

# The use of Corporate Responsibility reports

## – For managing legitimacy

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### Abstract

Society acknowledge that companies' operations have an impact on their surrounding, as a result companies are no longer only held responsible for maximizing shareholders' value but also for their operations' environmental and social impacts. According to the legitimacy theory social values and corporate operations have to be aligned in order for a company to fulfill the social contract providing it with a *"license to operate"*. Previous researchers using legitimacy theory found evidence for that companies use disclosure approaches in their corporate social reporting in order to attract external support for its activities and show that its activities are in line with social values.

The purpose of this paper is to acquire knowledge about how corporate responsibility reports are used for managing legitimacy and what legitimate effect chosen disclosure approaches have. The aim of the paper is to examine how a company reacts and responds to public concerns about its operation and what effect a company's response has on public concerns, which could affect its *"license to operate"*.

By establishing an analysis model, based on previous legitimacy research, a case company's response to public concerns through their corporate responsibility report is studied. The case company, Vattenfall, is a large Swedish state- owned energy company. Vattenfall's operations are considered to be environmentally sensitive, as its energy portfolio includes both nuclear and coal plants. As such the company experiences a great deal of external pressure to ensuring their surrounding that its operations deserves a *"license to operate"*. Furthermore, the company's communication is exposed to a heterogeneous audience, with conflicting perception towards its operations. A study of how Vattenfall's operations are covered by Swedish press is conducted in order to get some insights of how news may affect disclosure practice and how disclosure strategies may affect news coverage.

A longitudinal study of Vattenfall's communication process to address public concerns is conducted with the aim to illustrate how a company yearly deal with changes in public perceptions by using corporate social reports as one tool to manage legitimacy and with a second aim to examine what effect such management has on public concerns and possible reasons for lack of positive effects.

*I would like to emphasize that this paper is only a working paper where one issue brought up in Swedish press, the use of nuclear power is discussed.*

## Background

As a result of society's acknowledgment of companies' impact on their surroundings companies today experience a higher external pressure to take responsibility not only for their economic performance but also for their environmental and social performance. Society have been made aware of social and environmental threats by for instance Rachel Carson's book *silent spring* (1962), discussing the environmental impact of chemicals spread over our earth brought attention to environmental issues. In Oxford Press the *Brundtland* or *Our common future* report (1987); setting the stage for sustainable growth and expressing the idea of that sustainability should be about "*meeting the needs of the present without compromising the ability of the future*" were published and in 2006 Al Gore's film "*An inconvenient truth*" (2006) addressed the threat of climate change. Internationally social and environmental threats have been discussed in international meetings such as the UN conference on human environment held in Stockholm 1972 and the Rio conference 1992 resulting in the report Agenda 21 with long term goals and guidelines for achieving sustainable development by exterminate poverty and remove environmental threats took place. In Kyoto, Japan 37 industry countries came to an agreement to reduce green house gas emission with an average of five percent against 1990 levels over a five year period 2008- 2012.

As social and environmental issues have become public concerns and are alive in the public mind corporations are expect responses to these issues (Cornelissen 2008). External actors such as governments, non- governmental organizations (NGO:s) and media engage in holding companies responsible for the impact their operation have on society (Porter and Kramer 2007, Greening and Gray 1994, Tilt 1994). For instance companies have had to change their practice after a critical incident such as Nestlé, Shell and Nike whose action were questioned by external actors forcing these companies to respond by enhancing their responsibility engagements in order to continue operating (Borglund et al. 2009). Media engage in reporting about what impact companies' operations have on their surroundings. A recent example of this is BP's oil leak in the Mexican gulf ending up in the spot light, forcing the company to respond to external pressure about how their practice have to change.

To summarize the fact that companies surroundings recognize that companies have an impact and holds them responsible for their impact puts pressure on companies to extend their responsibility beyond the economic one.

In this context where companies have to deal with external expectations and perceptions of their operations and performance in order to avoid sanction from governments or customers or other disadvantages, the role of corporate social disclosure has arose as a tool for companies

to communicate to their surrounding that they have acknowledged and accepted their extended responsibility. Although, KMPG (2008:18) international survey report states that companies would only engage in CSR reporting if there is clear business case. The 25 largest companies in the survey stated that they engaged in corporate social reporting due to the ethical and economic reasons.. Deegman and Underman also (2006: 312) states that “*the broader objective driving any particular organization to undertake CSR and sustainability report can range from ethically motivated desire to ensure that the organization benefits, or does not negative impact upon, society and natural environment through to an economically focused motive to use social and environmental reporting and CSR to protect or enhance shareholder value.* In 1995 Coomb’s research showed that companies communicating that they are socially and environmentally responsible are able to recover faster from company crisis since customers tend to keep companies with a good CSR reputation less liable. Deegan (2002) states that research examining the motivation for corporate social disclosure shows that the desire to legitimate a company’s operation is one of many possible motivations for companies to engage in corporate social disclosure Also O’Dwyer’s (2002) interview study with Irish managers showed that their prime motivation for adopting sustainability reporting was to enhance corporate legitimacy.

According to the legitimacy theory a company’s existence is dependent on if the society in which it operate recognize that it’s activities are in accordance to this society’s value system (Gray et al. 1996). Deegan and Unerman (2006) describe it as a contract between an organization and a society. If social values and organization’s activities do not correspond, a legitimacy gap may occur (O’Donovan 2002). Organizations do not have inherited rights to resources; it is the legitimacy from society that gives them the right to operate. Hence, the contract between organizations and society becomes an incentive for companies adapt to the changing expectations of society (Hooghiemstra 2000). As long as social values and company activities are aligned the organization receives legitimacy, but if they separated the organization’s can be threaten in form of legal, economic and social sanctions (Dowling and Pfeffer 1975).

The idea of companies using corporate social responsibility reporting to receive a “*license to operate*” rest on the assumption that managers recognize that there is correlation between company’s action and public opinion and that this correlations can have an impact their organization’s performance (Neu et al. 1998). As a result of external impact on organization’s performance and internal possibility to control information output, corporate social disclosure can be used as a communication instrument by companies to mange external perception of a company (Neu et al. 1998, Hooghiemstra 2000).

## Research issue

In previous research it has been examined if CSR disclosure is used by companies to respond to external pressure to show that a company’s operations fulfill a social contract. Case companies have been used to test the legitimacy theory in order to examine the assumption that “*corporate disclosure reacts to environmental factors (economic, social, political) and that disclosure legitimacy corporate action*” (Guthrie & Parker 1989: 344). Hogner (1982) study of US steel’s report that found support for legitimacy theory where tested by Guthrie & Parker (1989). Guthrie & Parker (1989) used Brooken Hill Proprietary company (BHP) to compare the American steel company used by Hogner (1982) to an Australian steel company. They started their research by identifying corporate social disclosure peaks in BHP’s annual reports and then

examine if peak periods could be associated to socio- economic events occurring during the peak period. Their study did not find strong support for the legitimacy theory. Although Deegan, Rankin & Tobin (2002) wanted to test Guthrie & Parker's (1989) results by once again using Australian steel company BHP to test the legitimacy theory, but this time community concerns on environmental and social issues' were identified at first to examine if these issues were disclosed by company. In other words, Guthrie & Parker (1989) started their study with examining disclosure peaks while Deegan et al. (2002) started with examining community concerns to test the legitimacy theory, with different results as Deegan et al. (2002) found support for the legitimacy theory.

In 2010 Islam & Deegan continues to examine legitimacy theory by combining it with the media agenda setting theory. In their study they sought for a correlation between negative media attention and positive corporate social and environmental disclosure. They based their study on that news media can create legitimacy problem for a company as it informs communities of aspects in companies' performance that was previously unknown<sup>1</sup> and Lindblom (1994) legitimacy assumption that "*management will undertake action with the intention of generating a perception within the community that the organizations value system is congruent with the value system of the larger social system of which the organization is part*" (referred to by Islam & Deegan 2010: 133).

In his dissertation Niklas Egels-Zandén (2010:1) writes *What responsibility do multinational corporations have with regards to workers rights, community issues and political issues? Non-governmental organizations, labor unions, media, shareholders government and others all give different answers to this question. Corporate managers [...] struggle to grasp what their responsibilities are and how far these responsibilities extend*". A way to grasp what responsibility a company has is to look at how media holds a company accountable for their operations. Deegan et al (2002:317) assumed that *media can shape community perception about certain issues*<sup>2</sup> and companies can use disclosure approaches to affect community perceptions. Deegan et al (2002: 320) also refers to Lindblom (1994:3) stating that "*Legitimacy is dynamic [...] the relevant publics continuously evaluate corporate output, methods and goals against an ever-evolving expectation*". As media has an impact on public opinion and perception of the public towards companies' operations are expressed, companies need to manage perception expressed through media. The aim of this thesis is to study how companies use CSR disclosure to manage legitimacy and what effects such management has, by describing how a company use disclosure to manage external pressure expressed in media in their CSR reports and how such management affect perceptions in media.

As such the research question answered in this thesis is

- *How does a company respond to external media coverage in their corporate social reports and are there any signs of change in news cover after company used legitimating disclosure strategies?*

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<sup>1</sup> References examining medias possibility to influence community expectations and subsequently corporate communication Carroll & McCombs 2003; Deephouse 2000; Fomburn & Shanley 1990), Neuman 1990- unobtrusive issues ie pollution off- shore

<sup>2</sup> Smith 1987, Zucker 1978, Ader 1993. McCombs et al 1995,

## Method

The unit of analysis in this paper is Vattenfall's interaction with Swedish press that is the company's respond to issues concerning their social and environmental impact of their operations expressed through media and media's reaction to Vattenfall's response.

The company chosen for this case study is *Vattenfall* – a Swedish state own company- whose operations have been questioned both in Sweden and abroad during the last years. The company has been both praised and criticized for its operational attempt to reduce carbon emission.

Data has been collected from studying how Swedish press covers issues concerning Vattenfall. To find these news articles a media database called *Mediearkivet* have been used, where the keywords: "Vattenfall + Koldioxid" (Waterfall + Carbon dioxide) were used to find articles associated to Vattenfall and its operations. The main reason for using "koldioxid" as a second keyword was to limit the search to news articles covering issues concerning the case company Vattenfall, and loss most of the articles addressing other kinds of Waterfalls. Studying documents gives a possibility to study a company's disclosure from a longitudinal point of view, as these documents are products of a specific time.

<p><b>Mediearkivet</b></p> <p><b>2003- 2010</b></p> <p>Keywords:</p> <p>Vattenfall + Koldioxid</p>	<p><b>Vattenfall CSR reports</b></p> <p><b>2003-2010</b></p> <p>Keywords:</p> <p>Nuclear, coal, CCS.</p>
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News articles were divided into three different levels of categories. First of all the news were divided in accordance to what issue about certain goals, methods or outcomes, the newspaper addressed, the main categories found where nuclear, coal, coal with carbon capture and storage technology. The second level of news articles are divided to are general (industry issues) and specific (company issues) issues. Third level is news articles are divided between articles that express that there is a negative versus positive impact connected to the company's operation.

Vattenfall's corporate social responsibility reports were examined by searching for the keywords nuclear, coal and CCS ( and Carbon capture and storage). Disclosure from CSR reports responding to the news coverage where then categories in accordance to the corporate social responsibility legitimacy management table which will be express more in the following section

## Legitimacy theory

In the field of corporate social disclosure the legitimacy theory is often used. As the corporate social disclosure is a voluntary disclosure, and legitimacy theories explanation that companies use corporate social disclosure to receive legitimacy, which could be of importance for companies to receive legitimate advantages. In this study it is assumed that as corporate social responsibility reports are narrative reports which are under the control of manager, such reports will be used to manage legitimacy by using disclosure strategies.

### **Dynamic of legitimacy**

According to the legitimacy theory a company's existence is dependent on if the society in which it operate recognize that it's activities are in accordance to this society's value system (Gray et al. 1996). If there is no correspondence between social values and organization's activities, a legitimacy gap may occur. The legitimacy gap may arise due to different reasons: company's performance change while societal expectation remain the same; societal expectations change but company performance remains the same; both organization and societal expectations change but in opposite directions To reduce the legitimacy gap companies may adopt tactics and discloser approaches (O'Donovan 2002).

The first assumption of this thesis is that companies tries to manage perception so that they are correspond to important stakeholders expectations.

*Dowling & Pfeffer (1975: 122)* stated that organizations:

*"Organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are a part. Insofar as these two value systems are congruent we can speak of organizational legitimacy".*

*Dowling and Pfeffer (1975: 122)*

*"Legitimacy theory is based on the idea that in order to continue operating successfully, corporation must act within the bound of what society identifies as socially acceptable behavior".*

*O'Donovan (2002:344)*

As long as social values and company activities are aligned the organization receives legitimacy, but if they separated the organization's legitimacy can be threaten in form of legal, economic and social sanctions (Dowling and Pfeffer 1975). Deegan and Unerman (2006) explain it as a contract between an organization and the society, in which it operates. Organizations do not have inherited rights to resources; it is the legitimacy from society that gives them the right to operate. Hence, the contract between organizations and society force companies to adapt to the changing expectations of society (Hooghiemstra 2000).

In this study it is of interest to study how companies manage the dynamic of legitimacy and if the company has been able to manage such dynamics.

### **The use of corporate social responsibility reports to manage legitimacy**

Managers recognize that the correlation between company's action and public opinion can have an impact their organization's survival (Neu et al. 1998). Previous researchers such as Guthrie & Parker (1989) and Deegan, Rankin & Tobin (2002) have used the assumption that managers have control over what information is revealed in CSR reports and that the reports as such could be considered as tools used to manage external perceptions of the company:

*"Various rationales have been advanced to explain the phenomenon of corporate social reporting. Among these has been legitimacy theory which posits disclosures are made as reactions to environmental factors in order to legitimacy corporate action"*

*Guthrie and Parker (1989:343)*

*“Legitimacy theory relies upon the notion of a social contract and on the maintained assumption that managers will adopt strategies, inclusive of disclosure strategies, that show society that the organization is attempting to comply with society’s expectations (as incorporated within the social contract)”.*

*Deegan , Rankin and Tobin (2002:318- 319)*

In corporate reports managers have the possibility to “*set the stage*” and highlight the information they wish (*Goffman 1959 referred to by Neu 1998*). Aerts (1994) not referring to environmental reporting specifically, states that narrative accounting disclosure (such as responsibility reporting) is a tool companies can use in order to legitimacy company’s activities and outcomes, as accounting language can be used to influence thinking and behavior.

As a result of external impact on organization’s survival and internal possibility to control information output, corporate social disclosure can be used as a communication instrument by companies to manage corporate image or reputation (Neu et al. 1998, Hooghiemstra 2000).

*Mass medias’ influence on external expectations*

Mass media is able to influence external expectations according to the media agenda setting theory (Islam and Deegan 2010). The perception of stakeholders is also influenced by narratives produced in mass media about the company (Hooghiemstra 2000).

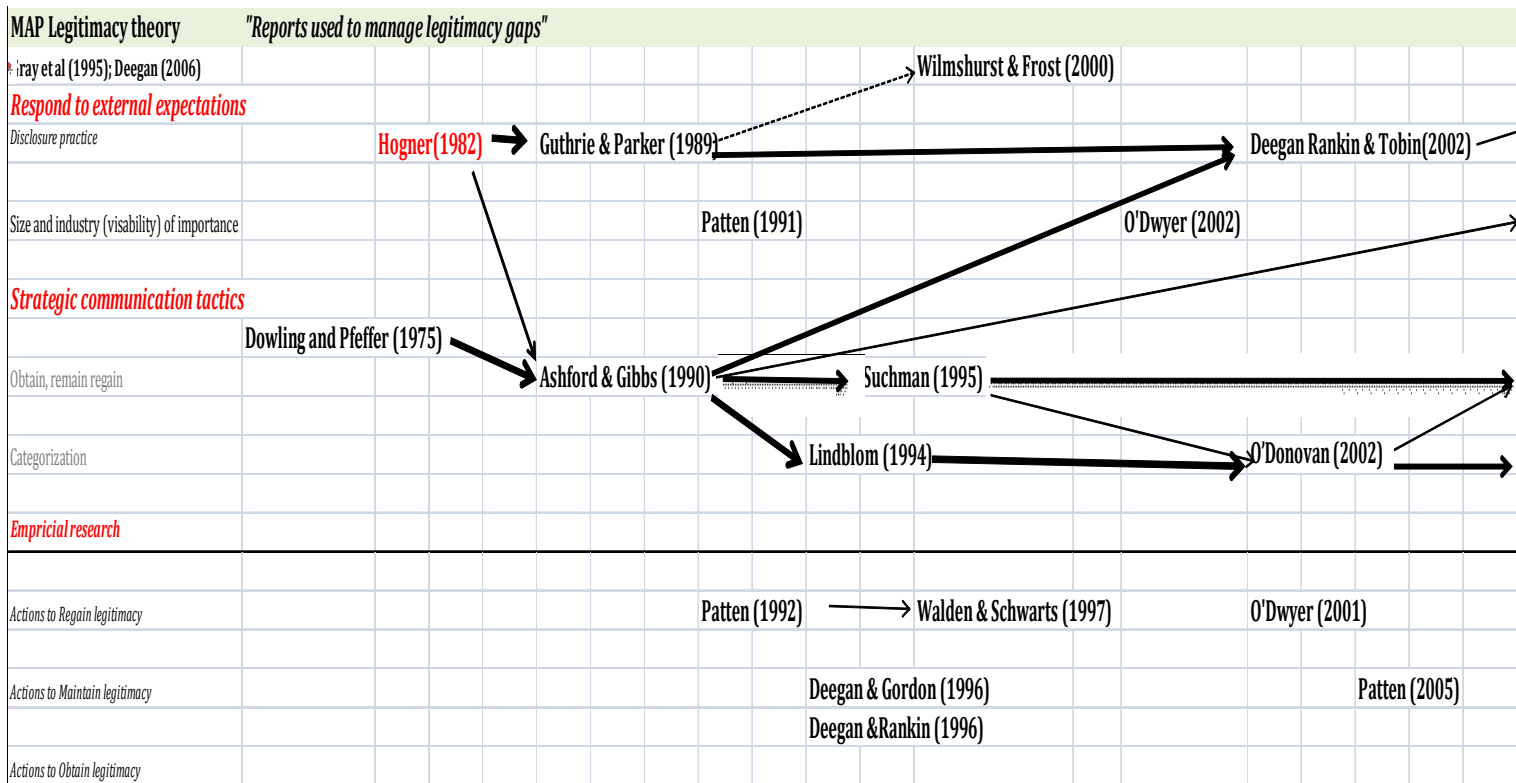
In this thesis a media analysis is used in order to identify the legitimacy gap that occurs due to narratives that the company cannot control themselves. It is assumed that the perception of stakeholders is influenced both by narratives that is controllable by the company and narratives that the company does not control.

To summarize the legitimacy theory assumes that corporate social disclosure is a tool that can be used as a strategic communication instrument to close legitimacy gaps. The legitimacy gap studied in this study is the gap that is influenced by narratives not controlled by the company. The corporate social responsibility report is studied as a tool companies use to manage potential legitimacy gaps.

### ***How can companies manage their legitimacy through disclosure?***

Legitimacy theory assumes that legitimacy is controllable to a certain extent and as such it is suggest that managers can make strategic choices to gain legitimacy (Aerts and Cormier 2009) for instance use corporate social disclosure as a communication instrument to influence an organization reputation (Neu et al. 1998).

In this section previous research regarding how companies can manage legitimacy gaps is studied in order to develop an analysis tool used to determine how a case company has chosen to respond and react to legitimacy gaps. The work to explore and use previous literature to develop such an analysis tool has its origin in the map below where reference found to be of special interest has been connected to each other and categorized in order to get a illustrative picture of previous literature connected to this study (figure 1).



Figur 1 Legitimacy theory: company's use of CSR disclosure.

The map starts with Dowling & Pfeffer's paper from 1975 that provides a conceptual framework for analyzing organizational legitimacy and process of legitimating. These researchers write that an organization can attempt to receive legitimacy by adopting goals and methods that are perceived as legitimate or by being identified with legitimate symbols, values and institution by communication. Dowling and Pfeffer (1975: 126-127) found that organizations can either **adapt** its output, goals and methods of operation to what is currently seen as legitimate, or through communication try to **change** the definition of social legitimacy in such a way that it suits present practice of the organization or through communication try to become identified with symbols, values or institution that are associated with strong legitimacy. This research will be used as the basis for creating the horizontal axis, in this research expressing how a company reacts to a certain event.

The map continuous with several articles distinguishes between situation where managers try to *gain, maintain and regain* legitimacy. Ashford and Gibbs (1990) start the 1990's with an article about symbolic legitimacy. In their article the authors explain how the field exists of different actors trying to maintain, extend and defend legitimacy. The purpose of their article is to explain the dynamics of legitimacy. In Suchman's article from 1995 he explains what strategies managers choose to use managing their reputation, depend upon if a company wants to gain, maintain or repair legitimacy. Suchman (1995) attempted to identify the main types of legitimacy, dividing the concepts two branches strategic and institutional legitimacy into three broader types of legitimacy- moral, pragmatic and cognitive legitimacy. Pragmatic legitimacy search for legitimacy from organizations immediate audience; moral legitimacy rest on the judgment of it is "the right thing to do" and cognitive legitimacy refers to the division between affirmative backing and acceptance for organization based on some taken- for – granted cultural accounts . This research will be used on the vertical axis of this study's analysis model.



From the ideas of Dowling & Pfeffer (1975); Ashford & Gibbs (1990) and Suchman (1995) researchers continued to examine how corporate social disclosure is used to manage legitimacy gaps, in the map referred to as categorization of tactics.

over two decades.

<i>React by:</i> <i>Response to:</i>	<b>Adapt</b> practice to social expectations (Dowling & Pfeffer, 1975)	<b>Change</b> external perception of what is legitimate (Dowling & Pfeffer, 1975)	<b>Become identified</b> with legitimate accessories (Dowling & Pfeffer, 1975)	<b>Other</b>
<b>Gain</b> (Suchman, 1995) (Tilling & Tilt, 2009)	L(a) Information/education	L(b, d) Information/education	L (c) Symbolic association	
<b>Maintain</b> (Ashford & Gibbs, 1990)(Suchman, 1995)(Tilling & Tilt, 2009)	L(a) Information/education	L(b, d) Information/education	L (c) Symbolic association	
<b>Regain</b> (Ashford & Gibbs, 1990) ( Suchman, 1995) ( Tilling & Tilt, 2009)	L(a) Information/education O(d) conform	L(b,d)Information/education O(b,c)Alter /shape	L (c) Symbolic association C(a)Image enhancement	O(a) Avoid C(b)Avoid/Deflection C(c) Disclaimer

**Table 1** Analysis model: strategic tactics used by companies to close legitimacy gaps.

L (a-d)= Lindblom's (1994) found that four different legitimacy strategies are used to receive legitimacy. (a) Adapt practice to social value and educate public about the adaptation (b) Change perception of what is legitimate through education/information about the appropriateness of the outcome (c)Symbolic association (d)Change perceptions of what is legitimate by making current output become the right way through education/information

O (a-d)= O'Donovan (2002) observed how companies of managing legitimacy after a disaster). (a) Avoid addressing issue (b) Alter activities to external perception to manage legitimacy ( c) Shape perception of organization to manage legitimacy (d) conform activities to manage legitimacy.

C (a-c) = Cho's (2009) summary of Dowling& Pfeffer, Lindblom and O'Donovan's observations lead to the following categorization (a) Image enhancement (b)Avoidance/deflection ( c) disclaimer.

Finally inside the table previous literature that has examined what strategies companies use to close a legitimacy gap has been used:

In her article *Lindblom (1994)* discusses how corporations seek to establish legitimacy and express four different legitimacy strategies and disclosure actions organization can take to obtain, maintain or regain legitimacy by closing legitimacy gaps; (a) adjust organization output to external pressure and communicate changes in order to educate and inform the relevant publics about the changed performance; (b)not adjust outcome to external pressure but inform and educate the public about the appropriateness of the outcome; (c)not change outcome but be associated with symbols associated with high legitimacy status; (d)no adjustment of output but make the current output become the right way through education and information.

*O' Donovan (2002)* continuing the discussion about how legitimacy gaps are closed. He focus in particular on communication strategies used by organizations to regain legitimacy. Organizations' tactics to regain legitimacy are categorized into four different strategies; (a) avoid

addressing the issue, (b) attempt to alter social values, (c) attempt to shape perceptions of the organization, (d) conform to conferring public's values. An example of how a company causing an environmental disaster; such as an oil company involved in a significant oil spill, may use these different strategies are provided in the article.

O'Donovan (2002) also uses Oliver (1991) research, looking at the phenomena of corporate social disclosure (CSD) from an institutional and resource based theory, stating that effort necessary to maintain legitimacy depends on what legitimacy the company had to begin with. Based on this O'Donovan states that it is harder for a company that promotes itself as extremely socially and environmentally responsible to maintain legitimacy, as it always need to perceive public expectations. Although, maintaining legitimacy is easier than gaining or repairing it, as the two latter activities requires proactive actions by the company (O'Donovan 2002).

Cho took the ideas about communication tactics that legitimacy- seeking companies may used from Dowling & Pfeffer (1975), Lindblom (1993) and O'Donovan (2002) and combined them into three new classifications: (a) *Image enhancement*; where company link itself to positive values, (b) *Avoidance/ deflection*; company redirect or deflect attention from social or environmental issue and (c) *Disclaimer*; company attempt to look legitimate by denying its responsibility in negative or harmful activity. Cho (2009) made an empirical examination of how the three types of legitimating strategies where employed by French Total after the accident with their tanker Erika sank, leading to a major oil spill along the Atlantic coast in 1999 and the explosion of the AZF chemical plant in Toulouse, France. He found that Total used the Image enhancement as their main strategy both after the Erika and AZF Toulouse crises.

Tilling and Tilt (2009) study of Rothmans, an Australian tobacco company, result in an expansion of Ashford & Gibbs (1990) and Suchman (1995) model of establish, maintain, regain with loss. They named and explain the different phases of legitimacy; *establishing* includes early stage of firm's development where it ensures it can meet its obligations; *maintaining* includes preserving its role and become attached to symbols as well as handling other challenges to its legitimacy; *extending* where company realize its need to change in accordance to circumstances; *defending* where company provide response to a challenged legitimacy *loss*; instead of defending its legitimacy a company may choose to loss some of its legitimacy as it is easier to maintain less legitimacy. At some point the company has to stop losing legitimacy and from that point the company can either end up at *disestablishment* or start over with establishment to gain more legitimacy again.

## Empirical work

### Vattenfall

Vattenfall AB is a state- own company, operating in Sweden, Denmark, Finland, Germany, Poland, and from 2009 also in the Netherlands and Belgium. They are also active in the UK where they make investment in wind power. The company is Europe's fifth largest generator of electricity and the largest producer of heat. Their main products are electricity, heat and gas. They are involved in different part of the value chain: for electricity they generate, transmit distribute and sell; heat they produce, distribute and sell, and they produce and sell gas, energy trades and operate in lignite mining (Vattenfall Corporate social responsibility report 2009).

Vattenfall's strategic focus is described as making energy clean, a concept that was introduced to their stakeholders in 2008. Their goal is to reduce CO<sub>2</sub> emission with 50% from 1990 until 2030 and their vision is to become climate neutral by 2050 (Vattenfall annual report 2009).

Vattenfall was rewarded for their corporate social responsibility report by the European Sustainability association (ESRA) in 2007 with the motivation: "*Vattenfall AB: A solid account clearly presenting the ambitions, activities and achieved results, the latter in the form of an extensive GRI adapted attachment*". The previous CEO Lars G Josefsson has both been praised and criticized. In 2005 he got Time Magazine, TIME European reward and he has been climate advisor to Germany's federal chancellor Angela Merkel and on an advisory board for FN's president Ban Ki- Moon. At the same time the company has received lot of criticism from environmental organizations for their big investment in coal, nuclear and for not investing enough in renewable sources. In 2009 the company was rewarded with the less flattering award The Climate Greenwash award.

As stated the company is operating in a sensitive industry that exposes their surroundings to carbon emissions and as such their investment decisions have been questions and acknowledge in media.

## Coverage in Swedish press.

*First of all a summary of what focus Swedish press had between 2003 to 2010 will be stated below.*

The media discussion during **2003** surrounds the discussion of Swedish energy shortage due to bad weather conditions. Due to the shortage of supply energy prices rises and pressure is put on energy companies to *ensure the provision of energy to reasonable prices*. Energy companies also experience a pressure to *decrease their emissions of green gas*.

The year before the countries starts trading with emission allowances, **2004**, the pressure expressed in media refers mostly to what methods should be used to reduce carbon emission.

In **2005** it is stated in Vattenfall's owners directives that the company should lead the transition towards renewable energy supply, and Swedish press covers how they believe Vattenfall is leading this transition.

In **2006** the year after trading with emission allowances started, the media is covering what effect this system had. The big issue is covered in media is that due to emission is that it also increases the price on low emitting energy sources, causing a wealth transfer from customer to the big energy companies. At the same time, Al Gore's film *An incovient truth* has premier acknowledging the big threat climate change is. Countries trading with emission allowances emit less carbon dioxide than they are allowed and as such more emission allowances are available lowering the price for purchasing emission allowances as well as reducing the price of electricity.

In **2007** the discussion is based on the fact that green house gas emission has to be reduced now. The situation of the world is compared with a frog that is put in a pot of water where the water is slowly starting to boil but as the pot starts boiling the frog have lost its power to escape (Svenska Dagbladet 2<sup>th</sup> of January). Pension funds carefully read company reports looking for key words such as sustainable and green (Aftonbladet 22<sup>th</sup> of May).

EU proposes a reduction of the green house gas with 20%, to reach such goal further investments in renewable energy and energy efficiency has to be done (Sveriges radio Ekot 10<sup>th</sup> of January). But coal and nuclear is also included in the energy package that EU introduces, it is technology development that makes it possible to use energy sources as efficient as possible that are regarded as a solution (Dagens Industri 11<sup>th</sup> of January). UN climate panel introduce their report with advice from IPCC about how to solve the climate problem.

In **2009** Vattenfall's old CEO Lars G. Josefsson resigns after several disagreements regarding the way Vattenfall's operations have been handled. After Lars G. Josefsson the new CEO Østen Løseth.

## Covered issue 1 Nuclear

2003

### ***General concern, negative versus positive arguments towards the use of Nuclear***

The dependence of weather for producing hydropower energy has started a debate about if close down Swedish nuclear plants is right. The proponents for keeping nuclear power argue that nuclear produces less carbon dioxide than the available options such as coal power plants emitting high carbon dioxides. An opinion made by SEKO shows that only 1/3 of the Swedish people wants to close down nuclear plants (Helsingborgs Dagblad; Göteborgsposten 24<sup>th</sup> of January). Arguments against nuclear power were that there are no reasons for holding on to dangerous nuclear power plants that might help us reduce the carbon emission in short time but instead investments in renewable energy sources that could solve the problem on long term should be a priority.

The argument from the news that could threaten Vattenfall's legitimacy when it comes to their method of using nuclear is the fact that the technology could be dangerous. In next section we will look at how Vattenfall used their narrative CSR report to manage the public concern regarding dangerous nuclear power. Although, this concern is not specifically pointed towards Vattenfall, it is an issue that the company addresses in their CSR report.

### ***Concern: Nuclear power is dangerous.***

According to our theoretical model Vattenfall's operation Vattenfall operations are not threaten in such a way that they would have to regain legitimacy, neither do they have to gain legitimacy, as the method used are already in use and accepted as a source for energy production, for their operations but it is a question of **maintain legitimacy** for their operations. As such Vattenfall according to our model should use either education/ inform as a disclosure approach or try to be symbolic associated with high legitimate status.

First of all the company acknowledge that both price and security when producing electricity is of importance

*Instances of long and extensive power interruptions in recent years, as well as periods of high electricity prices, have caused a lot of concern and irritation among consumers. Vattenfall faces demands for a reliable energy supply and low energy bills. Most stakeholders also expect high security levels in the production and distribution of energy and — especially — in the management of nuclear waste. (p.24)*

To maintain legitimacy for their nuclear operations the company informs their readers that safety is of high priority for the company:

*"the most advanced risk management system are [...]naturally in place for our nuclear power plants" (p. 30)*

Going through Vattenfall's CSR report and looking at all the places where nuclear have been mentioned, the disclosure approach chosen by Vattenfall is to **inform and educate** their readers

about how they secure their operation at their nuclear plants, in order to **change external perceptions**.

### *2004 and 2005*

#### **General concern, negative versus positive arguments towards the use of Nuclear**

Neither in 2004 or 2005 the Swedish press question about safety in nuclear plants is in focus. The problem in focus is the fact that there are no possible options to replace nuclear power with. In Sweden it is questioned if it is right to close down nuclear power plants and replace such with dirty coal energy.

#### **Concern: What options are there to replace nuclear.**

2003 to 2005 Vattenfall's CSR report is titled Expectations and performance. An environmental expectation. In these reports Vattenfall has identified what sort of expectation their stakeholder have on them and then inform their stakeholder how they address these issues.

From 2003 to **2004** the company adds another section to its corporate social responsibility report titled "*A Leading European Energy company*" (p. 2). This section is divided into Vattenfall's different methods to produce energy: Hydro power, Biofuel, Wind power, Other renewable, heat, Nuclear power and coal and three other headings climate change, customer service and Energy efficiency. Under the heading Nuclear power the company informs its readers that it is one of the leading producers of nuclear power in Europe, that nuclear plays an important roll for generating power for Sweden and Nordic countries, that company conform to strict safety requirements and in Germany safety levels are continuously improved and adjusted.

In the comment from the CEO named "*Our way to sustainability*" under the heading "*Climate change - a global problem*" it is written "*The climate issue will undoubtedly bring about a revaluation and further development of nuclear power*" (p. 5).

As in 2003 Vattenfall in 2004 also announces how they will meet the expectation from stakeholders to "*supply energy with as little impact as possible*" Both in 2003 and 2004 the company explains why fossil fuel and nuclear stands for a majority of the energy supply. The fact that nuclear is controllable is expressed as a reason for that nuclear is challenging to replace. In 2004 a comparison with wind power is expressed.

*"In comparison with hydro power or production based on steam production, including fossil, nuclear, and biofuel based production, wind power is difficult to control. Being largely unpredictable, availability cannot be guaranteed."* (p. 23)

According to our analysis model the company is still trying to **maintain legitimacy**, by informing and educating their CSR readers that there is a need for nuclear power. Although at this point in contrast to 2003 the company does not have to try change perception, as the media pressure is neutral in the sense that it on one hand wonder how nuclear should be replace, while on the other stating that there are no available options. Instead the company tries to **become identified** with low emitting energy sources.

*"Due to our size and resources, we also have the opportunity to make a difference in the process of reducing GHG emissions. Almost half of our electricity is basically emission-free, coming from*

*renewable energy sources such as hydro and nuclear power.” (p. 19) [...]Today, almost half of our total electricity generation is basically emissions free and releases practically no greenhouse gas since it comes either from renewable energy sources, such as hydro, or from nuclear power generation.*

The strategy used by the company in 2004 is rather a strategy where the company tries to **maintain legitimacy**, by **becoming identified** as a company that use low emitting energy sources such as nuclear to produce energy.

Year 2005 is a special case as in 2005 an incident at the Swedish nuclear plant Forsmark occurring in 2006 is already disclosed in the CSR report of 2005. As such this is the main event to respond to 2005 response will be treated in the next section.

## 2006 and 2007

### ***Specified concerns, negative versus positive arguments towards the use of Nuclear.***

An incidents at Vattenfall nuclear plants are in focus. In 2006 an incident occurs at Swedish Forsmark gets the danger of nuclear power directly towards Vattenfall as a company is in focus of News media. In 2007 incidents in Germany. A short circuit in a transformer caused a fire at the Krümmel Nuclear plant.

The danger of nuclear plans goes from not being emphasized in the Swedish Press, more than representing Vattenfall as a example in the debate regarding keeping nuclear or replacing it. In 2006 this change due to the incident at Forsmark Vattenfall as company routines to handle nuclear power is questioned. It was questioned if safety or production comes first.

### ***Specific concern: incident at the Swedish nuclear plant Forsmark.***

In **2005** it is interesting to note that the company brings up the incident that occurs in Forsmark 2006. In 2005 Vattenfall focus on safety at nuclear plants. Instead of as in 2003- 2004 using the heading *Safeguarding the future*, they now use the heading *“Responsible handling of nuclear power generation, Safeguarding the nuclear fuel cycle”* (p.13) At this point Vattenfall does no longer tries to maintain legitimacy, but instead tries to **regain** legitimacy for its operations. At this point the company informs its readers that there was an incident, but they emphasis that the incident never threatened their surroundings.

*“Incident at Forsmark on July 25th 2006, the nuclear reactor Forsmark 1 shut down automatically after a failure in the transmission net. This incident was later classified a level 2 event on the International Nuclear Event Scale (INES). Essentially, the main consequence of the incident was that the automatic start-up failed in two of the four diesel-powered generators. Two generators are sufficient to maintain adequate functionality in the reactor coolant system and other safety systems, so the concerned safety functions were not jeopardised. The incident did not cause any damage to the reactor. The control room personnel acted according to instructions. Cooling of the reactor was present at all times and any risk of radioactive discharge was never present. Vattenfall, Forsmark and the Swedish Nuclear Power Inspectorate, SKI, consider the event to be serious, considering that the automatic supply of electricity to parts of the safety systems was obstructed.”(p. 14 Safeguarding the nuclear fuel cycle)*

**2006** the company change the name of their corporate social responsibility report to “*What we want, what we are doing, what we have achieved*”. They also introduce their new star strategy that is being number one for the environment, employer of choice, Profitable growth, Benchmark for the industry, and number one for the customer.

Under the Environmental GRI indicator, EN16, Fines and incidents Vattenfall account for that there was an incident but that there was no danger for their surroundings. In order to **regain legitimacy** the company states that there where an incident but still state that it was not as bad expressed externally. Although at this point the company also states that it improves and adjust practice, this is interpret as if the company tries to communicate that they **adapt practice to social expectations**.

Under social performance the company indentified that stakeholders expect them to “*Prioritise production safety*” the company states that

*“The safety level of all our nuclear power plants is continuously improved and adjusted so as to match state-of-the-art technology.” (p.8)*

One of the focuses in **2007** years CSR report is focusing on production safety Monitoring and ensuring safety and Nuclear power safety- a top priority. A year after the incident Vattenfall still brings up how the company **adapt practice to social expectations**.

*“During 2006 Vattenfall decided to put new emphasis on the safety work, partly as a result of the disruptions that occurred at the Forsmark nuclear power plant in Sweden. A thorough review has been conducted at all of Vattenfall’s nuclear power plants and safety routines are being strengthened. The Board of Directors has appointed a safety committee, focusing on adherence to safety routines and that the company culture promotes safety consciousness. During 2004—2012 Vattenfall is investing about EUR 2.5 billion in upgrading safety levels and increasing life time of the Swedish nuclear power plants. In Germany, works to optimise and adjust safety levels continue.” (p. 8 Vattenfall effort to ensure production safety)*

The incident that occurred on 25 July 2006 when our

*“Forsmark nuclear power plant in Sweden shut down automatically after a failure in the transmission net, gave rise to an extensive review of safety issues within our nuclear power activities. Among other things, the incident taught us the importance of strengthening the safety culture also in the face of a sustained period of success (see page 13 in the 2005 CSR report).*

### ***Specific concern: incident at the German nuclear plants Brunsbüttel and Krümmel.***

Although in 2007 Vattenfall became known for more nuclear incidence this time at their German nuclear plants. In Vattenfall’s CSR report the company account for the incidents. As previously Vattenfall emphasized that the incident were not jeopardizing safety. In contrast to the incident at Forsmark, Vattenfalls communication strategy, by referring to the international nuclear event scale evaluating the incident as 0 on its scale. In contrast to the incident at Forsmark, where safety routines at nuclear plants were adopted, this time risk management how the company communicated in crisis situation should be improved.

*“On 28 June 2007 Vattenfall’s German nuclear power plants — Brunsbüttel and Krümmel — were both scrambled independent of each other. The production stop at Brunsbüttel was caused by a*



*short circuit in a switchyard outside of the power plant, and in Krümmel a fire erupted in a transformer outside of the reactor building. The events in and around Vattenfall's nuclear plants were from a technical perspective minor and safety was never threatened. Both events were classified as a zero on the seven degree International Nuclear Event Scale (INES), i.e., deviations with "No safety significance". The safety system following the scrams at the nuclear plants worked properly, and there were no risks to people or the environment. [...]Vattenfall came under sharp criticism for deficient handling of the incident at the Krümmel plant. Although immediate and extensive information was provided to the authorities, information to the general public was insufficient. The events have proven the importance of handling safety crisis communication more carefully in the future. As a result, Vattenfall has adopted new, reinforced crisis management routines. Another lesson learned — to be transparent and proactive — is exemplified by the new Nuclear Safety Policy which puts emphasis on open, proactive communication." (p.8)*

## **2008**

### **General concern, negative versus positive arguments towards the use of Nuclear.**

After the accident media reports that Vattenfall lost approximately 250 000 customers. In 2008 questions are asked regarding the supply of high grade uranium, it is argued that the supply of Uranium will end. Furthermore, it is noticed that the accidents in the German nuclear plants have cost Vattenfall approximately 250 000 customer. Although after changing the current CEO for the Germany part of the company won back many of these.

### **General concern: the supply of uranium.**

One of the headlines in Vattenfall's CSR reports from **2008** is efficient use of nuclear fuel. Under this headline it is stated that

*"Today, fuel is used more efficiently thanks to improvement fuel fabrication and how fuels are used in generation. This has resulted in less mining and reduced amounts of nuclear waste for the same amount of generated energy" (p. 29).*

Although The company does not take into account that uranium is ending resource. Instead the company state that

*"Vattenfall's work on improving fuel efficiency is twofold: suppliers are encouraged to further develop the fuels (both materials and the way they are constructed) while Vattenfall works on optimizing the use of fuels in generation." (p. 29)*

As such it is interpreted as if the issue of ending uranium , is not considered to be of such importance that the company has to address the issue to maintain legitimacy for its operations.

## **2009**

### **General and Specific concern, negative versus positive arguments towards the use of Nuclear.**

In 2009 there are there is one general concern towards using nuclear power. New investments in nuclear power receives different reactions. For some it is not understandable why Vattenfall invest in Nuclear to become climate neutral, while other thinks that it is positive that companies invest in an energy source that emit a low amount of carbon emission to a low cost.

A more specific concern that have raised resistance among stakeholders, especially from German communities, towards Vattenfall's nuclear operations is the fact that the nuclear plant in Krümmel once again is forced to close down.

After incidents at Vattenfall's nuclear plant there has been media attention in general focused on the fact that in a case of an accident at a nuclear plant, the effect on surroundings can be terrible. Media also keep discussing the disadvantages of nuclear from a life cycle analysis, stating that the mining of uranium is dirty and that in the future there will be a shortage of uranium and that the nuclear waste has to be stored for hundreds of years.

In particular towards Vattenfall's operations the media attention points out that there is a higher resistance towards Vattenfall's nuclear operations. The German government forces Vattenfall to take measures in order to keep their permission to run nuclear plants. Further the Swedish government (the owner) is stating that they have been brought behind the light as Vattenfall deposit all of its assets in the case of a nuclear accident at their plant in Germany.

***Specific and general concern: incident at the German nuclear plants Krümmel and nuclear power plants lifecycle.***

Vattenfall states that it continues to invest in Nuclear as they believe it is a tool that can help the company to become climate neutral, in their CSR report (2009) they state:

*"Nuclear power generation has low emissions and plays an important role in Vattenfall's strategy to reduce CO<sub>2</sub> emissions from electricity generation (p.58)*

Stakeholders' are concerned that Vattenfall's strategy to use nuclear power to reduce carbon emission comes with other environmental impacts. The first concern stakeholders have is that before nuclear power can be produced mining for uranium has to be conducted, a process that emits carbon dioxide. The second concern is associated with damage a nuclear accident would cause and finally the difficulty and danger of storage of radioactive nuclear waste is considered. As such stakeholders question if the whole lifecycle of nuclear power production supports Vattenfall's goal of establishing an energy solution that supports sustainable development, requested by society.

In their CSR report (2009) the company accounts for that "uranium is used in nuclear power plants to generate electricity" (p. 52) and that they every two to four years make an audit at their suppliers' plants covering aspects of "the UN Global Compact, such as labour standards and environmental impact" (p. 68). The company states that they audit their supplier's operations but at the same time they do not disclose any information regarding the damage uranium mining could cause or if and how it is calculated into the measure of nuclear power carbon emission. As such it is interpreted as if the company chooses to **avoid** addressing the specific argument of breaking uranium to maintain legitimacy.

When it comes to the waste management of nuclear power and the concerns surrounding the storage of nuclear waste, it is interpreted as if the company is aiming to **maintain** legitimacy by trying to **change** skeptical stakeholder's **perception** of difficulties and dangers of storing nuclear waste by **educating and informing** them about how the company is working with ensuring a safe storage for the radioactive waste. For example the company is informing its

stakeholders that R&D is carried out in co- operations with others to improve waste management:

*Nuclear waste management relates to earlier commitments to establish a final repository for spent nuclear fuel from Swedish plants. Research and development is carried out in co-operation with the rest of the nuclear power industry through the Swedish Nuclear Fuel and Waste Management Company (SKB). (p. 27 Research and Development activities - an overview)*

During 2009 Vattenfall was forced to shut down one of its nuclear plants in Krümmel Germany, due to a fire in a transformer. This event led to that stakeholders' trust for Vattenfall's ability to manage nuclear plants safely was lost. Because of the event German government wants to force Vattenfall to take more measure in order to get permission to run their nuclear plants. Media also reported that the lack in security meets criticism both in Sweden and Germany (Expressen 20<sup>th</sup> of July, Kvällsposten, Arbetaren 24<sup>th</sup> of July, Sundsvallstidning 28<sup>th</sup> of July). Due the event in Krümmel Vattenfall has to **regain legitimacy** for its nuclear operation.

This event has got a lot of attention and the company has chosen to dedicate a whole segment in their corporate social responsibility (CSR) report to answer the question: "Are your nuclear operations safe?" The company account for that safety is its responsibility and priority. In their communication they account for the event on Krümmel and explained why the plant was closed down, that all safety requirement worked as intended in case of a fire and what effect this event had on customer satisfaction. Even though the company states that its current operations are safe, it discloses how the company's safety will be improved. As such it is interpreted that the company **adapts** to stakeholders request to take more measures in order to not have to face governmental sanctions. In their CSR reports the company writes that they work with

*"Improve safety further and adapt our power plants to new, stricter safety requirements. Many of the modernisations that we have made to improve plant efficiency have resulted in a higher degree of safety [...]" (p.38)*

## 2010

***Specific and general concern: incident at the German nuclear plants Krümmel and nuclear power plants lifecycle.***

2010 the resistance towards Vattenfall's nuclear operations continues as 120 000 demonstrates form a chain between the nuclear plants in Brunsbüttel and Kümmel against Vattenfall way of operating the two nuclear plants.

More in general a study from Stanford university showing that nuclear life cycle emit more carbon dioxide than when wind power and other renewable energy sources are used, Further IAEA warns that there will be a lack of uranium supply as nuclear production expand. It is further stated that storing nuclear is a waste as it could function as fuel at more modern nuclear plants.

***Specific and general concern: incident at the German nuclear plants Krümmel and nuclear power plants lifecycle.***

Vattenfall respond to the fact that some studies goes against Vattenfall’s study stating that nuclear is comparable to renewable energy sources emission.

*Many stakeholders disagree about what role nuclear power can play in reducing greenhouse gas emissions. One aspect of the debate involves disagreement about the actual emissions associated with nuclear power. While all parties agree that the actual electricity generation process produces negligible emissions of greenhouse gases, stakeholders have differing views as to the emissions produced in the so-called “life cycle” – including uranium mining and the processing, construction, and decommissioning phases. Vattenfall has contributed to several analyses that may help answer questions about the potential of nuclear power. Vattenfall has commissioned certified life cycle analyses of its own nuclear operations in Sweden, and our calculations show low emissions of 5.36 g CO2 per kWh – comparable to the life cycle emissions of the best renewable energy sources. Vattenfall’s low life cycle emissions are based specifically on Vattenfall’s processes and supply chain and cannot necessarily be extrapolated to all nuclear power. Differences may arise based on such factors as the quality of uranium (and thus the energy required for processing), the electricity mix in the countries where mining, processing and plant construction take place, and the expected lifetime of the constructed plant. Nonetheless, it is important to note the significant emission-reducing potential of nuclear power. Vattenfall’s nuclear power emits less than 1% of the greenhouse gases emitted by conventional coal-fuelled power plants.” (p.22)*

**Summary**

<i>React by:</i> <i>Response to:</i>	<b>Adapt</b> practice to social expectations	<b>Change</b> external perception of what is legitimate	<b>Become identified</b> with accessories legitimate	<b>Other</b>
<b>Gain</b>				
<b>Maintain</b>	2003		2004	2008 Uranium 2009 Uranium
<b>Regain</b>	2007 Krümmel and Brunsbüttel 2009 Krümmel	2006 Forsmark		2005 Forsmark

**Analysis and Discussion**

This case study shows that companies are held accountable for their operation in Media. The disclosure management to inform and educate their readers about their operation does not seem to have an impact on the perception of the company expressed in Swedish media. As such it can be questioned what has to change from the current practice in order for companies to be able to use their report in order to legitimate their operations, or what is the role of CSR disclosure actually. It may be the fact that media, will always find an angel that is not in the interest of the company, that the company has to manage.

Disclosure approaches could be used and have an effect to maintain legitimacy, but in our case company's situation when incidents occurs such as at the nuclear plant in Forsmark, Brünnsbüttel and Krümmel, disclosure management does not seem to have an any affect on media cover, rather media holds the company responsible for what was stated in the report. Although it would be interesting to measure news coverage by looking at how many articles refers to the incidents over time and where in the newspaper these articles stand and what kind of news articles is covering these issues.

An interesting observation was that from 2003- 2005 the concerns expressed in media was of general character expressed towards the industry, and where Vattenfall became an illustrative case. Concerns brought up in media from 2003 to 2004 are associated to the danger of producing energy with nuclear as an energy source. But from 2006 the concerns where specifically directed towards Vattenfall. The incident at Forsmark Sweden in 2006 and the incidents at Brünnsbüttel and Krümmel, especially in Germany became a trust issue in Vattenfall's ability to run nuclear plants. It was notice at a large amount of customer left Vattenfall and causing the resignation of the CEO of the German subsidiary.

After the company specific incidents, more discussion regarding the concerns surrounding the whole energy discussion where brought up. Media starts to raise concerns about uranium, such as concerns about the mining of uranium and uranium's connection to nuclear weapon. Furthermore the fact that there will be a shortage of uranium in the future is brought up as an argument against investing more money into nuclear, as such shortage would lead to high energy price. Furthermore, the fact that nuclear waste have to be stored hundred of years.

Proponents for nuclear although argue that more investments in nuclear should be made as it is a low emitting energy source which is not dependent on environmental factors, and as such is a way to ensure energy supply, reducing emission and keeping down energy prices.

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