an excellent environmental reputation and the issue/event is a well known part of the environmental debate. These are all conditions consistent with any decisions to maintain legitimacy.

On the other hand, Military Hardware Ltd is a corporation which does not have a positive social and environmental reputation due to the nature of its business in producing weapons of destruction. The environmental issue/event in this vignette surrounded the fact that a new housing estate was to be built near a creek into which the corporation currently disposed of toxic waste (in accordance with current laws and regulations). The current knowledge of issues involving the

pollution of water courses and the prospect of a new housing estate being established close by indicated that the corporation had a decision to make about whether to respond to this issue given its current low level of legitimacy.

#### **9.2.4.3.3      *Repairing Legitimacy***

Vignette 4 (Ashforth Refining Ltd - Appendix J) involved a major oil corporation which was responsible for a large oil spill which severely inconvenienced a large proportion of the population of a major capital city. The event received a great deal of media attention and the corporation's image and reputation were under threat. This scenario has most of the ingredients consistent with any decisions management may need to make to *repair legitimacy*.

#### **9.2.4.3.4      *The Intention of the Annual Report Disclosure Approaches Provided***

Questions 3 and 4 in the vignettes were designed to get responses about the types of annual report disclosure approaches which would be chosen in response to the specific situations described in each of the four vignettes. The only differences between the four sets of questions was in the wording of the alternative annual report disclosure approaches provided. Each of the four types of disclosures was linked to the intention of the four approaches listed in Table 9.2 (avoid, attempt to alter social values, attempt to alter society's perception of the corporation and conforming to society's expectations or values). Although the wording was slightly different, the intention and theme of each of the disclosure approaches was the same. One of the vignettes (Case 2 - XYZ Cosmetics Ltd, Appendix H) is used to illustrate this point. In Table 9.5 the annual report disclosure approaches provided to the interviewees for this vignette are listed next to the intention of the approach.

**TABLE 9.5 - PHASE III (A) - SAMPLE OF THE INTENTION OF ANNUAL REPORT DISCLOSURE APPROACHES - XYZ COSMETICS LTD**

<b>Intent of disclosure approach</b>	<b>Wording used in interview questions</b>
A. Avoid	Make no disclosure
B. Attempt to alter social values	Disclose the practical social and economic reasons for the decision to abandon paper packaging in favour of plastic
C. Attempt to alter society's perception of the corporation	Disclose the latest environmental initiatives adopted by the corporation
D. Conform to society's expectations	Indicate that your corporation is a responsible corporate citizen and, if populist public opinion dictates, your corporation will replace the plastic with paper packaging.

While it was explained in Section 4.3.3, that an intention to 'avoid' an issue/event does not necessarily mean ignoring it, it was decided that the best way of discovering whether avoidance was a likely choice was to give it the most obvious meaning. The most obvious way of avoiding something is to not react or respond, in this case, make no disclosure.

Any attempt to alter social values implies that this tactic and any resultant disclosure is designed to give the corporation an opportunity to put a different face and 'spin' on the issue. This type of approach may be specifically in response to an issue or event, but the disclosure may also take the form of a broader point of view about what society's views should be in relation to this and/or other related environmental issues or events. Disclosures under this heading could be aimed at educating the audience (as was discovered in Phase II analysis) about aspects of the issue/event which, for example, the media did not report. The intention may also be to allow the corporation to reinforce the need for the products that it produces using potentially environmentally damaging processes, and attempting to convince society that these risks are the costs of progress. The latter direction has been taken in the approaches intended to alter social values in the four vignettes.

A disclosure which, in the main, attempts to influence society's perceptions of a corporation's performance is often in the form of a disclosure intended to distract attention from the issue or event by identifying with legitimate symbols or institutions in relation to the social performance of the corporation. A disclosure intended to illustrate support by legitimate institutions in relation

to the specific issue or event is also a possibility here. The wording of this approach in Vignettes 1 and 2 was deliberately left somewhat general, not specifically referring to the issue/event or seeking institutional support. In Vignettes 3 and 4 the type of approach included both a general statement about past positive environmental initiatives and reference to institutional support.

The fourth disclosure approach provided indicated an intention to conform with society's values. This type of disclosure indicates (at least in a symbolic manner) that a corporation's response to an issue or event is consistent with its view of what it thinks society expects. The disclosure will indicate that the corporation intends to conform, at least partially, with current social values and norms. In each of the vignettes the theme of the disclosure approach included a statement indicating that popular public opinion in respect of the issue/event will be a major factor in any decision taken.

In Question 3, the interviewee had to choose from 5 possibilities (5 - highly likely through to 1 - highly unlikely), to indicate how likely they would be to adopt the disclosure approaches. One purpose of this question was to get an indication of how close the likely choices were to each other. For example, the interviewee may have ticked highly likely under two disclosure approaches and likely under the other two. On its own, this does not help to achieve the aims of this part of the investigation, but it indicates a value judgement made by the interviewees and gives an indication of the relative level of importance of each of the disclosure approaches.

To get a more definitive answer to which approach the interviewee would adopt, a ranking order was required. In Question 4, the interviewee was asked to rank, from 1 to 4, which disclosure approaches they would choose. The answer to this question served two purposes: first, it forced the interviewee to choose a most likely response and; second, it allowed for further clarification of the answers to Question 3. Being with the interviewee as they were answering this question allowed the investigator to check that the answers to Question 4 did not contradict answers to Question 3. In order to gain further insights into the ranking decisions made, an open-ended "why" question was asked. This allowed the possibility of other disclosure approaches surfacing and other approaches, not necessarily consistent with legitimacy theory, to be raised.

#### 9.2.4.3.5 Other Interview Questions

Apart from the wording of the annual report disclosure approaches, the same interview questions were asked in each of the four vignettes. Each interview commenced with a question designed to discover the significance of the issue/event to management. The interviewee had the choice of a five point scale, from 5, extremely significant, to 1, not significant. This question was asked to see if the choice of a disclosure approach for each of the corporate purposes was influenced by the significance management attributed to the issue. The open-ended “why” question was asked to elicit responses relating to specific factors identified as being significant in each case, which may influence any decisions to disclose environmental information, in response to the issue/event, in the annual report.

Questions 2 and 5 were asked based on findings from Phases I and II. Question 2 sought to find out the influence and input of executive management into environmental disclosure decisions related to the issue/event in each vignette. This question was designed to examine the extent of any input executive management may have into environmental disclosure decisions based on the significance of the issue and the purpose of the corporate response.

During Phase I, mention was made that the annual report might not be the first choice as a disclosure medium depending on the significance of the issue/event relevant to *the time it was deemed important by the corporation or the public*. This question asked about the likelihood of making an annual report disclosure if the issue/event became first known to management at various times in relation to the current annual reporting date. This was designed to discover if there was any relationship between the use of the annual report, the timing and significance of the issue/event and the purpose of the corporate response.

#### 9.2.4.4 Real-World Cases: Environmental Issues/events and Interview Questions

Choosing from a myriad of actual current and future environmental issues and events and attempting to correlate these with the current characteristics, social standing and unique circumstances of each corporation, for the purpose of grouping the issue or events into each of the three organisational responses, presented some problems.

Assessment of a number of potential environmental issues and events, which were, or should have been, of significance to the corporations in the study was undertaken. It became clear that many of the issues/events did not have enough clearly defined characteristics to allow a reasonably objective classification linking the purpose of the response for each corporation either to gaining, maintaining or repairing legitimacy.

In the following sections (9.2.4.4.1 to 9.2.4.4.3) the rationale for the choice of the real-world environmental issues/events used to test legitimacy theory are discussed under the headings of each response purpose. A discussion on the main sources of documentary data used to gauge the relative importance of the chosen issues/events is also included.

#### *9.2.4.4.1 Gaining Legitimacy*

##### *Issue - Toxic Emissions Pollution*

Pollution of the air, oceans and fresh water sources are the top three environmental concerns of the Australian population, according to the Australian Bureau of Statistics (ABS) latest nationwide survey on the Australian population's views and practices in relation to environmental issues (Australian Bureau of Statistics, 1997). The categories of "other pollution" and "toxic/chemical waste" were ranked eighth and ninth respectively. Much of the pollution which is emitted to the air, oceans and fresh water is toxic in nature, and there would be some overlap in the top three categories and the other pollution and toxic/chemical waste categories.

Given that the major contributors to these types of pollution are large private or corporate entities, it is logical to assume that entities responsible for this pollution would view these issues as important for their continuing social acceptance. In conducting its business, each of the corporations in this study contributes to the problems of toxic emissions pollution.

##### *Event - The National Pollutants Inventory (NPI)*

Australia's recently developed NPI contains a list of 36 toxic and dangerous chemicals. From 1 July 1998, larger Australian industrial facilities are required to estimate and report their emissions of chemicals listed on the NPI. This information, along with estimates of emissions from facilities using less than the specified amount of the chemicals listed, will be available on the Internet and

in other publicly available sources. Governments will also estimate emissions that arise from the community, such as, nutrient emissions to inland waterways and everyday activities, like driving to work and mowing the lawn.

Information explaining from where the substances listed on the NPI are emitted, for what they are used and the risks to human health and the environment associated with them, will be included on the database. It is envisaged that the first data, in relation to the 1998/99 financial year, will be made publicly available in the year 2000.

In regard to public relations and possible reporting and legitimation responses, it can be argued that at this stage of its development, the NPI is a new environmental event for corporations. Social reaction to the information disclosed in the NPI is yet to be evaluated and corporations need to develop strategies regarding how to deal with the NPI. While reporting of the chemical emissions is mandatory from the year 2000 onwards, any voluntary disclosure strategy adopted now could constitute risk minimisation and positive public relations. For this reason, this issue would be best categorised as having characteristics most consistent with a gaining legitimacy purpose.

Data sources used in establishing this as an important environmental event were federal government working papers, documents on the NPI from the EPA, media releases and speeches from the Federal Minister for the Environment. Each of the corporations in the study emits toxic waste required to be included on the NPI. Therefore the NPI, as an event related to the broader issue of toxic emissions to the air, is considered an environmental issue of importance to the corporations in this study.

#### **9.2.4.4.2      *Maintaining Legitimacy***

##### ***Issue - Greenhouse Gas Emissions and Related Effects***

The greenhouse gas, climate change and global warming issues have enjoyed a high public profile over the last decade. These related issues have attracted much publicity and resulted in debates between groups of scientists supporting and debunking global warming and greenhouse theories. There is little or no debate amongst environmentalists that the greenhouse gas issue and its related

effects is the major environmental issue facing the planet today. The main focus of the 1997 Kyoto environmental summit was greenhouse emissions and climate change, and it attracted world-wide press coverage. The Australian government, claiming to be representing the economic interests of corporate Australia and the social interests of the Australian people, came in for harsh criticism from environmental groups and other governments for seeking (and gaining) an allowance to increase the percentage of greenhouse gas emissions Australia produced between now and the year 2010.

According to the ABS (1997) the Greenhouse effect has been of continuing concern to Australian society. While the issue peaked in importance in 1992 when it ranked 10<sup>th</sup> as an environmental concern, it was still in the top 20 environmental concerns in 1996.

The emission of greenhouse gases and its claimed environmental effects would appear to be an issue that fits neatly into a legitimation maintenance strategy. In response to pressure from governments, environmentalists' and society's views from around the world, corporations, especially those which have the greatest impact on greenhouse gas emissions, have been forced to put the greenhouse issue on the corporate social agenda.

### ***Event - The Greenhouse Challenge***

The federal Labour government in Australia helped to set up "The Greenhouse Challenge" in 1995, in order to promote the reduction of greenhouse gas emissions. The Greenhouse Challenge is an continuing innovative program designed to reduce greenhouse emissions by Australian industry. It is a joint initiative of the Commonwealth Government and Australian industry. Australian industry accounts for about 45 per cent of Australia's national greenhouse gas emissions.

Through Greenhouse Challenge, enterprises are encouraged to take a voluntary and self-regulatory approach to emissions reductions. This most commonly involves improvements in energy and process efficiency. Greenhouse Challenge aims to achieve maximum greenhouse reductions, while at the same time enhancing the competitive advantage of business. It is claimed to be a win for business and a win for the environment

Each of the three corporations used for this investigation are members of the Greenhouse Challenge and have signed agreements to attempt to help capture the capacity of industry to abate its greenhouse emissions, mainly by improving efficiency in energy use and processing. The three relevant industry associations have all published information on the Greenhouse Challenge and noted that one of the environmental aims is to tackle the greenhouse problem. Each of the corporations themselves also devoted space in prior annual reports and other publications to the Greenhouse Challenge and the greenhouse issue itself.

#### **9.2.4.4.3      *Repairing Legitimacy***

As discussed in Section 4.3.2, this organisational response relates primarily to events rather than to issues. These events tend to be corporation and/or industry-specific and usually attract a high degree of public exposure, thus creating certain public expectations. Main stream media sources and other data sources from 12 months prior to the interviews (the time frame chosen for the issues or events) were scanned for links between environmental events and the corporations or industries in the study considered significant enough to influence generally held environmental values. It became obvious that there were no environmental events of a significant enough magnitude which required Corporations A and C to adopt an organisational response for the purpose of repairing lost legitimacy.

Rather than choosing an event for each of these corporations and attempting to justify any claim that it belonged in the “repairing” category, it was deemed better to acknowledge that no such event existed. In order to achieve some consistency in results for the identified purpose of repairing legitimacy for each of the corporations in the study, a fictional environmental event, specifically related to the corporations, was devised. A description of the fictitious events and the related interview questions used for Corporation A is included in Appendix L and for Corporation C is included in Appendix N. A description of these events and the interview questions were provided to the interviewees during this section of the interview in the same manner as they were in the vignettes in Phase III (a).

For Corporation B, the continuing environmental damage and social dislocation caused at one of its mine sites, was construed as meeting the requirements of an environmental event consistent

with requiring Corporation B to repair lost legitimacy. This event has attracted widespread media attention over the last 5 years and continues to do so. In addition to this, internal corporation publications (including prior annual reports) and media releases had consistently contained references to this event over the last 5 years. The interview questions related to this event are included in Appendix N. Note that in this case the description of the event was not given to the interviewees.

#### **9.2.4.4.4      *The Intention of the Annual Report Disclosure Approaches Provided***

A discussion of the reasons for including the four annual report disclosure approaches used during Phase III (a) was covered in Section 9.2.4.3.4. Along with these four disclosure approaches (Table 9.2) a fifth approach which reflects an intention to *attempt to alter society's expectations of the corporation or its performance* was added (Approach C in Table 9.3).

This is similar to the intention to alter society's *perceptions* of the corporation or its performance, but different enough to warrant further investigation. This type of disclosure could take the form of a plea from the corporation for society not to expect "too much" from the corporation. A disclosure reinforcing that the main reasons for the corporation's existence are not social or environmental would also fit in with this approach. To illustrate, Table 9.6 contains the annual report disclosure approaches included in Questions 5, 7 and 8, associated with the Greenhouse Challenge event, which were provided for the purpose of *maintaining legitimacy*.

**TABLE 9.6 - PHASE III (B) - SAMPLE OF THE INTENTION OF ANNUAL REPORT DISCLOSURE APPROACHES - THE GREENHOUSE CHALLENGE**

Intent of disclosure approach	Wording used in interview questions
A. Avoid	Make no disclosure regarding the Greenhouse Challenge.
B. Attempt to alter social values	Identify <i>the corporation's</i> commitment to the Greenhouse Challenge concept, but include some reference to the unproven nature of many theories linking environmental effects to greenhouse gas emissions.
C. Attempt to alter society's expectations of the corporation or its performance	State that <i>the corporation</i> continues to work at reducing greenhouse gas emissions as part of the Greenhouse Challenge concept, but mention that even when using the most current of technologies, <i>the corporation's</i> business operations necessitate the current emission of some greenhouse gases for its continued economic success.
D. Attempt to alter society's perception of the corporation	Concentrate on <i>the corporation's</i> environmental achievements in other important areas. i.e., community right to know, environmental management plans, donations to charities, etc.
E. Conform to society's values	Indicate that the views of society are vital to <i>the corporation's</i> continued success. Any future decisions on reducing the corporation's greenhouse gas emissions will be primarily influenced by the prevailing social view at the time.

In reference to the Greenhouse Challenge, the attempt to alter society's *expectations* is different from an intention to alter society's *perceptions* of the corporation. The main differences, as illustrated in Table 9.6, between these two intentions are that in attempting to alter expectations of the corporation or its performance, some specific mention of the issue/event along with a rationalisation or justification for the corporation's actions or position takes place. When attempting to alter *perceptions* only, it quite often does not necessitate specific mention of the issue or include a rationalisation or justification. This distinction has been maintained in devising this disclosure approach for each of the real-world cases.

The decision to add this disclosure approach in Phase III (b) was based on the findings of Phase III (a) in conjunction with the extant literature on environmental disclosures and legitimacy

theory. Reasons for its addition are discussed in detail in Section 9.4.7 on the implications for subsequent data collection.

As was the case in the vignettes, questions asking the respondents to choose between and then rank disclosure approaches were provided. Based on an analysis of the findings from the vignettes in Phase III (a) two extra questions were asked in the real-world cases. A question was designed to uncover how likely it was that more than one of the disclosure approaches would be included in the annual report. The interviewees had to choose from a 5 point scale (very likely, likely, possibly, unlikely, very unlikely). If the interviewees selected an option from very likely to possibly, they were then required to tick the disclosure approaches they believed would ultimately be used in the annual report. An explanation for the choices made was required for both these questions.

Asking these questions allowed for the possibility of more than one approach being used for each response purpose and therefore should strengthen any conclusions about any relationships that exist between the issue/event, the purpose of the response and the intention of the annual report disclosure approach chosen.

#### **9.2.4.4.5      *Other Interview Questions***

For each interview in this section an introductory question (Appendix K) was asked about managers' perceptions about the environmental reputation of the corporation. This question was not issue or event-specific. It was asked once for each corporation as the first question before the specific issue/event questions were introduced. It was considered important to gain an idea of what the interviewees' perceptions of the environmental reputation of the corporation were, as it was anticipated that the responses to the issues/events in the subsequent real-world cases, especially in relation to maintaining legitimacy, could differ, depending on this perception.

Two open-ended questions were asked, which sought some general ideas about how the interviewee would be likely to treat the issue/event in the current annual report and any specific ideas they had about the actual tone and wording of any likely disclosure. These were asked prior to the interviewees being supplied with the five annual report disclosure approaches. Asking these

questions before getting the interviewees to choose from the annual report disclosure approaches permitted the interviewees to formulate their own ideas about environmental disclosure decisions in response to the issue/event. This allowed for the possibility of uncovering types of disclosure approaches other than those supplied in subsequent questions. It also enabled the investigator to cross reference answers to these questions with the answers to the subsequent closed questions pertaining to the five disclosure approaches provided.

### **9.3 ANALYSIS TECHNIQUES**

Documentary data were collected as source information for the construction of the vignettes and real-world cases to be used during the interviews. The data collected related to environmental issues/events and in this context, the sources of the data needed to be credible indicators of public pressure in relation to these issues/events. Once identified, these data did not need to be subsequently analysed in order to achieve the aims of the investigation.

Content analysis reduction and display techniques, in the form of an analytic hierarchy process using a 'trade-off' concept (Saaty, 1980) were used for analysing the quantifiable data collected from the closed interview questions. Qualitative data from the interviews were analysed to detect recurring themes and patterns and were merged with the quantitative analysis to enhance any conclusions reached. In addition to some of the analysis techniques used during Phases I and II of this investigation, a two-variable conceptually ordered display matrix, based on a design discussed by Miles & Huberman (1994) was also developed to assist in establishing relationships between the purposes of the corporate response (gain, maintain and repair) and the intention of the annual report disclosure.

#### **9.3.1 DOCUMENTARY DATA**

The documentary data, referred to during this phase of the investigation, were used to ensure that the fictitious and real-world environmental issues/events that were developed and/or chosen were able to be justified on two fronts: first, that the environmental issues/events were able to be justified as being potentially legitimacy threatening issues/events; and second, they could be clearly designated to a specific corporate response. The basic analysis technique adopted was that each of these sources was thoroughly perused to identify recurring references to particular

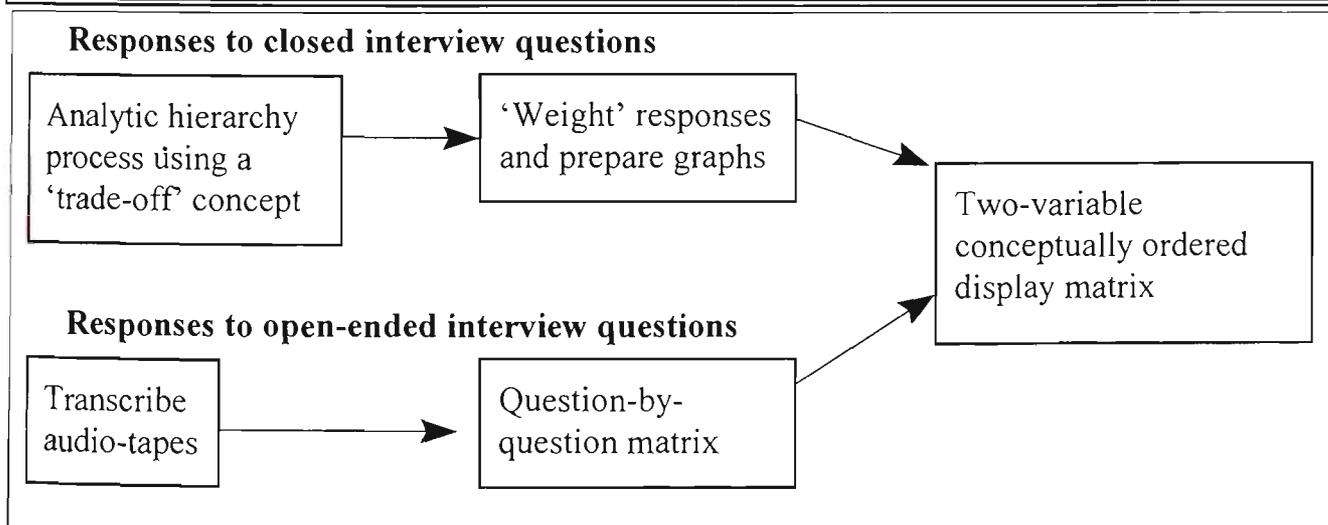
environmental issues/events. This was done to help choose relevant issues/events for the vignettes and the real-world cases and to help in determining the characteristics and external pressures to include in the vignettes (Sections 9.2.4.3 and 9.2.4.4)

### 9.3.2 INTERVIEWS

The interview data were analysed in two distinct stages: first using quantifiable analysis techniques; and second, using qualitative techniques. Miles & Huberman (1994) refer to this qualitative-quantitative linkage as ‘quantizing’ and two levels of quantizing were used. The first level refers to converting answers into ranks or scales and the second level compares qualitative information (transcribed interviews to open-ended questions) to these scaled and ranked answers.

The techniques used to analyse the quantifiable data (answers to closed questions) and qualitative data (answers to open-ended questions) are illustrated in Figure 9.1. The use of a two-variable conceptually ordered display matrix, which was developed by joining two types of matrices described by Miles & Huberman (1994), was the technique used as the ‘quantizing’ link for the answers to the closed and open-ended questions.

**FIGURE 9.1 - PHASE III - DATA ANALYSIS: INTERVIEW QUESTIONS**



#### *The Analytic Hierarchy Process (AHP)*

Analysis conducted on the responses to closed questions in the vignettes and real-world cases, which required the interviewee to indicate the likelihood of choosing a particular annual report disclosure approach and then rank those choices in order of preference is consistent with a

technique known as the analytic hierarchy process (Saaty, 1980). The AHP is a technique developed to provide a systematic means of quantifying decision-maker perceptions in situations involving primarily qualitative data.

In requiring the interviewees to indicate the likelihood of choosing a particular annual report disclosure and then indicating a preference for these disclosures, a 'trade-off' concept was used. Using a 'trade-off' concept, users' perceptions are captured on a systematic pair wise basis across the variables in the hierarchical structure (Weill et al, 1996). In this investigation, for each annual report disclosure approach under consideration, the interviewee was required first; to indicate a preference for a particular disclosure approach; and second, to provide a *measure of preference* towards the disclosure approach. This technique was used only for the closed questions which linked the likelihood of choosing an annual report disclosure to a ranked preference.

### ***Weighting the responses***

Closed questions, which utilised a Likert scale for responses, were analysed by giving numerical weights to the responses. These 'weights', either in raw numbers or expressed as percentages, were reconstructed into graphical form when discussing the findings and drawing conclusions. This made it easier for the investigator to get a feel for any patterns in the responses and these values were used as a starting point in analysing the qualitative data.

A spreadsheet software program (Microsoft Excel) was used to apply numbered weights to the responses and to construct the graphs. In Figure 9.2 this technique is illustrated using the responses to Question 1, from the vignettes (Appendices G - I), about the significance of the environmental issue/event to the corporation. The graphical representations appear in Figure 9.5.

**FIGURE 9.2 - EXAMPLE OF WEIGHTING OF RESPONSES TO CLOSED QUESTIONS**

Vignettes								
QUESTION 1 - SIGNIFICANCE OF ISSUE/EVENT TO SOCIAL STANDING OF THE COMPANY								
5	Extremely Significant							
4	Very Significant							
3	Significant							
2	Moderately Significant							
1	Not Significant							
Corporation		A		B		C		Average Significance
Interview No.		14	15	16	17	18	19	
Case/Purpose								
ABC - Gaining		5	1	5	3	5	5	4.0
XYZ - Maintaining (high)		5	5	3	5	5	3	4.3
MILITARY - Maintaining (low)		1	3	2	2	4	2	2.3
ASHFORTH - Repairing		5	5	5	5	5	5	5.0

This technique was especially useful for the closed responses about the likelihood and preference for the intention of the annual report disclosure approaches. Assigning a numerical value and then weighting the values made it easier to isolate the relative importance the interviewees attached to the various annual report disclosure approaches in relation to the specific purpose of the response.

Giving the responses a value and then averaging them also helped to ascertain the most 'popular' responses and this helped guide what qualitative data to look for to corroborate (or refute) these responses. It can be seen that, for the purpose of gaining legitimacy for the ABC Company Ltd, the interviewees believed the environmental issue/event, as described in the vignette, was weighted at an average significance of 4 from a possible total of 5 which equates with the environmental issue/event being very significant.

In later analysis, the significance of the issue/event, for the purpose of gaining legitimacy, was compared with the likelihood of choosing a disclosure approach and the ranking of the annual report disclosure approaches. The significance of the issue/event, in respect of gaining legitimacy, was also compared with the significance of the issues/events which were associated with maintaining (high and low) and repairing legitimacy, to help discover if any patterns emerged

between the significance of an issue/event, the purpose of the response and the intention of the annual report disclosure approach.

The qualitative data (interview transcripts) were examined to look for recurring reasons this issue/event was considered very significant. It was important, however, not to ignore individual responses which deviated significantly from the frequent responses. For example, in Interview 15, the interviewee thought the issue was not significant at all. Examining the qualitative data allowed the investigator to discover reasons why this was not considered significant that other interviewees either had not considered or had not considered important. A judgement was then made as to the relative importance of these reasons compared to those provided by the majority of interviewees who decided that the issue/event was very significant.

The values, averages and percentages, when viewed in isolation, were most useful in identifying patterns and themes. They were also most useful as an indication of what to search for when analysing qualitative responses to the open-ended questions.

### *Audio-tape transcription*

The thirteen audio-taped interviews were transcribed using a professional transcription service. Both hard and disk copies of the transcribed interviews were supplied to the investigator. Of the thirteen transcripts, six were randomly chosen and were proofread. The same transcription service was used during Phase II and III. There were very few transcription errors found in Phases II and III. This, coupled with the more 'closed' style of many of the Phase III questions, resulted in the decision being made that it was not necessary to send copies of the Phase III transcripts to the interviewees to verify the accuracy of the contents.

### *Question-by-question matrix*

Answers to the open-ended questions were placed in a question-by-question matrix which allowed the reduction and display of the interview data in a form which enabled identification of key points and recurring themes. The matrix included selected quotations, from the interviews, considered pertinent to the question and, where applicable, researcher memos were included in the matrix to assist in crystallising themes and patterns. Appendix F contains a sample of a question-by-question

matrix used during Phase II of this investigation. The matrix was explained in detail in Section 8.4.2.2.

### *Two-variable conceptually ordered display matrix*

The final step in the data analysis sought to join the quantifiable and qualitative data. A *two-variable conceptually ordered display matrix* was developed to reduce and display the data in a form which helped to identify associations between the specific purposes of the corporate response (gain, maintain, repair) and the intention of annual report disclosures. The matrix is a combination of what Miles & Huberman (1994) refer to as a *conceptually ordered display* and a *two-variable case ordered display*.

Miles & Huberman (1994) describe a conceptually ordered display (also referred to as a conceptually clustered matrix) as:

*“having its rows and columns arranged to bring together items that ‘belong together’. This outcome may happen in two ways: conceptual - the analyst may have some a priori ideas about items that derive from the same theory or relate to the same overarching theme; or empirical - during early analysis you may find that informants answering different questions are tying them together or are giving similar responses.” (p.127)*

Both of these ‘ways’ were relevant to this investigation. First, the investigator believed that a relationship existed between the purposes of any corporate response and the specific intention of annual report disclosures. Second, there was an indication, during Phase II, that answers to different questions supported legitimacy theory and ideas were introduced during Phase II that were subsequently investigated during Phase III.

Given that the focus in this phase of the analysis was concentrated on establishing the extent of relationships between two main variables, the purpose of the response and the intention of the annual report disclosure, a *variation* of Miles & Huberman’s (1994) two-variable case ordered display was conducted. Miles & Huberman (1994) state that this method:

*“is very useful in studying the relationships between two variables thought to be associated, but where the direction of causality is unknown or ambiguous”*  
(p.195)

The variation implemented for this investigation was that the display was not done on a ‘case’ basis in the way Miles & Huberman (1994) described ‘cases’. Using their description, the ‘cases’ would have been the corporations and the interviewees, however, the ‘cases’ in the developed matrix were the specific purposes of gaining, maintaining and repairing legitimacy. The known variable was the purpose of the corporate response and the three ‘cases’ (gain, maintain, repair) were ordered on that variable. The intention of the matrix design was to aid in establishing relationships between these purposes and several aspects (mainly the alternative disclosure approaches) of the lesser known variable, the intention of the annual report disclosures.

Two *two-variable conceptually ordered display matrices* were developed. The first included the data collected during Phase III (a) from the four vignettes and the second included the data collected during Phase III (b) from the real-world cases. An illustration of the matrix developed to help analyse the data from Phase III (b) is provided in Figure 9.3.

**FIGURE 9.3 - TWO-VARIABLE CONCEPTUALLY ORDERED MATRIX: RELATIONSHIPS BETWEEN PURPOSE OF THE CORPORATE RESPONSE AND ANNUAL REPORT DISCLOSURE APPROACHES**

Influencing factors	Significance	Avoid		Alter values		Alter expectations		Alter perceptions		Conform		Prime factors contributing to choice
		Rank	Likelihood	Rank	Likelihood	Rank	Likelihood	Rank	Likelihood	Rank	Likelihood	
Cases												
Gain												
Maintain												
Repair												

The ordered variable, being the purpose of the response (gain, maintain, repair) to the potentially legitimacy threatening environmental issue/event was put in Column 1. These three purposes were depicted as three separate rows in the matrix. The average weighted responses to, the significance of the environmental issue/event, the likelihood of the choice and the ranking of the annual report disclosure approaches, were inserted in Columns 2-11. Column 12 (Prime factors contributing to choice) was used to list the investigator’s comments in (roughly) estimated order of importance, drawn from the direct quotations and researcher memos written in the question-by-question matrix, which indicated the main reasons for choices made.

Reading across the rows gave the analyst a profile of the significance of the issue/event, the annual report disclosures chosen and the reasons for these choices, in relation to each of the specific purpose of the response. Reading down Columns 2-11 allowed the analyst to make comparisons between the significance of the environmental issue/event and the intention of the annual report disclosure approaches chosen.

Reducing and displaying all of the important responses to the vignettes and the real-world cases into two matrices (one matrix for the vignettes and one for the real-world cases), allowed the investigator to recognise recurring patterns and themes as well as isolating reasons for the choices made. Using these two matrices also enhanced the ability to compare the different purposes of the responses with the intention of the annual report disclosures both within and between the vignettes and the real-world cases. It is important to mention that, if referring to the average weighted responses, the question-by-question matrix and the two-variable conceptually ordered matrices did not result in clear patterns, the investigator examined the individual responses in the spreadsheets (See Figure 9.2) in an attempt to help guide the analysis. Analysing these multiple sources of evidence in this way gives greater substance to any conclusions reached and adds credibility to the legitimacy theory model.

#### **9.4 FINDINGS - PHASE III (A) - VIGNETTES**

The style followed to present findings from the data analysis was based on the design of the two-variable conceptually ordered matrix (Figure 9.3). The findings in this phase are reported under seven headings: first, the significance of the issue/event; second, gaining legitimacy; third, maintaining a high level of legitimacy; fourth, maintaining a low level of legitimacy; fifth, repairing legitimacy; sixth, other findings; and seven, implications for subsequent data collection..

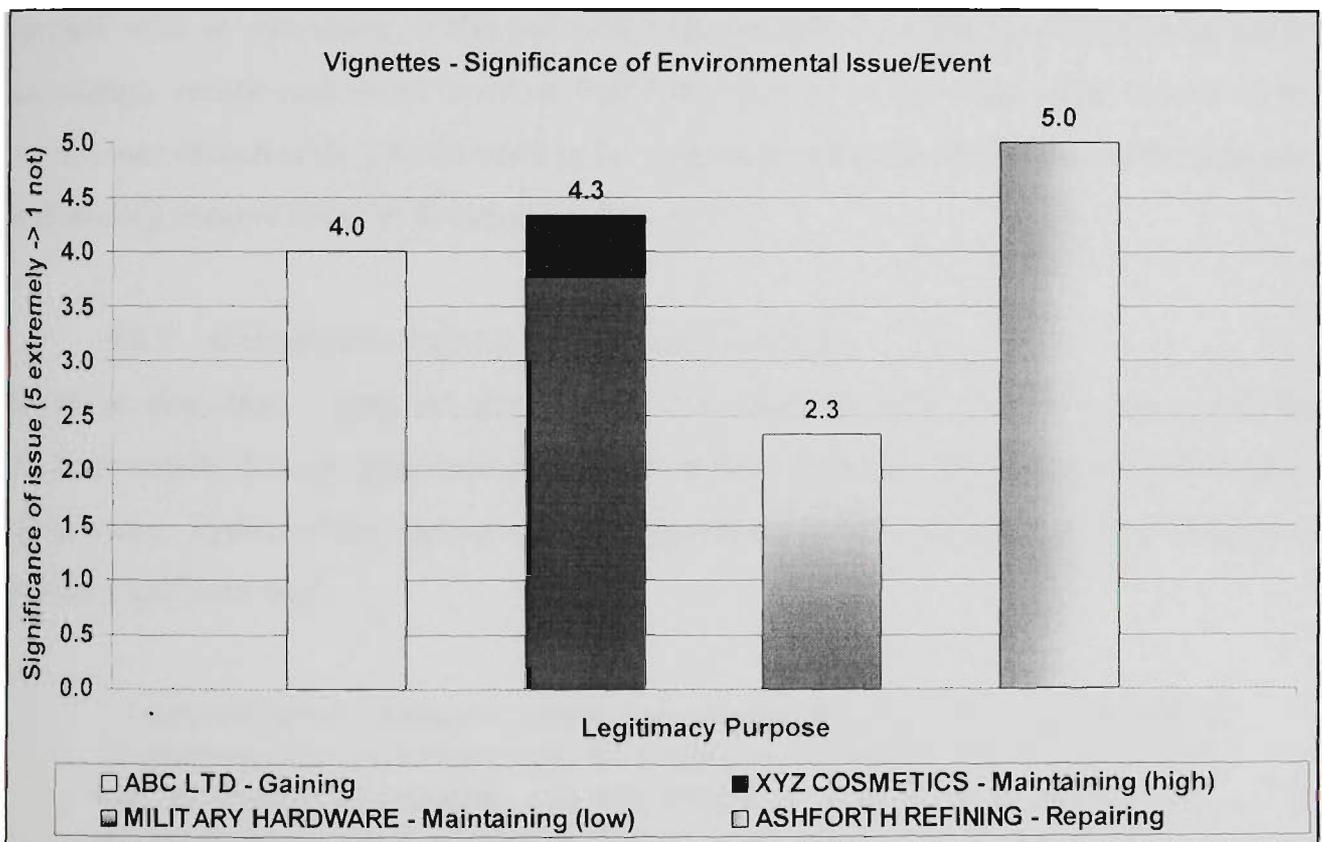
It should be noted that even though the interviewees had only four disclosure approaches to rank in Phase III(a), these were scaled to five for display purposes (Figures 9.5 to 9.8). This was done to allow for easier comparison with both the significance of the issues/events and the likelihood of choosing a response, both of which had five response choices. This also facilitated comparison with findings from Phase III (b), where there were five disclosure approaches to rank.

It should also be noted that a number of direct quotations from the interviews are included in the following discussion. If reference is made, in these quotations, to the annual report disclosure approaches referred to by the interviewees, the letters A - D are included in brackets in the quotations corresponding to the specific approach being discussed (Table 9.2).

### 9.4.1 SIGNIFICANCE OF ISSUE/EVENT

In Figure 9.4 a representation of the perceived significance of the issues/events to the social standing (legitimacy) of the corporations, based on the descriptions supplied in the vignettes, is illustrated. The purpose of presenting this information is to compare the perceived significance of the issues/events to the specific legitimacy purposes, in order to discover whether any patterns emerge which may ultimately influence the annual report disclosure approaches chosen.

**FIGURE 9.4 - PHASE III (A) - SIGNIFICANCE OF ISSUES/EVENTS FOR EACH LEGITIMACY PURPOSE**



Analysis of data clearly indicated, as was expected, that an event which causes immediate negative public reaction (Ashforth Refining Ltd), which required legitimacy to be *repaired*, was considered the most significant of the four issues/events. The maximum average significance score of 5 meant each interviewee indicated the issue was extremely significant. Also predictable were the responses which related to *maintaining legitimacy*. The interviewees considered that the corporation with low legitimacy to begin with (Military Hardware Ltd) would not see the issue of polluting a creek, which ran through a planned housing estate, as being important to the social

standing of the corporation. The average significance score of 2.3 indicated the issue/event was a little above moderately significant. Conversely, they considered that XYZ Cosmetics Ltd, which is portrayed as being environmentally responsible, would view the relatively much lower impact issue, in environmental terms, of using non-recyclable packaging material, as being between very and extremely significant.

The issue/event related to *gaining legitimacy* was also considered to be very significant. This result was, perhaps, a little unexpected, given the “newness” of the issue and the current lack of public awareness about it. Nevertheless, the magnitude of the potential environmental damage coupled with an awareness of the potential negative effects of the issue becoming public knowledge, contributed to the level of significance given to the issue. The impact of the significance of each of the issues/events in the 4 vignettes, related to the purpose of the response, is discussed in more detail in Sections 9.4.2 to 9.4.5.

#### 9.4.2 GAINING LEGITIMACY - ABC COMPANY LTD

It can be seen from Figure 9.4 that the decision taken by ABC Company Ltd to use the environmentally damaging technology resulted in that issue/event being given a high level of significance. Typical of the responses explaining why the issue/event was considered extremely or very significant was:

*“I’D SAY BECAUSE THESE DAYS, THERE’S MUCH MORE INVOLVED IN A CORPORATION’S ACTIVITY THAN JUST ITS PROFITABILITY. I THINK YOU’RE MUCH MORE ACCOUNTABLE TO THE PUBLIC IN GENERAL AND THE PUBLIC GENERALLY HAVE MUCH MORE KNOWLEDGE OF YOUR ACTIVITIES. I JUST DON’T THINK THAT THESE DAYS, THE CORPORATION SURVIVES LONG TERM, BY OVERLOOKING ITS ENVIRONMENTAL RESPONSIBILITIES” - INTERVIEW NO. 14.*

On the surface the significance given to this issue/event appears somewhat surprising, given that the issue was not yet in the public domain. It might have been expected that given the lack of *current* public pressure, the issue might not have been considered all that significant to the social standing and reputation of the corporation at present but may have been in the future. While very much a minority view, one interviewee supported this in saying:

*"THE TECHNOLOGY HASN'T HAD ANY MAJOR IMPACT YET AND THE SECRETIVE NATURE OF THIS ISSUE AT THIS STAGE WOULD NOT MAKE IT CURRENTLY SIGNIFICANT, ESPECIALLY IN RELATION TO PUBLIC IMAGE OR DISCLOSURE OPTIONS." - INTERVIEW No. 15*

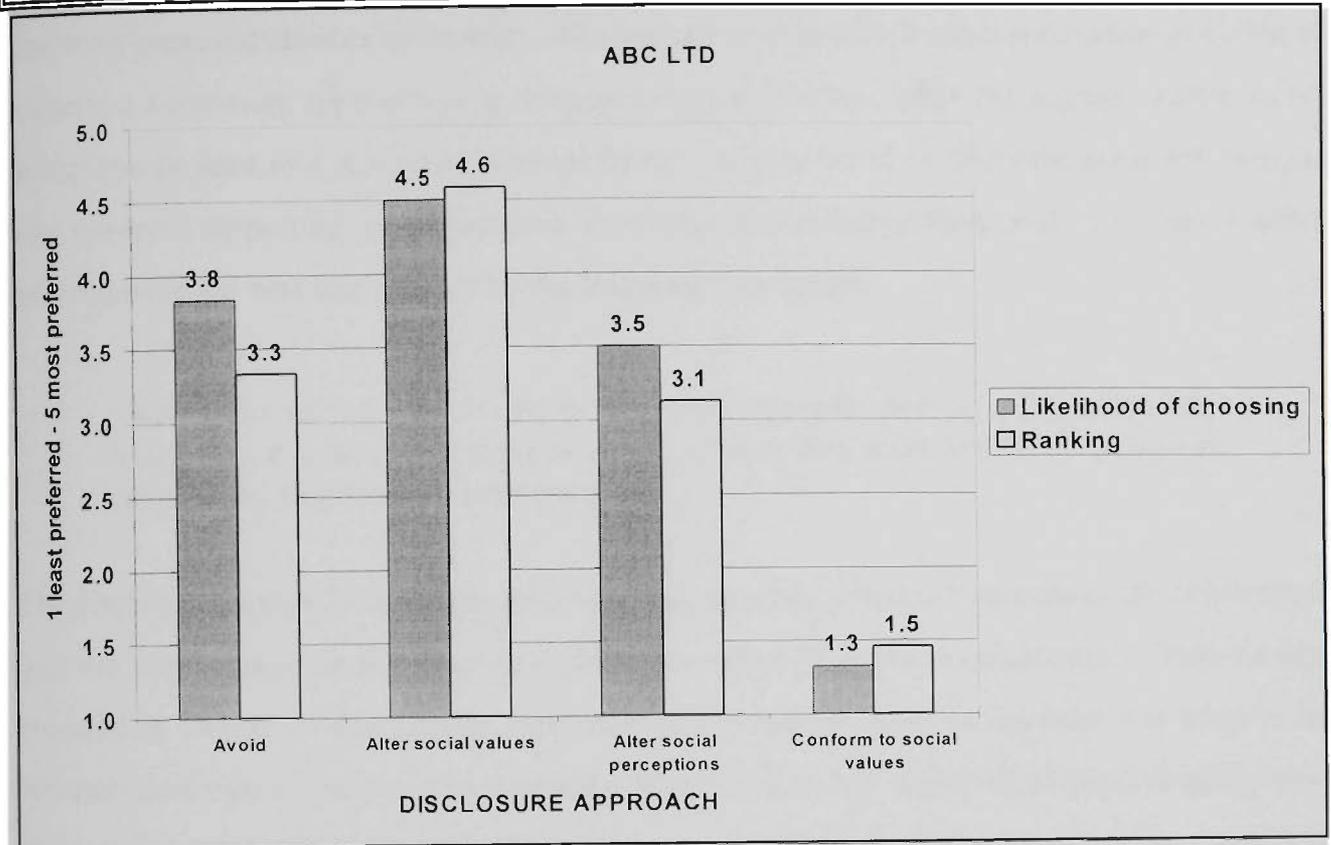
If the majority of the interviewees had held this view, one would expect that the average significance would have been lower than it was and the legitimation tactic adopted would most likely be an avoidance one and the resultant annual report disclosure approach one would expect is that no disclosure would be made.

It is quite possible that it was the fear of a *future legitimacy threat* that elicited responses consistent with a higher level of significance than would have been the case if only the present level of legitimacy was a concern. The question did not mention *future* social standing, but the responses indicated that this was a factor in deciding the significance of the issue/event and therefore would have influenced the choice of legitimation tactics and annual report disclosures.

*"AND SO REALLY I THINK THAT YOU'D BE VERY VULNERABLE IN THE FUTURE QUESTIONING FROM YOUR SHAREHOLDERS. IT'S NOT GOING TO HELP YOU IN TERMS OF YOUR SHARE PRICE IN THE LONG TERM." - INTERVIEW No. 19*

In Figure 9.5, the responses indicating the ranking and likelihood of the annual report disclosures, for the purpose of gaining legitimacy, in respect of this issue/event are presented. There was little difference when comparing the likelihood of the interviewee choosing altering social values and conforming approaches to the ranking of these approaches. Some differences, which require further explanation, are apparent when comparing the likelihood and the ranking of the avoidance and alter social perceptions responses.

**FIGURE 9.5 - PHASE III (A) - GAINING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



The most obvious finding from this analysis was the preference for the disclosure intended to alter social values. It was highly likely this would be chosen and when forced to rank alternative disclosure approaches, this approach was even more clearly preferred. Attempting to alter social values is a pro-active strategy which suggests the corporation may wish to get its message across before the issue becomes more 'public' and less controllable by the corporation.

*"(B)...RIGHT, BECAUSE YOU HAVE TO EXPLAIN WHAT YOU'RE DOING. THE POINT IS YOU HAVE TO BACK UP THE STANCE YOU'VE TAKEN - PREVIOUSLY. SO YES, YOU'RE DOING IT - YOU'RE EXPLAINING THE COST CUTTING EFFECT.... AND YOU DON'T GET INTO OTHER STUFF. THAT'S ALL YOU NEED TO DO IS PUT THAT BIT IN AT THIS STAGE - IN THE ANNUAL REPORT." - INTERVIEW NO. 18*

The high likelihood given to the avoidance approach was not unexpected considering that the issue in the case was not known by the general public and it is logical to think that the corporation would wish to restrict the public's knowledge of this event as long as it could. When ranking the approaches, however, this choice did lose favour relative to the intention of altering social values.

This suggests that while making no disclosure was attractive, the significance of the issue prompted a more pro-active response, rather than a reactive one. In many ways, however, these two most preferred choices are at odds. The avoidance approach implies a management style of secrecy, a do-nothing approach or an attempt to buy some time, while the attempt to alter social values can be seen as a pro-active attempt by the corporation to confront the issue and bring it into the open, by putting the corporation's own positive interpretation on it. Reasons to make no disclosure are best summed up by the following quotation:

*"BASICALLY BECAUSE I FIGURE IN THIS CORPORATION THAT AS A MANAGER YOU WOULD GO THE NO DISCLOSURE MODE. (A) I MEAN YOU HAVE NOTHING TO GAIN BY DISCLOSING THIS NOW." - INTERVIEW NO. 15*

The disclosure approach consistent with an attempt to alter social perceptions of the corporation was the third ranked choice, not far behind the intent to make no disclosure. Two factors emerged in respect of this choice: first, the environmental issue in the case was seen to be substantial enough to deserve more than just a 'window dressing' approach of merely highlighting the past social and environmental achievements of the corporation; and second, it was noted that this approach could be chosen in conjunction with attempts to alter social values, or as a disclosure option, not necessarily linked to this, or any other specific, environmental issue/event.

*"YOU MIGHT DO (C) ANYWAY, BUT YOU MAY BE MORE LIKELY TO DO THIS IF YOU WANTED TO SOFTEN THE AUDIENCE FOR THE FUTURE." - INTERVIEW NO. 15*

It was clear that the least preferred disclosure approach was to conform with what 'society' expected. This was not unexpected as the facts of the case indicated that the decision had been made and the economic viability of the corporation was questionable if the new technology was not used. References to shareholders, governments and employees, in relation to the significance of the issue, suggested that another reason that this was clearly the least supported choice was that 'society' as a homogeneous group, was not an important 'conferring public' in respect of gaining legitimacy.

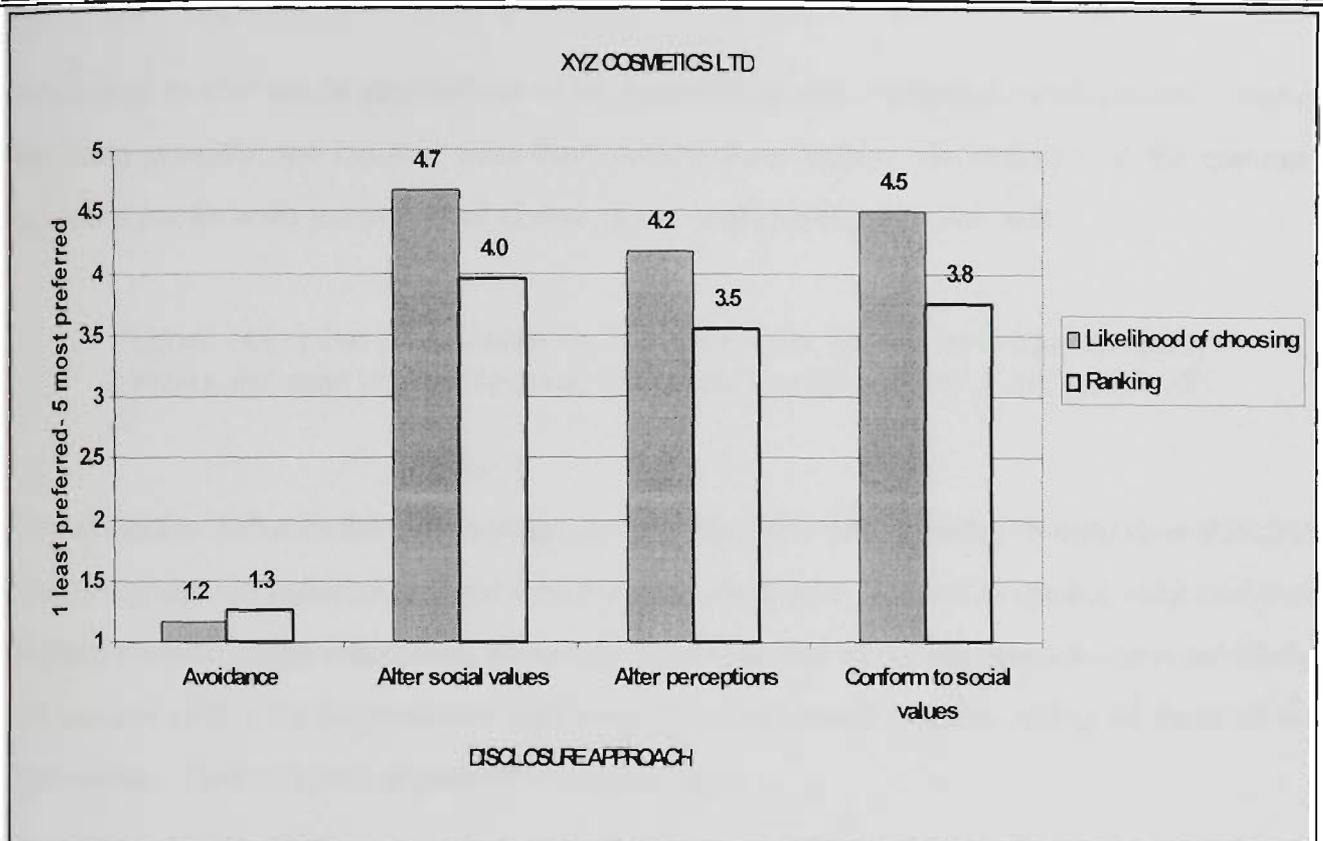
### 9.4.3 MAINTAINING LEGITIMACY - HIGH - XYZ COSMETICS LTD

The decision to use un-recyclable plastic packaging instead of a paper-based packaging is, on the surface, not an issue/event which has the potentially environmentally damaging impact and consequences of the technology ABC Company Ltd decided to use. Yet, the interviewees indicated that for XYZ Cosmetics Ltd, the significance of this issue is greater than that of the issue/event described for the ABC Company (Figure 9.4). The relative importance of this issue to the legitimacy of the corporation relates to the image and reputation XYZ has deliberately established, together with the purpose of any response, to maintain its already high environmental reputation.

*"I WOULD SAY IT'S EXTREMELY SIGNIFICANT BECAUSE IT HAS PUT ITSELF ON A VERY HIGH PEDESTAL AND THEREFORE THE LEVEL OF SCRUTINY THAT IT GETS ON WHAT IN OTHER PLACES WOULD BE FAIRLY SMALL MISDEMEANOURS, PUTS IT A LOT HIGHER UP (ON THE SIGNIFICANCE SCALE)" - INTERVIEW NO. 15*

Clearly the disclosure approach least likely to be chosen was to avoid the issue and make no disclosure (Figure 9.6). Each respondent identified that the reputation and beliefs of this corporation determined it would not be an option to avoid *any* environmental issue brought to its attention.

**FIGURE 9.6 - PHASE III (A) - MAINTAINING LEGITIMACY (HIGH): LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



In all but one answer, the probability of choosing one of these three disclosure options was 'likely to highly likely'. There was not a distinct preference for any of the other three approaches, as indicated by the closeness of the average likelihoods of choosing these approaches. The ranking of the approaches failed to clarify the situation. This demonstrated that, while the issue was very significant, no one legitimation tactic and disclosure approach was clearly preferable to maintain the high level of legitimacy the corporation enjoyed.

The most preferred approach was to attempt to alter social values by explaining the practical reasons for the decision to change the packaging. This confirms that the interviewees perceived that XYZ believed it enjoyed a high level of legitimacy. The feeling was that it would be unlikely to risk losing this unnecessarily and therefore the decision about the packaging would not have been made in the first place without due consideration of its environmental reputation and legitimacy. The popularity of this disclosure approach indicated that the interviewees believed

that XYZ is a corporation confident enough of its image to speak from a position of knowledge and authority.

Attempting to alter social perceptions of the corporation and conforming with society's wishes were also possible options and were both ranked accordingly. An example of the common argument put forward in support of choosing the conforming approach was :

*"YES WE ARE GOING TO RESPOND TO PUBLIC OPINION. WE'RE DEFINITELY GOING TO DO THAT, BECAUSE THAT IS THE BASIS ON WHICH WE SURVIVE (D)". - INTERVIEW NO. 17*

The 'closeness' between the preferred approaches, along with the qualitative analysis in this case, clearly highlighted indecision about which approach to take, but just as clearly indicated that, perhaps because of the indecision, including more than one of the approaches was most likely. All but one of the six respondents suggested that they would consider using all three of the approaches. This was best explained in the response:

*"I THINK THE WAY TO REMEDY THIS ISSUE IS TO SIMPLY EXPLAIN THE PRACTICAL SOCIAL AND ECONOMIC REASONS FOR DECISIONS ON THE BANNING OF OUR NORMAL PAPER PACKAGING IN FAVOUR OF PLASTIC (B). WE WOULD THEN GO ON TO TALK ABOUT ENVIRONMENTAL INITIATIVES THE CORPORATION'S ADOPTING (C) AS PART OF THE SAME DISCLOSURE. I THINK THEN WE COULD SAY, BECAUSE IT FLOWS ON QUITE SIMPLY, THAT IF THE PUBLIC OPINION DOESN'T LIKE THE APPROACH WE'VE TAKEN, THEN WE'RE HAPPY TO CHANGE IT (D). BUT CLEARLY, WE THOUGHT THAT WE'RE ACTING ON CUSTOMER FEED-BACK. PERHAPS WE HAVEN'T BEEN - HAVEN'T MADE THE RIGHT JUDGEMENT THERE, BUT THE TONE DEFINITELY WOULD BE INDICATING THAT IF THE PUBLIC OPINION HAD BEEN MISREAD BY US OR THE POSITION MISJUDGED, WE'D CERTAINLY CHANGE OUR ATTITUDE TO IT. **WE WOULD PROBABLY USE ALL THESE APPROACHES**<sup>26</sup>. - INTERVIEW NO. 16*

#### **9.4.4 MAINTAINING LEGITIMACY - LOW - MILITARY HARDWARE LTD**

This issue/event was considered to be only of moderate significance (Figure 9.4). The general reasons given for this related to the low existing legitimacy of the corporation, the fact that it appeared to have government support and because the issue/event was unlikely to affect economic performance greatly.

---

26

Emphasis added by author.

*"THIS CORPORATION IS GOING TO CONSIDER THIS MODERATELY SIGNIFICANT, BECAUSE THE PEOPLE AFFECTED AREN'T NECESSARILY THE CUSTOMERS. THEY'VE GOT LEGISLATIVE APPROVAL FOR WHAT THEY'RE DOING, GOVERNMENTS AREN'T GOING TO TELL THEM TO STOP THEIR ACTIVITY. THE CORPORATION ALSO AIDS NATIONAL DEFENCE AND ALSO IS GENERATING PUBLIC WEALTH." - INTERVIEW NO. 17*

One would expect a corporation with the characteristics portrayed in this vignette not to be too concerned about legitimacy motives in annual report disclosures because of, amongst other things, the lack of significance given to this issue/event. The idea of communicating a message consistent with intentions to conform with social values and attempts to alter social values, were not likely to be chosen. These two approaches were, almost without exception, the two lowest ranked and least likely options (Figure 9.7). Typical of the responses were:

*"POPULAR OPINION WOULD NOT AFFECT THIS CORPORATION AT ALL, OTHERWISE THEY PROBABLY WOULDN'T EXIST (D)." - INTERVIEW NO. 15*

*"EVEN THOUGH THIS CORPORATION DOES NOT HAVE MUCH SOCIAL REPUTATION TO LOSE I DON'T THINK YOU WOULD BE DELIBERATELY PROVOCATIVE (B) OR SAY SOMETHING THAT WAS PATENTLY UNTRUE (D)." - INTERVIEW NO. 19*

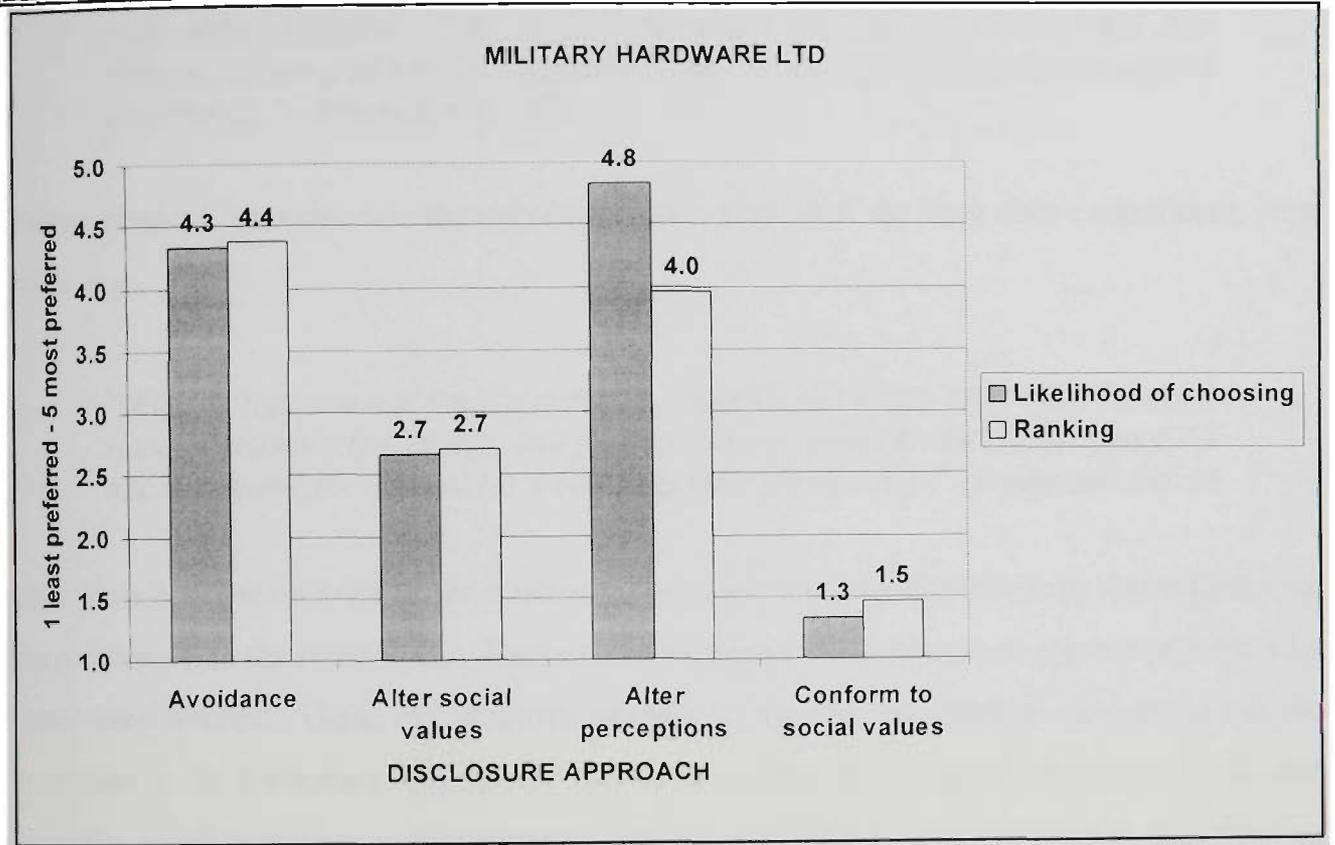
The two most popular approaches were avoidance (making no disclosure) and attempts to alter society's perceptions. The latter was a little surprising considering most of the interviewees did not believe that Military Hardware Ltd needed to worry about social perceptions. Typical of the responses when looking at reasons the corporation would choose not to disclose were:

*"I THINK IT'S HIGHLY UNLIKELY YOU'D MAKE ANY DISCLOSURE. THIS CORPORATION DOES NOT NEED TO DO ANYTHING AS IT HAS A POOR IMAGE ANYWAY (A)." - INTERVIEW NO. 14*

*"THIS CORPORATION DOES NOT NEED TO MAKE ANY DISCLOSURES. THEY HAVE NOTHING TO GAIN (A)." - INTERVIEW NO. 15.*

A recurring theme in arguments supporting no disclosure was that the corporation was complying with all of the current laws and regulations, therefore, it did not need to do any more than that to maintain whatever 'poor' reputation it already had.

**FIGURE 9.7 - PHASE III (A) - MAINTAINING LEGITIMACY (LOW): LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



*"WE'RE DOING EVERYTHING CORRECTLY BY LAW AND HOPEFULLY A LITTLE BIT BETTER THAN THAT. WITH THE WAY THAT PEOPLE KEEP TIGHTENING STANDARDS, IT'S AN ISSUE THAT ACTUALLY SHIFTS TO FUTURE YEARS, SO CERTAINLY THIS YEAR SO I'D SAY NO DISCLOSURE (A)." - INTERVIEW NO. 16*

While avoidance was popular, the approach consistent with seeking to alter society's perceptions actually had a higher likelihood, although a lower ranking, than the avoidance approach. On closer inspection of the data, it was revealed that this was caused by just one of the six interviewees who indicated making no disclosure was the least likely and it was also ranked last. The other five interviewees all ranked making no disclosure as first choice and also scored it a five indicating they would be highly likely to choose no disclosure. Nevertheless, the disclosure approach consistent with altering perceptions was a strong preference. It is interesting to note the one dissenter's reasons why no disclosure was the lowest choice and rank:

*“WHILE THEY REALLY DON’T WANT TO DISCLOSE IT, I MEAN, DISCLOSING IT IS ADMITTING THAT YOU KNOW IT’S REALLY A THING YOU SHOULDN’T DO (A), I WOULD ARGUE THOUGH THAT THIS IS A HOUSING ESTATE, SO YOU’RE NOT GOING TO GET AWAY WITH DOING NOTHING. YOU’RE JUST NOT GOING TO GET AWAY WITH THAT AND SOMEONE’S GOING TO FIND OUT ABOUT IT, SO YOU WOULD BE BETTER OFF DISCLOSING SOMETHING.” - INTERVIEW NO. 18*

The respondent, who also was the only interviewee who rated the issue above significant, went on to say:

*“WELL IF THE CORPORATION’S GOING TO DISPOSE OF WASTE THAT WAY, I WOULD LOOK AT SHARING THE BLAME. IN A WAY YOU’RE PUTTING A BIT OF IT ONTO THE EPA BECAUSE THE EPA’S SAYING IT’S OK TO DO IT THAT WAY (C).” - INTERVIEW NO. 18*

This second quotation emphasised a strategy consistent with shifting blame or ‘decoupling’ the corporation from the issue/event. Decoupling strategies were also given some prominence by other interviewees. These explanations introduced the idea of *altering expectations* of the corporation. In disclosing information indicating institutional support (Approach C) for the activities of the corporation, management may try to maintain the status quo by apportioning blame.

*“IF YOU WERE GOING TO DISCLOSE ANYTHING, I THINK YOU’D BE INCLINED TO SHOW THE SUPPORT YOU HAVE AND YOU ARE REALLY SHIFTING THE BLAME A LITTLE TO THE EPA (C), BUT YOU WOULD PROBABLY IGNORE IT.” - INTERVIEW NO. 19*

If the corporation sought to align itself with the institutions who support it (governments and government authorities), knowing the public do not approve of its activities, they are in essence cultivating a thought in the public arena that perhaps the corporation is not at fault. The corporation has institutional support for its activities, so perhaps it is those institutions who are to blame and the expectations placed on the corporation to act above and beyond the current requirements are not realistic.

It was concluded that while making no disclosure was the highest ranked choice, the idea of disclosing something to deflect attention about the issue was also considered very likely. It seems that the main reason for this appeared to be that at some point in time managers believed a stance

ought to be taken. This stance did not seem to be directly concerned with the existing level of legitimacy of Military Hardware, which was acknowledged to be of little importance, but more of an approach consistent with an 'enough is enough' approach and the corporation is not solely to blame.

#### 9.4.5 REPAIRING LEGITIMACY - ASHFORTH REFINING LTD

By far the most commonly researched legitimization tactics relate to how an organisation responds to immediate threats to its legitimacy. These are usually highly visible public events which demand a public response from the organisation. This case involved a major oil spill in a highly populated area. The corporation reacted quickly and decisively in managing the effects of the spill, which apart from short term inconvenience to a large number of people, appeared to have no lasting environmental effects. The corporation has a solid, if not progressive, social reputation.

All interviewees indicated the issue was extremely significant (Figure 9.4). Three common themes emerged: first, the disruption the event caused the public; second, the fact that it was widely publicised; and third, how this would impact on the reputation of the corporation. Two of the interviewees mentioned the effect on potential customers (boycotts, etc). One said:

*"THEY HAVE TO BE SEEN TO BE HELPING ALL THE AUTHORITIES CLEANING UP AND KEEP IN MIND WHETHER PEOPLE WOULD WANT TO KEEP BUYING THEIR PRODUCT DOWN THE TRACK." - INTERVIEW NO. 18*

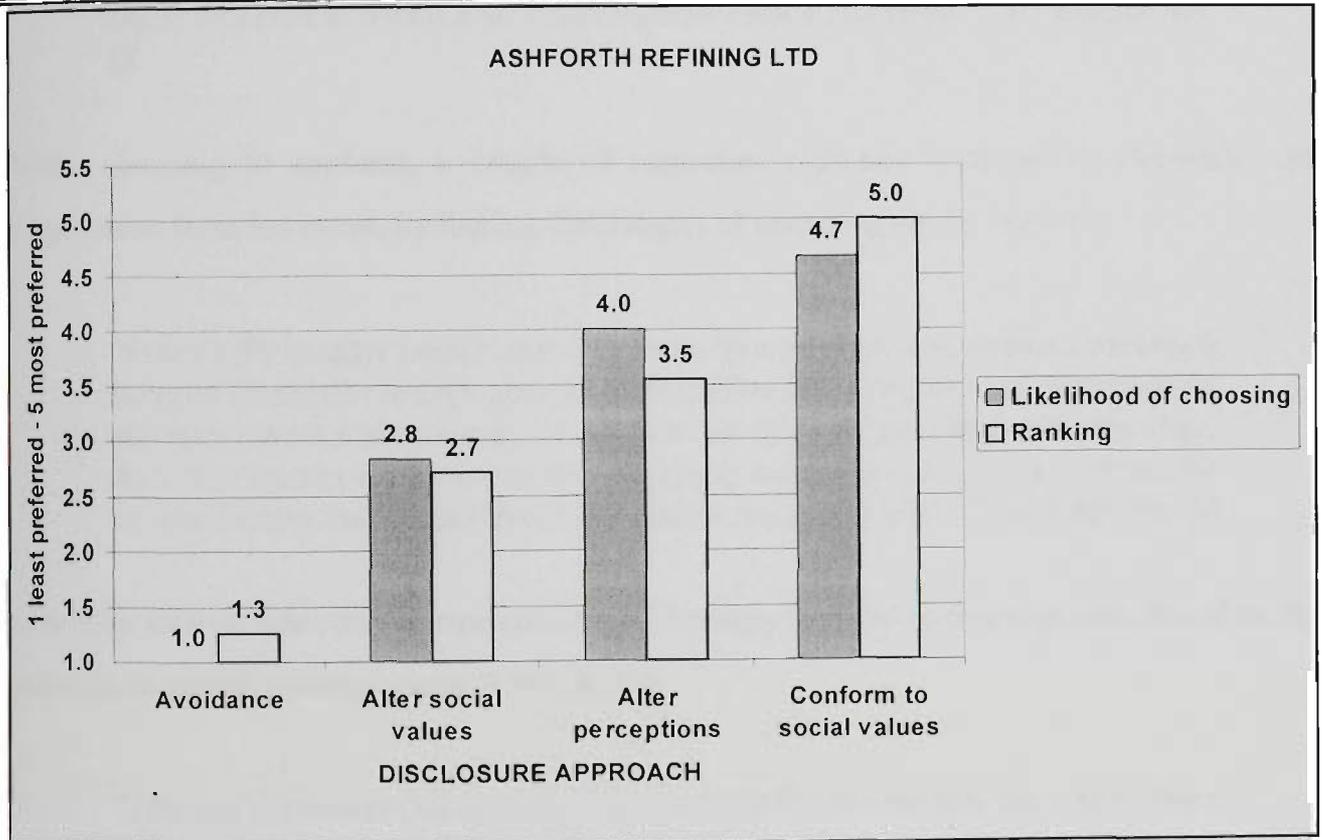
From a more environmental perspective, the perceived importance of major oil spills linked to the repercussions of the Exxon Valdez accident, which occurred 9 years earlier gained some prominence. Three of the interviewees made passing reference to Exxon Valdez and one indicated how important the accident was for oil corporations and the environment in saying:

*"(THIS ISSUE IS) EXTREMELY SIGNIFICANT. THE EXXON VALDEZ HAS PERMANENTLY PUT OIL SPILLS AND RELATED EFFECTS ON THE AGENDA FOR ANY CORPORATION ASSOCIATED WITH MAJOR OIL SPILLS." - INTERVIEW NO. 16*

The two most preferred disclosure options were first, to conform (at least symbolically) with prevailing social values by announcing major investigations into causes of the spill, followed by

promises to implement any recommendations to minimise the chances of a another spill. The second most popular was the approach consistent with attempts to alter perceptions of the corporation by accentuating the positive aspects of the corporation's past social and environmental performance along with apportioning the blame for the accident. This can be seen in Figure 9.8.

**FIGURE 9.8 - PHASE III (A) - REPAIRING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



While there was not a marked difference in the likelihood of these two approaches being chosen, the ranking of the preferred options indicated a significant shift away from altering perceptions to conforming. While there was some indication that both these types of disclosure might be used, this was considered less likely in response to this event than it was for the issue/event described for the purpose of maintaining a high level of legitimacy (XYZ Cosmetics Ltd).

Reasons for choosing the conforming approach centred around the need to be seen to be proactive and to portray the image of a repentant (without directly apologising), responsible corporation and one that was in control of the situation.

*“THE THING IS WHAT YOU WOULD END UP DOING IS JUST SAYING THAT IT HAPPENED AND YOU EMPHASISED WHAT THE GOOD THINGS YOU DID ABOUT IT AND WHAT YOU INTEND TO DO (D).” - INTERVIEW NO. 19*

*“YOU SHOULD ADOPT THE OPEN APPROACH AND NOT TO TRY AND GET OUT OF IT. YOU ARE AT THE PUBLIC’S WILL A BIT HERE, SO DON’T ROCK THE BOAT.” - INTERVIEW NO. 15*

While choosing to conform, a couple of responses indicated a desire to ‘decouple’ the corporation from the event, by linking the dangers of operating in the industry.

*“I THINK (D) IS MOST LIKELY AND I THINK WE’D ALSO INDICATE A WHOLE-HEARTED SUPPORT OF EXTERNAL ENQUIRIES BY AUTHORITIES INTO CONSTRUCTION STANDARDS AND MAINTENANCE STANDARDS FOR THIS SORT OF EQUIPMENT ACROSS THE INDUSTRY, BECAUSE CLEARLY WE’RE NOT DOING ANYTHING DIFFERENT, BUT IT’S HAPPENED TO US, AND I THINK THE WHOLE INDUSTRY HAS TO LEARN FROM IT.” INTERVIEW NO. 16*

One other interviewee voiced some concern at choosing the conforming approach, based on the possible economic consequences of the choice.

*“YOU SEE WITH THAT ONE (D) YOU’D BE THE BRAVE CORPORATION THAT DOES THAT WITHOUT HAVING A GOOD SENSE OF WHAT IT’S GOING TO COST YOU.” - INTERVIEW NO. 17*

The symbolism in choosing this approach was apparent in that most respondents indicated that sending a conforming message was the right thing to do. One went a little further in saying:

*“EVEN IF YOU DON’T FOLLOW THROUGH, YOU HAVE TO TELL PEOPLE THAT YOU ARE GOING TO THOROUGHLY INVESTIGATE CAUSES AND ASSURE THEM YOU WILL BE DOING YOUR UTMOST TO ENSURE IT DOES NOT HAPPEN AGAIN (D)” - INTERVIEW NO. 14*

The disclosure approach consistent with altering social perceptions was seen as being supplementary to conforming. While a popular option, it was not likely it would have been chosen as the sole disclosure.

*"AFTER CONFORMING..... YOU THEN GO INTO SAYING THE CORPORATION DOES HAVE A GOOD RECORD AND THAT ACCIDENTS DO HAPPEN AND YOU WILL TRY AND MINIMISE THESE EVENTS IN THE FUTURE (C)." INTERVIEW NO. 18*

The 'no disclosure' approach did not enjoy any support from any of the interviewees, either as a likely disclosure or as a ranked preference. The main theme discovered was that the managers believed that the public would not let the corporation get away with 'doing nothing'. In this context, appearing to be 'doing' the right thing was extremely important to the corporation, even if it was not actually doing anything substantive. This finding is consistent with results of previous studies concerned with legitimacy, crisis management and public perceptions. The unanimous reaction from interviewees confirmed the hypothesis put forward in other studies, that any issue which attracts strong negative public reaction necessitates a public response from the corporation involved.

Attempts to alter social values by explaining to the public the environmental hazards involved with oil refining, that the public would need to accommodate, garnered some guarded support, but was considered to be a somewhat risky approach. It appears that only those managers who did not feel the need to yield to public pressure would seriously consider this option. Most thought the approach was fraught with danger:

*"THE SECOND ONE (B) WOULD BE STUPID PUBLIC RELATIONS." - INTERVIEW NO. 15*

*"THE NEXT ONE I SEE HERE IS A REAL DANGER IS - INDICATING IMPORTANCE OF OIL REFINERIES TO SOCIETY. YOU ARE SAYING IT IS SOCIETY WHO SHOULD BE APOLOGISING AND THEN SAYING "WELL THESE THINGS HAPPEN FROM TIME TO TIME". I THINK THAT'S TOTALLY UNACCEPTABLE (B)." - INTERVIEW NO. 16*

It was not considered an opportune time for the corporation to be lecturing the public about the need for an oil industry, or that the corporation should deny responsibility, as one interviewee pointed out that the Exxon Corporation had done in response to the Exxon Valdez oil spill.

#### **9.4.6 OTHER FINDINGS**

##### ***Likelihood and extent of senior executive intervention***

The extent and likelihood of any direct intervention in the environmental disclosure decision process for the gaining and maintaining purposes was only as part of the normal environmental disclosure decision process. That process involved the executive directors reviewing drafts of the information as the annual report was being prepared and using that opportunity to comment. They would not actually write or choose the annual report content and would not normally influence the tone or wording of any disclosures (see Section 8.4.3).

Many similar responses were given in the case of Ashforth Refining Ltd (repairing legitimacy), although it was concluded that the magnitude of the event in that case meant that the directors would have read the drafts a little more closely than may have been the case for other, less threatening issues/events. Nevertheless, the general feeling was that if a corporation had an environmental reporting process in place it most likely would and should be followed.

*"I WOULD EXPECT THAT THEY HAVE DELEGATED RESPONSIBILITY TO APPROPRIATELY RESPONSIBLE STAFF." - INTERVIEW NO. 17*

##### ***Timing of the issue/event as a factor in the decision to disclose***

Question 5 was asked in order to discover whether the timing of the issue/event in relation to the annual reporting date was a factor in the decision to include information in the annual report. Almost without exception the timing of the issue/event was *not* considered a significant variable in the decision to disclose information in the annual report. The level of significance of the issue/event itself outweighed the timing of the issue. In other words, as long as the issue was considered to be more than significant, it was likely to warrant a response in the annual report. As the issue/event belonged to the reporting period, the timing of its occurrence within that period was not a major determining factor in the decision to disclose.

##### ***Motivations for disclosing other than legitimising***

One response raised the prospect of potential legal action having some impact on what was disclosed in relation to extremely significant environmental issues. The response (in relation to choosing disclosure approaches - ABC Company Ltd) which raised this factor was:

*“RIGHT WELL, WE'RE THINKING FROM THE TERMS OF THIS CORPORATION MAKING SUCH A DECISION AS THIS, I THINK THEIR LAWYERS WOULD SAY MAKE NO DISCLOSURE (A), BECAUSE PUTTING ANYTHING INTO THE PUBLIC FORUM MAY BE USED AGAINST YOU LATER, BUT I WOULD GO WITH (B). DEPENDS WHO HAD THE MOST INFLUENCE WITHIN THE CORPORATION I GUESS.” - INTERVIEW NO. 18*

This motivation is not directly related to legitimacy theory as it is defined in this investigation. It is imperative for a corporation to be operating within the bounds of the law if it is to be considered legitimate. Legitimacy in this investigation, however, goes beyond merely conforming with laws. The prospect of legal action was not a factor considered for maintaining legitimacy, but was mentioned as being possible for the issues/events described in the gaining and repairing vignettes.

### *The identification of conferring publics*

Many of the responses to open-ended questions resulted in the interviewees mentioning one or other group of people they viewed as being important to the well-being and image of the corporation. Mention of the need to influence positively stakeholder groups was made in each of the vignettes, except for Military Hardware Ltd, which did not rely on public approval for its successful operations as much as the other corporations. Its legitimacy was in the form of direct government and institutional support.

The less 'public' the issue the more mention of possible conferring publics was made. For example, in relation to XYZ Cosmetics Ltd, the interviewees identified customers and environmental groups as being important to satisfy, whereas for Ashforth Refining Ltd 'society' in general were considered to be important. This can be partly explained by the amount of 'public' exposure the issue/event received and the degree of desire the corporation had to manage the oil spill. For ABC Company Ltd reference was made to the need to satisfy shareholders, which, given the economic basis for the decision to introduce the technology, was to be expected. There were a few references to the annual report being prepared for shareholders, but little other indication that the annual report disclosures were aimed at specific stakeholders.

### **9.4.7 IMPLICATIONS FOR SUBSEQUENT DATA COLLECTION**

Analysis of the vignettes led to the conclusions that:

- (i) the perceived significance of particular environmental issues/events on the general public affects the decision to disclose environmental information in the annual report;
- (ii) there appears to be a relationship between the significance of the issue/event and the purpose of the legitimization response (gain, maintain and repair);
- (iii) the level of legitimacy the managers believe the corporation currently enjoys, coupled with how important legitimacy is to the corporation, will affect any environmental disclosure decisions; and
- (iv) the choice of specific annual report disclosure approaches is linked to the purpose of the legitimization response.

Subsequent data, collected in a similar fashion, but concentrating on environmental issues/events directly linked to the corporations in the study, should assist in corroborating or refuting these findings. In addition to this, it became apparent that more than one disclosure approach may ultimately be chosen, for a single annual report, in response to a specific issue/event. This was not tested for in Phase III (a), but is included for testing in Phase III (b).

Apart from intimating that more than one disclosure approach might be adopted, some of the interviewees suggested that a corporation may make an annual report disclosure which was consistent with an attempt to alter perceptions of the corporation as a standard practice. If a significant issue had arisen, they would be likely to choose this approach *in addition* to another and often to distract from the issue/event itself. This led to a search for an intervening variable in the form of a disclosure approach which might be similar to altering perceptions but was more issue/event specific.

As was discussed in Section 9.2.4.4.4, a fifth disclosure approach was added for the real-world cases. The intention of the added approach was to alter society's expectations of the corporation, by referring more directly to the issue/event than attempts to alter perceptions necessarily does. This fifth category has been referred to in the literature on environmental disclosures and

legitimacy by Lindblom (1994) and in more general management literature by Ashforth & Gibbs (1990), Oliver (1991) and Suchman (1995).

Analysis of the data in this phase also indicated that it was important to know what level of social standing (legitimacy) management thought the corporations currently enjoyed. Results indicated that if managers believed legitimacy was low, but low legitimacy did not matter to them, they may respond differently than managers from a corporation who believed its legitimacy was high and they wanted to keep it that way. This seems especially relevant when attempting to identify techniques aimed at maintaining legitimacy.

## **9.5 FINDINGS - PHASE III (B) - REAL-WORLD CASES**

As was the situation in Phase III (a), the findings from this phase are presented in a format consistent with the way the data were analysed using the two-variable conceptually ordered matrix. A section on the existing legitimacy of each of the corporations commences the discussion followed by the findings in relation to the perceived significance of the selected environmental issues and events for each of the legitimisation purposes. To assist comparison with the findings from Phase III (a), annual report disclosures adopted are discussed under the headings of gaining, maintaining and repairing legitimacy. Other findings are then discussed followed by a summary of the findings from this phase.

Direct quotations from the interviews are included in the following discussion. If reference is made, in these quotations, to the annual report disclosure approaches referred to by the interviewees, the letters A - E are included in brackets in the quotations corresponding to the specific annual report disclosure approach being discussed (Table 9.3).

### **9.5.1 PERCEIVED LEGITIMACY OF CORPORATION**

Results from Phase III (a) indicated that the level of legitimacy each manager perceives the corporation has, and may desire to have, may cause different disclosure approaches to be chosen. A question was asked, before any of the real-world cases were introduced, attempting to establish what level of legitimacy each manager thought the corporation currently possessed. The interviewees had to choose from 5 options:

1. Extremely positive;
2. Positive;
3. Neutral;
4. Negative; or
5. Extremely Negative.

The managers from Corporation C believed the overall reputation of the corporation was positive.

*“ALTHOUGH PEOPLE ARE DEEPLY SUSPICIOUS OF CORPORATIONS IN OUR INDUSTRY, WE APPEAR TO BE DEALING WITH ISSUES AND ARE SEEKING ANSWERS.” - INTERVIEW NO. 25*

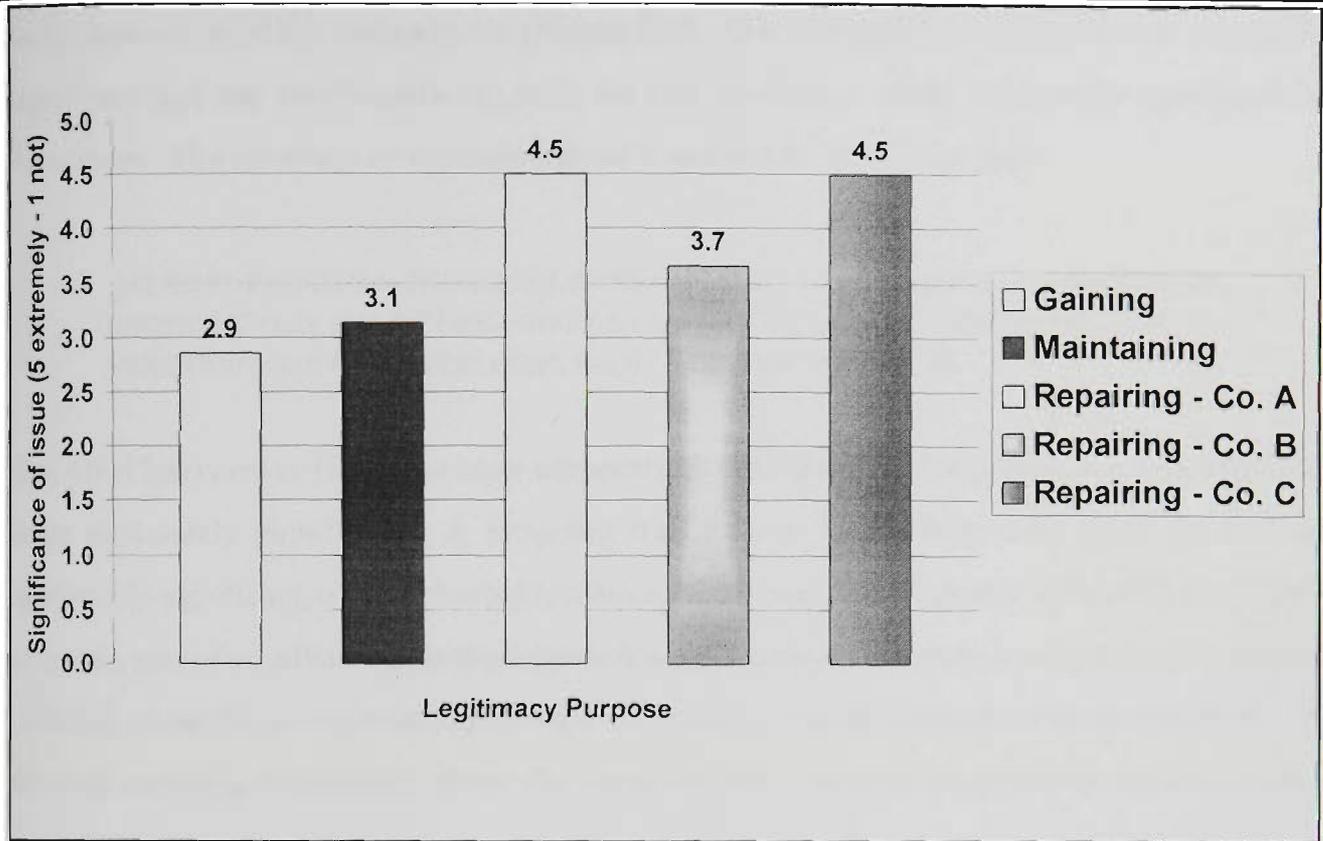
Two of the three interviewees from Corporation B thought the current reputation was ‘neutral’. It was positive in the past, but because of a major environmental issue which had attracted much media attention and public criticism over the previous 4 years, they believed the corporation’s reputation had suffered.

The two interviewees from Corporation A had quite different views about the legitimacy of the corporation. One considered the image was negative due to the corporation’s association with the destruction of forests, whereas the other thought it was positive because the corporation promoted recycling and, most importantly, did not believe the corporation was well known to the general public. These perceptions were taken into consideration when drawing conclusions about relationships between specific annual report disclosure approaches and the purpose of the response.

### **9.5.2 SIGNIFICANCE OF ISSUE/EVENT**

In Figure 9.9, a representation of the perceived significance of the selected issues/events to the social standing of the corporations linked to the purposes of gaining, maintaining and repairing is illustrated. Note there were three separate events (one for each of the corporations) selected for the repairing purpose and they are represented separately in Figure 9.9. The significance attributed to the issues/events is referred to later in the discussion of the findings with respect to its relationship to the purpose of the response and the annual report disclosure approaches chosen.

**FIGURE 9.9 - PHASE III (B) - SIGNIFICANCE OF ISSUES/EVENTS FOR EACH LEGITIMACY PURPOSE**



The patterns of these results are consistent with the patterns from Phase III (a), although the level of significance is lower for each corresponding purpose in this section. In this section, the maintaining purpose was not split between high and low for the real-world cases, as the managers of the corporation had previously (Section 9.5.1) given their views about what they believed to be the existing level of legitimacy for the corporations.

These results are also consistent with the expectation that issues/events which require legitimacy to be repaired would normally be considered more significant than those related to other purposes. Depending on the level of legitimacy the corporation believed it currently enjoyed, issues/events related to maintenance of legitimacy would be expected to be less significant than those related to repairing and higher than the 'newer', less public issues/events associated with the purpose of gaining legitimacy. More specific reasons regarding levels of significance are discussed in the next sections under the purposes of gaining, maintaining and repairing (Sections 9.5.3 to 9.5.5).

### 9.5.3 GAINING LEGITIMACY

A relatively low level of significance was given to the NPI in respect of its potential effect on the social reputation of the corporations (Figure 9.9). One interviewee thought it was extremely significant and one very significant, with the rest labelling it either moderately significant or significant. The interviewee who considered it extremely significant said:

*“AS WE PUT POLLUTANTS INTO THE WATER AND AIR AND WE CLAIM TO BE WORKING AT IMPROVING THIS, THE NPI WILL GIVE US A TYPE OF MEASURE TO COMPARE AGAINST TO MAKE OUR POSITIVE CLAIMS MORE VALID.” - INTERVIEW NO. 25*

One other interviewee (from the same corporation) concurred with this view, but only rated the issue moderately significant. A recurring theme from respondents who rated the NPI as moderately significant, was that having to release information compulsorily in the NPI, from 1999 onwards, was of no advantage to the corporation and, in most instances, having to tell the public, in detail, about the toxins released into the air or water was detrimental to the corporation. To disclose anything voluntarily about the issue before it became compulsory needed careful consideration.

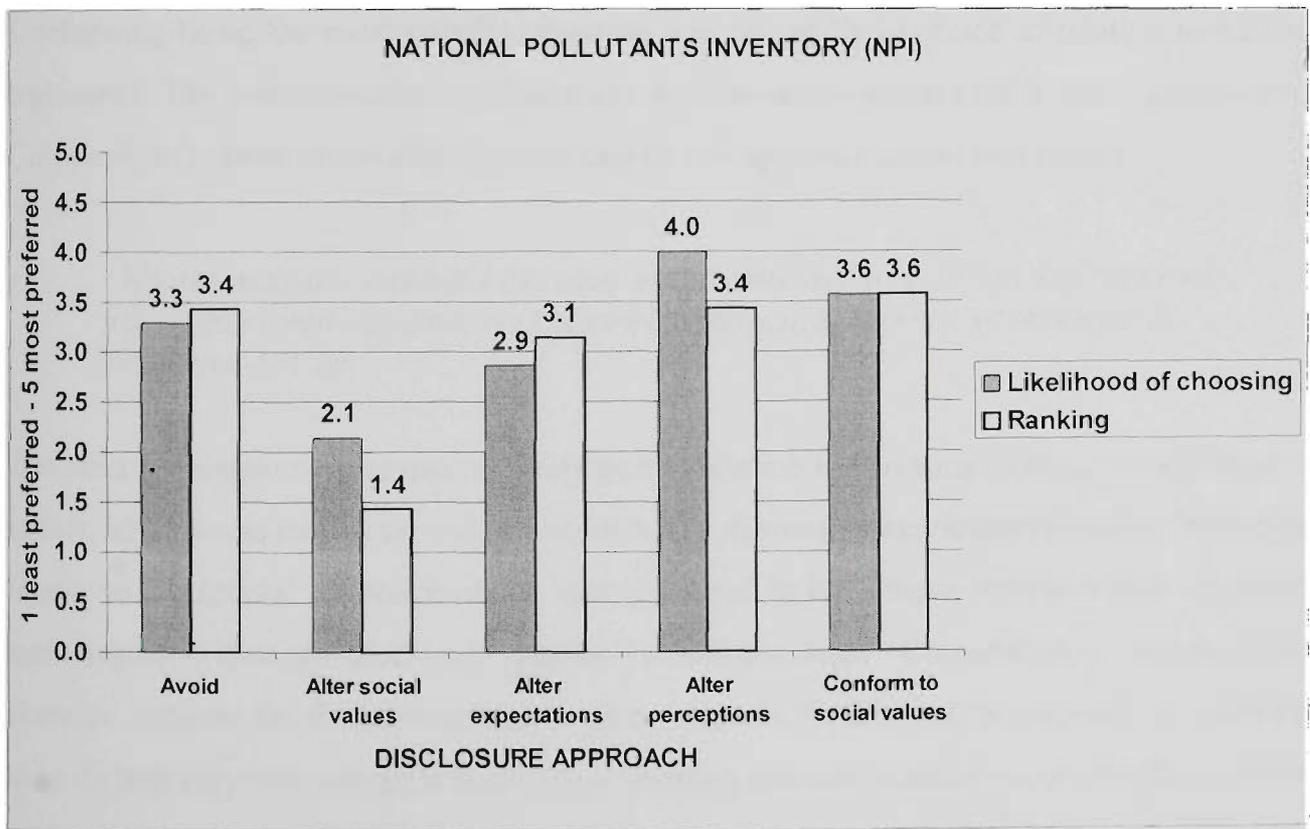
Interestingly, the responses could be split into two groups. Those who saw an advantage in proactively disclosing information about the NPI (in this case Corporation C interviewees) and those who took the more conservative view that disclosing anything about pollution the corporation causes cannot help the corporation's image. The low significance given to the NPI is a predictable response about a potentially negative issue/event about which the public currently has little knowledge.

Analysis of the responses from the open-ended questions about the likely treatment, wording and tone of any annual report disclosures in relation to the NPI uncovered three consistent themes from those who said they would disclose in response to the issue/event. The first was that the tone and wording would support the concept of the NPI. This was considered necessary in that the corporations had to report NPI information from the next year and it was considered pointless to say anything negative in relation to something that had already been enshrined in legislation. Second, the aim of any disclosure would be to create a positive perception about the corporation

in relation to the impending NPI reporting requirements; and third, the corporations (B and C), who were already producing a stand-alone environmental report, indicated they would not disclose much information in the annual report but they would cross-reference the NPI in the annual report to the environmental report.

Figure 9.10 contains the likelihood of the various annual report disclosure approaches being chosen and displays the ranking preferences for these disclosure approaches. The analysis of the weighted responses did not indicate any clear preference for any of the approaches. Analysis of the qualitative data, however, did shed some light on differences of opinion with regard to why the different approaches were considered.

**FIGURE 9.10 - PHASE III (B) - GAINING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



The only approach which did not receive much support was an attempt to alter social values. This finding contradicted the results from Phase III (a), where this approach was the most popular. The differences are explained by the fact that the NPI was going to be compulsory and a fact of life for corporations. To become too defensive in respect of it was seen to be counter-

productive. In Phase III (a), the comparative popularity of this approach was because the issue, dealing with the use of the new environmentally damaging technology, was viewed as still able to be controlled by the corporation. The findings indicated that the NPI, while a new issue/event which possessed characteristics commensurate with the purpose of gaining legitimacy, could be managed rather than controlled.

When comparing the likely choices to the ultimate rankings, it can be seen that a considerable change occurred in the alter social values, alter perceptions and alter expectations approaches. The approach consistent with altering perceptions was the most likely to be chosen but, when looking at the rankings, it fell away to the second most preferred, behind conforming. Attempts to alter expectations of the corporation also increased when comparing rankings to the likelihood of the approach being chosen.

Conforming being the most popular response was not really expected in relation to gaining legitimacy. The main cause for its prominence was almost completely due to the responses from Corporation C. Both of the interviewees ranked this approach as the first choice.

*“WE ARE ALREADY MAKING A BIG DEAL ABOUT THIS, BECAUSE OF THE INDUSTRY WE ARE IN, SO WE WOULD DEFINITELY ADOPT (APPROACH) E, IN CONJUNCTION WITH D.” -  
INTERVIEW NO. 26*

The other corporations were more circumspect in relation to choosing a conforming approach. In fact, while it was ranked second in two instances, the same interviewees ranked it behind the ‘make no disclosure’ approach and it was indicated in both these instances that ultimately including more than one disclosure approach would not occur. Corporation C operates in the chemical industry and the interviewees made no secret of the fact that the corporation’s aim was to be the best corporate citizen it could. This, perhaps unusual, position meant that the weighted responses representing conforming were discounted to some extent when drawing conclusions. The qualitative data were considered more reliable and informative in this instance.

Analysis of how likely it was that more than one disclosure approach would ultimately appear in the annual report explains the effects of the changes observed from the likely choices to the

rankings (Table 9.7). The two disclosure approaches (Interviews 21, 25 and 26) chosen were considered very likely to be disclosed and are in rank order.

TABLE 9.7 - PHASE III (B) - GAINING LEGITIMACY: MULTIPLE ANNUAL REPORT DISCLOSURE APPROACHES SELECTED						
Corporation A		Corporation B			Corporation C	
Int. 20	Int. 21	Int. 22	Int. 23	Int. 24	Int. 25	Int. 26
Not applicable - One only	Expectations Perceptions	Not applicable - One only	Not applicable - One only	Not applicable - One only	Conform Perceptions	Conform Perceptions

To illustrate, in interviews 25 and 26 the altering perceptions and conforming approaches were both ranked as highly likely to be chosen (5). When ranked, the perceptions were ranked second, (4) causing the average ranking to drop below the average likelihood. The fact that both would be included in the annual report explains the drop in the relative importance of the two approaches between the likelihood and the rankings.

If one discounts Corporation C's responses, the approaches most likely to be chosen were avoidance and altering social perceptions, which are more consistent with the findings from Phase III (a). It was clear that the altering perceptions disclosure is often chosen as a 'standard' disclosure, not linked to an issue or event, which confirms the findings from Phase III (a). Further, corporations that choose an approach, other than avoidance, in response to an issue/event are likely to include a standard disclosure, aimed at altering perceptions, in addition to the issue/event specific approach. This view is supported in the following quotation, which also encapsulates reasons typical of why the approach intended to alter expectations was chosen.

*"IN PUTTING (C) FIRST, WE ARE CREATING WHAT WE THINK ARE REASONABLE EXPECTATIONS FOR THE CORPORATION. WOULD DO THIS IN CONJUNCTION WITH (D) BECAUSE THAT'S OFTEN THE BALANCE THAT PEOPLE WANT. TALK ABOUT WHAT WE ARE DOING WELL IN ORDER TO BE ABLE TO DISCUSS WHAT WE MAY NOT BE DOING SO WELL." - INTERVIEW NO. 21*

#### 9.5.4 MAINTAINING LEGITIMACY

On average, the Greenhouse Challenge program was considered to be a little above significant to the corporations in the study, each of which was a participant in the Greenhouse Challenge program. The significance would have been markedly higher if Corporation A's responses had not been factored in. Both of the interviewees from Corporation A considered the Greenhouse Challenge only moderately significant because: first, the industry in which the corporation operated was *not* considered a major contributor to greenhouse gas emissions (even though they were participants in the program); and second, they believed the public only had superficial knowledge of the issue of greenhouse gas emissions.

Interviewees from Corporations B and C considered the issue/event very or extremely significant. The main reason was that it gave the corporations the opportunity to portray themselves as being responsible corporate citizens in relation to a topical issue.

*"THIS ISSUE WILL CONTINUE TO BE REINFORCED WITH EVERY CHANGE IN THE WEATHER. THIS AWARENESS SUGGESTS THAT CORPORATIONS WHICH DEMONSTRATE A COMMITMENT TO REDUCING GREENHOUSE GASES WILL GAIN IN THE PUBLIC'S VIEW." - INTERVIEW NO. 24*

*"IT IS A PUBLIC PERCEPTION THING AND EVEN THOUGH I KNOW THE SIGNING OF AGREEMENTS, ETC WONT MAKE ANY DIFFERENCE, THE PUBLIC MAY." - INTERVIEW NO. 25*

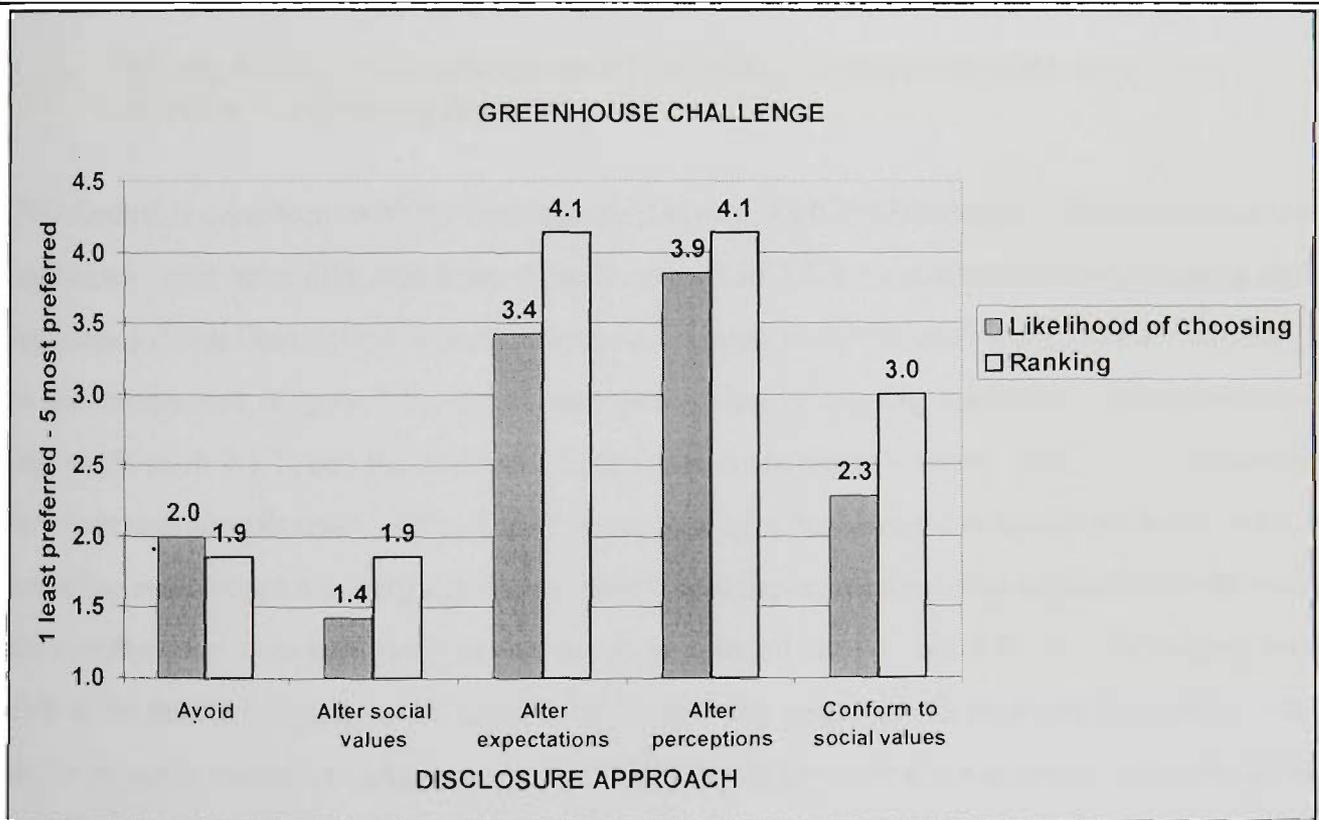
The common response to the open-ended questions about any likely treatment, wording and tone of annual report disclosures was that it would be given a positive accent about how the corporations were attempting to reduce greenhouse gases and were part of the *government initiated* Greenhouse Challenge program. This indicated that the corporations would use the annual report to portray, at least, a commitment to tackling the problem. The particular positive messages which would be disclosed related to specific achievements in reducing greenhouse gas emissions.

As was the case with the NPI, the corporations producing stand-alone environmental reports, indicated they would cross-reference the annual report disclosure to the environmental report.

One corporation indicated that it also produced a separate booklet on the Greenhouse Challenge, the existence of which would warrant a mention in the annual report.

Figure 9.11 shows that the two most likely disclosure approaches were altering expectations and altering perceptions, followed by conforming, with avoiding next and altering social values a distant last. The raw values are relatively low compared to the scores for other purposes and for the equivalent purpose in Phase III (a). In analysing the raw data only two interviewees chose 'highly likely' to disclose, which was an unusual result compared to the likelihood for most other purposes.

**FIGURE 9.11 - PHASE III (B) - MAINTAINING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



Reasons for the choices of altering expectations and perceptions and the lack of emphasis on altering values and conforming appear to be that the Greenhouse Challenge is not a new program (about 3 years old) and there was a belief that, while it would probably be mentioned in the annual report, other issues/events have overtaken it in importance. Mention of the limited space allocated to environmental disclosures in the annual report reinforced this impression.

*"SPACE CONSTRAINTS ARE A PROBLEM FOR THIS ISSUE. IT COULD GET A SUPERFICIAL MENTION IN THAT WE PLANT TREES WHICH ARE GOOD FOR REDUCING GREENHOUSE GASES." - INTERVIEW NO. 20*

Making no disclosure was not a preferred option as the managers perceived a benefit in disclosing information about being part of the Greenhouse Challenge. The lowest ranked and least likely approach was altering social values. There was general agreement about the futility of disputing scientific theories about the effect of greenhouse gas emissions. Whether or not the managers agreed with the tone of the disclosure as it was presented, they believed that entering the scientific debate was a defensive strategy and would do nothing to enhance the corporation's image.

*"DISPROVING THEORIES IS A NO WIN SITUATION (B) AND WE WOULD CERTAINLY MAKE A DISCLOSURE (A)" - INTERVIEW NO. 25*

*"WE ARE NOT GOING TO HARP ON ABOUT UNPROVEN THEORIES, TOO DEFENSIVE AND NEGATIVE." - INTERVIEW NO. 26*

This finding is consistent with the findings in relation to Military Hardware Ltd (maintaining low legitimacy) and quite different from those in respect of XYZ Cosmetics Ltd (maintaining high legitimacy) from Phase III (a). The differences are explained by the level of significance attributed to the issue/event (Figure 9.9), the current perception of existing legitimacy the corporation enjoys (Section 9.5.1) and the desire to improve the corporation's image. This issue was seen to be of average significance, unlike XYZ Cosmetics Ltd, where the interviewees believed that the recycling issue/event was very significant. One would expect that lower significance would mean the corporations were less likely to attempt to alter social values. No definite conclusions were able to be drawn relating to the current legitimacy the corporations believed they had to any decision not to attempt to alter values. The desire to improve corporate image was a factor, as indicated in the responses which described that being defensive (altering social values) was a 'no win' strategy.

The equal top ranking of the two most popular approaches (altering perceptions and altering expectations) resulted in a considerably higher raw value than did the likelihood of choosing the same approaches. This was because lower likelihoods were chosen (valued at 4 or below) compared to the value given to the first rank (5). As was the case with the NPI, an intention to

alter perceptions was likely to be included as one of two approaches, irrespective of the issue/event. In the case of the Greenhouse Challenge it was coupled with the altering expectations and conforming approaches (Table 9.8).

Corporation A		Corporation B			Corporation C	
Int. 20	Int. 21	Int. 22	Int. 23	Int. 24	Int. 25	Int. 26
Not applicable - One only	Not applicable - One only	Expectations Perceptions	Perceptions Expectations	Expectations Conform	Not applicable - One only	Conform Perceptions

The following response demonstrates a pattern common to the decision to include these two approaches:

*"LOOKING AT A WORLD-WIDE AUDIENCE, WE WOULD ALWAYS INCLUDE THE GENERAL GOOD NEWS (D). WE DO NEED TO TELL PEOPLE WE ARE A RESOURCES CORPORATION, WE DISTURB THINGS AND PUT THEM BACK AND THAT WE ADOPT WORLD'S BEST PRACTICE WHEN DISTURBING AND WHEN RESTORING (C)." - INTERVIEW NO. 23*

A theme linked to altering expectations also implied that the corporations believed that society must have realistic expectations about just what corporations can and should do about the greenhouse problem. Choosing this annual report disclosure approach gave the corporations the opportunity to relay this message.

*"CONCENTRATE ON ACHIEVEMENTS (D), BUT WE WOULD CONSIDER TELLING READERS THE NATURE OF OUR BUSINESS CREATES GREENHOUSE PROBLEMS...IN A POSITIVE WAY." INTERVIEW NO. 21*

Conforming with social values was considered to be a likely response based on the choices of Interviewees 24 and 26, who ranked this first and second, respectively. All but one of the other respondents ranked this approach fourth or fifth. One of the interviewees from Corporation C, who ranked the conforming approach first said:

*"WE ARE DRIVEN BY SOCIAL RESPONSIBILITY, AND COMMUNITY BELIEFS, SO WE WOULD ACKNOWLEDGE THAT, BY DISCLOSING THAT SOCIETY'S VIEWS ARE VITAL TO US - AND THEN WE WOULD CONCENTRATE ON GENERAL GOOD NEWS AS WELL." - INTERVIEW NO. 26*

Once again this quotation indicated a choice of two approaches and that the intention to alter perceptions (general good news) was not necessarily related to the greenhouse challenge.

### **9.5.5 REPAIRING LEGITIMACY**

There were three separate events chosen or developed for the purpose of testing relationships between the purpose of the response and the intention of the annual report disclosure. The significance of these three events was illustrated separately in Figure 9.9. Consistent with the findings from Phase III (a), the events linked to this purpose, which threaten a corporation's legitimacy, were considered more significant than those related to gaining or maintaining legitimacy.

The most common theme which emerged about why the events were considered very to extremely significant to the corporations, was that the public *thought* they knew a great deal about these events and therefore it was important to give the corporations' viewpoints. The occurrence of these events was viewed as creating major exercises in managing public relations and image building.

The open-ended questions about the treatment, tone and likely wording of any disclosure uncovered one common point. All interviewees indicated they would disclose some positives about the event or related issue. The disparity of other common responses across all the respondents was not unexpected given that each was dealing with a different event. In addition to this, the responses appeared to be more corporation-centred than purpose-centred, which was not the case in the repairing purpose in Phase III (a). Explanations for this are: first, each corporation is under different external pressures and they operate in different industries; and second, while general techniques adopted to manage public perceptions of the events may be similar, the uniqueness and perceived magnitude of the events are distinctive enough to result in different interpretations of the same legitimization purposes.

For example, the *actual* event chosen for Corporation B, became public knowledge four years before the interviews. While not a current event, it still possessed characteristics enabling classification under a repairing purpose. One of the unique aspects of this event for Corporation B, compared to legitimacy threatening events for other corporations, is the length of time it has continued to attract public reaction.

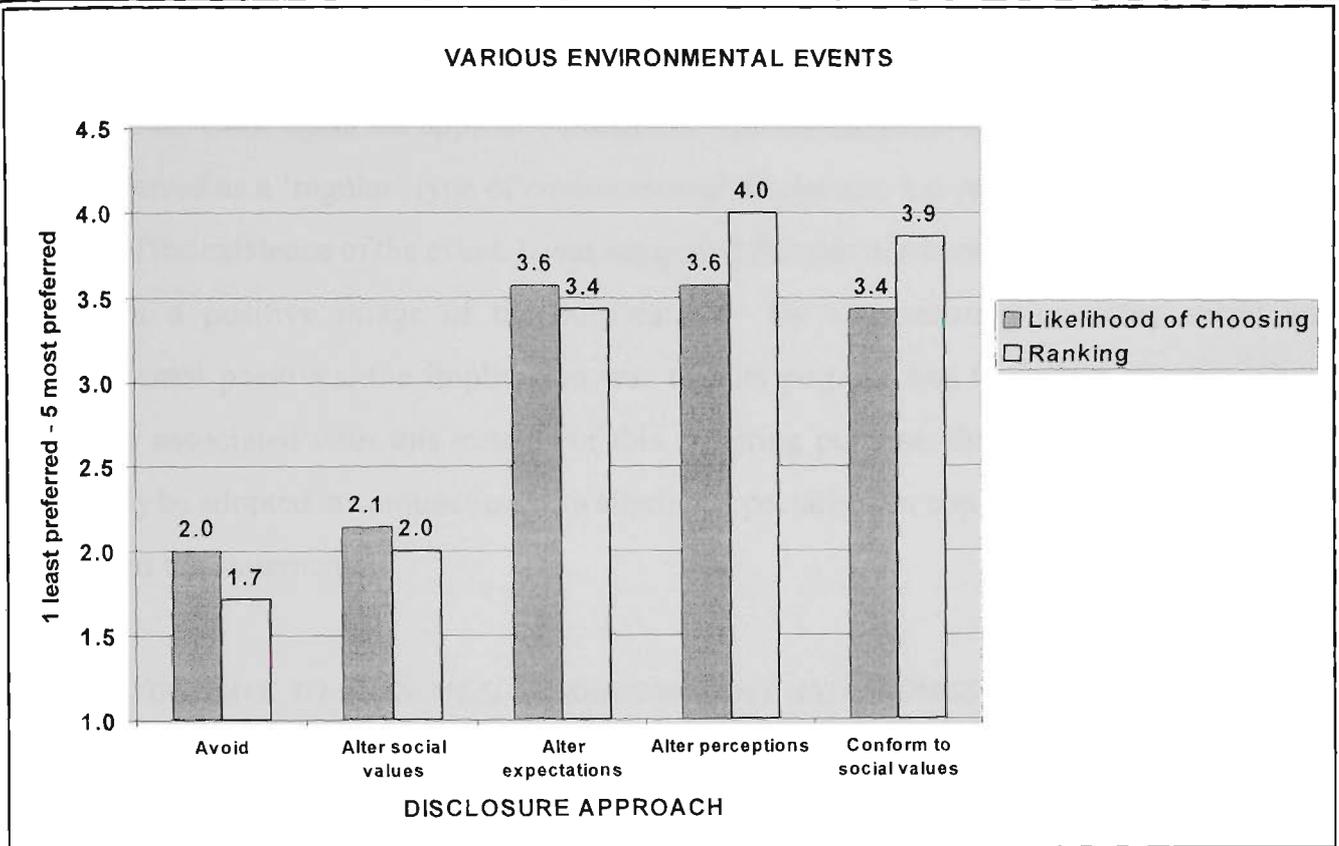
*"I STILL BELIEVE IT HAS A PROFOUND EFFECT ON THE CORPORATION, THE CORPORATION'S CULTURE AND ESPECIALLY EXTERNAL PERCEPTIONS OF THE CORPORATION. YOU GET IN A TAXI, EVEN TODAY, 4 YEARS AFTER, AND AFTER THEY KNOW WHO YOU WORK FOR THEY BRING UP THE (EVENT)." - INTERVIEW NO. 22*

At the same time this continual public reaction was occurring, Corporation B was going through a major restructuring and the world prices of commodities (its core products) were falling dramatically. All of these factors must have some influence with respect to decisions to adopt particular legitimation tactics, annual report disclosure decisions and environmental disclosure decisions, especially in relation to specific environmental events. It was not an aim in this investigation to identify what influence each of these factors may have had.

This view is supported in that there were similar responses from interviewees from the same corporation. For example, in response to a decision to cease wastepaper and recycling activities, both of the interviewees from Corporation A indicated that they would treat the event in a fairly routine manner. They both implied that they would explain reasons for the decision, but not make it a bigger issue than it 'needed to be'.

The likelihood of choosing a particular annual report disclosure approach and the ranking of these choices uncovered a similar pattern to those found in Phase III (a), except that the conforming approach was not the most popular in this section (Figure 9.12). Avoiding and altering social values were the least preferred while altering perceptions, conforming and altering expectations were the most preferred.

**FIGURE 9.12 - PHASE III (B) - REPAIRING LEGITIMACY: LIKELIHOOD OF CHOOSING AND RANKING OF ANNUAL REPORT DISCLOSURE APPROACHES**



Avoiding and altering social values were the least preferred choices but, unlike the results from Phase III (a), they, numerically at least, received some support. In one instance this appeared to be a quirk in the way the interviewee ranked the approaches. In suggesting that approaches A (avoid), D (alter perceptions) and E (conform) were equally likely to be chosen, the interviewee then gave clear reasons why D and E would be ranked above A, but then went on to say:

*"WE WOULD NOT CONSIDER NOT MENTIONING THE EVENT (A) AT THIS STAGE." - INTERVIEW NO. 23*

A theme, which emerged more subliminally than overtly, was that the corporations walk a fine line in deciding between being too positive, continually raising the event or ignoring it. In ranking avoiding and altering social values higher than altering expectations, one interviewee echoed some of the difficulties faced when making this decision, by stating:

*"I'D RATHER SAY NOTHING THAN JUST GET INTO THIS GAME OF, WELL YOU KNOW IT WAS REALLY TOUGH AND ALL THIS SORT OF STUFF." - INTERVIEW NO. 24*

The three most frequent choices were, in rank order, altering perceptions, conforming and altering expectations. Once again the approach consistent with the intention of altering perceptions was most preferred as a 'regular' type of environmental disclosure, but was not necessarily chosen because of the existence of the event. It was suggested that this disclosure approach could be used to present a positive image of the corporation. By concentrating on other social and environmental positives, the implication was that its purpose was to deflect attention about negativity associated with this event. For this repairing purpose, this disclosure would most commonly be adopted in conjunction with altering expectations or conforming. Evidence of this is found in the statement:

*"YOU HAVE TO ACKNOWLEDGE RESPONSIBILITY AND PROMISE TO ENSURE THAT WHATEVER CAUSED THIS ACCIDENT DOES NOT HAPPEN AGAIN - I MEAN YOU JUST HAVE TO (E). (C) IS MORE OF A BACK UP FOR (E), BUT IT WOULD BE INCLUDED TO INDICATE TO THE PUBLIC THAT WE HAVE FAIRLY HIGHLY DEVELOPED SAFETY SYSTEMS ANYWAY BECAUSE WORKING IN THE CHEMICAL INDUSTRY DEMANDS THAT YOU HAVE." - INTERVIEW NO. 25*

The second most preferred approach was the intention to conform, although it scored a much lower rank than it did in Phase III (a). This might be explained by the fact that the interviewees were not as distant from the events in these situations, as they were in the earlier phase and that the corporation was real, not fictitious. Some of the interviewees were a little diffident about choosing the conforming approach, even though it appeared they thought it was the right thing to do. One interviewee from Corporation B said:

*"WE MIGHT CONSIDER THIS (E), BUT IT COULD BE EMPTY RHETORIC, BECAUSE OF WORLD COPPER PRICES AND THE POSSIBLE COSTS, WE MAY NOT WANT TO ACTUALLY COMMIT TO SOMETHING LIKE THIS." - INTERVIEW NO. 23*

Another response was:

*"THE DECISION TO CEASE RECYCLING HAS BEEN MADE AND WHILE WE MAY DISCLOSE SOMETHING ABOUT POSSIBLY REVISITING THE DECISION, IT WOULD ULTIMATELY NOT BE TRUE." - INTERVIEW NO. 22*

Apart from providing more evidence about the impact of external pressures, these quotations also highlight the distinction between symbolic and substantive conforming. There are mixed messages in these quotations about disclosing intentions to conform (symbolic) as opposed to disclosing a change of practices or making definite statements about changes to activities (substantive).

An examination of Table 9.9, shows that all but one of the interviewees would have ultimately included more than one disclosure approach and in five of the six cases one of these disclosures was intended to alter perceptions. All but one of the interviewees indicated that the inclusion of these two approaches was either very likely or likely. Interviewee 23 indicated that these two disclosures were possible.

Corporation A		Corporation B			Corporation C	
Int. 20	Int. 21	Int. 22	Int. 23	Int. 24	Int. 25	Int. 26
Expectations Perceptions	Perceptions Expectations	Expectations Perceptions	Perceptions Conform	Not applicable - One only	Conform Perceptions	Conform Perceptions

Altering expectations gained support in that it gave the opportunity for the corporation to give its side of the story about the event and to be able to control the agenda somewhat. The following response indicated an intention to move the discussion from the decision to cease recycling to the economic reasons behind the decision. It also reintroduces the idea of a specific conferring public. For this manager, in relation to this event, shareholders were the most important conferring public.

*“WE WOULD EXPLAIN THE REASONS BEHIND THE DECISION TO CEASE RECYCLING AND BASICALLY IT’S A FINANCIAL ONE AND IN YOUR ANNUAL REPORT YOU’RE TALKING TO YOUR SHAREHOLDERS. NOW SOME OF THOSE HAVE ENVIRONMENTAL INTERESTS AS WELL - IN FACT, WE HAVE A GREEN SHAREHOLDER’S GROUP THAT WE’RE DEALING WITH AT THE MOMENT BUT I THINK, BY AND LARGE, YOUR SHAREHOLDERS ARE INTERESTED IN YOUR FINANCIAL PERFORMANCE.” - INTERVIEW NO. 20*

A more general explanation of the intention of choosing to alter expectations is evidenced in the following quotation:

*“THE PUBLIC NEEDS TO UNDERSTAND THE REASONS BEHIND THE DECISION TO CEASE RECYCLING AND THAT IT WAS NOT TAKEN LIGHTLY.” - INTERVIEW NO. 21*

A recurring pattern in relation to altering expectations related, once again, to the intention to portray positive impressions. This pattern emerged in the form of a warning about referring to negative events (especially environmental accidents) too much.

*“(C) IS OK, BUT WE DON’T WANT TO GIVE THE IMPRESSION THAT THESE ARE COMMON OR FREQUENTLY OCCURRING EVENTS.” - INTERVIEW NO. 26*

#### **9.5.6 OTHER FINDINGS**

##### ***Motivations for disclosing other than legitimising***

Analysis of the open-ended questions did not lead to the discovery of many reasons for annual report disclosures that could not be considered consistent with legitimacy motives. Only two instances of reasons for disclosure were given that could *not* be directly linked to legitimacy theory. The first was not disclosing for fear of being sued, which was also referred to in Phase III (a) and the second, that the disclosure should be worded to lessen the impact on any possible negative effects the issue/event had on the share price. No mention was made of disclosing environmental information to thwart increased compliance costs or to circumvent further government regulation (political economy theory).

There was some suggestion that managers’ responses to the issues/events were chosen for economic reasons, although there were mixed signals in relation to this. When shareholders and financial responsibilities were mentioned by the interviewees in response to the environmental issues/events, they seemed to be mentioned in a defensive way. In other words, the emphasis was that the corporations were mainly concerned with maximising profits for shareholders, everything else was secondary. This may have been because the disclosure approaches provided were not suitable, or, as is more likely, making a decision between the approaches provided, or deciding on another approach, was too difficult. The interviewees may have felt comfortable espousing

the conventional view about the fiscal responsibilities of the corporation and the importance of shareholders.

### *Means of communication*

Some inferences were made during the interviews about the medium used to disseminate information with respect of different legitimization tactics. While the annual report is viewed as being a major means of getting corporate environmental messages across, it was implied that attempts at altering social values and educating the public might be more successful if different communication media were adopted. For example, in rejecting an attempt to alter social values using the annual report, one interviewee commented:

*“IF WE ARE JUST SAYING THAT WE ARE A BLOODY HAZARDOUS INDUSTRY AND YOU BETTER LEARN TO PUT UP WITH IT, WELL THAT WILL DAMAGE OUR REPUTATION. YOU MIGHT MENTION THIS IN SMALLER AUDIENCES, BUT NOT IN AN ANNUAL REPORT.” - INTERVIEW NO. 26*

At other times, some interviewees mentioned that local site brochures, media releases and theme-based publications may also be used, some in addition to the annual report and some instead of the annual report, to respond to the issues/events in the real-world cases.

## **9.6 SUMMARY OF PHASE III FINDINGS**

The findings from Phase III (a) were summarised in Section 9.4.7. During Phase III (b) corroboration of these findings was sought. Taken together, the findings from Phase III were:

- (i) the perceived significance of particular environmental issues/events on the general public affects decisions to disclose environmental information in the annual report;
- (ii) there is a relationship between the significance of specific environmental issues/events and the purpose of the legitimization response;
- (iii) the level of legitimacy the managers believe the corporation currently enjoys, coupled with how important legitimacy is to the corporation, affects decisions to disclose environmental information in the annual report; and

- (iv) the choice of specific annual report disclosure approaches are influenced by the purpose of the legitimization response.

Additional findings from Phase III (b) were:

- (i) that external pressures, often unrelated to the issue/event, on the corporation, at the time the issue/event is at its peak importance, will influence the decision to disclose environmental information and the choice of specific annual report disclosure approaches;
- (ii) that there was little evidence to indicate that other motives, not consistent with legitimacy theory, were significant in relation to decisions to disclose environmental information or on the choice of annual report disclosure approaches; and
- (iii) that the use of the annual report as a major means of disclosing environmental information is being de-emphasised, due to the increased use of stand-alone environmental reports.

In most instances, the specific findings from Phase III (a) were corroborated in Phase III (b). Any inconsistencies were mainly confined to the “values” given to the likelihood of choosing annual report disclosure approaches and the ranking. While the patterns of disclosure were similar, the values were sometimes quite different.

In general, many of the apparent inconsistencies between the results of Phase III (a) and (b) can be attributed to corporation-specific pressures that the interviewees were familiar with in relation to their corporations at the time the interviews were conducted. In some ways this suggests that the results from the fictitious scenarios used in Phase III (a) may be a more reliable, if slightly less relevant, indicator for explaining relationships between the significance of an environmental issue/event, the purpose of the response and the intention of any annual report disclosure, than the results from Phase III (b). More specific reasons for these differences were explained in discussing the findings from Phase III (b).

## 9.7 SUMMARY

In this chapter the *specific* data collection and analysis techniques used to test for relationships between the significance of environmental issues/events, the purpose of the response, the choice of legitimisation tactics and the choice of specific annual report disclosure were discussed. This discussion included a detailed evaluation about the decisions made related to the development of hypothetical vignettes and real-world cases to test for these relationships. Moreover, the findings from the two distinct phases of data collection (Phase III a and III b) were presented.

Conclusions in relation to the extent of any relationships established approaches are covered in Chapter 10 as part of the *Legitimation Disclosure Response Matrix*, developed in finalising the legitimacy theory model.

## CHAPTER 10 - SUMMARY AND CONCLUSIONS

### 10.1 INTRODUCTION

The purpose of this chapter is to report on the conclusions arrived at in relation to the research objectives and related research questions outlined in Section 1.2. Moreover, in this chapter, conclusions about the extent of any relationships observed between a significant, potentially legitimacy threatening, environmental issue/event; the purpose of the corporate response; the choice of legitimation tactics; and resultant annual report disclosure approaches, illustrated in Figures 6.1 and 6.7, are discussed.

A brief review on the importance of legitimacy to corporations is included and is followed by a section summarising the research findings in relation to the first objective of the investigation. The next section contains a discussion on the theoretical implications of the investigation, which is related to the second objective of the investigation. This section includes an expansion to the legitimacy theory model which is presented as a *Legitimation Disclosure Response Matrix*. The significance of the findings from a practical perspective is then evaluated. This is followed by a discussion on constraints on the effectiveness of interpreting the findings and the thesis finishes with a section which identifies opportunities for further research discovered as a result of this investigation.

### 10.2 REVIEW OF CORPORATIONS AND LEGITIMACY

The degradation of the natural environment is of increasing concern to inhabitants of the planet. The desire to increase standards of living, measured in economic terms, has led to a neglect of the environmental impacts this desire has caused. During the last 20 years business, and in particular large corporations, have begun to recognise the social and environmental impacts their actions and activities cause. Corporations appear to have realised that, in order to achieve their objectives and to continue to exist, these actions and activities must be acceptable to society. An indication of this social and environmental awareness is found in the increasing number of corporations voluntarily disclosing environmental information in the annual report, yet the specific motives for these increased disclosures remain relatively obscure.

During the course of this investigation it was posited that a corporation needs to retain its legitimacy in the eyes of important stakeholders if it is to achieve its objectives. Legitimacy was defined as:

*“a perception or assumption, held by a corporation’s conferring publics, that the actions of the corporation, in response to issues/events the corporation has identified as possibly threatening its reputation or existence, are desirable, proper or appropriate within the socially constructed system of norms, values, beliefs and definitions of the corporation’s conferring publics.”*

A corporation’s conferring publics were defined as those groups or individuals whom the organisation perceives have the necessary attributes to be able to influence the legitimacy of the organisation. A corporation’s legitimacy is threatened when public pressure is exerted on it and one way a corporation can manage its legitimacy is to use the annual report to convey particular messages to the readers of the annual report. Legitimacy theory, for the purposes of this investigation, implied that:

*“The greater the likelihood of adverse shifts in a corporation’s conferring publics’ perceptions of how socially responsible a corporation is, the greater the desirability on the part of the corporation to adopt legitimation tactics in an attempt to manage these shifts in social perceptions”*

Before drawing some conclusions about the research as a whole, it is worthwhile summarising the findings of the investigation by linking them back to the two objectives of the study and the ancillary questions related to each objective (Section 1.2).

### 10.3 SUMMARY OF FINDINGS: FIRST RESEARCH OBJECTIVE

The **first objective** of the study was to identify corporate motives for the voluntary disclosure of environmental information in the corporate annual report and to provide evidence to support the position that these motives were primarily linked to the concept of organisational legitimacy. In order to achieve this objective a number of factors affecting environmental disclosure decisions had to be identified. This was done during Phases I and II of the data collection process. Conclusions in relation to this objective are discussed in this section.

A review of the literature, in Chapter 2, established that protection of the environment and the objective of sustainable development were of concern to society and business. It was also concluded that modern corporations require a degree of social approval in order to continue to operate successfully and that they need to be accountable for the social and environmental impacts their activities have on society. Evidence from the literature indicated that this accountability is partly being discharged by an increase in the voluntary disclosure of social and environmental information in the annual report.

While the extant research, investigating reasons for the increase in corporate environmental reporting, indicated that legitimacy theory was one explanatory factor, the methods used to arrive at these conclusions were not considered sufficient to determine the extent to which increased environmental disclosures could be explained by legitimacy theory. Legitimacy theory depends on managers' views about others' perceptions of the corporation and only two researchers (Bansal, 1995, Buhr, 1998) had used methods which gathered data directly from a management perspective. All of the other research used content analysis of annual reports and other documentary data to establish the existence of legitimacy theory.

This methodological limitation was overcome during this investigation. During Phase I of the data collection, senior personnel from the three companies in the field study were interviewed in order to establish who was responsible for environmental disclosure decisions and what processes resulted in environmental information being disclosed in the annual report. These personnel were either from corporate affairs sections of the companies or were responsible for environmental management as part of their duties in separate business sections of the companies. The personnel identified as being most responsible for environmental disclosure decisions were used as the primary sources of data (interviewees) for the remainder of the investigation.

During Phase I, these people were asked what they thought were the *general* reasons the company voluntarily disclosed environmental information in the annual report. The findings supported legitimacy theory as an explanatory factor. The data analysis indicated a general desire of management for congruence (or at least the appearance of congruence) between the corporation's actions and activities with prevailing public values and views. A strong indication

of the desire to influence public perceptions about the corporation and its environmental activities was also evident. Several different influences and factors relevant to decisions to disclose environmental information were discovered during this phase and were explored in more detail during Phase II of the data collection and analysis.

Having established, during Phase I, that legitimacy theory was a justifiable explanation for environmental disclosure decisions, semi-structured interviews were used, during Phase II, to help discover some of the more specific variables which influenced decisions to disclose (or not to disclose) environmental information and which were consistent with legitimation motives. An important finding from this phase was that the voluntary disclosure of environmental information in the annual report was, for the most part, formulated either to respond to, or to 'head-off', public pressure. The intention to increase disclosures of environmental information to respond to public pressure is consistent with findings from earlier research (Brown & Deegan, 1999, Neu et al, 1998, Patten, 1992, Simmons & Neu, 1998, Walden & Schwartz, 1997). The finding that some environmental disclosure decisions were intended to 'head-off' potential public pressure had not been previously investigated and adds weight to the position taken in this thesis that environmental disclosures are used pro-actively in attempts to gain and maintain legitimacy as well as reactively in attempts to repair legitimacy.

The findings indicated that a major influence, in relation to increased public pressure, stemmed from a connection between significant environmental issues/events, perceived by management to be detrimental to the corporation or the industry in which the corporation operated, and the corporation. Prior research, relating environmental disclosures and legitimacy, had been tested on the basis of linking corporate responses to significant negative issues/events (Deegan et al, 1999, Deegan & Rankin, 1996, Guthrie & Parker, 1989, Patten, 1992, Walden & Schwartz, 1997), without satisfactorily explaining the reason that issues/events were the catalyst for any response. Only Nasi et al's (1997) study, which proceeded on the basic assumption that legitimacy theory, stakeholder theory and life cycle theory were primarily concerned with issues management, sought to test the importance of issues to legitimacy. They concluded that, in the first instance, corporations respond to *issues*, and secondly, they identify which issues are connected to their most powerful stakeholders. Responses to issues were identified as being part

of any legitimization process. The findings from this investigation have demonstrated that corporations believe that issues/events are the predominant causes of increased public pressure on them.

Any adverse escalation in public pressure primarily emanated from main stream media reports, or the perceived probability of future media coverage, linking the corporation or industry to the environmental issue/event. This finding supported the conclusions reached by Brown & Deegan (1999), Neu et al (1998 ) and Simmons & Neu (1998), that negative media reports influence corporations to respond to these reports in order to retain legitimacy. Corporate management perceived that the annual report, in addition to being used to react to public pressure, could also be (and is) used pro-actively to shape an 'image' of the corporation. In both a pro-active and reactive context, voluntary annual report disclosures were most likely to be linked to particular environmental issues/events as reported, or considered likely to be reported, in the media.

The value of environmental information disclosed in the annual report, to more knowledgeable environmental readers, was considered to be questionable due to the limited space allocated, in the annual report, for these disclosures. Nonetheless, these disclosures were considered by management to be of use *to the corporation* in sending *general* messages to users of the annual report. Interpreting this finding was complicated because, at first glance, it appeared that the influence of important stakeholders and/or conferring publics was not seriously considered by management when making environmental disclosure decisions. This finding appeared to contradict results from earlier research (Bansal, 1995, Deegan & Gordon, 1996, Oliver, 1991), although Neu et al's (1998) results indicated that creditors' and environmentalists' concerns were not addressed by increased environmental disclosures in the annual report. Upon more careful analysis, however, it was concluded that unless the environmental issue/event was explicitly connected to clearly identifiable prominent 'conferring publics', environmental disclosures in the annual report tended to be aimed at shareholders and the general public, rather than more specialised interest groups. This conclusion supports the assertion that managers will identify and assess the magnitude of the issue/event concurrently with the purpose of the response (gain, maintain, repair) and identify which are specific conferring publics, in relation to the issue/event,

before deciding on the best way to manage legitimacy and the best way to communicate messages consistent with the aim of any legitimation tactics chosen.

It is concluded, therefore, that the annual report is more likely to be used for disclosing environmental information where there are multiple conferring publics. The likelihood of the annual report being used increases where multiple conferring publics have conflicting views in respect of the issue/event and where the demarcations between the different groups of conferring publics' views are not clearly discernible. Furthermore, if the conferring publics are considered by the corporation to be neither knowledgeable about, nor passionately interested in, the issue/event, the information content of any disclosure does not have to be high. This conclusion suggests that where corporations consider that conferring publics require more detailed information, it would be more likely to use communication media, other than the annual report, to communicate messages to achieve legitimation aims. Zeghal & Ahmed's (1990) study into the various social disclosure media corporations use supports this view. A further observation, from this investigation, which supports this position, is that stand-alone environmental reports are aimed at more specific and knowledgeable groups and these are being published in greater numbers than ever before (KPMG, 1999).

At the conclusion of Phase II, it appeared that the tone, nature and intention of any annual report disclosure would differ depending on whether the purpose of any legitimation tactics adopted was designed to gain, maintain or repair legitimacy. This had not been empirically tested before, in relation to annual report disclosures, but it had been hypothesised that legitimation tactics would differ depending on the purpose of the corporate response (Ashforth & Gibbs, 1990, Suchman, 1995). Other factors identified during this phase, which affected the choice of legitimation tactics and the intention of annual report disclosures, were the perceived magnitude of the legitimacy threat in relation to an environmental issue/event, the stage in its life-cycle of the issue/event and how much legitimacy the corporation believed it had 'stockpiled'.

#### **10.4 SUMMARY OF FINDINGS: SECOND RESEARCH OBJECTIVE**

The **second objective** of this investigation was to refine and augment legitimacy theory by developing a model designed to assist future researchers in predicting how corporations use

specific types of annual report disclosures to manage legitimacy in response to present or potential legitimacy threatening issues/events. Environmental issues/events were used as the determinant for legitimacy threats in this investigation. This objective was achieved during Phase III of the data collection process.

Building on the data collected and analysed during Phases I and II, selected environmental issues/events were placed in an appropriate context during Phase III, to help in establishing the extent of relationships between:

- (i) the magnitude of potentially legitimacy threatening environmental issues/events;
- (ii) the purpose of the corporate response (to gain, maintain or repair legitimacy);
- (iii) a given set of legitimation tactics which could be adopted with reference to the purpose of the corporate response (legitimation tactics) to the issue/event and,
- (iv) a given set of annual report environmental disclosure approaches associated with the legitimation tactics.

An explanation of the extent of these relationships forms the basis of the proposed legitimacy theory model, which is a major contribution of this thesis to the body of knowledge. The significance and magnitude of the environmental issue/event, which was provided to the interviewees, to the corporation (i), was decided by the interviewees during the data collection process. The variables identified in (iii) and (iv) above were supplied to the interviewees in the two data collection instruments used in Phase III (a) - hypothetical vignettes, and Phase III (b) - real-world cases. Separate scenarios, each linked to an environmental issue/event were set up for the purposes of gaining, maintaining and repairing legitimacy (ii) in Phases III (a) and (b).

By the beginning of Phase III (b), five legitimation tactics and associated annual report disclosure approaches were identified as being representative of the most probable legitimation tactics corporations would choose. These were tested to see how likely it was that they would be chosen in given sets of circumstances. A summary of these five approaches follows.

- A. An **avoidance** tactic is consistent with a deliberate attempt to avoid the issue or event. Choice of this approach would normally indicate little motivation, at present, to disclose environmental information related to the issue/event.
- B. An attempt to **alter social values** and norms is usually adopted specifically in response to an issue or event, but the disclosure may take the form of a broader, non-company specific point of view about what society's views should be in relation to the particular issue/event and/or other related environmental issues or events.
- C. Consistent with an attempt to **alter expectations of the corporation's performance** is a type of disclosure which takes the form of a plea from the company for society not to expect "too much" from the company. A disclosure reinforcing that the main reasons for the company's existence are not social or environmental would fit in with this approach.
- D. This tactic would be adopted to **alter perceptions of the corporation's performance**. Annual report disclosures of this type may distract attention from the issue or event by identifying with legitimate symbols or institutions in relation to the social performance of the company. A disclosure reinforcing legitimate institutions' support of the company in relation to the specific issue or event is also a possibility here.
- E. A tactic which exhibits a corporation's desire to **conform with social values** and norms, indicates, at least in a symbolic manner, that a corporation's response to an issue or event is consistent with its view of what it believes society expects. A disclosure of this type indicates that the corporation 'intends' to conform with current social values and norms.

Conclusions from this phase quite clearly indicated that the significance of the issue/event to the corporation is an important influence in determining an annual report disclosure approach, but it *is not* as major a factor in determining the intention of any annual report disclosure approach as is the purpose of the response. In other words, the intention of any annual report disclosure is more dependent on whether the corporation is trying to gain, maintain or repair legitimacy, than on the significance of the issue/event. For example, if a corporation was facing a crisis of

legitimacy due to a major environmental accident, the fact that the event might be extremely significant is not as important in which legitimation tactics are chosen as is the fact that the corporation needs to *repair* its legitimacy. The level of significance may influence any decision to avoid an issue/event, but in general, it is secondary to the purpose of the response in any environmental disclosure decision.

If **gaining legitimacy** is the objective, avoiding, altering perceptions and, if not much is known by outsiders to the corporation about the issue/event, altering social values, appear to be the annual report disclosure approaches most likely to be chosen. The results from the vignettes (Phase III a), indicated that attempts to alter social values were most likely to be adopted. In this scenario, the environmental issue was set up in such a way that its environmental impact was not known by anybody outside the senior managers of the corporation. Adopting this approach shows a pro-active attempt to manipulate the values of important conferring publics. This outcome was also reflected in the relatively low likelihood of the avoidance approach being adopted. This result is inconsistent with the beliefs of Ashforth & Gibbs (1990) and Suchman (1995), who indicated that 'doing nothing' was a more likely approach when attempting to gain legitimacy. On closer analysis, however, it is argued that the 'do nothing' approach is more of a stalling tactic and may be used early in an issue's life cycle. It appears logical that, at some stage of an issue's life cycle, if the issue/event were deemed to be significant enough, an approach other than avoidance would have to be adopted.

Interpreting responses aimed at **maintaining legitimacy** proved to be a difficult exercise. Apart from the significance of any issue/event being important, it was concluded that the level of legitimacy managers believe a corporation currently enjoys, coupled with how important legitimacy is to the corporation, affects decisions to disclose environmental information in the annual report. Because of the difficulty in 'measuring' these beliefs, the conclusions in relation to maintaining legitimacy are less convincing than those related to gaining or repairing legitimacy. The frequent choice of adopting more than one legitimation tactic was not unexpected, as trying to maintain legitimacy, the level of which is a bit of a guess to begin with, by adopting more than one legitimation tactic is a safer bet than choosing one approach and 'getting it wrong'. It is almost as if a corporation is attempting to cover all bases if it takes this position. Having said that,

if it is assumed that a corporation has a high level of legitimacy to begin with, it appears that it is very likely it will portray that it is conforming with social values and very unlikely to avoid the issue/event. It is also very likely to attempt to alter perceptions the annual report readers have about the corporation. Conversely, if one assumes the corporation has a low level of legitimacy to begin with, it appears that the corporation would be most unlikely to conform with social values and most probably would avoid the issue/event. Interestingly, it appears that a 'low legitimacy' corporation would also be very likely to attempt to alter others' perceptions of the corporation. In this context, it appears that attempts at altering perceptions are more of a 'business as usual tactic', irrespective of whether management believes the corporation enjoys high or low levels of legitimacy. Attempts at maintaining legitimacy tend to be pro-active, but in some circumstances may be reactive attempts to retain a level of legitimacy if a corporation feels its image has suffered in recent times. These reactive attempts are not necessarily linked to specific issues/events but may indicate a general desire to portray a greater interest in corporate social responsibility.

Conclusions in relation to **repairing legitimacy** were the most indisputable. This was not unexpected as the literature and empirical research on crisis management and repairing legitimacy was much more extensive than that related to the purposes of gaining and maintaining legitimacy. The importance of the significance of the event for this purpose was more important to the choice of legitimation tactics and annual report disclosures than it was for the purposes of gaining and maintaining legitimacy. This is understandable because if the event was not considered to be significant, then, in normal circumstances, there would be no lost legitimacy to regain. The immediacy and urgency of events causing legitimacy to be repaired also 'demand' that corporations respond (react) in a timely manner. As one would expect, avoiding the event is the tactic least likely to be adopted, whereas conforming with social values, albeit symbolically, and altering perceptions are most likely to be chosen. Acknowledging responsibility and reassuring society that all steps will be taken to ensure the event does not recur (conforming), coupled with an account of past environmental achievements (altering perceptions) are, clearly, the most likely tactics to be used. In the wake of an event which generates a great degree of negative public sentiment, it is not surprising that attempts to alter social values is a very unlikely tactical response. Corporations do not wish to appear to be lecturing society in the wake of negative

public sentiment. While it is possible that a corporation may attempt to alter expectations in an attempt to repair legitimacy, this was viewed as being a high risk (high return) approach, where the company may try to justify its actions without necessarily acknowledging any responsibility in relation to its actions concerning the event.

While the focus for explaining the choice of legitimation tactics and annual report disclosure approaches was predicated on the purpose of the corporate response, an interesting finding was discovered in relation to the annual report disclosure approach intended to alter perceptions. Of the five tactics/annual report disclosure approaches, this was the only one most likely to be adopted irrespective of the purpose of the corporate response. The conclusion about this approach, which emphasises a more *general* portrayal of a corporation's social and environmental performance than do other, more issue/event-specific, annual report approaches, supports the conclusion, stated earlier, that the annual report is used to send *generic* messages to those less knowledgeable about, or less interested in, using environmental information in the annual report.

While this investigation was concerned with investigating legitimacy theory, the data were collected in such a way so as not to exclude the possibility that motives, other than those consistent with legitimacy theory, would emerge. There was little evidence to suggest that motives other than those consistent with legitimacy theory were influential in relation to voluntary environmental disclosure decisions.

## 10.5 THEORETICAL IMPLICATIONS: THE PROPOSED LEGITIMACY THEORY MODEL

The legitimacy theory model is presented in this section as a *Legitimation Disclosure Response Matrix* (Table 10.1). An explanation of the elements of the matrix is included in this section and the theoretical implications of the investigation are also considered. In Table 10.1, the culmination of all of the data collection and analysis phases of this investigation but, most particularly, of Phase III, is illustrated. This Table represents the main contribution of this thesis to the development of legitimacy theory, as it was defined in this investigation, as an explanation for voluntary environmental disclosures. The *Legitimation Disclosure Response Matrix* was developed to give an account of how likely it is that certain legitimation tactics, in the form of an annual report disclosure approach, with a specific intention, will be chosen based on the perceived

significance of an environmental issue/event to the corporation and the particular purpose of the legitimation response.

TABLE 10.1 - LEGITIMATION DISCLOSURE RESPONSE MATRIX						
		Legitimation Tactic/Intention of Annual Report Disclosure Approach				
		Avoid	Alter values	Alter expectations	Alter perceptions	Conform
Purpose of Response	Significance of issue/event to Co.					
Gaining	High	Likely	Likely	Possibly	Likely	Unlikely
	Medium	Likely	Unlikely	Unlikely	Possibly	Possibly
Maintain - High	High	Very Unlikely	<i>Inconclusive</i>	Likely	Very Likely	Very Likely
	Medium	Unlikely	Possibly	<i>Inconclusive</i>	Likely	Possibly
Maintain - Low	High	Likely	Possibly	Possibly	Very Likely	Very Unlikely
	Medium	Very Likely	<i>Inconclusive</i>	<i>Inconclusive</i>	Likely	Unlikely
Repair	High	Very Unlikely	Very Unlikely	Likely	Very Likely	Very Likely
	Medium	Unlikely	Unlikely	Possibly	Very Likely	Likely

Column 1 represents the purpose of the legitimation response. It was considered important to include two levels of legitimacy for the purpose of maintaining legitimacy. It was discovered, during the investigation, that if a corporation believed it did not have much legitimacy to begin with, it was more likely to adopt different legitimation tactics from a corporation which believed it had a high level of legitimacy and therefore had much more to lose if it did not manage legitimacy threats effectively.

The level of perceived significance of the issue/event to a corporation is included in Column 2. It was quite clear from the findings, of this investigation, that the significance of an environmental issue/event has a major affect on environmental disclosure decisions. Only two levels of significance are included in the *Legitimation Disclosure Response Matrix*, high or medium. It

was concluded that if an issue/event was of low significance, it would not, in most circumstances, be considered a threat to a corporation's legitimacy and would not normally warrant the use of legitimization tactics and specific annual report disclosures.

Columns 3 to 7 represent the five categories of annual report disclosures related to the legitimization tactics formulated for the purposes of this investigation. Rows 3 to 7 represent the conclusions from this investigation in relation to how likely it is that the five legitimization tactics/annual report disclosure approaches will be adopted in relation to the purpose of the corporate response and the significance of the issue/event to the corporation. A five-point qualitative scale was used to indicate the likelihood of a disclosure approach being adopted. The labels used in this scale were: Very Likely; Likely; Possibly; Unlikely and Very Unlikely. Conclusions reached in relation to the contents of the cells were discussed in Section 10.4.

The contents of four of the cells in relation to maintaining legitimacy and altering values and altering expectations indicate inconclusive results. As was explained in Section 10.4, the difficulty in interpreting the existing level of legitimacy for firms wishing to maintain legitimacy, coupled with the perception of possible similarities in the intention of annual report disclosure approaches designed to alter values and alter expectations, led to the decision that any conclusions relating to these cells were not reliable.

From a theoretical perspective, it is concluded that legitimacy theory, as it has been interpreted and tested in prior research, is supported as an explanatory factor for the decision to disclose environmental information in the annual report. Legitimacy theory is based on managers' views about other's perceptions in respect of a corporation's activities. Prior to this investigation, legitimacy theory had rarely been tested by directly seeking managers' views. Thus this investigation has made empirical contributions to the body of knowledge. Furthermore, prior researchers were concerned with explanations regarding legitimacy from an ex post perspective, which by its nature excludes the possibility of discovering unique reasons for the disclosure, or more to the point, the non-disclosure, of environmental information. Legitimacy theory was enhanced during this investigation by collecting data from an ex ante perspective, which enabled the discovery of more explicit reasons for environmental disclosure decisions.

Most importantly, results from this investigation have led to the addition of specific components to the theory and this has resulted in a theory that is now able to be tested at a micro-level, which was previously unattainable. The identification of specific factors, which affect the legitimacy of a corporation, and the discovery, and testing, of the likelihood of distinct legitimation tactics being used and annual report disclosures being adopted, has advanced the development of, and ability to operationalise, the theory. For example, in applying the model, illustrated as the ***Legitimation Disclosure Response Matrix***, one can now speculate as to the meaning and intention of ex post annual report disclosures and, as a result, be in a better position to make judgements as to the 'value' of the disclosures. The use of legitimacy theory and the ***Legitimation Disclosure Response Matrix*** is not restricted to environmental disclosures. The model can be used in relation to any social issue/event, for example, health and safety, employee relations or human rights, which affects a corporation's legitimacy. Further uses for the model and the enhanced legitimacy theory are discussed in Section 10.8.

While not a direct aim of this investigation, the data collection techniques used did allow for the possibility of discovering reasons, other than those consistent with legitimacy theory, to be identified. There was little evidence to indicate that market-based motives directly affected the decision to disclose environmental information in the annual report. In fact, an examination of the transcripts of the twenty-six interviews conducted resulted in only one brief mention of the *possible* influence of environmental disclosures on share prices or the value of the firm. The political economy perspective received some support but, as political economy theory is more concerned with broader social and ideological change, than with organisational change, conclusions with respect of this 'bigger picture' were not followed up.

The bases on which corporations manage legitimacy threatening issues are integral parts of institutional, resource dependence and impression management theories. In managing legitimacy, institutional theory posits that corporations will adopt widely accepted and widely used institutionalised practices to preserve legitimacy. Impression management theory is predicated on the belief that the choice of any legitimation tactic is predominantly due to individual managers' personal value systems. Resource dependence theory posits that legitimacy management focusses on the need to identify and meet the needs of the groups which provide resources critical to the survival of the corporation. An evaluation and comparison of these

theories, from a legitimacy perspective, was discussed in Chapter 4. Figure 4.1 illustrated the relationship between legitimacy theory and these three theories. In relation to managing legitimacy, the development and further use of the *Legitimation Disclosure Response Matrix* should assist in gaining a better understanding of the connection between these three theories and legitimacy theory and to reduce the differences apparent in these three theories in relation to decisions to adopt specific legitimation tactics.

## 10.6 PRACTICAL SIGNIFICANCE OF THE RESEARCH

The most pivotal, practical conclusion, in relation to why corporations disclose environmental information, discovered during this investigation, was that environmental disclosure decisions expected were made on the basis of presenting the corporations in a positive light. In order of importance to the corporate world, motives for disclosing environmental information demonstrated: first, a consideration of how to maximise the benefit, or minimise the damage, to the corporation's image; and second, a tendency to be concerned with 'symbolism' rather than substance. These conclusions suggest that, at present, some corporations do not demonstrate more than a symbolic concern about the destruction of the environment and the role business plays in its degradation. This outcome came through repeatedly in the data analysis and is consistent with prior research results (Deegan & Gordon, 1996, Deegan & Rankin, 1996, Simmons & Neu, 1998). This indicates that, to corporations and society alike, at present, the value of voluntary environmental annual report disclosures, for decision making purposes, is questionable.

This conclusion, however, may not be as misanthropic as it first appears. Whatever the majority of society thinks about the role and social responsibility of corporations, it is asserted that few believe that a corporation's social responsibilities are more important than its right to achieve its economic objectives. If one adopts this view, then it is questionable whether the majority of corporations seriously contemplate acting outside the parameters of their constitution. However, if one compares the quantity and quality of corporate environmental disclosures today, compared with those of 20 years ago, it appears that a transformation in corporate thinking and action is taking place. This transformation is confirmed by corporations meeting a demand for more sophisticated environmental disclosures, as evidenced by the increased production of separate annual environmental reports (KPMG, 1999). The more that a corporation develops processes

to deal with increasing social and environmental pressures, the more likely it is that the culture of the corporation, in relation to its corporate social responsibilities, will change over time. This may result in more meaningful and useful environmental information being disclosed, which may ultimately lead to substantive changes being undertaken by corporations in relation to actions and activities which have environmental impacts.

There was some support for this assertion when comparing the environmental disclosure decisions of the three corporations in this study. While it was not an aim in this investigation to make comparisons between the corporations in the study, it is interesting to note that one of the corporation's choices and reasons for choosing particular disclosure approaches suggested it was more altruistic in its concern about its impacts on the natural environment than were the other two companies. Its motives and level of corporate social responsibility, reflected by the choice of annual report disclosure approaches, tended to be substantive rather than symbolic in relation to the environment. This corporation had a longer history of responsible environmental management than the other two corporations, it had begun producing a separate environmental report over 4 years earlier than the other corporations and it has long standing community consultation processes in place to deal with environmental concerns.

## 10.7 CONSTRAINTS

After having outlined the contributions to legitimacy theory development and the practical significance of the research, it is appropriate to place some caveats on them. These caveats are discussed under three headings, practical, theoretical and methodological.

From a **practical** perspective, given the nature of the qualitative data collected, it was presumed that interviewees could interpret questions slightly differently and place a different emphasis on certain areas. During the course of this investigation, it was not possible to interview the same people, identified as those most responsible for environmental disclosure decisions, in each phase of the data collection process. This was due either to, the member of staff being redeployed, leaving the firm or the environmental reporting process changing during the course of the investigation. While a limitation, this in no way invalidates any conclusions reached as the most important focus was that the person most responsible for environmental disclosure decisions was the primary data source throughout the investigation.

Over the course of the investigation it became obvious that, for two of the three corporations being studied, the publication of stand-alone environmental reports had an effect on annual report environmental disclosure decisions. The relevance of the annual report as a medium for disclosing legitimization tactics was changing during the course of the investigation. This does not invalidate any conclusions reached, but should be considered when using the *Legitimation Disclosure Response Matrix* in the future. This caveat reinforces the dynamic nature of legitimacy and the fact that the choice of legitimization tactics, and the manner in which related annual report disclosures can be communicated, will change as social values and norms change.

From a **theoretical** perspective, it should be noted that concentrating on legitimacy theory, as an explanation for increased environmental disclosures, does not invalidate the likelihood that other social theories have some explanatory power as well. In particular, the broader, more general accountability theory (Gray et al, 1995) is better able to be tested as a result of the findings of this investigation and the development of the *Legitimation Disclosure Response Matrix*.

On an intra and inter-industry basis, individual corporations have different: characteristics; social and environmental goals; perceptions of the importance of social and environmental goals to their conferring publics, and, external pressures, on them at any point in time. These perceptions and pressures will also change over time. It was concluded that these different characteristics, goals, perceptions and external pressures, often unrelated to the issue/event, at the time the issue/event is at its peak importance, will influence the decision to disclose environmental information and the choice of specific annual report disclosure approaches. It was not possible to test directly for the effect these external pressures had on the choice of annual report disclosures. Depending on what other things are happening for an individual corporation at the time when environmental issues or events are important to conferring publics, an individual corporation may respond to these issues and events in different ways at different points in time. Nonetheless, the data collected during Phase III (b), were collected in real-time, in that while the external pressures and other factors were not directly inquired about, it is both assumed, and, at least, partially indicated in the data collected, that they were taken into account by the interviewees when choosing between legitimization tactics and annual report disclosure approaches.

While generally consistent with each other, some of the findings from Phase III (a), using fictitious vignettes, differed from those in Phase III (b), which accessed the views of management of the corporations in the study, specifically related to the alternative choices they would make on behalf of their corporations. The observed differences lend support to the assertion that external pressures on the corporation have an effect on environmental disclosure decisions. In Phase III (b), the interviewees were familiar with the external pressures on the corporation at the time interviews were conducted. In some ways, this suggests that the results from Phase III (a) (fictitious vignettes) may be a more reliable, if slightly less relevant, indicator for explaining relationships between the significance of an environmental issue/event, the purpose of the response and the intention of any annual report disclosure.

It must be acknowledged that, at any point in time, corporations have multiple issues/events to deal with, and multiple conferring publics' views to manage in relation to these issues/events. The levels of interconnectedness and the effect of multiple issues/events and multiple conferring publics was not tested for during this investigation. In order to achieve the objectives of the investigation it was decided to concentrate on identifying alternative responses to a single environmental issue/event and to acknowledge, but not to test specifically, the reaction of management to multiple conferring publics' views. Conclusions reached in this investigation, using a single issue/event, can be used to test the influence multiple issues/events may have on a firm's legitimacy.

It is important to have an idea about what management perceive to be the current social standing of the corporation before using the *Legitimation Disclosure Response Matrix*. For example, the choice of legitimation tactics may differ depending on what level of legitimacy the corporation believes it currently enjoys. This measure of legitimacy is obviously very subjective and will also change during the existence of any corporation. The *Legitimation Disclosure Response Matrix* was developed, in part, with reference to perceived levels of legitimacy the corporations in the study believed they possessed.

There are two **methodological** caveats to be noted in relation to the conclusions. First, in order to be able to test legitimacy theory at a micro-level and to be able to develop the *Legitimation Disclosure Response Matrix*, it was considered necessary that the researcher choose the

environmental issues/events which represented legitimacy threats. Second, the researcher also supplied the legitimation tactics and annual report disclosure approaches from which the interviewees had to choose. If these options were not provided by the investigator, it is doubtful that the objectives of this investigation could have been achieved. These issues/events and legitimation tactics were chosen based on a thorough evaluation of the literature and examination of relevant secondary sources of data. Justifications for the choice of the legitimation tactics and issues/events were explained in more detail in Chapters 4 and Chapter 9.

### 10.8 OPPORTUNITIES FOR FURTHER RESEARCH

There is a number of directions, related to this investigation, in which research could proceed. While this investigation used environmental disclosures as a proxy for public pressure and ultimately, legitimacy, the methods adopted in this investigation could be used for any issue/event which has the potential to have a social impact on a corporation.

In this investigation, the annual report was identified as being the major way corporations communicated social and environmental information to various stakeholders. One could use the methods adopted in this research to identify how other means of communication are used in managing legitimacy. For example, the increasing use of, separate environmental reports and the world-wide-web, to communicate environmental information, may affect the choice of legitimation tactics.

It was identified during this investigation that corporate management believe that media reports are a significant cause of public pressure for the corporation. What has not been explored, to date, is an assessment of the extent that media reports create this significance in the minds of management or, vice versa, does the media report on these issues because of the significance management and corporations place on them?

Identifying and understanding the different stages in the life cycle of an issue/event are important in determining whether the choice of legitimation tactics, and annual report disclosure approaches, should be categorised as being consistent with a gaining, maintaining or repairing purpose. For example, when does public pressure, relating to a major environmental accident or its related issue, result in the intention of disclosure approaches changing from an initial purpose of repairing

legitimacy to one of maintaining, over different phases in the life cycle of the issue/event? Further, at what stage of an issue/event's life cycle, does the intention of a management disclosure approach, for example, associated with a new damaging environmental product, move from an initial, pro-active, attempt to gain legitimacy into the relatively more benign and less threatening area of maintaining legitimacy? There has been no significant research conducted in relation to these questions.

It was not one of the aims, in this research, to develop a model which linked specific issues/events to conferring publics, which, in turn, leads to predicting corporate responses. The complex issue of the types and levels of interconnectedness between specific issues, individual corporations and multiple conferring publics, suggests that further research should be conducted in this area to develop legitimacy theory. Moreover, if one is to conduct this research successfully, it is imperative to know who management believe are their specific conferring publics. Only limited amounts of research to date have attempted to identify which groups in society corporate management perceive to be the most influential in deciding a corporation's legitimacy, in relation to specific legitimacy threatening issues or events (Elsbach, 1994, Elsbach & Sutton, 1992). In addition, it is acknowledged that conferring publics' values and views change over time. Future research could be conducted which attempts to identify factors which cause changes in a conferring public's values and/or perception's of a corporation and its activities.

The authority of any theory is often connected to its longevity (Eisenhardt, 1989b). Longitudinal studies could be conducted, using a combination of interviews with management and ex ante annual report/environmental report content analysis, to see if increased environmental disclosures, continue to be explained by legitimacy theory. Moreover, this should allow researchers to discover to what extent the five legitimation tactics/disclosure approaches used in this investigation are still used and this may lead to the identification of other legitimation tactics and annual report disclosure approaches.

An obvious extension of legitimacy theory is to establish whether the adoption of legitimation tactics and annual report disclosures has the desired effect on conferring publics. In other words, to what extent do legitimation tactics work? To do this, future researchers would need to collect data from groups at whom management target legitimation tactics, and discover the groups'

views, before and after the legitimation process. Only very limited research has been conducted in this area to date (Elsbach, 1994).

Finally, from a broader corporate social responsibility perspective, longitudinal studies could be conducted to establish whether, and to what extent, environmental disclosures, designed to influence the image society has of corporate environmental activities, have become more substantive over time. In other words, to what extent does a firm believe that its corporate environmental responsibility and performance is measured by its impacts on the environment, rather than what it tells society it is doing about it?

\*\*\*\*\*

**BIBLIOGRAPHY**

- Abbott, W.F. & Monsen, R.J., (1979) "On the measurement of corporate social responsibility: self reported disclosures as a method of measuring corporate social involvement", *Academy of Management Journal*, Vol. 22, No. 3, pp. 501-15.
- Accounting Standards Steering Committee, (1975) *The Corporate Report*, AASC, London.
- Ackerman, Robert W., (1975) *The Social Challenge to Business*, Harvard University Press, Cambridge.
- Ackerman, R.W. & Bauer, R.A., (1976) *Corporate Social Responsiveness: The Modern Dilemma*, Reston Publishing, Reston.
- Adams, C., Hill, W. & Roberts, C.B., (1998) "Corporate Social Reporting Practices in Western Europe: Legitimizing Corporate Behaviour", *British Accounting Review*, Vol.30, pp. 1-21.
- Ader, C. R., (1995) "A longitudinal study of agenda setting for the issues of environmental pollution", *Journalism and Mass Communication Quarterly*, Vol.72, no. 2, pp.300-311.
- Allen, Brennan, (1993) "Making Room for the Environment in Annual Reports", *Accountants' Journal*, August, pp. 61-62.
- American Accounting Association, (1975) "Report of the Committee on Social Costs", *The Accounting Review - Supplement*, pp.53-84.
- Amernic, J., (1992) "A Case Study in Corporate Financial Reporting: Massey-Ferguson's Visible Accounting Decisions 1970-1987", *Critical Perspectives on Accounting*, Vol. 3, 1992, pp. 1-43.
- Anderson, Ray H. & Epstein, Marc, (1995) "The Usefulness of Annual Reports", *Australian Accountant*, April, pp. 25-28.
- Anderson, Ray H. & Gibson, Kathy, (1993) "Environmental Activism and Corporate Management - An Ethical Dilemma", *Accounting and Law Research Paper Series*, No.10, Victoria University of Technology.
- Ansoff, I., (1975) "Managing strategic surprise by response to weak signals", *California Management Review*, Vol.18, No.2, pp.21-33.
- Arnold, Patricia, (1990) "The State and Political Theory in Corporate Social Disclosure Research", *Advances in Public Interest Accounting*, Vol. 3, pp.177-181
- Arnold, Stephen J., Handelman, Jay & Tigert, Douglas, J., (1996) "Organizational Legitimacy and Retail Store Patronage", *Journal of Business Research*, Vol. 35, pp.229-239.

- Arrington, C.B. & Sawaya, R.N., (1984) "Issues management in an uncertain environment", *California Management Review*, Vol. 26, pp.148-160.
- Ashforth, Blake E & Gibbs, Barrie W., (1990) "The double edge of legitimization" *Organization Science*, Vol.1, pp.177-94.
- Australian Bureau of Statistics, (1997) *4602.0 Environmental Issues: People's Views and Practices*, Commonwealth of Australia, Canberra.
- Bansal, P., (1995) Why do firms go green? The case of organisational legitimacy, D. Phil thesis, Oxford University.
- Barbera, Maria, (1994) *Environmental Issues: A Challenge for Management Accountants*, Australian Society of Certified Practising Accountant's Management Accounting Centre of Excellence.
- Bartha, P.F., (1982) "Managing corporate external issues: An analytical framework", *Business Quarterly*, Vol. 47, No. 2, pp.78-90.
- Bartlett, Susan, and Jones, Mike, (1993) "A Quinquennial Analysis Of The Mandatory And Voluntary Disclosures Of A UK Company's Corporate Annual Report 1970-1990", University of Wales, Working Paper.
- Baum, J.A.C. & Oliver, C., (1991) "Institutional linkages and organisational mortality", *Administrative Science Quarterly*, Vol.36, No.2, pp.187-219.
- Bebbington, J., Gray, R. & Thomson, I., (1994) "Accountancy and Sustainability: Tentative Findings on the Meaning and Implementation of Sustainability", University of Dundee Discussion Paper.
- Belal, A. R., (1999) "Corporate Social Reporting in Bangladesh", *Social and Environmental Accounting*, Vol. 19, No.1, pp.8-12.
- Belkaoui, Ahmed, (1976) "The Impacts of the Disclosure of the Environmental Effects of Organizational Behaviour on the Market", *Financial Management*, Vol.5, No. 4 Winter, pp 26-31.
- Belkaoui, Ahmed & Karpik, Philip G., (1989) "Determinants of the Corporate Decision to Disclose Social Information", *Accounting Auditing and Accountability Journal*, Vol. 2, No. 1., pp.36-50.
- Berg, B.L., (1989) *Qualitative Research Methods for the Social Sciences*, Allyn & Bacon, Boston.
- Birnberg, J.G., Shields, M.D. & Young, S.M., (1990) "The Case for Multiple Methods in Empirical Management Accounting Research (With an Illustration from Budget Setting)", *Journal of Management Accounting Research*, Fall, pp. 33-66.

- Blaconiere, W.G. & Patten, D.M., (1994) "Environmental Disclosures, Regulatory Costs and Changes in Firm Value", *Journal of Accounting & Economics*, Vol. 18, Iss. 3, November, pp. 357-377.
- Blumer, Herbert, (1931) "Science Without Concepts", *American Journal of Sociology*, Vol.36, pp. 515-533.
- Bogdan, Robert & Taylor, Steven J., (1975) *Introduction to Qualitative Research Methods: A Phenomenological Approach to the Social Sciences*, John Wiley & Sons, New York
- Boulding, K.E., (1974) "The role of legitimacy in the dynamics of society", in *Kenneth Boulding: Collected Papers: Vol. 4 Toward a general social science*, Singell, L.D. (ed), Colorado Associated University Press, Boulder, Colorado.
- Bowman, E.H. & Haire, M., (1976) "Social Impact Disclosure and Corporate Annual Reports", *Accounting, Organizations & Society*, Vol. 1, pp. 11-21.
- Brown, N. & Deegan, C., (1999) "The public disclosure of environmental performance information – a dual test of media agenda setting theory and legitimacy theory", *Accounting and Business Research*, Vol. 37, No. 1, pp.21- 41.
- Brownell, P., (1995) *Research Methods in Management Accounting*, Accounting Research Methodology Monograph No. 2, Coopers & Lybrand and Accounting Association of Australia & New Zealand.
- Brundlandt, G.H., (1987) Chairman, World Commission on Environment and Development, *Our Common Future*, Oxford University Press, Oxford.
- Bryman, A. (ed), (1988) *Doing Research in Organisations*, London, Routledge.
- Bryman, A & Burgess, R.G., (eds) (1994) *Analyzing Qualitative Data*, Routledge, London.
- Bucholz, Rogene A., (1995) *Business Environment and Public Policy: Implications for Management*, Prentice Hall, Englewood Cliffs, New Jersey.
- Buhr, Nola, (1994) "Environmental Disclosure: An Empirical Study of Corporate Communication in Canada and the Role of Accountants", PhD Thesis, Faculty of Graduate Studies, University of Western Ontario, London, Canada.
- Buhr, Nola, (1998) "Environmental Performance, Legislation and Annual Report Disclosure: The Case of Acid Rain and Falconbridge", *Accounting, Auditing & Accountability Journal*, Vol.11, No.2, pp. 163-190.
- Burrell, Gibson & Morgan, Gareth, (1979) *Sociological Paradigms and Organisational Analysis*, Heinemann, London.

- Buzby, S. & Falk, H., (1978) "A survey of the interest in social responsibility information by mutual funds", *Accounting, Organizations and Society*, Vol. 3, No. 3, pp.191-201.
- Carroll, A., (1989) *Business and Society: Ethics and Stakeholder Management*, South-Western Publishing Co., Cincinnati.
- Carson, R., (1962) *Silent Spring*, Houghton Mifflin, Boston.
- Chang, L.S. & K.S. Most (1977) "Investor Uses of Financial Statements - An Empirical Study" *The Singapore Accountant*, Vol.12, pp.83-91.
- Chen, C.C. & Meindl, J.R., (1991) "The construction of leadership images in the popular press: The case of Donald Burr and People Express", *Administrative Science Quarterly*, Vol. 36, pp.521-551.
- Chenall, RH & Juchau, R., (1977) "Investor Information Needs - An Australian Study", *Accounting and Business Research*, Spring, pp.111-119.
- Chua, Wai Fong, (1996) "Issues in Substantive Areas of Research in Accounting" presentation at Department of Accounting and Finance Research Seminar Series, Victoria University of Technology, April.
- Clarke, J. & Ogden, S., (1999) "Annual Company Reports and the Construction of Legitimacy: the case of the UK Privatised Water Industry" Paper presented at the Critical Perspectives in Accounting Conference, April, New York.
- Clarkson, Max, B.E., (1995) "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance", *Academy of Management Review*, Vol.20, No 1, pp 92-118.
- Cooper, David J., (1988) "A Social Analysis of Corporate Pollution Disclosures: A Comment", *Advances in Public Interest Accounting*, Vol.2, pp. 179-186.
- Cooper, David J. & Sherer, Michael J., (1984) "The Value of Corporate Accounting Reports: Arguments for a Political Economy of Accounting", *Accounting, Organizations & Society*, Vol. 9, No. 3/4, pp..207-232.
- Coopers & Lybrand Consultants, (1997) "Environmental Reporting", *On Environmental Reporting*, Vol. 2, No.1, September.
- Corbett, Charles J. & Van Wassenhove, Luk N., (1993) "The Green Fee: Internalizing and Operationalizing Environmental Issues", *California Management Review*, Fall, pp. 116-135.
- Courtis, John K., (1981), "Annual Report Resource Commitment and Distribution Patterns in Australia", *Communication Via Annual Reports - AFM Exploratory Series, No. 11.*, Department of Accounting and Financial Management, University of New England, Armidale, NSW, Australia.

- Cowen, S. S, Ferrari, L. B. & Parker, L. D., (1987) "The impact of corporate characteristics on social responsibility disclosure", *Accounting, Organisations & Society*, Vol.12, No. 2, pp. 111-122.
- Davidson, Art, (1990) *In the Wake of the Exxon Valdez*, Sierra Club Books, San Francisco.
- Davidson, D. Kirk, (1991) "Legitimacy: How Important is it for Tobacco Strategies?", *Business & the Contemporary World*, Autumn, pp. 50-58.
- Davis, Keith, (1973) "The Case for and Against Business Assumption of Social Responsibilities", *Academy of Management Journal*, Vol.16, No. 2, pp.312-322.
- Deegan, Craig, (1999) Triple Bottom Line Reporting: A new reporting approach for the sustainable organisation [Online], Available, <http://www.icaa.org.au/> 30 September, 1999.
- Deegan, Craig, & Gordon, Ben, (1996) "A Study of the Environmental Disclosure Practices of Australian Corporations", *Accounting & Business Research*, Vol.26, No.3, pp.187-199.
- Deegan, Craig & Rankin, Michaela (1996) "Do Australian Companies Objectively Report Environmental News? An Analysis of Environmental Disclosures by Firms Successfully Prosecuted by the Environmental Protection Authority", *Accounting, Auditing & Accountability Journal*, Vol.9, No.2, pp.50-67.
- Deegan, Craig & Rankin, Michaela (1997) "The Environmental Reporting Expectations Gap: Australian Evidence", Paper presented at 1<sup>st</sup> Asian Review of Accounting Conference, April, Perth, Western Australia.
- Deegan, Craig, Rankin, Michaela & Tobin, John, (1999) "An Examination of the Corporate Social Disclosure Disclosures of BHP From 1983-1997: A Test of Legitimacy Theory", 22<sup>nd</sup> European Accounting Association Conference, May, Bordeaux, France.
- Deephouse, David L., "Does isomorphism legitimate?", *Academy of Management Journal*, Vol.39, No.4, 1997, pp. 1024-1039.
- Denzin, Norman K., (1989), *The Research Act: A Theoretical Introduction to Sociological Methods*, Englewood Cliffs, New Jersey: Prentice Hall.
- Denzin, N. K., & Lincoln, Y. S, (Ed) (1994), *Handbook of qualitative research*, Thousand Oaks, Sage Publications, California, U.S.A.
- Dierkes, M., & Antal, A.B., (1985) "The usefulness and use of social reporting information", *Accounting, Organizations & Society*, Vol. 10, No.1, pp.29-34.
- DiMaggio, P.J. & Powell, W.W., (1983) "The iron cage revisited: Institutional isomorphism and collective rationality in organisational fields", *American Sociological Review*, Vol.48, pp.147-160.

- Disu, A & Gray, R., (1998) "An Exploration of Social Reporting and MNC's in Nigeria", *Social and Environmental Accounting*, Vol. 18, No.2, pp.13-15.
- Donaldson, T., & Preston, L., (1995) "The stakeholder theory of the corporation: concepts, evidence and implications", *Academy of Management Review*, Vol.20, No. 1, pp. 65-92.
- Dowling, J. & Pfeffer, J., (1975) "Organizational legitimacy: Societal values and organisational behaviour", *Pacific Sociological Review*, Vol.18, No. 1, January, pp.122-136.
- Drake, G., (1994) "BHP Ltd's Environmental Management Strategies", presentation to the Australian Society of Certified Practising Accountants Social and Environmental Accounting Discussion Group, May, Melbourne.
- Dutton, J.E. & Ashford, S.J., (1993) "Selling issues to top management", *Academy of Management Review*, Vol. 18, No. 3, pp.397-428.
- Dutton, J.E. & Dukerich, J.M., (1991) "Keeping an eye on the mirror: Image and identity in organizational adaptation", *Academy of Management Journal*, Vol. 34, No. 3, pp. 517-554.
- Dutton, J.E., Fahey, L. & Narayanan, V.K., (1983) "Toward understanding strategic issue diagnosis", *Strategic Management Journal*, Vol. 4, pp.307-324.
- Dyball, Maria Cadiz, (1998) "Corporate Annual Reports as Promotional Tools: The Case of Australian National Industries Limited", *Asian Review of Accounting*, Vol. 6, No. 2, 1998, pp.25-53.
- Easterby-Smith, M., Thorpe, R. & Lowe, A., (1991) *Management Research: An Introduction*, Sage, London.
- Edwards, E.O. & Bell, P.W., (1961) *The Theory and Measurement of Business Income*, University of California Press.
- Eisenhardt, Kathleen M., (1989a) "Agency Theory: An Assessment and Review", *Academy of Management Review*, Vol.14, No. 1, pp. 57-74.
- Eisenhardt, Kathleen M., (1989b) "Building Theories from Case Study Research", *Academy of Management Review*, Vol.14, No. 4, pp.532-550.
- Elkington, J., (1994) "Towards the Sustainable Corporation: Win - Win - Win: Business Strategies for Sustainable Development", *California Management Review*, Winter, pp.90-100.
- Elkington, J., (1999) "Triple bottom-line reporting: looking for balance", *Australian CPA*, Vol.69, No. 2, pp. 18-21.
- Elsbach, K., (1994) "Managing organisational legitimacy in the California cattle industry: The construction and effectiveness of verbal accounts", *Administrative Science Quarterly*, Vol.39, No.1, pp.57-89.

- Elsbach, K. & Sutton, R.I., (1992) "Acquiring organisational legitimacy through illegitimate actions: A marriage of institutional and impression management theories", *Academy of Management Journal*, Vol.35, pp.699-738.
- Epstein, Edwin M. & Votaw, Don, (eds.) (1978) *Rationality, Legitimacy, Responsibility: Search for New Directions in Business and Society*, Goodyear Publishing Company, Inc., Santa Monica, California.
- Epstein, Marc J., & Freedman, Martin, (1994) "Social Disclosure and the Individual Investor", *Accounting, Auditing & Accountability*, Vol.7, No. 4, pp. 94-109.
- Estes, R., (1996) *Tyranny of the Bottom Line - Why Corporations Make Good People Do Bad Things*, Berrett-Koehler Publishers.
- Federation des Experts Comptables Europeens (1994), *FEE 1994 Investigation of Emerging Accounting Issues*, Routledge, London.
- Fekrat, A., Inclan, C. & Petroni, D., (1996) "Corporate Environmental Disclosures: Competitive Disclosure Hypothesis using 1991 Annual Report Data", *International Journal of Accounting*, Vol.31, No.2, pp, 175-186.
- Ferreira, L.D. & Merchant, K.A., (1992) "Field Research in Management Accounting and Control: A Review and Evaluation", *Accounting, Auditing and Accountability Journal*, Vol. 5, No. 4, pp.3-34.
- Fitzgerald, Neil, (1993) "Failing to Watch the Tides Rise", *CA Magazine*, October. pp.
- Freeman, R.E., (1984) *Strategic Management: A Stakeholder Approach*, Pitman, Boston.
- Friedman, Milton, (1962) *Capitalism and freedom*, University of Chicago Press, Chicago, USA
- Frost, Geoffrey R. & Wilmshurst, Trevor D., (1998) "Evidence of Environmental Accounting in Australian Companies", *Asian Review of Accounting*, Vol.6, No.2, pp.163-180.
- Galaskiewicz, J., (1985) "Interorganizational Relation", *Annual Review of Sociology*, Vol. 11, pp. 281-304.
- Gamble, George O., Hsu, Kathy, Devaun, Kite & Radtke, Robin R., (1995) "Environmental Disclosures in Annual Reports and 10Ks: An Examination", *Accounting Horizons*, Vol. 9, No 3, September, pp 34-54.
- Gamson, W.A. & Modigliani, A., (1989) "Media discourse and public opinion on nuclear power: A constructionist approach", *American Journal of Sociology*, Vol. 95, pp. 1-37.
- Gans, H.J., (1979) *Deciding what's news*, Pantheon, New York.

- Gibson, R. & Guthrie, J., (1995) "Recent environmental disclosures in the annual reports of Australian public and private sector organisations", *Accounting Forum*, Vol.19, No.2/3, pp. 111-127.
- Gladwin, Thomas N. (1993), "The Meaning of Greening: A Plea for Organizational Theory", in Fischer, Kurt & Schot, Johan, *Environmental Strategies for Industry: International Perspectives on Research Needs and Policy Implications*, Island Press, Washington, DC, pp. 37-61.
- Glaser, B.G., & Strauss, A.L., (1967) *The Discovery of Grounded Theory: Strategies for Qualitative Research*, Aldine, Chicago.
- Goffman, E., (1973) *The Presentation of Self in Everyday Life*, Woodstock, Overlook Press, New York.
- Golden, M. Patricia, (1976) *The Research Experience*, F.E. Peacock Publishers Inc., Itasca, Illinois, U.S.A.
- Goodstein, Jerry D.,(1994) "Institutional Pressures and Strategic Responsiveness: Employer Involvement in Work-Family Issues", *Academy of Management Journal*, Vol. 37, No. 2, pp. 350-382.
- Gordy, M., (1993) 'Thinking about Corporate Legitimacy', in *The Legitimate Corporation*, Sutton, B., (ed) Blackwell, Cambridge, Massachusetts, USA.
- Gorman, Barry, (1992a) "Social and Environmental Disclosure in Canada: Ten Case Studies", British Accounting Association National Conference, University of Warwick, April.
- Gorman, Barry J., (1992b) "Are Corporations Becoming More Socially Responsible? - An Exploratory Study of Social Responsibility Reporting in Canada", 15<sup>th</sup> Annual Congress of the European Accounting Association, April.
- Gray, Rob with Bebbington, Jan & Walters, Diane, (1993) *Accounting for the Environment*, Paul Chapman Publishing and the ACCA, London, England.
- Gray, Rob., Kouhy, Reza & Lavers, Simon, (1995) "Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure", *Accounting, Auditing & Accountability*, Vol. 8, No. 2, pp. 47-77.
- Gray, R., Owen, D & Adams, C., (1996) *Accounting & Accountability*, Prentice Hall, Europe.
- Gray, R.H., Owen, D.L. & Maunders, K., (1988) "Corporate Social Reporting: Emerging Trends in Accountability and the Social Contract", *Accounting, Auditing & Accountability Journal*, Vol. 1, No. 1, pp.6-20.
- Greening, Daniel W. & Gray, Barbara, (1994) "Testing a model of organisational response to social and political issues", *Academy of Management Journal*, Vol. 37, No. 3, pp.467- 491.

- Guthrie, J., (1983) "Corporate Social Accounting and Reporting: An Australian Empirical Study", AAANZ Annual Conference, Brisbane, Australia.
- Guthrie, James, & Parker, Lee, D., (1989) "Corporate Social Reporting: A Rebuttal of Legitimacy Theory", *Accounting and Business Research*, Vol.19, No.76, pp.343-352.
- Guthrie, J. & Parker, L., (1990) "Corporate Social Disclosure Practice: A Comparative International Analysis", *Advances in Public Interest Accounting*, Vol. 3, pp. 159-176.
- Guthrie, J. & Mathews, R.M., (1985) "Corporate Social Accounting Policy in Australia", *Research in Corporate Social Policy & Performance*, Vol. 7, pp. 251-277.
- Hackston, David & Milne, Markus J., (1996) "Some Determinants of Social and Environmental Disclosures in New Zealand Companies", *Accounting, Auditing & Accountability Journal*, Vol. 9, No.1, pp.77-108.
- Harte, George and Owen, David, (1991) "Environmental Disclosure in the Annual Reports of British Companies: A Research Note", *Accounting Auditing and Accountability Journal*, Vol.4, No.3, pp.51-61.
- Hines, A., (1991) "The Wider Issues", *Certified Accountant*, April, pp. 38-42.
- Hines, Ruth D., (1988) "Financial Accounting: In Communicating Reality, We Construct Reality", *Accounting, Organizations & Society*, Vol. 13, No.3, pp. 251-261.
- Hogner, R.H., (1982) "Corporate social reporting: Eight decades of development at US steel", *Research in Corporate Social Performance and Policy*, JAI Press, Greenwich, CT, U.S.A, pp. 243-250.
- Hybels, Ralph C., (1995) "On legitimacy, legitimation, and organizations: A critical review and integrative theoretical model", *Academy of Management Journal*, Best conference proceedings, pp. 241-245.
- Ince, D., (1998) "Determinants of Social and Environmental Disclosures of the UK Companies in Environmental Policy Statements", <http://www.enviroreporting.com/> [Online], February 6.
- Ingram R.W. & Frazier, K.B., (1980) "Environmental Performance and Corporate Disclosure", *Journal of Accounting Research*, Vol. 18, No. 2, Autumn, pp. 614-622.
- Jensen, M. & Meckling, W., (1976) "Theory of the firm: Managerial behaviour, agency costs, and ownership structure", *Journal of Finance Economics*, Vol. 3, pp.305-360.
- Johnson, J., (1983) "Issues management: What are the issues?", *Business Quarterly*, Vol. 48, No.3, pp.22-31.
- Kerlinger, Fred N., (1986) *Foundations of Behavioral Research*, 3rd Edition, Holt, Rhinehart & Winston, U.S.A.
- Kaplan, R.S., (1984) "The evolution of management accounting", *Accounting Review*, Vol. 59, No. 3, pp.390-418.

Kernisky, Debra A., (1997) "Proactive Crisis Management and Ethical Discourse: Dow Chemical's Issues Management Bulletins 1979-1990", *Journal of Business Ethics*, Vol. 16, pp. 843-853.

Kidder, L.H., *Research Methods in Social Relations*, 4th Edition 1981, Holt Saunders.

Kiesler, S. & Sproul, L., (1982) "Managerial response to changing environments: Perspectives on problem sensing from social cognition", *Administrative Science Quarterly*, Vol. 27, pp.548-570.

Kokubu, K., Tomimasu, K., & Yamagami, T., (1994) "Green Reporting in Japan: Accountability and Legitimacy", *Dundee Discussion Papers in Accountancy and Business Finance*, University of Dundee, August.

KPMG, (1993) *KPMG International Survey of Environmental Reporting*, KPMG International, USA.

KPMG, (1997) *KPMG International Survey of Environmental Reporting*, KPMG International, Sweden.

KPMG, (1999) *KPMG International Survey of Environmental Reporting*, KPMG International, Netherlands.

Leary, Mark R. & Kowlaski, Robin M., (1990) "Impression Management: A Literature Review and Two-Component Model", *Psychological Bulletin*, Vol. 107, No.1, pp. 34-47.

Lehman, C. & Tinker, T., (1987) "The 'Real' Cultural Significance of Accounts", *Accounting, Organizations & Society*, Vol. 12, No.5, pp.503-522.

Lev, Baruch, (1992) "Information Disclosure Strategy", *Californian Management Review*, Summer, pp. 9-32.

Lindblom, C.K., (1983) "The concept of organisational legitimacy and its implications for corporate social responsibility disclosure", *American Accounting Association Working Paper Series, Public Interest Section*, No. 7.

Lindblom, C.K., (1994) "The implications of organizational legitimacy for corporate social performance and disclosure", *Critical Perspectives on Accounting Conference*, New York, N.Y., U.S.A.

Lipset, S.M., (1963) "Political Man: The Social Bases of Politics", as quoted by Rosen, P.L. (1979) "Legitimacy, domination and ego replacement" in Vidich, A.J. & Glassman, R.M (eds.) *Conflict and Control: Challenge to Legitimacy of Modern Governments*, Sage Publications, California.

Manning, Peter K., (1982), "Analytic Induction", in P.K. Manning and Robert B. Smith (eds), *A Handbook of Social Science Methods*, Cambridge, Ma., Ballinger, Vol. 2, pp.273-302.

Marcus, A., (1988) "Responses to externally induced innovation: Their effects on organizational performance", *Strategic Management Journal*, Vol. 9, pp.387-402.

Marcus, A. A. & Goodman, R.S., (1991) "Victims and Shareholders: The Dilemmas of Presenting Corporate Policy During a Crisis", *Academy of Management Journal*, Vol.34, No.2, pp.281-235.

Marshall, Catherine & Rossman, Gretchen, B., (1989) *Designing Qualitative Research*, Newbury Park, Sage Publications.

Mastrandonas, Andrew & Strife, Polly T., "Corporate Environmental Communications: Lessons from Investors", *The Columbia Journal of World Business*, Fall & Winter 1992, pp.234-240.

Mathews, M.R., (1993) *Socially Responsible Accounting*, Chapman & Hall, Australia.

Mathews, M.R., (1994) "Recent Developments in Social and Environmental Accounting", *Accounting Forum*, June, pp.5-23.

Mathews, M.R., (1997) "Towards a Mega-Theory of Accounting", *Asia-Pacific Journal of Accounting*, Vol. 4, No. 2, December, pp. 273-289.

Maurer, J.G., (1971) *Readings in Organization Theory: Open-System Approaches*, Random House, New York.

Mayer, H., (1980) *Power and the Press*, Murdoch University News, Vol.7, no.8, Murdoch University.

McCombs, M., (1981) "The Agenda-Setting Approach", in *Handbook of Political Communication*, (eds.) D. Nimmo & K. Sanders, Beverly Hills, California, Sage.

Meyer, J.W., & Scott, W.R., (1983) "Centralization and the legitimacy problems of local government", in J.W. Meyer & W.R. Scott (eds), *Organizational environments: Ritual and Rationality*, Beverly Hills, California, Sage Publications, pp.199-215.

Meyer, J.W. & Rowan, B., (1977) "Institutional organisations: Formal structure as myth and ceremony", *American Journal of Sociology*, Vol.83, pp.340-363.

Meznar, Martin B. & Nigh, Douglas, (1995) "Buffer or bridge? Environmental and organisational determinants of public affairs activities in American firms", *Academy of Management Journal*, Vol.38, No. 4, pp. 975-990.

Meznar, Martin B. & Nigh, Douglas, (1993) "Managing Corporate Legitimacy: Public Affairs Activities, Strategies and Effectiveness", *Business and Society*, Vol. 32, No. 1, p.30-43.

Miles, M.B. & Huberman, A.M., (1994) *Qualitative Data Analysis: a sourcebook of new methods*, Second Edition, Thousand Oaks, California, Sage Publications.

- Mitchell, R.K., Agle, B.R. & Wood, D.J., (1997) "Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts", *Academy of Management Review*, Vol.22, No.4, pp.853-886.
- Mitroff, Ian I., (1994) "Crisis Management and Environmentalism: A Natural Fit", *California Management Review*, Winter, pp.101-113.
- Nasi, J. & Nasi, S., (1993) "The Role and Development of Social and Environmental Issues in Corporate Public Image Strategy", Paper presented at the Society for Advancement of Management Conference, April, Orlando, Florida.
- Nasi, J., Nasi, S., Phillips, N. & Zyglidopoulos, S., (1997) "The evolution of corporate social responsiveness", *Business & Society*, Vol.36, No.3, September, pp.296-321.
- Neu, D., Warsame, H. & Pedwell, K., (1998) "Managing Public Impressions: Environmental Disclosures in Annual Reports", *Accounting, Organizations & Society*, Vol. 23, No.3, pp.265-282.
- Nigh, Douglas & Cochran, Philip L., (1994) "Issues management and the multinational enterprise", *Management International Review*, Special Issue, pp. 51-85.
- Niskala, M & Pretes, M., (1995) "Environmental Reporting in Finland: A Note on the Use of Annual Reports", *Accounting, Organizations & Society*, August, pp. 457-466.
- O'Donovan, Gary & Gibson, Kathy, (1994) "Green Accounting in Australia: Myth or Reality?", 17<sup>th</sup> European Accounting Association Annual Congress, Venice, Italy, April.
- Oliver, C., (1991) "Strategic responses to institutional processes", *Academy of Management Review*, Vol.16, No.1, pp.145-179.
- Olsson, R.C., (1981) "The Changing Concept of Annual Reports", *Communication Via Annual Reports - AFM Exploratory Series, No. 11.*, Department of Accounting and Financial Management, University of New England, Armidale, NSW, Australia.
- Ormrod, P. & Cleaver, K.C., (1993) "Financial Reporting and Corporate Accountability", *Accounting & Business Research*, Vol.23, No 91A, pp431-439.
- Orr, Brendon John, "An Examination of the Extent of Environmental Awareness as Expressed in the 92/93 New Zealand Local Government Reports", The Open Polytechnic of New Zealand.
- Owen, D.L., (1994) "The Need for Environmental Accounting Standards", *Accounting Forum*, March, pp.31-46.
- Owen, D., Gray, R & Bebbington, J (1997) "Green Accounting: Cosmetic Irrelevance or Radical Agenda for Change?", *Asia Pacific Journal of Accounting*, Vol.4, No. 2, pp. 175-198.

- Parker, Lee D., (1991) "External Social Accountability: Adventures in a Mal-efficient World", *Advances in Public Interest Accounting*, Vol. 4, pp. 23-34.
- Patten, D., (1991) "Exposure, Legitimacy and Social Disclosure", *Journal of Accounting and Public Policy*, Vol. 10, pp. 297-308.
- Patten, D., (1992) "Intra-Industry Environmental Disclosures in Response to the Alaskan Oil Spill: A Note on Legitimacy Theory", *Accounting, Organizations & Society*, Vol. 17, No. 5, pp.471-475.
- Patten, D., (1995) "Variability in Social Disclosure: A Legitimacy Based Analysis", *Advances in Public Interest Accounting*, Vol.6, pp. 273-285.
- Patton, Michael Quinn, (1987) *How to Use Qualitative Methods in Evaluation*, Sage Publications, California, USA.
- Patton, Michael Quinn, (1992) *Qualitative Evaluation and Research Methods*, Sage, Newbury Park.
- Pava, Moses L. & Krausz, Joshua, (1997) "Criteria for Evaluating the Legitimacy of Corporate Social Responsibility", *Journal of Business Ethics*, Vol. 16, pp. 337-347.
- Perrow, C., (1984) *Normal accidents: Living with high-risk technologies*, Basic Books, New York.
- Pfeffer, Jeffrey, (1982) *Organizations and Organization Theory*, Pitman, Boston.
- Pfeffer, J. & Salancik, G., (1978) *The external control of organizations: A resource dependence perspective*, Harper & Row, New York.
- Post, J., (1978) *Corporate Behaviour and Social Change*, Reston Publishing, Virginia.
- Preston, L. & Post, J.E. (1975) *Private Management and Public Policy*, Prentice Hall, Englewood Cliffs, N.J., USA.
- Preston, A., Wright, C. & Young, J., (1996) "Imag[in]ing Annual Reports", *Accounting, Organizations & Society*, Vol. 21, No.1, pp.113-137.
- Rankin, Michaela, (1996) *Corporate Reporting - The Green Gap*, Institute of Chartered Accountants in Australia, October.
- Roberts, Robin W., (1992) "Determinants of Corporate Social Responsibility Disclosure: An Application of Stakeholder Theory", *Accounting Organizations and Society*, Vol.17, No.6, pp.595-612.

Rockness, J., (1985) "An Assessment of the Relationship Between US Corporate Environmental Performance and Disclosure", *Journal of Business Finance and Accounting*, Vol. 12, No. 3, pp.339-354.

Rockness, J. & Williams, P.F., (1988), "A Descriptive Study of Social Responsibility Mutual Funds", *Accounting, Organizations & Society*, Vol. 13, No.4, pp.397-411.

Rogers, E.M. & Larson, J.K., (1984) *Silicon Valley fever: Growth of high technology culture*, Basic Books, New York.

Rosen, P.L. (1979) "Legitimacy, domination and ego replacement" in *Conflict and Control: Challenge to Legitimacy of Modern Governments*, Vidich, A.J. & Glassman, R.M (eds.) Sage Publications, California.

Rubinstein, Daniel, (1989) "Black Oil, Red Ink", *CA Magazine*, Vol.122, Iss. 11, November, pp. 28-35.

Ryan, B., Scapens, R.W. & Theobald, M., (1992) *Research Method and Methodology in Finance and Accounting*, London, Academic Press.

Ryberg, R.J., (1982) "Defining the social issue concept", in *Academy of Management, Southwest Division, Dallas, Proceedings*, Griffin, R.W. (ed), pp.230-234.

Saaty, T. (1980) *The Analytic Hierarchy Process*, New York, Mc Graw-Hill.

Salancik, G.R. & Meindl, J.R. (1984), "Corporate Attributions as Strategic Allusions of Management Control", *Administrative Science Quarterly*, Vol.29, pp.238-254.

Scapens, R, (1990) "Researching Management Accounting Practice: The Role of Case Study Methods", *British Accounting Review*, Vol. 22, No. 3, September, pp 259-282.

Sethi, S.P., (1975) "Dimensions of Corporate Social Performance: An Analytical Framework", *California Management Review*, Vol.17, No. 3, pp. 58-64.

Sethi, S.P., (1978) "Advocacy Advertising – The American Experience", *California Management Review*, Vol. 11, pp.55-67.

Sethi, S.P., (1979) "A Conceptual Framework for Environmental Analysis of Social Issues and Evaluation of Business Response Patterns", *Academy of Management Review*, Vol.1, pp. 63-74.

Shane, Philip B. & Spicer, Barry H., (1983) "Market Response to Environmental Information Produced Outside the Firm", *The Accounting Review*, Vol.58, No.3, July, pp. 521-538.

Shocker, A.D. & Sethi, S.P., (1973) "An approach to developing societal preferences in developing corporate action strategies", *California Management Review*, Summer, pp. 97-105.

- Simmons, C. & Neu, D., (1998) "Managing Social Disclosures"[Online], Available [http://www.ucalgary.ca/UofC/faculties/MGMT/acct/outlines/neu\\_courses/CGAMAG.HTM](http://www.ucalgary.ca/UofC/faculties/MGMT/acct/outlines/neu_courses/CGAMAG.HTM), 7 August.
- Smith, Malcolm, (1995) "Conflicting messages in the annual report", paper presented at Accounting Association of Australia & New Zealand Annual Conference, July, Melbourne, Australia.
- Smith, C., Whipp, R & Wilmott, H., (1988) "Case Study Research in Accounting: Methodological Breakthrough or Ideological Weapon", *Advances in Public Interest Accounting*, Vol.2, pp. 95-120.
- Spicer, Barry H., (1978) "Investors, Corporate Social Performance and Information Disclosure: An Empirical Study", *The Accounting Review*, Vol. 53, No.1, January, pp. 94-111.
- Spicer, Barry H., (1992) "The resurgence of cost and management accounting: a review of some recent developments in practice, theories and case research methods", *Management Accounting Research*, pp.1-37.
- Standards Australia, (1994) *Environmental Management Systems: Draft Australian/New Zealand Standard for Comment*, October.
- Staw, B.M., McKechnie, P.I. & Puffer, S.M. (1983) "The justifications of organizational performance", *Administrative Science Quarterly*, Vol.28, pp.582-600.
- Sterling, R.R., (1970) *The Theory of the Measurement of Enterprise Income*, The University of Kansas, Lawrence.
- Stevens, William P., (1984) "Market Reaction to Corporate Environmental Performance", *Advances in Accounting*, Vol.1, pp.41-61.
- Stillman, P.G.,(1974), "The Concept of Legitimacy", *Polity*, Issue 8, Fall, pp. 32-56.
- Strong, G., (1998) "The Green Game", *The Age*, 17 August, p.11.
- Suchman, M., (1995) "Managing Legitimacy: Strategic and Institutional Approaches", *Academy of Management Review*, Vol.20, No. 3, pp.571-610.
- Sutton, B., (ed) *The Legitimate Corporation*, Blackwell, Cambridge, Massachusetts, USA.
- Sutton, R.I. & Callahan, A.I., (1987) "The stigma of bankruptcy: spoiled organizational image and its management", *Academy of Management Journal*, Vol.30, No.3, pp.405-436.
- Tedeschi, J.T., (ed) (1981) *Impression Management Theory and Social Psychology Research*, Academic Press, New York.

Terreberry, S., (1968), "The Evolution of Organizational Environments", *Administrative Science Quarterly*, Vol.12, pp.590-613.

Tinker, T. & Neimark, M., (1988) "The Struggle Over Meaning in Accounting and Corporate Research: A Comparative Evaluation of Conservative and Critical Historiography", *Accounting, Auditing & Accountability Journal*, Vol. 1, No. 1, pp. 55-74.

Tilt, Carol Ann, (1994) "The Influence of External Pressure Groups on Corporate Social Disclosure", *Accounting, Auditing & Accountability Journal*, Vol. 7, No. 4, pp. 47-72.

Tricker, R.I., (1983) "Corporate responsibility, institutional governance and the roles of accounting standards", in *Accounting Standards Setting - An International Perspective*, Bromwich, M. and Hopwood, A.G. (eds), Pitman, London.

Tripodi, T., Fellin, P. & Meyer, H.J., (1983) *The Assessment of Social Research: guidelines for use in social work and social science*, 2nd Edition, F.E. Peacock Publishers, Itasca, Illinois, USA.

Trotman, K.T., (1979) "Social Responsibility Disclosures by Australian Companies", *The Chartered Accountant in Australia*, March, pp. 24-28.

Trotman, K.T. & Bradley, G.W., (1981) "Associations between social responsibility disclosure and characteristics of companies", *Accounting, Organizations & Society*, Vol. 6, No. 4, pp. 355-62.

Tunnell, G., (1977) "Three Dimensions of Naturalness: An Expanded Definition of Field Research", *Psychological Bulletin*, pp. 426-437.

Ullmann, A.E., (1985) "Data in Search of a Theory: A Critical Examination of the Relationship's among Social Performance, Social Disclosure and Economic Performance of US Firms", *Academy of Management Review*, Vol. 10, No. 3, pp.540-57.

Van Nuffel, L., Lin, L., and Lefebvre, C., (1994) "The External Corporate Environmental Reporting in Belgium", 17<sup>th</sup> European Accounting Association Annual Congress, Venice, Italy, April.

Victorian State Government (1970) *The Victorian Environment Protection Act*.

Vidich, A.J. & Glassman, R.M (eds.) (1979) *Conflict and Control: Challenge to Legitimacy of Modern Governments*, Sage Publications, California.

Walden, W. Darrell & Schwartz, Bill N., (1997) "Environmental Disclosures and Public Policy Pressure", *Journal of Accounting and Public Policy*, Vol.16, pp.125-154.

Wartick, S.L., (1992) "The Relationship Between Intense Media Exposure and Change in Corporate Reputation", *Business and Society*, Vol. 31, No. 1, pp. 33-49.

- Wartick, S.L., & Cochran, P.L., (1985) "The Evolution of the Corporate Social Performance Model", *Academy of Management Review*, Vol.10. pp. 758-769.
- Wartick, Steven L & Mahon, John F., (1994) "Toward a substantive definition of the corporate issue construct: A review and synthesis of the literature", *Business and Society*, Vol. 33, pp.293-311.
- Watts, R.L. & Zimmerman, J.L., (1978) "Towards a Positive Theory of the Determination of Accounting Standards", *The Accounting Review*, Vol. 53, No. 1, pp.112-134.
- Weber, M., (1966) *The Theory of Social and Economic Organisation*, Free Press, New York.
- Weil, S., Clark, M. & Wegner, T., (1996) "Measuring students perceptions of the design features of a computer-aided learning program in Introductory Accounting", Paper presented at AAANZ Annual Conference, Christchurch, July.
- Wiseman, Joanne, (1982) "An Evaluation of Environmental Disclosures Made in Corporate Annual Reports", *Accounting, Organizations and Society*, Vol.7, No.1, pp.53-63.
- Wood, C., (1998) "Investors want to see the colour of corporate money", [Online] [http://www.brw.com.au/root\\_brw/181196/pg\\_dept1.htm](http://www.brw.com.au/root_brw/181196/pg_dept1.htm). *Business Review Weekly*, 31 August.
- Wood, Donna J., (1991) "Corporate Social Performance Revisited", *Academy of Management Review*, Vol.16, No.4, 1991, pp.691-718.
- Wood, L.,(1999) "Bountiful BHP Cuts its Social Dividend", [Online] <http://www.theage.com.au/daily/990505/bus.bus1.html> *The Age*, 5 May.
- Woodward, D.G., Edwards, P. & Birkin, F., (1996) "Organizational Legitimacy and Stakeholder Information Provision", *British Journal of Management*, Vol. 7, 1996, pp.329-347.
- Woodward, David, (1994) "An Attempt at the Classification of a Quarter of a Century of Corporate Social Reporting Models", 17<sup>th</sup> European Accounting Association Annual Congress, Venice, Italy, April.
- World Business Council for Sustainable Development (WBCSD), (1999) *Meeting Changing Expectations - Corporate Social Responsibility*, WBCSD, Geneva.
- Yin, Robert, K., (1989) *Case Study Research: Design and Methods*, Sage, London.
- Yin, Robert, K., (1994) *Case Study Research: Design and Methods*, Sage, London.
- Zeghal, Daniel and Ahmed, Sadrudin A., (1990) "Comparison of Social Responsibility Information Disclosure Media Used by Canadian Firms", *Accounting, Auditing and Accountability Journal*, Vol. 3, No.1, pp. 38-53.
- Zucker, H. G., (1978) "The variable nature of news media influence", in *Communication Yearbook No. 2*, Rubin, B.D., (ed) New Jersey, pp. 225-245.

<b>APPENDIX A - STUDIES LINKING ORGANISATIONAL LEGITIMACY TO CORPORATE ENVIRONMENTAL DISCLOSURES</b>					
<b>Author</b>	<b>Main Data Sources</b>	<b>Identified Variables</b>	<b>Aim of Study</b>	<b>Result</b>	
1982 Hogner	Annual reports of US Steel 1901 -1980	Quantity of social disclosures made by US Steel	To prove that social reporting was an established practice  To test whether disclosures were made because of societal pressures	Proved existence of social disclosures and hypothesised, but did not test, that these disclosures were made because of social pressures  No direct evidence of legitimacy theory	
1989 Guthrie & Parker	Annual reports over 100 years of BHP Ltd  Data base of significant events and issues relating to BHP Ltd from independent sources	Quantity of social disclosures made by BHP and significant events relating directly to BHP Ltd	To prove that social reporting was an established practice  Whether corporate legitimacy was a rationale for disclosure	Proved existence of social disclosures  Weak to no association with legitimacy theory, except for environmental disclosure category	
1991 Patten	Annual reports of 128 companies in 1985	Quantity of social and environmental disclosures made by companies  Reported profits of companies	Hypothesised that social disclosure relates to public pressure (size of company and industry) rather than profitability	Profitability variables not significantly associated with extent of social disclosure  In supporting legitimacy theory, size and type of industry (political visibility) made social disclosures more likely to occur	
1992 Patten	Annual reports of 21 companies in the oil industry for 1988 and 89	Event - Exxon Valdez oil spill  Quantity of environmental disclosures made by oil industry companies in annual reports comparing pre-Exxon oil spill report to post oil spill report	Measure industry reaction via increased environmental disclosures in annual reports of oil companies (other than Exxon) to Exxon Valdez oil spill	Oil industry as a whole significantly increased environmental disclosures in annual reports  Supports legitimacy theory in that corporate response related to public attitudes towards oil companies	

**APPENDIX A - STUDIES LINKING ORGANISATIONAL LEGITIMACY TO CORPORATE ENVIRONMENTAL DISCLOSURES**

<b>Author</b>	<b>Main Data Sources</b>	<b>Identified Variables</b>	<b>Aim of Study</b>	<b>Result</b>
1996 Deegan & Gordon	Annual reports of 197 companies for 1980, 1985, 1988, 1991	Quantity of "positive" environmental disclosures  Quantity of "negative" environmental disclosures	Identify whether environmental disclosures can be classified as objective  Identify changes in quantity of environmental disclosures  Whether amount of environmental disclosures is correlated to membership of environmental groups	Quantity of environmental disclosures is low  Environmental disclosures are self-laudatory and therefore not objective (supports legitimacy theory in relation to symbolic management)  Positive correlation between environmental group membership and corporate environmental disclosure (supports legitimacy theory in relation to identifying conferring publics and public pressure)
1996 Deegan & Rankin	Annual reports of 20 companies in 1990 to 1993  Number of prosecutions by the Victorian and NSW Environment Protection Authorities	Quantity and quality of environmental disclosures	Investigated whether environmental disclosures changed in relation to EPA prosecutions and, if so, in what ways did they change	Only 2 companies in the sample reported EPA offences, and then in a positive manner  A significant increase in the reporting of "good" environmental news following EPA prosecutions  Supports legitimacy theory
1997 Walden & Schwartz	Annual reports of 53 companies in 4 industries in 1988, 89, 90	Event - Exxon Valdez oil spill  Quantity of environmental disclosures  Quality of environmental disclosures measured using a developed index	To discover if there were changes in level and quality of environmental disclosures in environmentally sensitive industries, post Exxon oil spill	Increased level and quality of environmental disclosures in all industries when comparing 88 to 89 and 89 to 90  Conclude disclosures relate to organisations self-interest and are time, issue or event specific  Supports legitimacy theory

**APPENDIX A - STUDIES LINKING ORGANISATIONAL LEGITIMACY TO CORPORATE ENVIRONMENTAL DISCLOSURES**

<b>Author</b>	<b>Main Data Sources</b>	<b>Identified Variables</b>	<b>Aim of Study</b>	<b>Result</b>
1998 Buhr	<p>Social history of one Canadian nickel mining company (Falconbridge)</p> <p>Annual reports of the company for 28 years 1964-1991</p> <p>Semi-structured interviews with company personnel</p>	<p>Quantity of specific sulphur dioxide environmental disclosures in annual reports</p> <p>Government regulations in relation to sulphur dioxide abatement</p> <p>Falconbridge's plans in relation to sulphur dioxide abatement</p>	<p>To establish to what extent political economy and legitimacy theories explain how Falconbridge:</p> <p>(i) responded to changing government regulations for sulphur dioxide abatement, and</p> <p>(ii) chose to represent these abatement activities in its annual reports</p>	<p>Little evidence of social disclosures for the company at all over the period</p> <p>Disclosures related to sulphur dioxide abatement evolved over the period from economic to technological to "political"</p> <p>Concluded that legitimacy theory offered a better explanation for disclosures provided than political economy theory</p> <p>Concluded that Falconbridge focussed efforts on changing corporate activities rather than using disclosure to influence social values or perceptions (substantive legitimacy)</p>
1998 Neu et al	<p>Annual reports of 33 companies in 4 industries between 1982 - 1991</p> <p>Media articles containing:</p> <p>(i) information about environmental fines each company received</p> <p>(ii) indigenous or other environmental criticism of the firm's activities</p> <p>(iii) referring to the word environment</p>	<p>Quantity of environmental disclosures in the annual report</p> <p>Shareholders concerns: profit</p> <p>Creditors concerns: financial debt to equity logarithm;</p> <p>Regulatory challenges: media exposure each company received in relation to environmental fines</p> <p>Environmentalists concerns: number of media articles that contained aboriginal or other environmental criticism of the firm</p> <p>Societal concerns: number of media articles which referred to the environment</p>	<p>Identify the association between the level of environmental disclosures and the potential pressures placed by various relevant and general publics</p>	<p>The level of shareholder and societal concerns and regulatory challenges were associated with increased environmental disclosures</p> <p>Levels of creditor and environmentalists concerns were not associated with increased environmental disclosures</p> <p>Supports legitimacy theory and posits that companies' environmental disclosures are influenced by relevant publics and the general public</p>

**APPENDIX A - STUDIES LINKING ORGANISATIONAL LEGITIMACY TO CORPORATE ENVIRONMENTAL DISCLOSURES**

<b>Author</b>	<b>Main Data Sources</b>	<b>Identified Variables</b>	<b>Aim of Study</b>	<b>Result</b>
1998 Simmons & Neu	Annual reports of 42 nature resource based firms for periods 1982-1991  Quantity of environmental fines reported in the media  Quantity of media articles criticising the firm's environmental performance	Quantity of environmental disclosures in annual reports	To test to what extent environmental disclosures changed in relation to media reports of fines or other articles criticising the firm's environmental performance	Environmental disclosures increased as a result of negative media reporting of fines  Environmental disclosures increased as a result of negative media reporting of firm's environmental performance  Supports legitimacy theory
1999 Brown & Deegan	Annual reports of 27 companies over 9 industries for years 1982, 1985, 1988, 1991, 1994  Print media articles linking the industry to the environment for the same time frame as above	Quantity of both positive and negative environmental disclosures in annual reports  Quantity of print media articles classified by industry and whether the article is favourable, unfavourable or other	To see if there is a link between media agenda setting theory and legitimacy theory by discovering whether increased media exposure of environmental issues linked to an industry is correlated to an increase in annual report disclosures	Higher levels of negative media exposure resulted in higher levels of environmental disclosure in 8 of 9 industries  Supports legitimacy theory

**APPENDIX B - INITIAL CONTACT LETTER**  
**(VICTORIA UNIVERSITY OF TECHNOLOGY LETTERHEAD)**

Dear

My name is Gary O'Donovan and I am currently enrolled in a Doctor of Philosophy (PhD) at the Victoria University of Technology (VUT). The title of my thesis is "Legitimacy theory as an explanation for Corporate Environmental Disclosures". Currently, my supervisors are Dr. Bob Clift and Dr. Louise Kloot. The purpose of this letter is to inquire about the possibility of *your company* being one of a small number of companies forming the basis of a case study for my work.

The nature of the project is concerned with how decisions are made in relation to the disclosure of environmental information by a company. More specifically I am attempting to find out details about the processes involved in decisions to include (or not include) environmental information in the annual report. Previous research conducted by myself and Kathy Gibson <sup>1</sup> indicates that your company is an industry leader in using the annual report as a means of making environmental disclosures.

As a research student in this University, I am bound by its strict rules on confidentiality. However subject to the University's copyright I am willing to give you access to my findings relating to your company and I am also willing to give you a copy of the thesis after it has been examined.

During the initial stages of the investigation, it is envisaged that the data required from your company will be collected in two ways:

1. Examination of both internal and external publications. This documentation may include organisational charts, job descriptions, any formal documents regarding the production of annual reports as well as any information dealing with environmental issues and your company. This information is required to enable decisions to be made about the second method of collecting data. In addition to its direct usefulness this information will enable me to tailor the second phase to your company.
2. Based on the information gathered in 1, interviews with senior management personnel directly or indirectly involved in the production of environmental information by your company, with particular emphasis on contributions to the annual reporting process.

The interviews could be arranged at a time that would minimise any disruptions to the company's operations. It is planned that these will involve one initial interview, lasting up to one hour, with senior staff identified in phase one of the data collection process. Follow up interviews may be necessary for about the same period. If your company agrees to participate I intend to commence

---

<sup>1</sup> O'Donovan, G & Gibson, K., (1994), "Green Accounting: Myth or Reality?", *European Accounting Association Annual Conference Proceedings*, Venice, Italy, April.

gathering published data from early June 1995. I would like to schedule the first interviews in August and the first set of follow up interviews in September.

It would be much appreciated if you can be of some assistance *name*. Please feel free to forward this letter any other senior management personnel of *your company* whom you feel can help.

Because of time limits imposed by the University, I would appreciate a reply by the end of May. I may be contacted by phone on 688 4331, fax 688 4901 or by return mail. I have attached a brief resume for your information.

Yours sincerely,

Gary O'Donovan  
Senior Lecturer in Accountancy  
Department of Accountancy & Law

Co-signed.

Ass. Prof. Ian W Roberts  
Head of Department - Accountancy & Law  
enc.  
cc. Dr. Bob Clift, Dr. Louise Kloot.

## APPENDIX C - CONSENT FORM FOR SUBJECTS INVOLVED IN RESEARCH

### Victoria University of Technology

## Consent Form for Subjects Involved in Research

### INFORMATION TO PARTICIPANTS:

I collected information from your company in late 1995 and early 1996 as part of a project for a Master of Business. I have since transferred from the Masters' degree to a PhD. The thrust of the PhD is similar to that of the Masters degree, except that I will be working on specific theory development in more detail than previously required. With this in mind, and with the permission of your company's management and the individual staff involved, it is my intention to once again access personnel whose duties include responsibility for environmental disclosures in the corporate annual report. These individuals (or perhaps more importantly the duties they perform which culminate in corporate environmental disclosures in the annual report) are important sources for the successful collection of data for the PhD.

In the research conducted to date, I have identified who is responsible for the writing of and decision to include environmental information in the annual report as well as the processes involved which culminate in environmental disclosures appearing in the annual report, in your company.

I would like to invite you to be a part of the continuing PhD study, which is concerned with the development of a theory (legitimacy theory) which attempts to identify factors which may explain corporate motivations for the disclosure of environmental information in the corporate annual report.

It is my intention to collect the information by interviewing a maximum of three personnel on two separate occasions during early to mid 1998. Each interview will last approximately one hour. The nature of the data to be collected and the subsequent analysis is predominantly concerned with theory development. No opinions will be expressed in the thesis, about the appropriateness or otherwise of environmental disclosures made, in relation to any individual or company.

### CERTIFICATION BY SUBJECT

I,

of

certify that I am voluntarily giving my consent to participate in the collection of data for the PhD research project entitled "Legitimacy theory as an explanation for corporate environmental disclosures", being conducted by Gary O'Donovan from the Department of Accounting and Finance at Victoria University of Technology as part of his Ph D studies.

I certify that the objectives of the research, together with any risks to me and the company I represent, associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by:

**Gary O'Donovan**  
**Department of Accounting and Finance**  
**Victoria University of Technology**

and that I freely consent to participation involving the use on me and my company of these procedures.

**Procedures:**

Two, one hour interviews (to be audio taped)

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this research at any time and that this withdrawal will not jeopardise me or my company in any way.

I have been informed that the information I provide will be kept confidential. The name of any individuals interviewed will not be disclosed, and that if so desired, the name of the company will not be identified in the final thesis.

**Signed:** ..... }

**Witness other than the researcher:** }                      **Date:** .....

.....}

Any queries about your participation in this project may be directed to the researcher (Gary O'Donovan; ph: 03-96884331). If you have any queries or complaints about the way you have been treated, you may contact the Secretary, University Human Research Ethics Committee, Victoria University of Technology, PO Box 14428 MCMC, Melbourne, 8001 (telephone no: 03-9688 4710).

**APPENDIX D - PHASE I - UNSTRUCTURED INTERVIEW QUESTIONS**

1. Why do you think your company discloses environmental information in the annual report?
2. What specific roles do you, or does anyone in your department, have in the writing of and decision to include environmental disclosures in the annual report?
3. Please describe, in detail, how the environmental disclosure decision process for the annual report works, clearly identifying the steps in the process and who is involved during each of those steps.

These three open-ended questions were the only formal scripted questions asked during Phase I. Further 'improvised' questions were asked during each of the interviews depending on where the answers to the above three questions led.

**APPENDIX E - PHASE II - INTERVIEW QUESTIONS**

## SECTION A

- Q1. What is your position within the company?
- Q2. How long have you been in this position?
- Q3. (a) What is your specific role in relation to preparing information for inclusion in the annual report?
- (b) How long have you been preparing this information for the annual report?
- Q4. What is your specific role in relation to preparing environmental disclosures for inclusion in the annual report?

*Aim of the questions*

Base questions. The purpose of these questions was to review some of the information collected during Phase I and to ensure the person being interviewed still had a major role in the reporting of environmental information.

## SECTION B:

- Q5. What do you perceive to be the function of the annual report?
- Q6. What do you perceive to be the function of corporate:
- (a) brochures
- (b) magazines
- (c) media releases.
- Q7. How do the disclosures differ in each of the mediums?
- Q8. What influence do you think reports in news media have on the company's decisions to include general information in the annual report? Can you give me some examples over the last 4 years?

*Aim of the questions*

These general questions were designed to discover perceptions about purposes for, and influences on, the preparation of the annual report and other corporate publications. While these questions were not specific to environmental information, it was thought that asking them would serve 3 main purposes:

(i) to 'break the ice' with the interviewees, by getting them to talk generally about the function and purposes of the annual report, a role which they were very familiar with;

(ii) to identify the relative importance of the annual report compared to other means of disclosure. It was observed in Phase I that depending on the timing,

significance and possibly, the target audience, in relation to a particular issue or event, other means of disclosure, instead of or in addition to the annual report, may be used, and

(iii) to compare responses from this section with responses to the more specific environmental disclosure questions asked in Sections E & F, in order to discover whether any perceptions about purposes or influences identified, impacted differently on environmental disclosure decisions as opposed to other voluntary annual report disclosure decisions.

#### SECTION C:

- Q9. Are you aware whether your company has a definition for the term "environment"? Why do you think it does or does not?
- Q10. Are you aware whether your company has a definition for the term "environmental information"? Why do you think it does or does not?
- Q11. Are you aware whether your company has environmental responsibility individually identified at board level? Why do you think it does or does not?

#### *Aims of the questions*

These general questions about the environmental ethos within the company were not directly related to the area of disclosure. However, they were asked to be able to make a judgement as to the extent of any 'formal' level of environmental awareness and commitment the company had. It could logically be expected that the more environmentally committed the company was the more annual report disclosures they would make.

#### SECTION D:

- Q12. (a) In your opinion, does your company see the annual report as the main vehicle for disclosing environmental information? If so, why, if not, why not?
- (b) Does your company have a formal stance or policy on this?
- Q13. (a) In your opinion, why does your company voluntarily disclose environmental information in the annual report?
- (b) Does your company have a formal stance or policy on this?
- Q14. (a) In your opinion, why does your company not disclose more environmental information in the annual report?
- (b) Does your company have a formal stance or policy on this?

*Aims of the questions*

These questions were specific to the environmental reporting practices of the company. In particular, questions were asked about *specific* reasons for disclosing environmental information in the annual report. The questions were aimed at identifying perceptions about the reasons for the decision to include (or not include) environmental information in the annual report. It was expected that these responses would confirm the existence of legitimacy motives first evidenced in Phase I. The responses were expected to be more specific and expansive than those obtained during Phase I.

The second part (b) of each question in this section, was designed to discover whether the interviewee knew whether the company had a formalised stance or environmental policy in relation to the questions being asked. Following on from the questions asked in Section C, this was designed to further investigate the existence of a more formal commitment to the environment. It might be expected that the more formalised environmental reporting policies are, the less discretion would exist in relation to environmental disclosure decisions.

## SECTION E:

- Q15. (a) Do you recall any major editorial changes being made re environmental disclosures content in annual reports over the last 4 years? What were they?
- (b) Do you know who was responsible for these changes? Who were they?
- (c) Do you know why these changes were made? Why?

This question was asked with a view to ascertaining the extent of the level of senior executive 'interference' in decisions to disclose environmental information. It was asked as a result of evidence gathered during Phase I which acknowledged the possibility of senior executive intervention in environmental disclosure decisions, if the significance of the issue or event warranted it. If responses to this question signified a high level of senior executive intervention, people targeted for subsequent data collection may need to be revised.

## SECTION F:

- Q16. In your opinion, what influence do reports in news media have on the company's decisions to include environmental information in the annual report? Can you give me some examples over the last 4 years?
- Q17. Does your company include any contraventions of EPA rules/laws or details of fines in the annual report? Explain your answer.
- Q18. Who do you think are the main users of environmental information published in the annual report? Why?

- Q19. In your opinion, does a consideration of the main users of environmental information influence what environmental information is disclosed in the annual report? Why?
- Q20. Does direct input from shareholders influence whether environmental information may be considered for inclusion in the annual report? Explain. If yes, can you recall any examples of this occurring?
- Q21. In your opinion, what were the most significant environmental issues for your company during the last 4 years? Why were they significant?
- Q22. Did these issues receive any news coverage? Where and to what extent?

*Aims of the questions*

These questions related specifically to the effect that the media and other external influences have on decisions to disclose environmental information in the annual report. Primarily designed to test for existence of legitimacy theory by identifying to what extent specific public pressure variables influenced environmental disclosure decisions. The intention is to incorporate the variables identified as important to disclosure decisions in subsequent data collection tools.

**APPENDIX F - PHASE II - SAMPLE QUESTION-BY-QUESTION MATRIX**

*Italics - Direct quotations from transcripts*  
**CAPITALS - RESEARCHER'S COMMENTS**

CORPORATION A		CORPORATION B		CORPORATION C		
Manager - Corporate Affairs.	National Manager - Safety, Environment & Assets (Business Group)	Director - Health, Safety and Environmental Affairs (Corporate Affairs)	Publications Manager - Corporate Affairs	Group Manager - Investor Relations (Business Group)	Corporate Communications Manager	Safety and Environment Manager
<p>Q5 What do you perceive to be the function of the annual report?</p>						
To fulfil statutory requirements and to meet shareholders needs. The annual report must be interesting and must be understood by all types of shareholders. It is also a marketing document for potential employees, clients, customers etc want Amcor is all about.	Communication with shareholders to provide sufficient information for them to make judgements about appropriate management.	To communicate with the investment community, existing shareholders and potential shareholders.	A vehicle to inform the market via statutory obligations. Investors can also find out more about the company by reading the annual report.	In order of importance. Firstly, to meet the obligations of the stock exchange and the ASX; secondly to inform shareholders about how the company is performing and what it is doing and thirdly, as a public relations or showcase document for other interested parties to gain an overview of the company.	To give shareholders an overview of the company's achievements over a year.	Report primarily to shareholders, employees and the community on how the company is performing.
STATUTORY AND MARKETING TO IMPORTANT PUBLICS	FOR SHAREHOLDERS TO JUDGE ADEQUACY OF MANAGEMENT	COMMUNICATE WITH INVESTMENT COMMUNITY	STATUTORY OBLIGATIONS. INVESTORS FIND OUT MORE ABOUT THE COMPANY	REGULATORY OBLIGATIONS FOR SHAREHOLDERS INFO PR DOCUMENT FOR OTHERS	GIVE SHAREHOLDERS COMPANY ACHIEVEMENTS	PERFORMANCE REPORT TO SHAREHOLDERS, EMPLOYEES AND THE COMMUNITY
<p>Q12 In your opinion, does your company see the annual report as the main vehicle for disclosing environmental information? If so, why, if not, why not?</p>						
Yes it would be the main vehicle for disclosing environmental information. It is a record or report card. The annual report is a report on the previous years activities.	No. It is important but an annual time frame does not provide the vehicle for handling issues as they arise in a timely fashion.	It is one of a number. There are other specific environmental brochures and newsletters which has been translated into 4 or 5 languages. The annual report has equal importance given that it is targeted at general audiences and other publications are targeting more specific audiences.	It is not necessarily the main vehicle. Environmental information is disclosed in a range of ways and each are important in their own ways. For example environmental information being disclosed at a local or community level is very important and annual report disclosures would not be relevant to this.	No. It is mainly a report to shareholders and to fulfil statutory obligations. Complying with EPA rulings is the main way we would fulfil environmental obligations.	No. Now that there is a separate environmental disclosure booklet, this takes precedence. Local site brochures were also more important than the annual report.	No and it probably never was the most important. The separate SHE report is now the most important. The second most important vehicle is the local site information. The annual report is becoming far less important as a medium for disclosing environmental information.
YES; REPORT CARD	NO ANNUAL TIME FRAME NOT TIMELY ENOUGH	ONE OF MANY; TARGETED AT GENERAL AUDIENCES (ENVIRONMENTAL REPORT)	DEPENDS ON TARGET AUDIENCES (ENVIRONMENTAL REPORT)	NO. COMPLYING WITH EPA REGULATIONS (did not really answer question) (ENVIRONMENTAL REPORT)	NO. SEPARATE REPORT LOCAL SITE BROCHURES MORE IMPORTANT TO SPECIFIC AUDIENCES	NO. SEPARATE REPORT LOCAL SITE INFORMATION MORE IMPORTANT FOR SPECIFIC AUDIENCES ANNUAL REPORT MORE GENERAL AUDIENCES

**APPENDIX G - PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - GAINING  
LEGITIMACY - ABC COMPANY LIMITED**

**Scenario**

You have been identified as a senior person responsible for the decision to include (or not include) environmental information in the annual report. When answering the following questions in these fictitious cases, you should adopt an approach consistent with what you perceive to be the corporate culture and social standing of the company as described in the case.

**CASE 1.**

ABC Company Ltd, is a large mining company, whose head office is in Brisbane. It has been operating profitably in Australia and overseas for over 60 years. With the recent sustained, and most likely permanent, fall in commodity prices, the company has been looking for new, more cost efficient ways of operating. The company has, after many months of investigation and deliberation, only today, decided to use an extremely new technology, that will cut the cost of mining activities very significantly. The probable side effects of the new technology indicate that any land used for mining will become unusable by humans and uninhabitable by animals for at least 50 years from the time the mining operations cease. At this stage the company has not decided what geographic locations will be chosen to utilise this new technology.

The new technology and its impacts have not been widely publicised to this time. At this stage the main stream news media have not reported the issue at all. Only the senior engineers and senior management personnel of the company are fully aware of the future profits to be gained and the potential environmental impacts of the use of this technology. It is planned to begin implementing this new technology within the next two years.

QUESTIONS

1. How significant do you believe the environmental issues or events, as described in the case, are to the social standing of the company? Circle one answer only.

- 1. Extremely Significant
- 2. Very Significant
- 3. Significant
- 4. Moderately Significant
- 5. Not Significant

Can you elaborate as to reasons for your choice.

2. With respect to an annual report disclosure, would the magnitude of the issues or events in this case, result in the likely intervention of senior executive directors in the:

- (a) decision to include or not include a disclosure in relation to this issue or event, (circle one answer only)

YES.....NO

Please explain your answer

- (b) tone and actual wording of the annual report disclosure

YES....NO

Please explain your answer

3. Indicate how likely you would be to adopt each annual report disclosure approach listed below, in response to the environmental issues or events identified in the case. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>CASE 1 - Disclosure approach</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Make no disclosure					
Highlight the negative economic and social effects of not changing to the new technology					
Concentrate on past social and environmental achievements of the company					
Highlight that, if public opinion dictates, your company will not continue using the new technology					

4. You are deciding on a disclosure strategy for the annual report in relation to the environmental issues raised in the case. Place a number in each box ranking your choice from 1 (most likely) 2, 3, 4 (least likely). Place a number in each box.

<b>CASE 1 - Disclosure approach</b>	<b>Rank</b>
Make no disclosure	
Highlight the negative economic and social effects of not changing to the new technology	
Concentrate on past social and environmental achievements of the company	
Indicate that your company is a responsible corporate citizen and, if populist public opinion dictates, your company will cease plans to use the new technology	

Why did you rank these in the order you did?

5. The timing of the environmental issues or events, in relation to annual reporting date, may be a contributing factor in the decision to include a disclosure in the annual report.

Would you be more or less inclined to include an annual report disclosure, in relation to the events or issues described in this case, if the issue or event first became known to management (tick one box for each period):

<b>Case 1 - Time frame</b>	<b>More</b>	<b>Less</b>
0 - 3 months from current financial year end		
4 - 6 months from current financial year end		
7 - 9 months from current financial year end		
10 - 12 months from current financial year end		
> one year from current financial year end		

**APPENDIX H - PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - MAINTAIN  
LEGITIMACY - HIGH - XYZ COSMETICS LIMITED**

**Scenario**

You have been identified as a senior person responsible for the decision to include (or not include) environmental information in the annual report. When answering the following questions in these fictitious cases, you should adopt an approach consistent with what you perceive to be the corporate culture and social standing of the company as described in the case.

**CASE 2.**

XYZ Cosmetics Ltd is a large international company, whose head office is based in Melbourne. It has been operating very successfully for the past 15 years. The main arms of its business involves the manufacture and retail selling of cosmetics and other personal hygiene products for both men and women. It has stores all over the world.

For a number of years this company has been an active supporter of sustainable development principles and the protection of the natural environment. It regularly revises corporate environment policies and conducts annual social audits of its operations. It has an attitude of openness and communication to stakeholders. It actively promotes that it does not sell or use any products in the manufacturing process which may have a detrimental effect on animals or the natural environment. Environment groups, such as Friends of the Earth and Greenpeace, have publicly supported the company's stance on environmental issues over the last decade. The company has also generously donated to many other worthy social and environmental causes over the last 15 years.

It has recently been brought to management's attention, that one aspect of its operations has been attracting some minor criticism from employees. Up until a few years ago, XYZ sold all of its goods in recycled paper containers. Some customers complained that it was impractical to package soaps and other bathroom cosmetics, designed for constant use near water, in paper. In response to this, while XYZ publicly support efforts aimed at increasing recycling, the majority of XYZ products are now wrapped and packaged in plastics, much of which is not recyclable. XYZ encourage customers to "personally recycle" these containers by bringing them back to the store for re-use on a personal basis.

QUESTIONS

1. How significant do you believe the environmental issues or events, as described in the case, are to the social standing of the company? Circle one answer only.

- 1. Extremely Significant
- 2. Very Significant
- 3. Significant
- 4. Moderately Significant
- 5. Not Significant

Can you elaborate as to reasons for your choice.

2. With respect to an annual report disclosure, would the magnitude of the issues or events in this case, result in the likely intervention of senior executive directors in the:

- (a) decision to include or not include a disclosure in relation to this issue or event, (circle one answer only)

YES.....NO

Please explain your answer

- (b) tone and actual wording of the annual report disclosure

YES....NO

Please explain your answer

3. Indicate how likely you would be to adopt each annual report disclosure approach listed below, in response to the environmental issues or events identified in the case. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>CASE 2 - Disclosure Approach</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Make no disclosure					
Disclose the practical social and economic reasons for the decision to abandon paper packaging in favour of plastic					
Disclose the latest environmental initiatives adopted by the company					
Indicate that your company is a responsible corporate citizen and, if populist public opinion dictates, your company will replace the plastic with paper packaging.					

4. You are deciding on a disclosure strategy for the annual report in relation to the environmental issues raised in the case. Place a number in each box ranking your choice from 1 (most likely) 2, 3, 4 (least likely). Place a number in each box.

<b>CASE 2 - Disclosure approach</b>	<b>Rank</b>
Make no disclosure	
Disclose the practical social and economic reasons for the decision to abandon paper packaging in favour of plastic	
Disclose the latest environmental initiatives adopted by the company	
Indicate that your company is a responsible corporate citizen and, if populist public opinion dictates, your company will replace the plastic with paper packaging.	

Why did you rank these in the order you did?

5. The timing of the environmental issues or events, in relation to annual reporting date, may be a contributing factor in the decision to include a disclosure in the annual report.

Would you be more or less inclined to include an annual report disclosure, in relation to the events or issues described in this case, if the issue or event first became known to management (tick one box for each period):

<b>Case 2 - Time frame</b>	<b>More</b>	<b>Less</b>
0 - 3 months from current financial year end		
4 - 6 months from current financial year end		
7 - 9 months from current financial year end		
10 - 12 months from current financial year end		
> one year from current financial year end		

**APPENDIX I - PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - MAINTAIN  
LEGITIMACY - LOW - MILITARY HARDWARE LIMITED**

**Scenario**

You have been identified as a senior person responsible for the decision to include (or not include) environmental information in the annual report. When answering the following questions in these fictitious cases, you should adopt an approach consistent with what you perceive to be the corporate culture and social standing of the company as described in the case.

**CASE 3**

Military Hardware Ltd, is a large Australian company whose core business is the manufacture and selling of military hardware and arms. As one of the few arms manufacturers in Australia, it has been and remains a most profitable organisation. The majority of the hardware produced is sold to Australian defence forces. Some hardware is sold off shore to countries or regimes approved as reputable buyers by the federal government. The nature of the business Military Hardware operates in ensures little overt public support, and indeed, occasional public protests, when violent crimes using military style weapons are brought to the public notice. Notwithstanding this, the company has enjoyed long standing support from present and past state and federal governments, who have identified the need to have a self reliance on arms manufacture as a form of national defence strategy. The industry also generates economic wealth for the country.

The major manufacturing plant is located near a site which has only recently been sold to developers to build a new large scale housing estate, designed to accommodate over 10,000 people. As part of the arms manufacturing process, a great deal of toxic waste is produced. The company is complying with all current Environment Protection Authority (EPA) legislation in disposing of the waste in a creek near the manufacturing plant. The EPA has no plans to alter the legislation in relation to toxic waste management at this stage. The creek runs from the site of the manufacturing plant through the planned housing estate.

QUESTIONS

1. How significant do you believe the environmental issue or event, as described in the case, are to the social standing of the company? Circle one answer only.

1. Extremely Significant
2. Very Significant
3. Significant
4. Moderately Significant
5. Not Significant

Can you elaborate as to reasons for your choice.

2. With respect to an annual report disclosure, would the magnitude of the issues or events in this case, result in the likely intervention of senior executive directors in the:

- (a) decision to include or not include a disclosure in relation to this issue or event, (circle one answer only)

YES.....NO

Please explain your answer

- (b) tone and actual wording of the annual report disclosure

YES....NO

Please explain your answer

3. Indicate how likely you would be to adopt each annual report disclosure approach listed below, in response to the environmental issues or events identified in the case. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>CASE 3 - Disclosure Approach</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Make no disclosure					
Explain that toxic waste is a natural by product of arms manufacture and if the country is to maintain a self reliance on defence, this is a cost that must be borne.					
Indicate that your company has always enjoyed the support of governments, and in this issue, it has not contravened any current EPA requirements					
Indicate that, if populist public opinion dictates, your company will change its method of disposing of toxic waste products					

4. You are deciding on a disclosure strategy for the annual report in relation to the environmental issues raised in the case. Place a number in each box ranking your choice from 1 (most likely) 2, 3, 4 (least likely). Place a number in each box.

<b>CASE 3 - Disclosure approach</b>	<b>Rank</b>
Make no disclosure	
Explain that toxic waste is a natural by product of arms manufacture and if the country is to maintain a self reliance on defence, this is a cost that must be borne.	
Indicate that your company has always enjoyed the support of governments, and in this issue, it has not contravened any current EPA requirements	
Indicate that, if populist public opinion dictates, your company will change its method of disposing of toxic waste products	

Why did you rank these in the order you did?

5. The timing of the environmental issues or events, in relation to annual reporting date, may be a contributing factor in the decision to include a disclosure in the annual report.

Would you be more or less inclined to include an annual report disclosure, in relation to the events or issues described in this case, if the issue or event first became known to management (tick one box for each period):

<b>Case 3 - Time frame</b>	<b>More</b>	<b>Less</b>
0 - 3 months from current financial year end		
4 - 6 months from current financial year end		
7 - 9 months from current financial year end		
10 - 12 months from current financial year end		
> one year from current financial year end		

## **APPENDIX J - PHASE III (A) - VIGNETTE & INTERVIEW QUESTIONS - REPAIRING LEGITIMACY - ASHFORTH REFINING LIMITED**

### **Scenario**

You have been identified as a senior person responsible for the decision to include (or not include) environmental information in the annual report. When answering the following questions in these fictitious cases, you should adopt an approach consistent with what you perceive to be the corporate culture and social standing of the company as described in the case.

### **CASE 4.**

Ashforth Refining Ltd is a large, profitable oil company which was founded in Adelaide in 1975. It owns a number of oil refineries around the world and its core business is the extraction, refining, and transporting of crude oil. It also owns a chain of service station outlets around the world, where it sells petroleum products.

Recently, an operator at one of Ashforth's terminals heard a thunder like sound and turned to see a 1 million tonne oil tank collapse. A 15 metre wave of diesel oil erupted from the tank and surged towards the western suburbs of Adelaide and the Torrens river. Approximately 300,000 tonnes of oil found its way into the river, causing authorities to close the river to traffic for two weeks. Water was also rationed for three weeks for 250,000 people who drew some of their water from the river's catchment areas.

In the days following the tank's collapse, constant media attention was focussed on the accident as well as Ashforth's past publicly available environmental record, which included six small oil spills over the previous five years, with the largest fine being \$2,000. Ashforth's executives responded to the media attention, informed the public about the situation and coordinated clean up efforts with officials from the local council, the environment protection agency, state and federal governments. There appeared to be no long term damage to the river, ecosystems or water catchments after the clean up.

It was discovered that the cause of the tank failure was due primarily to metal fatigue, in an area of the tank which had been rewelded a number of times. The tank's steel, which was over 40 years old, was found to be adequate for use in normal circumstances, but a combination of lower than normal temperatures, a heavier than usual type of oil stored and the weld, contributed to the spill.

QUESTIONS

1. How significant do you believe the environmental issues or events, as described in the case, are to the social standing of the company? Circle one answer only.

1. Extremely Significant
2. Very Significant
3. Significant
4. Moderately Significant
5. Not Significant

Can you elaborate as to reasons for your choice.

2. With respect to an annual report disclosure, would the magnitude of the issues or events in this case, result in the likely intervention of senior executive directors in the:

(a) decision to include or not include a disclosure in relation to this issue or event, (circle one answer only)

YES.....NO

Please explain your answer

(b) tone and actual wording of the annual report disclosure

YES....NO

Please explain your answer

3. Indicate how likely you would be to adopt each annual report disclosure approach listed below, in response to the environmental issues or events identified in the case. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>CASE 4 - Disclosure approach</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Make no disclosure					
Indicate that oil refineries serve an important role in society. While apologising for any damage the accident caused, disclose that these types of accidents will occur from time to time and the public needs to be aware of this					
Disclose information that indicates that the company has a good environmental record and that the accident was partly due to factors outside the company's control.					

Announce that a major inquiry of all of the companies oil storage facilities will be undertaken, followed by an implementation of any recommendations					
---	--	--	--	--	--

4. You are deciding on a disclosure strategy for the annual report in relation to the environmental issues raised in the case. Place a number in each box ranking your choice from 1 (most likely) 2, 3, 4 (least likely). Place a number in each box.

<b>CASE 4 - Disclosure approach</b>	<b>Rank</b>
Make no disclosure	
Indicate that oil refineries serve an important role in society. While apologising for any damage the accident caused, disclose that these types of accidents will occur from time to time and the public needs to be aware of this	
Disclose information that indicates that the company has a good environmental record and that the accident was partly due to factors outside the company's control.	
Announce that a major inquiry of all of the companies oil storage facilities will be undertaken, followed by an implementation of any recommendations	

Why did you rank these in the order you did?

5. The timing of the environmental issues or events, in relation to annual reporting date, may be a contributing factor in the decision to include a disclosure in the annual report.

Would you be more or less inclined to include an annual report disclosure, in relation to the events or issues described in this case, if the issue or event first became known to management (tick one box for each period):

<b>Case 4 - Time frame</b>	<b>More</b>	<b>Less</b>
0 - 3 months from current financial year end		
4 - 6 months from current financial year end		
7 - 9 months from current financial year end		
10 - 12 months from current financial year end		
> one year from current financial year end		

**APPENDIX K - PHASE III (B) INTERVIEW QUESTION - EXISTING ENVIRONMENTAL REPUTATION**

**Company Name**

1. What do you believe to be society's overall perceptions and views about *your company* in regard to environmental issues and performance? Tick one box only.

Extremely Positive	Positive	Neutral	Negative	Extremely Negative

Can you elaborate?

**APPENDIX L - PHASE III (B) - REAL-WORLD INTERVIEW QUESTIONS - GAINING LEGITIMACY**

**Environmental Issue/Event - National Pollutants Inventory (NPI)**

1. What do you understand and know about the NPI?
2. How significant do you believe the NPI is, or is likely to be, with regard to the social standing of the company? Circle one answer only.
  1. Extremely Significant
  2. Very Significant
  3. Significant
  4. Moderately Significant
  5. Not Significant

Please elaborate reasons for your choice?

3. How would you be **currently** likely to treat the NPI in an annual report?
4. Do you have any ideas about the specifics, (eg. tone, wording and crux) of any possible annual report disclosures you would **currently** be likely to adopt in relation to the NPI?

5. Indicate how likely you would **currently** be to adopt each annual report disclosure approach listed below in response to the NPI. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>NPI - Annual Report Disclosure Approach</b>	<b>5</b> Highly Likely	<b>4</b> Likely	<b>3</b> Possibly	<b>2</b> Unlikely	<b>1</b> Highly Unlikely
A. Make no current disclosure regarding the NPI.					
B. While indicating approval for the concept of the NPI, suggest that publicly listing toxic emissions, does not by itself, lead to more open environmental reporting or improved environmental performance by all companies.					
C. Disclose support for the NPI, but include mention that some emissions will occur as a normal part of the company's production processes.					
D. Concentrate on the company's environmental achievements in other important areas. e.g., Mine site restorations, environmental contingency plans, etc.					
E. Indicate the company's support for the NPI and display this support by announcing The company intends to voluntarily make information relating to the NPI publicly available before it becomes mandatory.					

6. Assume the normal constraints are imposed on the production of environmental information for inclusion in the annual report. Of the approaches you ranked in Q5, how likely would you be to include **more than one of these disclosures** in the **current** annual report? Tick **one** answer only. Explain your choice.

Very likely	Likely	Possibly	Unlikely	Very Unlikely

7. If you answered Q6 in the range Very Likely through to Possibly, which multiple approaches would you choose to include as disclosures in the **current** annual report? Tick **only the disclosure approaches you believe would ultimately be disclosed in the current annual report**.

NPI - Annual Report Disclosure Approach	Tick OR Leave Blank
A. Make no current disclosure regarding the NPI.	
B. While indicating approval for the concept of the NPI, suggest that publicly listing toxic emissions, does not by itself, lead to more open environmental reporting or improved environmental performance by all companies.	
C. Disclose support for the NPI, but include mention that some emissions will occur as a normal part of The company's production processes.	
D. Concentrate on The company's environmental achievements in other important areas. e.g., Mine site restorations, environmental contingency plans, etc.	
E. Indicate The company's support for the NPI and display this support by announcing The company is voluntarily making information relating to the NPI publicly available before it becomes mandatory.	

Please explain your choices.

8. You are **currently** deciding on **one** disclosure strategy for the annual report in relation to the NPI. Place a number in each box ranking your choice of preferred annual report disclosure from the following choices. 1 is most likely through to 5 being the least likely. Place a number in each box.

NPI - Annual Report Disclosure Approach	Rank
A. Make no current disclosure regarding the NPI.	
B. While indicating approval for the concept of the NPI, suggest that publicly listing toxic emissions, does not by itself, lead to more open environmental reporting or improved environmental performance by all companies.	
C. Disclose support for the NPI, but include mention that some emissions will occur as a normal part of the company's production processes.	
D. Concentrate on the company's environmental achievements in other important areas. e.g., Mine site restorations, environmental contingency plans, etc.	
E. Indicate the company's support for the NPI and display this support by announcing the company is voluntarily making information relating to the NPI publicly available before it becomes mandatory.	

Why did you rank these in the order you did?

**APPENDIX M - PHASE III (B) - REAL-WORLD INTERVIEW QUESTIONS - MAINTAINING LEGITIMACY**

**Environmental Issue/Event - Greenhouse Challenge**

1. What do you understand and know about the Greenhouse Challenge?
2. How significant do you believe the Greenhouse Challenge is, or is likely to be, with regard to the social standing of the company? Circle one answer only.
  1. Extremely Significant
  2. Very Significant
  3. Significant
  4. Moderately Significant
  5. Not Significant

Please elaborate reasons for your choice?

3. How would you **currently** be likely to treat Greenhouse Challenge in an annual report?
4. Do you have any ideas about the specifics, (eg. tone, wording or crux) of possible annual report disclosures you would **currently** be likely to adopt in relation to the Greenhouse Challenge?

5. Indicate how likely you **currently** would be to adopt each annual report disclosure approach listed below in response to the Greenhouse Challenge event. Tick only **one** box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>Greenhouse Challenge - Annual Report Disclosure Approach</b>	<b>5</b> Highly Likely	<b>4</b> Likely	<b>3</b> Possibly	<b>2</b> Unlikely	<b>1</b> Highly Unlikely
A. Make no disclosure regarding the Greenhouse Challenge.					
B. Identify a commitment to the Greenhouse Challenge concept, but include some reference to the unproven nature of many theories linking environmental effects to greenhouse gas emissions.					
C. State that the company continues to work at reducing greenhouse gas emissions as part of the Greenhouse Challenge concept, but mention that even when using the most current of technologies, the company's business operations necessitate the current emission of some greenhouse gases for its continued economic success.					
D. Concentrate on environmental achievements in other important areas. e.g., Mine site restorations, environmental contingency plans, etc.					
E. Indicate that the views of society are vital to the company's continued success. Any future decisions on reducing the company's greenhouse gas emissions will be primarily influenced by the prevailing social view at the time.					

6. Assume the normal constraints are imposed on the production of environmental information for inclusion in the annual report. Of the approaches you ranked in Q5, how likely would you be to include **more than one of these disclosures** in the **current** annual report? Tick **one** answer only. Explain your choice.

Very likely	Likely	Possibly	Unlikely	Very Unlikely

7. If you answered Q6 in the range Very Likely through to Possibly, which multiple approaches would you be choose to include as disclosures in the **current** annual report? Tick **only the disclosure approaches you believe would ultimately be disclosed in the current annual report**.

<b>Greenhouse Challenge - Annual Report Disclosure Approach</b>	<b>Tick OR Leave Blank</b>
A. Make no disclosure regarding the Greenhouse Challenge.	
B. Identify a commitment to the Greenhouse Challenge concept, but include some reference to the unproven nature of many theories linking environmental effects to greenhouse gas emissions.	
C. State that the company continues to work at reducing greenhouse gas emissions as part of the Greenhouse Challenge concept, but mention that even when using the most current of technologies, the company's business operations necessitate the current emission of some greenhouse gases for its continued economic success.	
D. Concentrate on environmental achievements in other important areas. e.g., Mine site restorations, environmental contingency plans, etc.	
E. Indicate that the views of society are vital to the company's continued success. Any future decisions on reducing the company's greenhouse gas emissions will be primarily influenced by the prevailing social view at the time.	

Please explain the reasons for your choices.

8. You are **currently** deciding on **one** disclosure strategy for the annual report in relation to the Greenhouse Challenge event. Place a number in each box ranking your choice of preferred annual report disclosure from the following choices. 1 is most likely through to 5 being the least likely. Place a number in each box.

Greenhouse Challenge - Annual Report Disclosure Approach	Rank
A. Make no disclosure regarding the Greenhouse Challenge.	
B. Identify a commitment to the Greenhouse Challenge concept, but include some reference to the unproven nature of many theories linking environmental effects to greenhouse gas emissions.	
C. State that the company continues to work at reducing greenhouse gas emissions as part of the Greenhouse Challenge concept, but mention that even when using the most current of technologies, the company's business operations necessitate the current emission of some greenhouse gases for its continued economic success.	
D. Concentrate on environmental achievements in other important areas. ie. Mine site restorations, environmental contingency plans, etc.	
E. Indicate that the views of society are vital to the company's continued success. Any future decisions on reducing the company's greenhouse gas emissions will be primarily influenced by the prevailing social view at the time.	

Why did you rank these in the order you did?

## APPENDIX N - PHASE III (B) - REAL-WORLD INTERVIEW QUESTIONS - REPAIRING LEGITIMACY

### Corporation A - Environmental Event (Fictional) - The Decision to Cease Wastepaper and Recycling Activities

Your company is Australia's major recycler of waste paper. During 1998 management decided to cease all wastepaper and recycling activities. This decision was taken for many reasons, but the main factor was that due to the over supply of wastepaper and other recycled material, these activities were becoming uneconomic.

This decision caused a strong negative reaction amongst concerned members of society and environmentalists. There were two major causes for concern. First, this decision would mean an increased use of natural timbers in the paper manufacturing process and this created fears about an increased concentration of logging and other potentially environmentally damaging forestry activities. Second, the amount of waste returning to land fills and the environmental issues this raises. Local councils were also concerned, as they have invested much time, money and energy during the last few years in organising wastepaper collections and other recycling activities. The main stream news media have picked up this issue and have, on an ongoing basis, highlighted the possible negative environmental effects of the decision.

1. How significant do you believe the above decision is, or is likely to be, with regard to the social standing of the company? Circle one answer only.
  1. Extremely Significant
  2. Very Significant
  3. Significant
  4. Moderately Significant
  5. Not Significant

Please elaborate reasons for your choice?

2. How would you be **currently** likely to treat this event in an annual report?
3. Do you have any ideas about the specifics, (eg. tone, wording and crux) of any possible annual report disclosures you would **currently** be likely to adopt in relation to this decision?

4. Indicate how likely you would **currently** be to adopt each annual report disclosure approach listed below in response to this decision. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>Decision to Cease Wastepaper and Recycling Activities - Annual Report Disclosure Approach</b>	<b>5</b> Highly Likely	<b>4</b> Likely	<b>3</b> Possibly	<b>2</b> Unlikely	<b>1</b> Highly Unlikely
A. Make no current disclosure regarding the event.					
B. State that the nature of environmental issues is dynamic and indicate, with reasons, why the company believes that wastepaper collection and other recycling activities, while still important, are no longer amongst the most pressing environmental issues facing the country and the planet.					
C. Explain that the decision was an extremely difficult one to make, with reasons, but at the end of the day, the lack of financial reward in those two areas was jeopardising the future economic success of the company.					
D. Concentrate on the company's social and environmental achievements in other important areas. e.g., forestry management, community projects, donations to worthy causes, etc.					
E. Indicate that the views of society are vital to the company's continued success. Stress support for the concepts of recycling and that the company may revisit the decision if overwhelming public opinion indicates this should be done.					

5. Assume the normal constraints are imposed on the production of environmental information for inclusion in the annual report. Of the approaches you ranked in Q4, how likely would you be to include **more than one of these disclosures** in the **current** annual report? Tick **one** answer only. Explain your choice.

Very likely	Likely	Possibly	Unlikely	Very Unlikely

6. If you answered Q5 in the range Very Likely through to Possibly, which multiple approaches would you choose to include as disclosures in the **current** annual report? Tick **only the disclosure approaches you believe would ultimately be disclosed in the current annual report**.

Decision to Cease Wastepaper and Recycling Activities - Annual Report Disclosure Approach	Tick OR Leave Blank
A. Make no current disclosure regarding the event.	
B. State that the nature of environmental issues is dynamic and indicate, with reasons, why the company believes that wastepaper collection and other recycling activities, while still important, are no longer amongst the most pressing environmental issues facing the country and the planet.	
C. Explain that the decision was an extremely difficult one to make, with reasons, but at the end of the day, the lack of financial reward in those two areas was jeopardising the future economic success of the company.	
D. Concentrate on the company's social and environmental achievements in other important areas. e.g., forestry management, community projects, donations to worthy causes, etc.	
E. Indicate that the views of society are vital to the company's continued success. Stress support for the concepts of recycling and that the company may revisit the decision if overwhelming public opinion indicates this should be done.	

Please explain your choices.

7. You are **currently** deciding on **one** disclosure strategy for the annual report in relation to this decision. Place a number in each box ranking your choice of preferred annual report disclosure from the following choices. 1 is most likely through to 5 being the least likely. Place a number in each box.

<b>Decision to Cease Wastepaper and Recycling Activities - Annual Report Disclosure Approach</b>	<b>Rank</b>
A. Make no current disclosure regarding the event.	
B. State that the nature of environmental issues is dynamic and indicate, with reasons, why the company believes that wastepaper collection and other recycling activities, while still important, are no longer amongst the most pressing environmental issues facing the country and the planet.	
C. Explain that the decision was an extremely difficult one to make, with reasons, but at the end of the day, the lack of financial reward in those two areas was jeopardising the future economic success of the company.	
D. Concentrate on the company's social and environmental achievements in other important areas. e.g., forestry management, community projects, donations to worthy causes, etc.	
E. Indicate that the views of society are vital to the company's continued success. Stress support for the concepts of recycling and that the company may revisit the decision if overwhelming public opinion indicates this should be done.	

Why did you rank these in the order you did?

**Corporation B - 'Real' Environmental Event - The Pollution of the OK Tedi River and its Related Social Effects**

1. What do you understand and know about the pollution of the OK Tedi River and its related social effects?
2. How significant do you believe the OK Tedi event is, or is still likely to be in the future, with regard to the social standing of the company? Circle one answer only.
  1. Extremely Significant
  2. Very Significant
  3. Significant
  4. Moderately Significant
  5. Not Significant

Please elaborate reasons for your choice?

3. How would you be **currently** likely to treat this event in an annual report?
4. Do you have any ideas about the specifics, (eg. tone, wording and crux) of any possible annual report disclosures you would **currently** be likely to adopt in relation to this event?

5. Indicate how likely you would **currently** be to adopt each annual report disclosure approach listed below in response to this event. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>OK Tedi Environmental Event - Annual Report Disclosure Approach</b>	<b>5</b> Highly Likely	<b>4</b> Likely	<b>3</b> Possibly	<b>2</b> Unlikely	<b>1</b> Highly Unlikely
A. Make no current disclosure regarding the event.					
B. Indicate that the OK Tedi copper mine is essential for improvement in the social and economic welfare of Papuan New Guineans and that no mining venture is going to be environmentally harmless; there is some cost to progress.					
C. Discuss, in some detail, the intense efforts the company has gone to in order tackle the technological nightmare of building a tailings dam at OK Tedi, given the nature of the topography and climate. Stress the company's obligations to its shareholders, and it could not have been reasonably expected to do any more than it did.					
D. Highlight achievements in relation to improvements in health, education and general welfare of the OK Tedi villagers as a result of the mine and how these benefits have been praised by many organisations including the PNG government.					
E. Continue to acknowledge responsibility and indicate that the company is committed to both finding a technological solution to prevent further environmental degradation and to adequately compensate those affected by the mine's impact.					

6. Assume the normal constraints are imposed on the production of environmental information for inclusion in the annual report. Of the approaches you ranked in Q5, how likely would you be to include **more than one of these disclosures** in the **current** annual report? Tick **one** answer only. Explain your choice.

Very likely	Likely	Possibly	Unlikely	Very Unlikely

7. If you answered Q6 in the range Very Likely through to Possibly, which multiple approaches would you be choose to include as disclosures in the **current** annual report? Tick **only the disclosure approaches you believe would ultimately be disclosed in the current annual report**.

OK Tedi Environmental Event - Annual Report Disclosure Approach	Tick OR Leave Blank
A. Make no current disclosure regarding the event.	
B. Indicate that the OK Tedi copper mine is essential for the improvement in the social and economic welfare of Papuan New Guineans and that no mining venture is going to be environmentally harmless; there is some cost to progress.	
C. Discuss, in some detail, the intense efforts the company has gone to in order tackle the technological nightmare of building a tailings dam at OK Tedi, given the nature of the topography and climate. Stress the company's obligations to its shareholders, and it could not have been reasonably expected to do any more than it did.	
D. Highlight achievements in relation to improvements in health, education and general welfare of the OK Tedi villagers as a result of the mine and how these benefits have been praised by many organisations including the PNG government.	
E. Continue to acknowledge responsibility and indicate that the company is committed to both finding a technological solution to prevent further environmental degradation and to adequately compensate those affected by the mine's impact.	

Please explain your choices.

8. You are **currently** deciding on **one** disclosure strategy for the annual report in relation to this event. Place a number in each box ranking your choice of preferred annual report disclosure from the following choices. 1 is most likely through to 5 being the least likely. Place a number in each box.

<b>OK Tedi Environmental Event - Annual Report Disclosure Approach</b>	<b>Rank</b>
A. Make no current disclosure regarding the event.	
B. Indicate that the OK Tedi copper mine is essential for the improvement in the social and economic welfare of Papuan New Guineans and that no mining venture is going to be environmentally harmless; there is some cost to progress.	
C. Discuss, in some detail, the intense efforts the company has gone to in order tackle the technological nightmare of building a tailings dam at OK Tedi, given the nature of the topography and climate. Stress the company's obligations to its shareholders, and it could not have been reasonably expected to do any more than it did.	
D. Highlight achievements in relation to improvements in health, education and general welfare of the OK Tedi villagers as a result of the mine and how these benefits have been praised by many organisations including the PNG government.	
E. Continue to acknowledge responsibility and indicate that the company is committed to both finding a technological solution to prevent further environmental degradation and to adequately compensate those affected by the mine's impact.	

Why did you rank these in the order you did?

### Corporation C - Environmental Event (Fictional) - Toxic Emission in Suburban Area of Melbourne, Lamb Park Facility

During mid 1998 a toxic emission occurred at the company's chemical facility at Lamb Park, a Melbourne suburb located approximately 15 kilometres from the central business district. A significant amount of the toxic waste formaldehyde, was accidentally emitted to the air in a large enough quantity to form a toxic cloud, which initially drifted over populated areas of the Lamb Park community. Formaldehyde is a known carcinogen and if breathed by humans in large enough quantities it can cause severe short term health problems and as yet unproven long term health problems. In worst case scenarios, inhaling formaldehyde could cause death.

The company immediately initiated an emergency response procedure, which included notifying the media and warning local residents to stay indoors until the danger passed. The prevailing strong wind conditions caused the toxic emission to blow quite quickly over Port Phillip Bay, thus reducing the danger to human health. A week after the accident, it appeared that no human health problems had been indisputably linked to the toxic emission. It was concluded that the cause of the accidental emission was a combination of most unlikely human error decisions, that even the most sophisticated Environmental Management System may not have prevented.

If the wind conditions had been different on the day of the accident, evacuation and relocation of the local residents was an option. If the wind direction and conditions had caused the cloud to head towards the central business district, it is possible that a serious human disaster may have occurred.

The main stream news media carried the story as headline news for a number of days, and the many articles included editorials speculating on other "what if" scenarios and questioning how this accident could happen and what contingency plans the company and other chemical companies had in place to prevent or minimise the effects of these types of accidents.

1. How significant do you believe the above incident is, or is likely to be, with regard to the social standing of the company? Circle one answer only.

1. Extremely Significant
2. Very Significant
3. Significant
4. Moderately Significant
5. Not Significant

Please elaborate reasons for your choice?

2. How would you be **currently** likely to treat this event in an annual report?

3. Do you have any ideas about the specifics, (eg. tone, wording and crux) of any possible annual report disclosures you would **currently** be likely to adopt in relation to this event?

4. Indicate how likely you would **currently** be to adopt each annual report disclosure approach listed below in response to this incident. Tick only one box under each disclosure approach. (5 is highly likely, 4 likely, 3 possibly, 2 unlikely, 1 highly unlikely)

<b>Toxic Emission at Lamb Park - Annual Report Disclosure Approach</b>	<b>5</b> Highly Likely	<b>4</b> Likely	<b>3</b> Possibly	<b>2</b> Unlikely	<b>1</b> Highly Unlikely
A. Make no current disclosure regarding the event.					
B. Indicate, with examples, that the chemical industry serves an important role in modern society. While acknowledging any distress the emission may have caused, disclose that the risk of these types of incidents occurring, while continually decreasing, are an inherent part of the operations of ALL companies operating in the chemical industry.					
C. Indicate that the company is acutely aware of the constant environmental dangers present in the chemical industry. This awareness is evidenced by the existence of a detailed emergency response plans, one of which was successfully utilised during the recent emission at Lamb Park.					
D. Highlight the company's social and environmental achievements in other important areas. e.g., community right to know, environmental management plans, donations to charities, etc					
E. Acknowledge responsibility and indicate that a major inquiry of all of the company's chemical production facilities and environmental management systems will be undertaken in order to ensure that the cause of the emission will not be repeated.					

5. Assume the normal constraints are imposed on the production of environmental information for inclusion in the annual report. Of the approaches you ranked in Q4, how likely would you be to include **more than one of these disclosures** in the **current** annual report? Tick **one** answer only. Explain your choice.

Very likely	Likely	Possibly	Unlikely	Very Unlikely

6. If you answered Q5 in the range Very Likely through to Possibly, which multiple approaches would you choose to include as disclosures in the **current** annual report? Tick **only the disclosure approaches you believe would ultimately be disclosed in the current annual report**.

Toxic Emission at Lamb Park - Annual Report Disclosure Approach	Tick OR Leave Blank
A. Make no current disclosure regarding the event.	
B. Indicate, with examples, that the chemical industry serves an important role in modern society. While acknowledging any distress the emission may have caused, disclose that the risk of these types of incidents occurring, while continually decreasing, are an inherent part of the operations of ALL companies operating in the chemical industry.	
C. Indicate that the company is acutely aware of the constant environmental dangers present in the chemical industry. This awareness is evidenced by the existence of a detailed emergency response plans, one of which was successfully utilised during the recent emission at Lamb Park.	
D. Highlight the company's social and environmental achievements in other important areas. e.g., community right to know, environmental management plans, donations to charities, etc	
E. Acknowledge responsibility and indicate that a major inquiry of all of the company's chemical production facilities and environmental management systems will be undertaken in order to ensure that the cause of the emission will not be repeated.	

Please explain your choices.

7. You are **currently** deciding on **one** disclosure strategy for the annual report in relation to this incident. Place a number in each box ranking your choice of preferred annual report disclosure from the following choices. 1 is most likely through to 5 being the least likely. Place a number in each box.

<b>Toxic Emission at Lamb Park - Annual Report Disclosure Approach</b>	<b>Rank</b>
A. Make no current disclosure regarding the event.	
B. Indicate, with examples, that the chemical industry serves an important role in modern society. While acknowledging any distress the emission may have caused, disclose that the risk of these types of incidents occurring, while continually decreasing, are an inherent part of the operations of ALL companies operating in the chemical industry.	
C. Indicate that the company is acutely aware of the constant environmental dangers present in the chemical industry. This awareness is evidenced by the existence of a detailed emergency response plans, one of which was successfully utilised during the recent emission at Lamb Park.	
D. Highlight the company's social and environmental achievements in other important areas. e.g., community right to know, environmental management plans, donations to charities, etc	
E. Acknowledge responsibility and indicate that a major inquiry of all of the company's chemical production facilities and environmental management systems will be undertaken in order to ensure that the cause of the emission will not be repeated.	

Why did you rank these in the order you did?