Gaining, maintaining and repairing organisational legitimacy

When to report and when not to report

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Abstract

Purpose – The purpose of this paper is to examine how legitimacy is gained, maintained or repaired through direct action with salient stakeholders and/or through external reporting, by using a number of empirical case vignettes within a single case study organisation.

Design/methodology/approach – The study investigates a foreign affiliate of a large multinational organisation involved in an environmentally sensitive industry. Data collection included semi-structured interviews with 26 participants, organisational reports and participation in the organisation's annual environmental management seminar and a stakeholder engagement meeting.

Findings – Four vignettes featuring environmental issues illustrate the complexity of organisational responses. Issue visibility, stakeholder salience and stakeholder interconnectedness influence a company's action to manage legitimacy. In the short-term, environmental issues which affected salient stakeholders resulted in swift and direct action to protect pragmatic legitimacy, but external reporting did not feature in legitimacy management efforts. Highly visible issues to the public, regulators and the media, however, resulted in direct action together with external reporting to manage wider stakeholder perceptions. External reporting was used superficially, along with a broad suite of communication strategies, to gain legitimacy in the long-term decision about the company's future in New Zealand.

Research limitations/implications – This paper outlines how episodic encounters to manage strategic legitimacy with salient stakeholders in the short-term are theoretically distinct, but nonetheless linked to continual efforts to maintain institutional legitimacy. Case vignettes highlight how pragmatic legitimacy via dispositional legitimacy can be managed with direct action in the short-term to influence a limited range of salient stakeholders. The way external reporting features in legitimacy management is limited, although this has predominantly been the focus of prior research. Only where an environmental incident damages legitimacy to a larger number of stakeholders is external reporting also used to buttress community support.

Originality/value – The concept of legitimacy is comprehensively applied, linking the strategic and institutional arms of legitimacy and illustrating how episodic actions are taken to manage legitimacy in the short-term with continual efforts to manage legitimacy in the long-term. Stakeholder salience and networks are brought in as novel theoretical extensions to provide a deeper understanding of the interrelationships between these key concepts with a unique case study.

Keywords Case study, Sustainability reporting, Legitimacy theory, Stakeholder salience, Direct action

Paper type Research paper

1. Introduction

The purpose of this paper is to examine how a company responds to environmental issues and legitimacy threats through direct actions and/or external reporting. The present study takes a fresh perspective by exploring the behaviour of a company in response to real environmental issues uncovered during the case study investigation. It illustrates how direct action and/or external reporting are strategic choices to manage organisational legitimacy in response to stakeholder salience. A large company in New Zealand operating in an environmentally sensitive industry forms the case study context.

Legitimacy theory, as a framework to understand external reporting behaviour, is used extensively in the social and environmental accounting literature (Deegan, 2002, 2014). Suchman (1995) introduced two broad strands of legitimacy theory involving strategic and institutional approaches. Our study brings these two strands together, illustrating the way that a company can strategically manage its response behaviours to achieve a more institutionally defined sense of legitimacy. This advances perspectives into understanding "strategic and institutional aspects of legitimacy theory as two sides of the same coin" (Mobus, 2005, p. 511; see also Dumay *et al.*, 2015). Our case study of an organisation with a "debated" legitimacy status (Deephouse *et al.*, 2017) explores how navigating pragmatic legitimacy concerns of salient stakeholders through direct actions in the short-term can help maintain organisational legitimacy in the long-term. Consequently, this study extends Suchman's (1995) framework by discussing the linkages between more short-term (episodic) efforts to manage strategic legitimacy which then establishes a long-term (continual) sense of institutional legitimacy in conforming to social norms, customs and behaviours (Deegan, 2002).

The present paper finds that legitimating actions relate to much more subtle and direct displays to appease specific target audiences, and these actions may never be reported to a wider audience. Four vignettes from the case company's operations are presented to illustrate how response behaviour is modulated by the need to gain, maintain or repair legitimacy. The first three present short-term issues, and only in the third of these, which is an exceptional circumstance, is external reporting used in an effort to symbolically repair wider legitimacy concerns, as a more diverse and dispersed set of stakeholders is affected. Similarly, external reporting is also an important feature of the company maintaining its overarching legitimacy in the fourth vignette. This last vignette illustrates the lead up to a large operational (and inherently environmental) decision about its long-term future in New Zealand where a broader range of stakeholders are also affected. Here, symbolic disclosures are deployed to gain legitimacy as the company transitions into a new phase of operations.

Ultimately, the present study provides a number of contributions to the literature. First, it adds to research which explores internal firm behaviour which leads up to external reporting in both short-term and long-term environmental issues. Second, while there has been consideration of the role of external reporting in managing legitimacy (see, e.g. O'Donovan, 2002; Conway *et al.*, 2015; Belal and Owen, 2015), this study is novel in its comprehensive exploration of pragmatic, moral and cognitive elements of legitimacy through both action as well as external reporting. Third, the present paper extends prior work that focuses on either the institutional or strategic arms of legitimacy theory but rarely considers the interrelationships between both (see Dumay *et al.*, 2015). It discusses how episodic and strategic attempts to manage legitimacy relate to the continual and institutional dimensions of legitimacy. We show how a nuanced and multifaceted application of legitimacy theory (Suchman, 1995) can produce stronger insights into a firm's response behaviour, thus developing a continued role for legitimacy theory as an explanatory lens. Fourth, by integrating elements of stakeholder salience with legitimacy theory, we provide further insights into when action vs external reporting is a preferred response to managing environmental issues across a range of decision-making horizons.

A review of the relevant literature is presented in the next section. Section 3 provides the conceptual framework we adopt based on organisational legitimacy and stakeholder salience. Section 4 reports our methods. Section 5 presents the case context and the field sites investigated. The findings and analysis are presented in Section 6. Sections 7 and 8 discuss and summarise the insights from the internal behaviours related to action and external reporting.

2. Social and environmental reporting and decision-making

Unerman and Chapman (2014; see also Brown and Fraser, 2006) argue that an important element of research is "maintaining an openness to review and update theoretical frameworks in use, and to develop novel theoretical framings, if evidence and understandings from new studies are to make ongoing and substantive contributions to evaluating, critiquing and developing policy and practice" (p. 386). In doing so, we suggest that they highlight an important role for in-depth explorations of the organisational behaviours which underpin external reporting.

The symbolic adoption of external reporting and concerns over its lack of accountability are well established (e.g. Michelon *et al.*, 2015; Higgins *et al.*, 2015; Buhr *et al.*, 2014). As Guthrie and Abeysekera (2006, p. 115; see also Belal and Cooper, 2011) note, "[…] what organizations choose to include in (and omit from) their annual reports is a conscious decision that communicates a significant message to stakeholders". Legitimacy theory is often used to explain the decoupling of internal practice from the perceived symbolic and instrumental use of external reporting (e.g. Brown and Deegan, 1998; Cho *et al.*, 2015; Tilling and Tilt, 2010; Deegan, 2014). Legitimacy theory is posited to explain increased voluntary, social and environmental accounting disclosure when firms need to maintain or repair their legitimacy, often due to adverse incidents. Yet, Tilling and Tilt (2010) find that when an organisation is in a "legitimacy loss" phase, external disclosure may not be perceived by management as an important communication tool (see also de Villiers and Van Staden, 2006). Strategic attempts by management to manipulate legitimacy, then, may vary according to the institutional legitimacy phases that an organisation faces, fundamentally affecting the nature and form of its response behaviour (O'Donovan, 2002).

Due to the considerable focus on reports as the phenomena of study (Belal and Owen, 2015), the internal behaviours and decision-making processes which lead up to the strategic external release of reported information have been less studied or theorised. Simply asserting legitimacy explanations for externally reported information does not inform their strategic precursors. Theoretical diversity and more practice-engaged work is called for (Parker, 2014; Unerman and Chapman, 2014).

We acknowledge that some work has sought to explore external social and environmental reporting from the "inside-out". Attention has been directed to internal firm processes which underlie decisions to begin voluntary external reporting, and the management systems put in place to generate reports (e.g. Hahn and Kühnen, 2013; Adams and Larrinaga-González, 2007; Adams and Frost, 2008). Such work is arguably driven by the need to:

> […] enhance our understanding of the more nuanced and complex ways in which decisions relating to corporate social responsibilities, environmental pressures, legitimacy threats, stakeholder power and engagements, risk management and reputations are taken. (Bebbington and Thomson, 2013, p. 279)

Nonetheless, the extent to which internal strategic decision-making and reporting practices in social and environmental accounting are linked remains under-explored (Maas *et al.*, 2016). Most of the literature on internal organisational processes focus on control systems, broadly concerning management control systems (MCS), environmental management systems (EMS) and business strategies. Better integration of MCS and EMS has been

suggested to improve transparency and engagement with stakeholders (Garcia *et al.*, 2016). Other studies explain how firms implement sustainability strategies by collecting information to strengthen risk management processes, innovation and communication (e.g. Arjaliès and Mundy, 2013). Certain configurations of control systems enable greater integration of sustainability into organisational strategy and culture (Gond *et al.*, 2012). In these studies, internal management of company processes is considered to contribute to societal goals (Arjaliès and Mundy, 2013).

Much less understood, however, especially from a managerial perspective, is the direct action and/or external reporting responses to environmental incidents and legitimacy threats in short- and long-term issues, and how these are related or linked. The next section introduces these elements and our conceptual framework.

3. Legitimacy and stakeholder relationships

3.1 Legitimacy

Suchman (1995) condenses the diverse literature on organisational legitimacy into strategic approaches and institutional approaches[1]. The strategic approach emphasises legitimacy as an operational resource instrumentally managed by organisations. Institutional legitimacy emphasises the power of external, cultural and contextual factors in constructing organisations and the standards by which they are judged. Each strand is further divided into pragmatic, moral and cognitive terms.

Pragmatic legitimacy deals with self-interested evaluations of an organisation by external stakeholders (Suchman, 1995, p. 571). Pragmatic legitimacy can arise from exchange legitimacy (where the expected value of an organisation's activities is what ultimately determines its legitimacy), influence legitimacy (where external stakeholders believe that they can shape the organisation) and dispositional legitimacy (the "good" character of organisations and the belief that they act in stakeholders' best interests).

Moral legitimacy, on the other hand, is concerned with "normative approval" based on whether an organisation's behaviour is right or wrong. Pragmatic and moral legitimacy rest on "discursive" evaluations (Suchman, 1995, p. 585), which can be in the form of engagement through action or dialogue, whereas cognitive legitimacy moves beyond discursive evaluations to achieve a "taken-for-grantedness" that essentially makes the organisation unquestionable and hides it in plain sight (Suchman, 1995, p. 571).

Deephouse *et al.* (2017, p. 33) add to these insights suggesting the need for acknowledgement of different states of organisational legitimacy. "Accepted" organisations reflect the "taken-for-granted" nature that Suchman (1995) describes and these organisations are not subjected to scrutiny. "Proper" organisations have been subjected to recent evaluation and have been determined to be acceptable. However, the legitimacy of such organisations is less secure than if they had passive, taken-for-granted acceptance. "Debated" legitimacy reflects a situation where different stakeholders may have divergent opinions and challenge the values and activities of an organisation (Deephouse *et al.*, 2017). The final category consists of "illegitimate" organisations which have essentially lost their license to operate.

Tilling and Tilt (2010) discuss six phases of legitimation, drawing on the work of Ashforth and Gibbs (1990) and Suchman (1995). These phases range from the establishment, maintenance, extension and defence, to loss and disestablishment of legitimacy. Tilling and Tilt (2010) argue that these phases refer to broader institutional arrangements of legitimacy, although they also discuss the ways that strategic management behaviour may respond to different pressures in each phase. As O'Donovan (2002, p. 349) notes, then, "[l]egitimation 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". Chelli *et al.* (2014, p. 286) argue that within the strategic arm of

legitimacy, "[o]rganisational stamina thus depends on the organisation's capacity to manage the demands of its environment, particularly those expressed by the groups that hold crucial resources for its survival". Relationships with these "salient" groups may change, along with company response behaviour, according to which stage of legitimacy an organisation resides.

Legitimacy is an "umbrella evaluation that, to some extent, transcends specific adverse acts or occurrences; thus, legitimacy is resilient to particular events, yet it is dependent on a history of events" (Suchman, 1995, p. 574). This definition is extended by Deephouse and Suchman (2008) by employing an in-depth, yet short summary of Suchman's (1995) paper, quoting that "[l]egitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws" (Suchman, 1995 cited in Deephouse and Suchman, 2008, p. 51).

Summarising the extant literature on legitimacy theory is challenging (Suchman, 1995), particularly because of the similar yet distinct strategic and institutional perspectives. Nonetheless, Suchman (1995, pp. 599-601) discusses how both perspectives can be linked by understanding the pragmatic, moral and cognitive dimensions of gaining, maintaining and repairing legitimacy. Within these processes, direct action and external reporting can be harnessed depending on the desired "episodic" or "continual" legitimacy management outcome sought (Suchman, 1995, p. 584). Further, the focus of legitimation efforts can be on actions wherein the organisation is "*operating* in a desirable, proper, and appropriate manner […]" or essences where the organisation is "desirable, proper, and appropriate, *in itself*" (Suchman, 1995, p. 583, emphasis in original). This distinction between episodic and continual, and actions and essences, allows for a more nuanced analysis of the way that certain actions and/or external reporting behaviours eventuate in our case study analysis.

3.2 Stakeholder relationships

Of particular importance, as part of the stakeholder system, is the ability to understand, prioritise and connect relationships and interdependencies (Neville *et al.*, 2011; Donaldson and Preston, 1995; Harrison and St John, 1994). These connections can be understood in terms of a stakeholder network. Like nodes on a spider's web, a stakeholder network ties an organisation to its stakeholders, and stakeholders to each other. Thus, stakeholders are not only connected to the organisation at the centre, but also to each other through a series of direct and/or indirect relationships. These interrelationships are particularly important to manage when stakeholders are physically, economically, socially, culturally or symbolically "close" to an organisation. Stakeholder networks can be understood in terms of alignment between stakeholders, the strength and influence of the interactions between stakeholders and synergies from unified action (Neville and Menguc, 2006, pp. 386-387)[2].

Mitchell *et al.* (1997) introduced salience as consisting of three elements based on a particular stakeholder's power, legitimacy and urgency. Power refers to the ability of stakeholders to impose their point of view on an organisation; legitimacy relates to the social acceptability and appropriateness of stakeholders' actions; finally, urgency concerns how time-sensitive stakeholder demands are (Mitchell *et al.*, 1997, pp. 865-868). Stakeholders may possess any permutation of the three attributes, allowing organisations to rank their claims according to risk. Stakeholders may also form networks to consolidate their ability to create a desired outcome in an organisation or its behaviour (Frooman, 1999; Bitektine and Haack, 2015). Thus, an adverse action to one stakeholder may quickly "activate" other (directly or indirectly) affected stakeholders into action.

3.3 Conceptual framework

Understanding the nuanced theoretical work of Suchman (1995), Mitchell *et al.* (1997) and subsequent elaborations allows us to locate extant social and environmental reporting research and our own case study and analysis. Reporting behaviour is arguably more

preoccupied with developing "exchange legitimacy" of the future expected value of a company's operations, and to acquire a sense of "moral legitimacy" where an organisation can justify its behaviour according to normative standards as "right" (through positive stories of success) (see, e.g. Higgins *et al.*, 2015; Cho *et al.*, 2015). Thus, reporting may be used as a symbolic gesture (Suchman, 1995) to portray legitimacy.

Yet substantive gestures (Suchman, 1995) are also important to legitimacy. Substantive gestures, we suggest, are more readily portrayed through direct action with salient stakeholders. Direct action, such as non-reporting communication to appease a particular stakeholder group, financial compensation or sponsorship of philanthropic activities by organisations can be seen as "strategic" exercises to aid in gaining, for instance, "dispositional legitimacy", which revolves around judgements of "good character" (Suchman, 1995).

Understanding "legitimacy-as-process" (Bitektine, 2011; Bitektine and Haack, 2015; Suddaby *et al.*, 2017) allows an organisation to become an "active" player within a stakeholder network and enables a finer grained analysis of how various elements of legitimacy (such as pragmatic, moral and cognitive) may be established and reinforced by action and/or external reporting. A richer dynamic can be captured where firms can shift in their legitimacy over time as they fall in or out of favour with the norms, values and expectations of salient stakeholders. For example, in times of adversity, a firm may harness "dispositional legitimacy" (where the audience evaluates the firm in a self-interested manner) and thus favourably manipulates the judgements and actions of key stakeholders to protect its survival (Suchman, 1995, p. 579). Employees and shareholders may be advocates of the firm and contend that "it's doing the best it can" to support a wide range of socially valuable outcomes such as generating profits, employment, charitable works, etc. The community, on the other hand, may resist the organisation because of various issues such as harm that has been caused to the local environment. Legitimacy with some salient stakeholders may have migratory effects on others in the stakeholder network. When a firm is facing a "debated legitimacy" status (Deephouse *et al.*, 2017; Tilling and Tilt, 2010), this essentially means that potential threats to legitimacy may be shielded, and external reporting may serve a minimal role in this process if substantive action can be more strategically used to curry favour.

It is within this richer theoretical and more nuanced understanding of legitimacy-as-process that we seek to understand how an organisation that operates in an environmentally senstive industry manages its legitimacy through its choice of reporting and non-reporting behaviours.

4. Methods

An in-depth case study (Stake, 1995; Lee and Saunders, 2017) was conducted at the focal case company and involved considerable interaction with employees, senior managers and executives and stakeholders from numerous site locations over nine months. Data collection was holistic with the primary researcher embedded in the context of the company's operations with key staff. The case study can be considered emergent (Lee and Saunders, 2017) in that several issues that form the basis for in-depth analysis in this paper emerged during the course of the investigation. Analysis was interpretive (Yanow and Schwartz-Shea, 2015) combining the primary researcher's own insights into the research context from the time spent on-site. These views were thoroughly discussed with the other researchers involved in the study to refine interpretations in an iterative process.

Semi-structured interviews (26) took place with a range of staff from executive committee members through to front-line employees. A semi-structured interview approach was chosen because it allowed the researcher flexibility and scope to explore new and emerging themes during the course of data collection (Barbour, 2008; Silverman, 2005). Questions were

tailored to each employee depending on their position within the company. The interviewees are outlined in Table I.

Approximately half of these interviews were recorded on digital media and professionally transcribed. The interview length ranged from 30 to 50 minutes. On instruction from the "organisational insider"[3], the remaining interviews were not recorded so as to increase comfort to the participant and increase the truthfulness of the information gathered. During these interviews, as many notes as possible were taken, both during and after the interview, to ensure that answers were recorded to the fullest extent possible and to capture any extra observations or feelings (O'Dwyer, 2002, 2003).

Site visits were conducted on several occasions to different operating sites of the organisation. Privileged access was also allowed to the Annual Environmental Seminar for all environmental employees, a stakeholder engagement meeting and internal company gatherings. During this time, detailed notes were taken of the primary researcher's perceptions and feelings, together with any facts that seemed to stand out at the time (Flick, 2006). Access was granted to confidential meeting agendas, reports and the company intranet only available to employees. A list of source documents used in the analysis is provided in the Appendix. These documents provided rich insights to further analyse and understand the operations of the case organisation (Marshall and Rossman, 2011).

Interviews at the company		
	Title	Role
Senior leadership		
1	Managing Director	Executive Team
2	Chief Financial Officer	Executive Team/Financial
3	Human Resources Manager	Executive Team
4	Project Controller	Senior Management
5	External Relations Manager	Senior Management
6	Group Manager – Environmental	Senior Management
7	Sustainability Manager	Senior Management
8	Group Environmental Advisor	Middle Management
9	Health, Safety and Environment Officer 1	Business Unit Advisor
10	Health, Safety and Environment Officer 2	Business Unit Advisor
11	Environmental Advisor – 1	Facility Advisor
12	Environmental Advisor – 2	Facility Advisor
13	Operations Manager	Business Unit Manager
14	Distribution Manager	Regional Coordinator
15	Distribution Coordinator	Regional Coordinator
16	Distribution Worker	Regional Distribution
17	Project Accountant	Financial
18	National Sales Manager	Senior Management
19	Sales Manager	Business Unit Manager
Operations		
20	Acting Site Manager	Business Unit Manager
21	Site Manager – 1	Business Unit Manager
22	Site Manager – 2	Business Unit Manager
23	Site Manager – 3	Business Unit Manager
24	Acting Technical Manager – Operating site	Facility Advisor
Informal talks		
25	Driver	Facility Level
26	Plant Operator	Facility Level

Table I.
List of interviews conducted at the company

4.1 Data analysis

Data consisted of information gathered from internal and external documents, interview transcripts and observations that the researcher made on field visits[4]. Annual external reports spanning 14 years, together with staff updates and customer newsletters were analysed. Analysis was a perpetual activity that happened throughout the field study period (O'Dwyer, 2002). Notes and company documentary evidence were regularly reviewed (Bernard and Ryan, 2009). Interviews were coded according to themes and motifs that emerged (Creswell, 2009; Bernard and Ryan, 2009). A similar process was applied to observations and document analysis where particular attention was placed on documenting internal processes, decision-making behaviours or communication with stakeholders. Data from internet sources and hard-copy documents were read in detail to corroborate and extend themes emerging from interviews. Subsequently, interview transcripts were re-read. Where possible, the original tapes were listened to again ensure that the complexity of the real interview in terms of mood, emotions and accentuations was captured. Multiple quotations from a number of individuals, and other evidence, were gathered under each theme (Miles and Huberman, 1994).

Through this process, several illustrative events emerged from the data highlighting "vivid" and "clear" examples (Gibson and Brown, 2009) of management decisions at four operating sites: Alpha, Beta, Charlie and Delta. While interview questions were not directly targeted at understanding these sites of operation, they emerged as key focal points to explain the interrelationships between the company and key stakeholders surrounding the sites. A stakeholder map was visually constructed together with the environmental issues at each site, the stakeholders concerned and their relative levels of salience as represented in interviewees' dialogue (Grbich, 2006). Company actions and behaviours were also represented on this map, including any oral or written communication (which was extremely limited) as reported in external reports.

Drawing on the theoretical concepts discussed earlier, four vignettes regarding four operating sites are used to highlight the company's response behaviours according to several factors: visibility of the issue, stakeholder salience and the interconnectedness of stakeholders around the problem.

5. Case study organisation and legitimacy issues

The case organisation is the New Zealand subsidiary of a large multinational company located across tens of countries. The organisation (and the entire industry) is subject to extensive scrutiny, given high greenhouse gas emissions in its supply chain and the possibility of environmental and aesthetic "harm" in particular localities. The subsidiary is subject to regulatory review under New Zealand's Resource Management Act (1991) under which stakeholders have a significant voice in debating (and opposing) the externalities of the company's operations. A large, soon-to-be-obsolete operating site in New Zealand has initiated debate over the company's future in the country. Potentially contested views of the company's legitimacy and the size and shape of its operations place it in a "debated legitimacy" context (Deephouse *et al.*, 2017).

The New Zealand subsidiary has been active for decades, and previously owned in New Zealand under varying names. It employs a large group of personnel across a diverse range of operating sites. It was held accountable by a global Headquarters. Each defined geographic area of the world was managed by a different Regional Director who reported to the Headquarters. Regional Directors were held responsible on a range of different indicators including financial, production, environmental and health and safety goals. Further, they were also responsible for managing a portfolio of Managing Directors who run the subsidiary operations within a particular country.

A reasonable amount of autonomy was allowed for the local (New Zealand) Board of Directors to govern operations as necessary in line with the parent company's philosophy of "International benchmarks. National control". However, the global CEO and their team made decisions that spanned the whole company's strategic operations, including large capital investment decisions in the individual subunits of a country. This dynamic presented a novel case study of how an international company dealt with the pressure to satisfy global trends and requirements, pervasive legitimacy concerns as well as balance this with context-specific realities related to each locality in New Zealand.

An outline of the four operating sites, and each of three short-term issues and a long-term issue which emerged during the course of the case investigation and feature in the subsequent analysis are presented below.

Alpha was a large facility located in a rural community surrounded by privately owned farms. Heavy machinery was usually in operation at the site, including a constant movement of large trucks and earthmoving equipment. Natural hills provided a significant degree of visual and auditory cover for operations. The facility was also home to a range of flora and fauna, including a wetland. Access to the site was limited through one main access road. Two significant issues arose at Alpha. First, an ongoing technical fault regularly flooded a naturally biodiverse area on company land with silt. Employees agreed that the problem needed to be resolved but disagreed over its severity. The company regularly exceeded its permit conditions with "unauthorised discharge". The second issue concerned a neighbour's farmland when a bund, or man-made earth barrier, eroded during a period of heavy rainfall. This led to water and other matter discharging onto the neighbouring property, flooding a boundary section.

Beta operated near a large residential and commercial precinct near a major city. It was in a highly visible location near a main street. Trucks and large vehicles frequently visited the site. Noise pollution and the chance of accidental material discharge were constant issues for the location. A significant issue occurred at Beta where a large spill of material that occurred on-site enveloped houses and other businesses in the locality.

Charlie was a major facility close to a township. It had become well integrated into the community as a large employer. However, the site's useable life was coming to an end, necessitating an evaluation of options for the future operating capacity of the company. After considerable forecasting of future profitability, the company announced several possibilities for its continued operations and embarked on an extensive process of regulatory approval and community consultation for entering into a new Delta site in a different township. The long-term decision outcome was very important to the company and directly affected the nature of its operations and impact on communities. A considerable amount of money, time and other resources had been expended not only into developing the proposal for the global Headquarters, but also in preparing the New Zealand community where the new site may be based[5].

6. Findings and analysis
6.1 Water overflow on company land (maintaining legitimacy)
Water overflow at Alpha could lead to an infringement notice or a cessation order, but the key impediment to action was that the problem occurred within company-controlled land and was invisible to external stakeholders. One employee suggested that if the local council:

> […] came back on site today and saw that, they could either whack us with a huge fine or worst case scenario, tell us to stop operating and the fact that [even after] all these incidents [were logged in the company's internal Issue Reporting System], it just doesn't seem like its escalating enough. (Environmental Advisor 1)

This was especially concerning to the environmental advisors since this would be the first time the operating site had been penalised. The line manager of the site (Site Manager 1), however, was adamant that "[t]he discharge was not a consent issue", but did admit that "if we don't find a solution we may have to close the facility during heavy rain". Ultimately, the voice of an environmental advisor responsible for monitoring articulated an underlying concern:

> […] [w]e're not in danger of being shutdown [sic] by Council, but the more often that [name of employee] has to ring them and say, [w]e've exceeded this or we've exceeded that, the more they are likely to start looking into what we are doing about it. (Environmental Advisor 1)

Several employees noted that the water discharge problem had been going on for years, and that managers with the authority were very slow and reluctant to make any changes. As there was little external pressure to resolve the issue, the problem became less urgent and could be internally managed at the discretion of employees (Bansal and Roth, 2000; Mitchell *et al.*, 1997). In this scenario, the local council (the consent regulator) was the most salient outside stakeholder and possessed the attributes of power and legitimacy, although they did not have an urgent claim (Mitchell *et al.*, 1997; Neville *et al.*, 2011).

Thus, action could be delayed because the limited visibility of the issue and the established good character or dispositional legitimacy of the company with the local council enabled them to mitigate potential "prying eyes" and investigation (Suchman, 1995, pp. 578-579; see also, Puncheva, 2008). A staff member had "been extremely good and diligent in liaising with them [local council] about the whole thing and about letting them know where we are at any given time with it" (Environmental Advisor 1). While the local council could perform spot inspections, most of them reporting about adherence to permit conditions came from internal employees. Thus, employees could easily defend the company's license to operate with tailored communications and leverage the strong dispositional legitimacy that some staff had built with the regulators to minimise the threat of extensive external monitoring.

In this instance, then, legitimacy could be maintained at a "minimal cost" to the company through this form of direct action. This sheds new light on the contradiction that O'Donovan (2002, p. 359) discussed in relation to a less visible environmental incident. In O'Donovan's paper, a vignette where the environmental impact was not known outside of the organisation was met with an apparently contradictory reactive response of "doing nothing" or stalling, as well as a potentially proactive response in terms of openly spinning the issue into a positive story. Our study finds that both are possible where a "proactive" strategy of managing stakeholders builds a cushion for the organisation to then act "reactively" in actually resolving the environmental issue.

Building close relationships between company employees and regulatory authority staff was seen as a crucial value-added exercise because of the spin-off effects from establishing a track-record of good character and a trustworthy disposition. Raising the scrutiny of regulators was dangerous to the company, given the environmentally sensitive industry in which it operated. A line manager at Alpha (Site Manager 1) intimated that they had to work with the council and "be proactive with them before they catch you out" (see also, Prakash, 2000). Essentially, this kept the problem in-house rather than inviting external scrutiny. The company was able to avoid immediate action because no "direct stakeholder" was involved (Agle *et al.*, 1999). Furthermore, as a regulatory authority, local councils had fewer network interdependencies which meant that they were unlikely to divulge information to the media and escalate the situation unless a severe and wide-scale incident had occurred. The local council represented the "public's interest" with direct power to force the company to act (Neville and Menguc, 2006). In this sense, the local council conferred "legal legitimacy" on behalf of other stakeholder concerns. If other stakeholders, such as close neighbours were

involved, then there would be a greater propensity for these stakeholders to bring visibility and attention to the situation because they generally did not have direct power to censor the activities of the company (Neville and Menguc, 2006).

In this scenario, external reporting generated no important legitimacy benefits, and could in fact be negative by "disturbing the hornets' nest" and encouraging external scrutiny. The issue was a more localised problem centred on a small group of stakeholders, and external disclosure could be detrimental to wider legitimacy with a wider array of constituents. The incident may activate other stakeholders into action if neighbours to Alpha (who possess legitimate claims, though they do not have power or urgency in this case), for example, were alerted by way of external reporting of the incident and then formally complained to the local council. Acting through, and in conjunction with the local council, would enable Alpha's neighbours to gain power and increase their salience in relation to the company (Neville and Menguc, 2006; Neville *et al.*, 2011). Furthermore, any obligatory environmental consent reporting for the Resource Management Act (1991) to the local council was regarded as specialised information and was rarely mentioned in public annual external reporting unless a breach had occurred. For instance, the 2007 external report from the company stated that an environmental infringement notice had been issued for an unauthorised discharge at one of its sites, but this was done within a table towards the end of the report (p. 30). No further information was provided on the nature of the incident or what actions had been put in place to remedy the issue. Maintaining pragmatic legitimacy by "stockpiling trust" and highlighting its "good character" as an essence of the organisation had helped to establish legitimacy on a continual basis (Suchman, 1995).

6.2 Water nearly flooding neighbour's land (repairing legitimacy)
In the second issue at Alpha, an employee noted that action was taken immediately to resolve a problem:

> […] there was another [water holding pond] that came that close to overflowing – didn't endanger a [naturally bio-diverse area], it endangered a neighbour's property – they complained about it. All of a sudden we've got this brand new bund [earth mound] in place and it's all fixed and I think that that was very much a case of keeping the neighbour happy, so that they did not – and that's you know rightly or wrongly that was what happened, we did not want to upset the neighbour any more than we already had done by effectively threatening to flood her land. (Environmental Advisor 1)[6]

As noted earlier, the case company was a very visible target in the communities it operated in. Often, it was one of the biggest employers within a particular locality; therefore, any incident could have wide-ranging repercussions for the company. An issue that affected any of its close stakeholders was acted upon very quickly, especially because of the network interdependencies that exist between different stakeholder groups.

The issue also potentially involved the local council and the rest of the community. The urgency of the need from a major stakeholder drove immediate action from the company regardless of cost (Mitchell and Agle, 1997; Mitchell *et al.*, 1997). As staff at Alpha noted, unlike most other "business decisions", there was no prioritisation of decision variables or a detailed cost/benefit analysis. The neighbour had a strong voice when it was time for renewal of operating permits; thus, preserving a good dispositional legitimacy with this stakeholder was vital to securing a future license to operate at the site (Suchman, 1995; Wilson, 2016). This mentality reflected the company's propensity to "[r]eprioritise projects based on risks. Risk mitigation should be number one and costs shouldn't come into it" (Environmental Advisor 1). Consequently, the company had to act in an "episodic" effort to repair its legitimacy by demonstrating consequential moral legitimacy in

"doing the right thing" and in showing that the company pragmatically acted in the "interest" of the neighbour (Suchman, 1995, p. 584). This transitory and reactionary action was aimed at repairing the long-lasting good character that the company had fostered with some of the salient stakeholders surrounding Alpha.

By increasing the threat to the company, neighbours had the ability to involve the media and local authorities, or incite community action against the company. Having previously demonstrated "good character" with the neighbours slowed escalatory action by giving the company a chance to rectify the problem (see also, Puncheva, 2008; Welcomer, 2002). A man-made earth barrier was quickly repaired, fencing restored, and remedial action to restore the flooded part of the neighbours' land was immediately undertaken. This was because improving relationships at a micro level may be easier, and within the sphere of control of company personnel, rather than attempting to achieve broader and more complex sociopolitical legitimacy (Boutilier and Thomson, 2011). In a New Zealand context, these direct actions to maintain pragmatic legitimacy are important, given the country's small size and relatively close-knit nature increasing the likelihood of news spreading to other stakeholders such as communities at other company sites. Such escalation could affect the company's overarching institutional legitimacy, especially as it came to a decision on a new future operating site in New Zealand as explained in Section 6.4.

As with the first water-flooding event, external reporting did not feature any item about this incident. Again, while there is a greater commitment to action by the company, they considered the purpose of the behaviour to be around damage "containment". It was not seen as necessary to externally report on the incident as this may spark legitimacy threats with other stakeholders that were "simmering" and just needed a catalyst to materialise as a stronger problem (Durand and Vergne, 2015).

6.3 Discharge over the community (repairing legitimacy)

Although the spill at Beta was not necessarily the fault of the company (a contractor was to blame), the community immediately blamed the company. The incident was so widespread that the local council was immediately notified. Furthermore, the incident caught the attention of local and national media. The negative media attention and public anger forced actions to, in the words of the facility manager (Site Manager 2), "save our image". It was a major incident for the company because of its public visibility, accentuated by the large area and the number of households and businesses affected. Even to the present day, the site was considered a "hotspot".

Beta's manager (Site Manager 2) acknowledged that the company's "product is not ideal to maintain [a good] corporate image". A repeated theme in the conversation with the manager was the "self-consciousness" that some employees felt about the external image of the company, particularly in relation to the way external stakeholders viewed the firm. He recounted the gravity of the spill which required immediate remedial action to ensure that the community and regulatory response would not be even more hostile and detrimental to future operations at that locality. In the weeks following the spill, the company staff implemented a number of initiatives, including voluntary help offered by the company staff to clean affected houses and local businesses to win back community rapport. In line with this, Eesley and Lenox (2006, p. 779) find that indirect[7] (or secondary) stakeholder requests are "likely to be met by targeted firms when stakeholder actions are taken by groups with greater power relative to the targeted firm and whose requests are more legitimate".

Furthermore, the company also had to undertake a considered and pervasive exercise, including through external communication, to minimise potential threats to its license to operate. This ultimately affected the continual and "good" character-based dispositional legitimacy it had created with the local council. The diversity of stakeholder demands in this

situation showcased not only the strategic value of stakeholder engagement (Matos and Silvestre, 2013) with direct action, but also of reporting in the company's external report:

> […] we have had a crisis at [Beta Site] where a lot of [material] went all over [the community near Beta] and that was reflected in our annual report and we talked about what we did about it just in terms of a crisis (External Relations Manager)[8].

Thus, direct substantive action alone to repair dispositional legitimacy with the directly affected stakeholders involved would no longer suffice. Suchman (1995, p. 600) argues that pragmatic strategies to repairing legitimacy involve denial or monitoring. However, the community surrounding Beta and the local council possessed power, legitimacy and urgency. The widespread nature of the incident meant that the media were also informed and possessed considerable power through their ability to spread the news of the incident and mobilise a wider audience (see Durand and Vergne, 2015). Thus, by harnessing the claims of the salient stakeholders, the media was able to mobilise greater pressure on the company. As O'Donovan (2002, p. 362) points out, when repairing legitimacy in a highly visible situation, conforming to societal expectations and highlighting past environmental achievements are the most likely outcomes. Consequently, the severity of the issue required a humbler response which went beyond the self-interest of a particular audience to an understanding of action to restore "social welfare" and well-being (Suchman, 1995, p. 579).

This scenario is characterised by high issue visibility, and the involvement of sensitive stakeholders with a high interconnectedness to other stakeholder groups, and who hold a high degree of power (Mitchell *et al.*, 1997; Mitchell and Agle, 1997). Media attention may exacerbate the reputation damage and activate "indirect" stakeholders (Deephouse, 2000, p. 1098; Driscoll and Crombie, 2001). The company launched a suite of direct actions through employee involvement in the community to restore its dispositional legitimacy with the affected stakeholder groups. Furthermore, to address the concerns of indirectly affected stakeholders, the company also released external media statements and external report communications. External media and external report communications disseminated a sense of appropriateness (Deephouse *et al.*, 2017) of the extent of the company's remedial activity to a larger and more public audience. In this sense, the external report was used to convey a sense of "moral legitimacy" that despite its failure, the company was "doing the right thing" to repair legitimacy not just with "close" stakeholders, but with wider communities (Suchman, 1995, p. 600). Since this incident, the company has put in place a crisis response scheme to respond to the situation, learn from it and "a) report on it and b) put something in place so that it doesn't happen again" (External Relations Manager). This also aligns with Suchman's (1995, pp. 600, 584) explanation that moral strategies to repair legitimacy include "revising practices" and reconfiguring operations to demonstrate "procedural" long-term moral legitimacy.

6.4 Legitimacy and the future of the company (gaining legitimacy)
The outcome of the long-term decision on moving to a new site would change the way the company operated in New Zealand. The company was image conscious in these interactions, given the environmentally sensitive nature of its operations. It was noted that a competitor had recently upgraded one of its own operating sites and had a superior array of capabilities. The pressure to keep pace with competition extended further than just to reach production and distribution parity but to also protect their external perception:

> […] it would be embarrassing if we were [operating the existing plant for the next 20 years] […] it's a bit of, you know, it's an old crappy looking plant; it doesn't look real sexy […]" and further that "it's an issue that in the future could affect the freedom with which we operate our business and therefore we need to mitigate that risk in some way. We need to manage it and try and minimise our impact, so our license to operate is not affected in the future. (Environmental Advisor 2)

In terms of climate change risks, the introduction of the New Zealand Emissions Trading Scheme has been of great concern to the company. Its business is extremely energy and carbon intensive. There has been a significant interplay in both media, public and political forums about the consequences of such a scheme on the commercial viability of some firms. Indeed, the company understood that in its current form, the scheme leads to significant increases in production costs across the industry. This may have driven some large investment in competitors, and this bid to increase efficiency and reduce emissions also seems to be propelling a new look at the strategic options for the foreign affiliate. Furthermore, demand was projected to grow, not only leading to production bottlenecks at the current site, but also increasing emissions costs, and consequently, lowering profit margins. The Project Controller reiterated that the decision about the future of the business fundamentally came down to the:

> […] ability to operate – a license to operate. It's quite simple really you've got to be able to operate a profitable business over at least 50 years and your [resources] have got to be good and dealing with production related issues to still be able to make an adequate margin on sales. (Project Controller)

Thus, it is important to acknowledge that economic considerations underpinned any discussion of environmental factors.

Company staff generally acknowledged the inherently unsustainable nature of their operations in terms of harnessing natural resources, but stated: "what we can do is be more sustainable than we are, we just use less irreplaceable resources than we are currently using – that would be my take on it" (Project Accountant). What is also inherently clear from top management is that "sustainability" means the financial viability of the company. Profit-driven motives are not hidden, and there is a sense that business ultimately means making a financial return:

> Basically what it boils down to is doing the right thing and having a good profitable business and absolutely unashamedly we're here to make money, but we're also here to have a business that's still operating profitably in 50 years' time. (Group Manager – Environmental)

This reflects the findings from O'Dwyer (2003) that suggest managers interpret "good corporate citizenship" against a backdrop of shareholder value maximisation. Ultimately, this gives weight to Suchman's (1995, p. 588) undertaking that substantive efforts towards moral legitimacy may likely lead to goal displacement, which does not appear to be the case here. The company's "debated" legitimacy status, particularly as it attempted to gain consent for Delta, illustrated a challenging context within which it could gain legitimacy as the Managing Director explained in relation to the importance of sustainability for the company:

> So I think more and more this view of a license to operate comes to the fore and without doubt it's more important when you've got a company that is within New Zealand which is a national based company […] I mean we're from one from end of the country to the other. When you're using raw materials and whilst we are not a huge company by employee standards we do affect lots of communities positively I hope […] [and] there is increased scrutiny on companies and that just needs to be kept in balance […]. (Managing Director)

The long-term strategic decision to invest in Delta involved more concern over the symbolic moral and cognitive dimensions of the legitimacy of the company, rather than the pragmatic strategies for gaining, maintaining and repairing legitimacy discussed above where:

> Improved reputation, improved trust with business partners and with the communities that you're working right beside, gives you the license to operate. And by that I mean if you're in a [description of environmentally sensitive operating site] and you have a community that trusts you as an organisation - trusts you to do the right thing if there are problems and not walk all over them, and

sometimes in some of our businesses we require our neighbours to sign off on consents, change of hours – things like that and that is what I mean by they enable sometimes our license to operate and make changes. (Project Controller)

In this sense, the interviewee is suggesting that dispositional legitimacy helps encourage stakeholders to engage directly with the company rather than through a third party, such as the media. By attempting to enter an entirely new community and invest in Delta in a different part of New Zealand, however, this previous track-record cannot be established with substantive action in intimate stakeholder relationships as they occurred in the short-term scenarios. As Suchman (1995, p. 588) notes, "organizations seeking to gain pragmatic legitimacy rarely can rely on purely dispositional appeals, because assumptions of good character generally require an established record of consistent performance".

Instead, gaining a basic license to operate in the new context relied more heavily on symbolic gestures to illustrate a more broad-brush institutional legitimacy or a conformance to social norms, customs and behaviours. To do so, all forms of pragmatic, moral and cognitive legitimation are targeted through a suite of communication processes. Thus, the response to the long-term issue is more symbolic and subtle than substantive and overt. Direct action has a limited place in this setting, where there are no "direct" stakeholders because the issue is so wide and encompassing. As the company does not have a site in this community, it cannot fortify itself with a previous track-record of dispositional legitimacy with direct stakeholders. Instead, it must rely on an overarching sense of legitimacy in New Zealand, enabled through the use of a suite of communication tools.

Communication about the long-term decision-making process to build a new site was mainly distributed through targeted newsletters delivered to approximately 8,000 important stakeholders in the surrounding community and nationally. The company held community consultation meetings to raise its profile and settle concerns from the stakeholders. Indeed, this was the preferred mode for delivering information about the strategic investment decision that was about to be made. During the initial 40-day public submission period of the environmental consent process required under the Resource Management Act (1991), the company opened an "Information Centre" in the community staffed for a day in a week. A company media release quoted the Manager of Strategy and Development as stating:

[…] ongoing direct and indirect economic benefits, including between 110 and 125 direct long-term jobs (worth around $8 million a year in wages) and a further 80 to 120 jobs (worth another $4-5 million a year) in professional, technical, maintenance and production vocations.

In this sense, "exchange legitimacy" in the future expected benefits to the surrounding stakeholders were emphasised. A new site would also mean upgrades to the infrastructure and increased economic prosperity for the "new" local council. Potential negative implications were downplayed if possible, even in subtle ways. For instance, the environmental effect study of Delta consisted of four volumes, but only received a limited circulation with no copies available online. One hardcopy was placed in the local community library. Where possible, personal interaction with the community was preferred to allay concerns about the proposed project.

Nonetheless, the Project Controller noted how the submission process was a heated and long-drawn affair due to the significant volume of submissions received from stakeholders, both in favour and opposed. Eventually, the submission process required formal Environmental Court proceedings to arbitrate with local stakeholders, including Māori community groups, arguing the cultural and heritage value of the site and the potential disruption caused with large-scale development of the area. By following the Environmental Court's decision in favour of the company's proposal in 2009, local newspapers detailed the

disappointment of Māori communities and the surrounding neighbours because of traffic from increased trucking, amongst a number of other issues.

Despite the protracted engagement with the community and Environmental Court deliberation, during this time, disclosures in annual external reports were very limited. All external report disclosures about the new proposed plant at Delta during the four-year period it took to gain consent were benign descriptions of the process that the company was undertaking with an emphasis on financial impacts of the decision for shareholders. Discussions of the long-term operating decision were limited to one page of text and one photograph of the proposed site in 2006 for instance. Nonetheless, there were detailed accounts of the philanthropic and community-based activities that the organisation was undertaking across New Zealand to underscore its moral legitimacy in efforts towards maintaining the community's well-being (Suchman, 1995, p. 600). The explanation of these community initiatives in the 2006 report consisted of three full pages, including multiple photographs of staff involvement at "World Cleanup Day" and the funding given to various primary school projects.

6.4.1 Role of external reporting. Specifically in terms of the purpose of annual external reports, the Managing Director noted that "not everything we report is positive and so there's always room for improvement [...]" and further:

> [...] we think we do things well and we like to let others know that we're doing that [...] It's a document that goes to a wide base of our stakeholders.

The annual triple-bottom-line report was a way to capture and disseminate the positive stories about the company to a wide audience. The Company Chairman in the 2003 report noted that it was "once again an opportunity to show examples of the firm commitment of [name of company] to sustainable development" (p. 4). Only on one occasion in the 2005 report, was there a disclosure of an environmental infringement; however, there were no specific details of the nature of the incident or remedial action around the problem. This view was supported by the External Relations Manager who explained that:

> [...] our parent company [has] become very aware of, you know, one bad incident that has a very wide impact and you're always working to get the positives out there rather than staying quiet and then trying to defend yourself when something goes wrong. (External Relations Manager)

Furthermore, the visibility of the company is important:

> [...] because you might say we're a big dirty industry and so we have to show that we're very conscious of the way that we operate and we try to do it in the best way possible way. It really becomes our license to operate. (External Relations Manager)

and communications in the triple-bottom-line report are:

> [...] about building up a track record of positive things knowing that there are also a lot of negatives out there and people have only got to do a web search. (External Relations Manager)

Indeed, an Environmental Advisor was even more candid about the tension between image and reality:

> I often wonder at times if it's just a front you know to make the company look good. I mean every other company's the same; you look at our competitor like [name of competitor] and you look on their internet pages and you know it's all, we're doing this, that and other – it's wonderful for the environment and we're planting here, planting there [...] from what they say they do to what they actually do, to me there's like a huge gap there and yeah, I hate saying it, but I can't help think that it's just some sort of front that just makes the company look good to be honest. (Environmental Advisor 1)

Providing positive disclosures potentially mitigates the damage of negative shocks (Milne and Patten, 2002). This aligns well with recent findings from Higgins *et al.* (2015) who

conducted a large survey of Australian companies' reporting practices and showed that 88 per cent of companies expected external reporting to improve or manage their reputations. Suchman's (1995, p. 595, emphasis in original) strategies for maintaining legitimacy suggest "that organizations can enhance their security by converting legitimacy from *episodic* to *continual* form" and this can be achieved in part through "developing a defensive stockpile of supportive beliefs, attitudes, and accounts".

Visible signalling of legitimacy was important given that the long-term strategic decision about the future of the company's operations attracted significant media and public attention. A decision of this scale has far-reaching impacts for the company, the local communities in which it operates and the jobs that are at stake. However, the specialised nature of the project, requiring careful communication with various stakeholder groups at the most preferred option site, meant that annual external reports only provided general information about the company. The communications about the long-term decision were far more catered and specific to the information needs of the stakeholders affected. Much of that catered disclosure, however, was necessary as part of receiving Environmental Court approval and regulatory consent. The regulatory process ensured that there was adequate dialogue between the company and its stakeholders, and that there were public forums in place to air any concerns.

7. Discussion

The preceding vignettes highlight the complexity of legitimacy management and how understandings of legitimacy in accounting need to shift from narrow examinations of external report disclosures towards deeper, fuller explorations of internal "thinking", processes and behaviours of firms (Adams, 2008; Dumay *et al.*, 2015). The first two vignettes illustrate how direct action with salient stakeholders is strategically used to manipulate relationships in order to maintain organisational legitimacy. This is demonstrated where the company was able to keep regulators at an arm's length because of the strong relationship key internal staff had built with monitoring officials. Thus, a potential breach at Alpha which may have affected its license to operate was shielded from external scrutiny by managing salient stakeholders close to the site, allowing the company to remedy the issue at its own pace.

The second vignette involved a more immediate threat to the organisation's legitimacy. In efforts to quickly contain the threat, there was immediate remedial action by the company despite any financial cost. This meant that the company could protect, if not enhance, its dispositional legitimacy with the neighbours by showing diligence, concern and responsive action. Action to preserve its image of good character with the neighbours was critically important. Over time, these discrete "episodic" actions to curry favour with neighbours could lead to a more "continual" sense of legitimacy being endowed through the company being perceived in "essence" as of good character (Suchman, 1995, p. 584). Thus, these intimate relationship-building exercises in response to environmental incidents allow, over time, the company to contribute to a holistically perceived and institutionally defined (Suchman, 1995) sense of organisational legitimacy (Arora-Panchal and Lodhia, 2016).

Importantly, in these two vignettes, dispositional legitimacy with the neighbours was a strategic asset in protecting the company from undesired oversight from regulators. The good character built with neighbours created more positive perceptions of the company, which may have then countered the negative perceptions of other stakeholders. This process was particularly important, given the "debated legitimacy" of the company where continued operations in an environmentally sensitive industry were questioned (Deephouse *et al.*, 2017). In this way, the company was able to manage pragmatic legitimacy with salient stakeholders in order to avoid losing its license to operate in those localities.

Over time, this may have helped support the perception that the company was conforming to social norms, customs and behaviours (Deegan, 2002), thus supporting an institutional sense of legitimacy. This institutional sense of legitimacy is important, because as we contend, strategic legitimacy is typically localised and does not have the same migratory effects to other localities such as the potentially new site at Delta.

Threats to the organisation's legitimacy were most visible in our third vignette. Here, the issue was so pervasive that managing pragmatic legitimacy with a few key stakeholders was not possible. The overarching legitimacy of the company was threatened because so many stakeholders were mobilised to question the company's license to operate and its ability to continue operating without causing harm in multiple localities (Wilson, 2016). The interconnectedness of stakeholders exacerbated the intensity of pressure placed on the case company. This scenario is the only instance where external reporting, as well as direct action from the company, was felt to be justified. With dispositional legitimacy with the surrounding stakeholders now questioned, the company was no longer protected from wider scrutiny from indirect (and potentially salient) stakeholders. Consequently, influencing the perception of the company required action as well as reporting to reach a wider audience. These disclosures were needed not only to demonstrate exchange legitimacy in the sense that the company was a valuable contributor to the community, but also to buttress its now diminished sense of institutional legitimacy to a broad group of stakeholders.

We see a similar emphasis on external reporting rather than direct action in the vignette of the long-term issue which required the influence of a wide and disparate audience, with whom a track-record of good behaviour was not yet established. The company attempted to produce stories of positive engagement within particular localities to build a picture of its dispositional legitimacy, or "good character". Attempts at showcasing exchange legitimacy were displayed in the external reporting narrative the company produced about the direct and indirect benefits it would provide the region around Delta.

Table II summarises the response strategies for the company in terms of the short-term and long-term issues analysed. These response strategies extend O'Donovan's (2002, p. 363) legitimation tactic/disclosure matrix exploring the legitimation pressures faced by organisations according to three characteristics which are used to describe each scenario: visibility of the issue, stakeholder salience and interconnectedness of stakeholders based on the discussion of stakeholder networks introduced in section 3.2 of this paper.

Our case study and its vignettes illustrate the dynamics explained earlier to elucidate how response behaviour, either through direct non-reporting action and/or reporting, changes according to the unique context of each environmental incident. In doing so, this paper responds to Adams' (2008) calls for a more contextual and case-based understanding of reporting and non-reporting behaviour. Along with Dumay *et al.* (2015), it extends Suchman's (1995) work on the elements of legitimacy by discussing how these concepts can be usefully distinguished to explain company response behaviour.

We illustrate how issue visibility, stakeholder salience and stakeholder interconnectedness influence company behaviour regarding whether to adopt direct action and/or reporting to manage legitimacy. If the issue is highly visible, then the company may be forced to act. However, this is only if salient stakeholders are also affected by the incident in the first instance. If not, the company can potentially delay action or reporting, unless the affected stakeholders have a high level of interconnectedness with other, more salient stakeholders. In this case, acting in unison with these more salient stakeholders, less salient stakeholders may be able to increase pressure on the company to respond with immediate direct action. Consequently, this may draw out a wider reporting response if the issue could potentially threaten a company's overarching organisational legitimacy. If less salient stakeholders are not able to use their network to supplement a

Scenario	Objectives	Visibility of the issue	Stakeholder salience	Interconnectedness (stakeholder networks)	Action or reporting response
Short-term vignette 1	Harness dispositional legitimacy to avoid threat to institutional legitimacy	Medium to high	High	The local council does not rely on the network to increase salience	Avoidance behaviour and delay till a less costly fix is possible. No external reporting
Short-term vignette 2	Maintain dispositional legitimacy with a key stakeholder to avoid legitimacy threat	High	High	The neighbour can escalate easily to the surrounding community and the local council to censure the company	Immediate remedial action regardless of the cost. No external reporting
Short-term vignette 3	Repair legitimacy with multiple stakeholders to mitigate widespread threat to institutional legitimacy	High	High	High interconnectedness of stakeholders. Direct stakeholders engage indirect stakeholders to increase pressure and scrutiny on the company's actions	Direct and immediate action regardless of the cost. Substantial external reporting together with media releases
Long-term vignette	Gain legitimacy in a new context	High	High	High interconnectedness of stakeholders. Direct and indirect stakeholders are engaged due to the pervasive nature of the issue	Direct action through increased visibility in the locality and intensification of disclosures in external reports, specialised information sheets/community newsletters and the media

Table II.
Response schema

missing salience characteristic of their own (e.g. legitimacy or power), then the company may be in a position to resolve the issue at their own pace and minimise any costs of action. In such a scenario, strategic drivers for external report disclosure are minimal because they do not serve any pragmatic purpose (see Higgins *et al.*, 2015).

If the visibility of an issue is low, then the company may again postpone its action to remedy the situation to suit its own convenience and minimise costs. This is unless the need to maintain legitimacy with high salience stakeholders persuades the company into acting, either genuinely or symbolically. In this context, action may be immediate and at all costs (more likely if there is "genuine" environmental concern), or somewhat more measured, if it is a symbolic attempt to build or stockpile legitimacy with a particular stakeholder(s) to cushion future negative incidents (Suchman, 1995, p. 600). Such actions are unlikely to feature in external reporting, unless the issue poses a minimal threat to the company's image so that such disclosure would not affect it. Here, strategic reporting of the incident can be used as a tool to bolster the dispositional legitimacy of the company with its "close stakeholders" and present a glossier image of itself to a wider array of stakeholders. Similarly, the necessity to communicate broadly to diverse stakeholder groups showed how external reporting created "positive stories" to signal exchange, dispositional and moral legitimacy, assuring conformance with broader social norms and customs.

In essence, the case vignettes highlight how efforts to manage strategic legitimacy are more "episodic", based on intimate interactions with close stakeholders to preserve "good character" and secure the company's license to operate in a particular locality. Episodic interventions to manage strategic legitimacy, over time, enabled the company to build its institutional legitimacy as an actor that conformed to wider societal norms, customs and behaviours. In reinforcing its "continual" conformance to these standards, external reporting created a narrative about how the company was actively a part of the communities it worked in. These efforts, in tandem with other external communication tools and rapport building, sought to establish and secure a license to operate for the company with a wider group of stakeholders in its efforts to build a new production facility in the longer-term.

8. Conclusion

This study has shown how a company chooses to report or not to report on several short- and long-term environmental issues. Thus, the study builds on recent literature, developing an important distinction between legitimacy-enhancing actions and legitimating reporting actions. In particular, the novel empirical setting of a large company operating in an environmentally sensitive industry illustrates how direct actions to gain, maintain and repair legitimacy with stakeholders should be distinguished from external reporting as a tool to manage legitimacy. The choice over whether direct action or external reporting should be used in organisational attempts to manage legitimacy is affected by the visibility of the issue, the salience of the stakeholders involved and the stakeholder networks affected.

This study provides a number of additions to the current literature. First, the study is motivated by the movement towards unpacking and illuminating the decision-making behaviours which lead up to external, social and environmental reporting. Thus, it adds further empirical insight by exploring the practice of social and environmental accounting and accountability within companies operating in environmentally sensitive environments (Parker, 2014).

Second, while a number of recent studies have contributed to understanding the role of reporting in the legitimation behaviour of organisations (see, e.g., Conway *et al.*, 2015; Belal and Owen, 2015; Kent and Zunker, 2013), the present study provides a comprehensive and integrated application of the different elements of legitimacy theory (Suchman, 1995). In particular, the analysis shows how pragmatic legitimacy is harnessed via direct action with salient stakeholders. Attempts to manage moral and cognitive legitimacy possess more limited roles, except via narrative claims made through external reporting.

Third, this study explains a framework linking the strategic and institutional arms of legitimacy theory (Mobus, 2005; Dumay *et al.*, 2015) via direct action and external reporting, thus linking episodic interventions with continual efforts to manage legitimacy. That is, insights from this paper extend our understanding of Suchman's (1995) discussion of organisational legitimacy, showcasing how episodic efforts to manage strategic legitimacy with direct action can, over time, enable an organisation to secure its institutional legitimacy in terms of conformance to social norms, customs and behaviours. This advances a more nuanced role and framework for legitimacy theory explanations into organisational behaviour (see, e.g. Belal and Owen, 2015). Consequently, this research introduces a framework for examining company response behaviour to environmental issues by integrating legitimacy theory and stakeholder salience perspectives which extend previous work that simply links external reporting with legitimation strategies.

Fourth, this study provides theoretical and practical contributions by furnishing a model for companies to understand the environmental risks of particular short- and long-term environmental issues and determine the appropriate response strategies for engaging with salient stakeholders. Although this may seem to encourage "instrumental stakeholder

management" (Donaldson and Preston, 1995), we contend that greater self-awareness of the impacts of corporate activity is crucial to later achieve meaningful, transparent and accountable stakeholder interactions.

Overall, this research links a number of theoretical perspectives to explore decision-making behaviour. Further valuable insights can be drawn from additional research using case studies that explore and understand the salience of stakeholders, their interconnectedness and firm behaviour around legitimacy management, and the contingency of external communication strategies including formal reporting. In particular, future contributions can be made by understanding how legitimacy management strategies (both actions and external reporting) with salient stakeholders feature in industries where legitimacy is not "debated", but is "taken-for-granted", "proper" or "illegitimate" (Deephouse *et al.*, 2017). More specifically, further research illustrating the intricate aspects of how legitimacy is built, managed and repaired with salient stakeholders to navigate overarching organisational legitimacy is warranted. Ultimately, the framework introduced in this paper sets a foundation for future research to more coherently understand company behaviours, both direct and substantive, as well as symbolic communication strategies, including external reporting, and the relationships between the two.

Acknowledgements

Notes
1. It is important to note that more recent literature argues that strategic and institutional approaches to legitimacy are not necessarily separate but often affect organisations in tandem (Chelli *et al.*, 2014).
2. Neville and Menguc (2006) more specifically refer to the notion of stakeholder networks.
3. This was a key company contact who saw the value of the research project conducted and supported the researcher in gaining access to different elements of the company.
4. Over 70,000 words were transcribed from the 14 tape-recorded interviews. Field notes were taken during non-recorded interviews and amounted to more than 20,000 words. Annual external reports spanning 14 years, together with company sales brochures, staff updates and customer newsletters were analysed.
5. The Resource Management Act (1991) (cited as New Zealand Government, 1991) is the main legislation governing how the environment should be managed in New Zealand. It sets out planning and consent processes that determine who and how natural resources can be used and under what conditions.
6. Some parts of this quote and the role of the employee have been edited to ensure the anonymity of the respondent. The interview recording was carefully scrutinised and words were chosen carefully to maintain the essence of what the respondent was stating.
7. Eesley and Lenox (2006) define a secondary stakeholder as those who do not have a formal contract with a company or a direct legal authority over a firm (p. 765).
8. This quote was edited to ensure the anonymity of the case study site. The transcript was carefully read and listened to ensure that the meaning of the quotation did not change from what the respondent stated.

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Further reading

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Appendix. Source documents

Annual reports and reviews (14 consecutive reports 1996–2009)

- Global Parent's Corporate Sustainable Development Reports (biennial reports 2005, 2007 and 2009).
- New Zealand subsidiary's Annual Reviews (2002–2009 – the first of these was titled A second approach to Triple Bottom Line Reporting).
- New Zealand Limited Social, environmental, economic: A first approach to Triple Bottom Line Reporting (2001).
- New Zealand Limited Annual Review (1999, 2000).
- New Zealand Limited Annual Report (1996–1998).

Project information sheets (15 information sheets)

- Consultation Process (Information Sheet 1). July 2006.
- Supply options project: Delta option (Information Sheet 2). July 2006.

- Supply options project: Construction (Information Sheet 3). August 2006.

- Supply options project: Noise (Information Sheet 4). August 2006.

- Supply options project: Transport (Information Sheet 5). August 2006.

- Supply options project: Air (Information Sheet 6). September 2006.

- Supply options project: Ecology (Information Sheet 7). September 2006.

- Supply options project: Delta Option Quarries (Information Sheet 8). October 2006.

- Supply options project: Frequently asked questions (Information Sheet 9). November 2006.

- Supply options project: Delta Option Servicing (Information Sheet 10). December 2006.

- Supply options project: Social, cultural and historical impact assessment (Information Sheet 11). December 2006.

- Supply options project: Air Update (Information Sheet 12). February 2007.

- Supply options project: Plant Photomontages (Information Sheet 13). February 2007

- Supply options project: Delta sand pit (Information Sheet 14). March 2007.

- Supply options project: Delta coal pit (Information Sheet 15). March 2007.

Community newsletters (26 newsletters May 2006 to May 2010)
These covered a variety of topics related to the major long-term investment project including:

- XX continues to investigate future growth options.

- XX begins consulting with communities.

- Good feedback from Information Open Day.

- Answers to your questions.

- If you want economic benefits and jobs – you have your say!

- The project will bring big wins to the district.

- How to make a submission.

- Community support welcomed.

- Submissions are important.

- Hearing is now the focus.

- Consent decision received.

- XXX – A fundamental element for a modern, developed economy.

- Environmental court hearing.

- Detailed costing underway.

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