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Legitimacy Theory and Environmental Practices: Short Notes

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Abstract: Legitimacy theory is one of the most discussed theories to explain the phenomenon of voluntary social and environmental disclosures in corporate communication. Consistent with the notion of legitimacy theory, companies seek to gain, maintain or repair their legitimacy by using social and environmental reporting. Legitimacy theory may provide useful insights for corporate social and environmental disclosures. However, there are a number of gaps in the literature dealing with legitimacy theory, which have not been addressed, such as the development of a general framework of legitimacy theory. The paper is mainly concerned with reviewing the literature of legitimacy theory in an attempt to identify the necessary characteristics of this theory. There is a lack of research into framework of legitimacy theory. The paper is mainly concerned with a bringing some coherence to the framework of legitimacy theory and corporate environmental practices. The understanding of the nature of such theory can help in explaining corporate environmental practices.

Keywords: Legitimacy theory, a conceptual framework, Environmental disclosure, Environmental performance.

1. INTRODUCTION

Although the investigation of corporate social and environmental reporting practices has utilized a variety of different theoretical perspectives in an attempt to explain the reasons for disclosure, legitimacy theory is the dominant perspective (Adams et.al., 1998; Patten, 1991, 1992; Deegan and Gordon, 1996, Deegan et.al, 2002, Milne and Patten, 2002, Deegan, 2002, O'Donovan, 2002, Reich, 1998). Legitimacy theory is used to explain disclosures with regard to the environmental and social behaviour of companies (see for example; Neu et al., 1998; Deegan et al., 2002, Milne and Patten, 2002; Deegan, 2002; O'Donovan, 2002; Reich, 1998). A number of studies (Mathews, 1993; Deegan and Gordon, 1996; Deegan and Rankin, 1996, 1997; Brown and Deegan, 1998; Hooghiestra, 2000) have addressed companies' motivations for social and environmental reports. The importance of corporate social and environmental disclosures stems from a number of factors. Companies are currently faced with an increasing number of environmental laws and pressures from a variety of stakeholders regarding environmental performance. Stakeholders ask for information about environmental impacts on business.

Much of the extent research into why companies disclose environmental information in the annual report indicates that legitimacy theory is one of the more probable explanations for the increase in environmental disclosure since the early 1980s. Deegan and Rankin (1996) report that a company will provide information to the users of the accounts to justify or legitimize the company's continued operations within that society. Hogner (1982) argues that social disclosures represent a response to society's expectations of corporate behaviour. Hurst (1970) suggests that one of the functions of accounting, and subsequently accounting reports, is to legitimate the existence of the corporation. Wisman (1982) argues that companies have been forced to implement pollution control as a result of social demands. Gibson (1996) argues that there are many factors, which motivate firms to take their responsibility towards the environment seriously by reducing pollution. One of them is competitive advantages from a clean public image, limiting corporate environmental liabilities. The framework of legitimacy theory can help in evaluating existing practices to obtain a better

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understanding of these practices and procedures. The paper reviews literature as an attempt to provide perspectives on the general frame work of legitimacy theory. The current study is structured as follows. Section 2 presents perspectives on legitimacy theory. Literature review is provided in Section 3. Section 4 suggests general steps to build a general framework of legitimacy theory. The conclusions are reported in Section 5.

2. PERSPECTIVES ON LEGITIMACY

The concept of legitimacy is important in analyzing the relationships between companies and their environment. Parsons (1960, p. 175) defines legitimacy as "the appraisal of action in terms of shared or common values in the context of the involvement of the action in the social society". Maurer (1971, p. 361) points out that legitimation is the process whereby an organisation justifies to a peer or superordinate system its right to exist; that is to continue, import, transform, and export energy material or information. Legitimacy theory is derived from the concept of organisational legitimacy, which has been defined as "a condition or status, which exists when an entity's value system is congruent with the value system of the large social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy" (Dowling and Pfeffer, 1975, p. 122). Preston, et al. (1995) point out that legitimacy is conceived as congruence between institutional actions and social values, and legitimization as actions that institutions take either to signal value congruency or to change social value. Legitimacy is achieved by demonstrating that companies' activities are concordant with social values. Bansal and Roth (2000) present examples of legitimation as complying with legislation, establishing an environmental committee or the position of environmental manager to oversee a firm's ecological impact, developing networks or committees with local community representation, conducting environmental audits, establishing an emergency response system, and aligning the firm with environmental advocates. Legitimacy theory concentrates on the concept of a social contract, implying that a company's survival is dependent on the extent to which the company operates within the bounds and norms of society (Brown and Deegan, 1998, p. 22).

The concept of a social contract is explained by Shocker and Sethi (1974, p. 67). The authors point out that:- "any social institution and business, without exception, operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:- the delivery of some socially desirable ends to society in general and, the distribution of economic, social, or political benefits to groups from which it derives its power". Mathews (1993, p.26) states that:-"the social contract would exist between corporations and individual members of society. Society (as a collection of individuals) provides corporations with their legal standing, attributes and the authority to own and use natural resources and to hire employees. Organisations draw on community resources and output both goods and services. The organisation has no inherent rights to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society". In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval. According to the social contract between the company and society, the company is expected to comply with the terms of this contract. If a company cannot justify its continued operation, then, in a sense, the community may revoke its contract to continue its operations. This may occur, as indicated in Deegan and Rankin (1996, p. 54), "through consumers reducing or eliminating the demand for the products of the business, factor suppliers eliminating the supply of labour and financial capital to the business, or constituents lobbying government for increased taxes, fines or laws to prohibit those actions, which do not conform with the expectations of the community". Consistent with legitimacy theory, a company operates in society where it agrees to perform various socially desired actions in return for approval of its objectives, other rewards, and its ultimate survival. It therefore needs to disclose enough social information for society to assess whether it is a good corporate citizen. In legitimizing its actions via disclosure, the corporation hopes ultimately to justify its continued existence (Guthrie and Parker, 1989). The existence of corporations depends on the willingness of society to continue to allow them to operate (Reich, 1998). Milne and Patten (2002) argue that managers engage in a process of legitimation to extend, maintain or defend an organisation's legitimacy.

Companies seek to establish congruence between the social values associated with their activities and the norms of acceptable behaviour in the larger social system of which they are a part (Dowling and Pfeffer, 1975). In a dynamic society, the bounds and norms are not fixed but change across time, thereby requiring the company to be responsive. If the company does not operate within the appropriate bounds of society, the public will be dissatisfied with the performance of the company and it can apply pressure in the company to meet expectations or it can use the legal system to require improved performance (Preston and Post, 1975; Deegan and Rankin, 1996, 1997). Tilt (1994) argues that legitimacy theory relates to behaviour where companies respond to the demands of divergent interest groups, and act to legitimize their actions. In other words, legitimacy theory discusses the engagement of companies in social reporting to affect the public's perception of the company (Brown and Deegan, 1998; Neu et al., 1998). Patten (2000) argues that the increase in the disclosure of more positive environmental information by US firms is due to the companies' attempts to offset or mitigate the negative impact of remediation related disclosure. It can be argued that companies may face threats to their legitimacy if they fail to comply with the demands of society, for example, environmental behaviour of companies may affect society's views about the acceptability of companies. They may face difficulties in obtaining the necessary resources. A number of parties in society, such as, employees, consumers, investors and others, may refuse to deal with companies, which have a reputation for poor environmental behaviour. (Coopers and Lybrand, 1993) Dowling and Pfeffer (1975, p.127) outline the means by which a company, when faced with legitimacy threats, may legitimate its activities. Organisation can adapt its output, goals and methods of operation to conform to prevailing definitions of legitimacy. It can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organisation's present practices, output and values. Organisation can attempt through communication to become identified with symbols, values or institutions which have a strong base of legitimacy. Companies may seek to achieve legitimacy by appearing to be doing the right things or not be involved in doing the wrong things when this appearance may have little in common with companies' actual environmental performance.

3. Literature Review

Literature on legitimacy theory suggests that communication is one strategy of legitimation (Gray et al., 1995a, 1995b; Title, 1994; Buhr, 1998; Hooghiemstra, 2000). The annual report has been seen as the major communication medium and data source for researchers investigating motivations for environmental disclosures.

A number of studies (Gray et al., 1993; Simmons and Neu, 1998; Deegan and Rankin, 1999; O'Dwyer, 2001, 2002; CICA, 1994; Deegan, 2002) argue that many vehicles of communication employed by a company such as, advertising, public relations brochures and employee newsletters, but none of these has the legitimacy of the annual reports. Buhr (1998, P. 164) states that "the annual report is the most commonly accepted and recognized corporate communication vehicle". Abrahamson and Park (1994) argue that the annual report serves as a legitimating device and also it can be seen as a strategic document that projects selective impressions about a firm's activities. O'Donovan (1999, P.82) suggests that corporate management believe that the annual report is an effective way of informing and educating the public of the corporation's view of certain environmental issues. Guthrie and Parker (1989, p. 344) point out that "the credibility of the annual report to relevant public provides organizational managers with a unique opportunity to design a particular organizational image for their relevant public". Hooghiemstra (2000) argues that companies use corporate social reporting as a corporate communication instrument. The main aim of this instrument is to influence people's perceptions of the company. Elkington (1997, p. 171) points out that corporate social reporting is viewed as a public relations vehicle designed to offer reassurance and to help with feel-good image building. Deegan et al. (2000) argue that companies consider that social disclosure in annual report is a useful device to reduce the effects upon a corporation of events that are perceived to be unfavourable to a corporation's image. Gray et al. (1995) argue that companies use their social reports to construct themselves and their relationships with others as they strive to create and maintain the conditions for their continued profitability and growth. Adams et al. (1998) report that UK financial executives see the most important role of annual reports as being to help to improve the image or reputation of the company and UK companies use the report as a means of advertising their social responsibility. Environmental reporting may give companies the opportunity to gain many benefits. Main results of a number of studies on legitimacy theory and corporate social disclosures are summarized in the following Table (1)

Table (1) Studies on legitimacy theory and corporate social disclosure

Patten (1992)	utilizes legitimacy theory to evaluate the effect of the Exxon Valdez Oil spill on the report environmental disclosure practices of in the annual report of North American petroleum firms. The author observed a significant increase in disclosures after the disaster. The results of the study support legitimacy theory, in that where a threat to the legitimacy of the company was evident the industry members sought to address this threat by increasing environmental disclosure to retain legitimacy.
Lindblom (1994)	points out that there is one way that companies can maintain or regain their legitimacy in the eyes of society is to disclose information about their social and environmental performance.
Deegan and Rankin (1996)	examine legitimacy theory to explain systematic changes in corporate annual report environmental disclosure policies around the time of proven environmental prosecutions. The results of the study indicate that the Australian companies provide a significant increase in favorable environmental information surrounding environmental prosecution. The authors also found that in the years of prosecution those companies that had been prosecuted provided more positive environmental disclosures.
Deegan and Gordon (1996)	review annual report corporate environmental disclosure made by Australian companies across the years from 1980 to 1990. The authors investigated the objectives of corporate environmental disclosure practices. The results of the study indicated that the increase of the Australian corporate environmental disclosures is over whelmingly self-laudatory.
Adams et.al (1998)	argue legitimacy theory is important in explaining motivations for corporate social disclosure even across different environments and, in particular, in continental European countries ,as well as, Anglo-American countries.
Brown and Deegan (1998)	argue that the media can be particularly effective in driving the community's concern about the environmental performance of particular organization (from media setting theory). Where such concern is raised, organizations will respond by increasing the extent of disclosure of environmental information within the annual report (from legitimacy theory). The results of the study indicate that for the majority of the industries studied, higher levels of media attention are significantly associated with higher levels of annual report environmental disclosures.
Deegan and Rankin (1997)	indicate that changes in environmental disclosure practices are driven by attempts of organizations to legitimate their operations, rely on the assumption that various groups do use the environmental information contained within the annual report. The results of the study suggest that such an assumption is valid, some groups within society do perceive environmental issues to be material to their decision-making processes, and they seek information concerning these activities from the annual report.
Buhr (1998)	utilizes both legitimacy theory and political economy theory to explain corporate environmental disclosures by using an in-depth case study and historical overview of Falconbridge Company. The empirical results suggest that legitimacy theory offers a better explanation than political economy theory to explain why companies perform corporate environmental and social disclosures. The study concludes that social responsibility disclosure is provided in response to external social and economic events
Neu et.al., (1998)	**consider the influence of external pressure on environmental disclosures in annual reports, including the amount and types of strategies used in disclosure, the characteristics of environmental disclosure and the association between environmental disclosures and actual performance by utilizing the notion of organizational legitimacy.**
Hooghiemstra (2000)	argues that social and environmental disclosures are responses to both the public pressure and media attention. Companies use social disclosures as a strategy to alter the public's perception about the legitimacy of the company.
Bansal and Roth (2000)	develop a model grounded in management's explanations that proposes three basic motivations for greening the firm: competitive advantage, legitimation and environmental responsibility.
Deegan et al., (2000)	examine the reaction of Australian companies (to the Bhopal and Exxon Valdez incidents and three local incidents which have a negative impact on the legitimacy of particular industries) in terms of

	annual report disclosure concerning environmental incidents. The results of the study indicated that companies which were operating in the affected industries provide more social information in their annual report than they did prior to the incident's occurrence. These results support a view that companies utilize their annual report as a means of legitimizing their ongoing existence.
Deegan (2002)	provides theoretical perspectives that have been used to explain why managers might select to publicly disclosure information about particular aspects of their social and environmental performance by legitimacy theory.
Milne and Patten (2002)	explore the role that environmental disclosure might play in producing a legitimating effect on investors within the context of the chemical industry. The results of the study indicate that under some circumstances positive disclosures can restore or repair an organization's legitimacy.
O'Donovan (2002)	conduct some interviews with six senior managers from three large Australian companies to investigate the reasons for managers' perceptions about the social and environmental disclosures. The findings of this study support legitimacy theory as an explanation for the decision to disclose environmental information in the annual report.
Deegan et al (2002)	examine the social and environmental disclosure of one of the largest Australian companies from 1983 to 1997 to ascertain the extent social and environmental disclosure over the period and explain the concepts of a social contract and legitimacy theory. This study provided evidence that managers disclose information to legitimise their organisations' place within society.

However, a number of critical issues related to the method and data analysis techniques, which adopted in legitimacy studies can be concluded through literature on legitimacy as follows:-

A. The data and research method

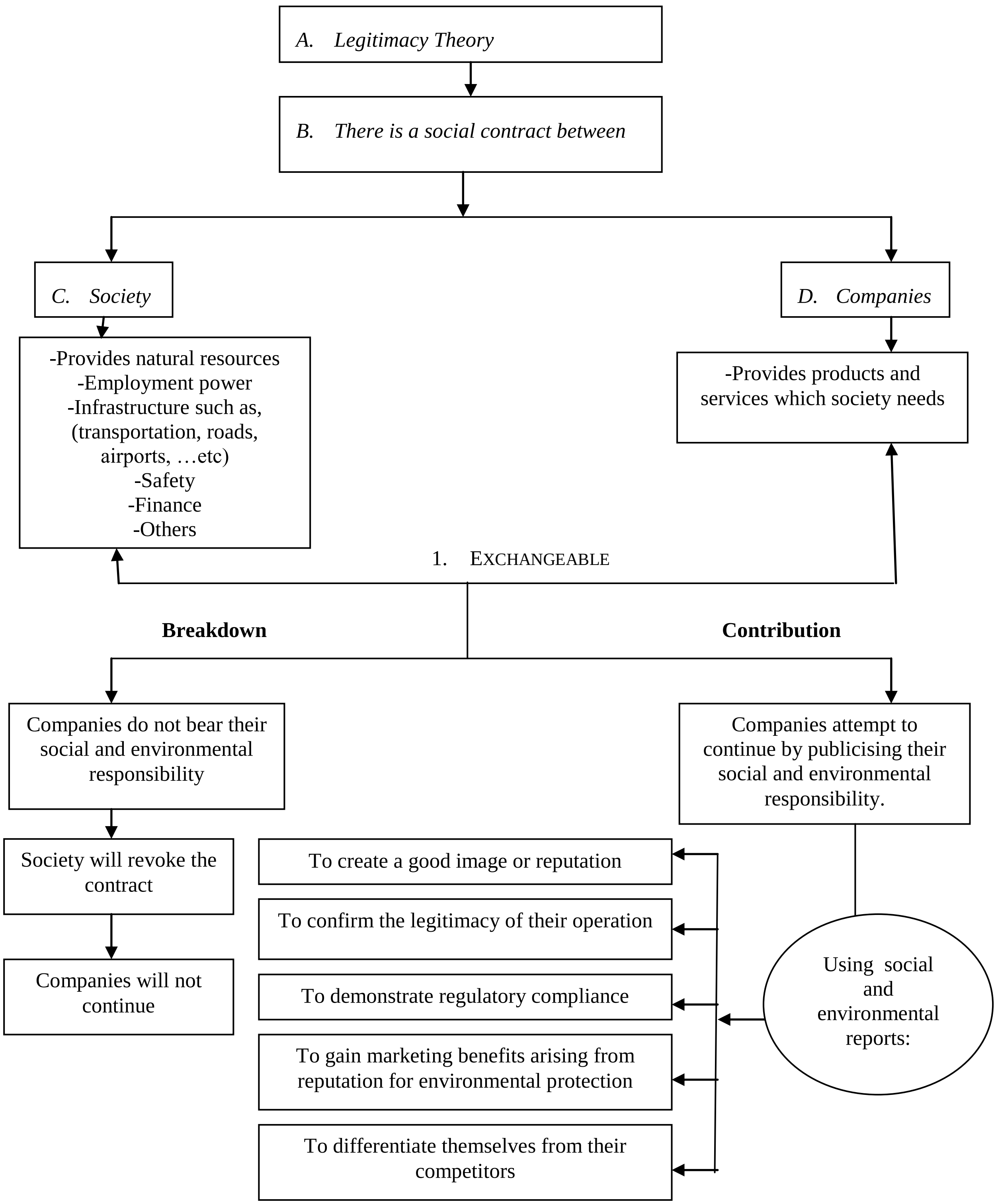
The data reported by a number of studies (Deegan and Gordon, 1996; Zeghal and Ahmed, 1990; Gray et al., 1995; Guthrie and Parker, 1989, 1990, Deegan et al., 2002) have been collected by using content analysis of companies' annual reports. Content analysis is a method of coding the text (or content) of a piece of writing into various group (or categories) depending on selected criteria (Weber, 1988). There are a number of limitations associated with the use of content analysis to measure social disclosure quantity (see for example, Krippendorff, 1980; Rust and Cooil, 1994; Zeghal and Ahmed, 1990, Hughes and Garrett, 1990, MacArthur, 1988; Milne and Alder, 1999). Examples of these limitations are defining and identifying social disclosure data, establishing the reliability associated with the coded data or data set and also the coding instruments themselves, assuming that the significance of a disclosure can be presented meaningfully by the quantity of disclosure. However, O'Donovan (2002) points out that the majority of the research, which conducted to confirm legitimacy motives for social disclosures has used ex-post content analysis of annual reports and / or other published data, is limited in usefulness as they only allow for explanations about data that were actually disclosed.

Zeghal and Ahmed (1990) point out that the difficulties associated with content analysis are maximised when a small sample of disclosures is examined. Milne and Alder (1999) argue that research concerned with social and environmental disclosure content analysis could use several measures of reliability to examine the fact that the coded data and the performance of the coding instruments from the coders have met certain standards of reliability. Moreover, other critical issues are related to the category of data. How can measures of reliability use to determine whether different content categories produce coding category equally reliable results if a particular coding category (e.g. positive disclosure or negative, bad news is less reliable). Therefore, caution should be taken in interpreting the results associated with these categories. Milne and Alder (1999) point out that no universal rules of thumb or universal minimum standards that can be adopted for the reliability of social and environmental disclosures content analysis. An important decision, concerning social disclosure that should be taken, is how to capture the data. There are two ways: the number of disclosures or the amount of disclosures. For the later way, a number of different units (such as, words count, sentences and pages) have been used by researchers (see for example, Gray et al., 1995; Deegan et al., 2002; Guthrie and Parker, 1990; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Pattten, 1992). Arguments about the advantages and disadvantages of these units are summarised in Guthrie and Mathews (1985), Guthrie and Parker, (1989 and 1990), Deegan et al., (2002), Ingram and Frazier (1980), Gray et al., (1995a). However, it can be argued that a number of critical issues are related to these units (such as, the unit of meaning, lack of criteria to identify the unit, which can be used to draw the appropriate inferences). The possibility of using different units may lead to different conclusions. A number of issues lie in the choice of the research method adopted in social and environmental disclosures. Some studies have focused upon the data gathered by (questionnaires-interviews-publicly available data or documents). A few researchers (for example, Buhr, 1998; O'Donovan, 1999; O'Dwyer, 2002) have used methods to gather qualitative data by the direct questioning of managers for the purposes of testing legitimacy theory. O'Donovan (2002) argues that gathering data, directly from management, about their perceptions and from ex-ante perspectives is more useful in evaluating reasons for certain environmental disclosure and, more importantly, why decisions not to include environmental information were made. Gray et al., (1995b) argue that differences in research approach and the difficulties in identifying these differences in method consider one of the problems, which arises in attempts to research the phenomenon of social and environmental reporting. The authors also point out that different approaches, which are used to communicate information might imply different conclusions. A number of researchers select a sample of the largest companies (Guthrie and Parker 1989, 1990; Deegan et al., 2002). Gray et al. (1995a) explain reasons for this. Others select large, medium, unlisted companies and best practice exemplars (for example, Hogner, 1982; Deegan and Rankin, 1996; Deegan and Gordon, 1996). To restrict a sample to a single company or to attempt to construct a representative sample across a range of companies is a critical decision. The samples of studies are diverse, which may offer the possibility of different inference and it cannot be representative of all the companies in the same country or in other countries. A number of studies use samples of managers drawn from a single organisation or from different organisations. O'Donovan (2002) points out that care should be taken in generalising the results of his study, because the results have been based on six in-depth interviews with personnel from three companies. Milne and Patten (2002) believe that their results cannot be generalised to situations involving potential or other stakeholder groups who have concerns over chemical firms' environmental, social or ethical behaviour. It can be suggested that practices differ across companies, cultures, and time. Broad comments can be made about how manager react to particular events. Universal findings therefore should not be expected.

B. Lack of measures for social and environmental disclosures

Different studies, within social and environmental disclosure literature, have used different measures for these disclosures, such as, "community or public concern" and "social pressure" (see for example, Deegan et al., 2000, 2002; Deegan and Gordon, 1996; Brown and Deegan, 1998). Moreover, different ways have constructed to measure community concern or social pressure by a number of researchers. For example, Brown and Deegan (1998) utilise media coverage as a proxy for community concern measure. The measure of community concern, used by Guthrie and Parker (1989), based on BHP's activities. A number of variables or measures such as, company size, profitability, ownership and industry sector may have an explanatory factor for corporate social reporting (Patten, 1992, 2000; O'Dwyer, 2002). The data related to these variables and the ways which employed to measure them, are different. It is perhaps unsurprising that different studies have come up with different results. A number of studies (Gray et al., 1995b; Hogner, 1982; Milne and Patten, 2002; Deegan and Gordon, 1996) have adopted legitimacy perspective to explain companies' motivations for social and environmental disclosures by focusing on measures for the amount of these disclosures without using, designing or suggesting measures for companies' motivations behind the disclosures. The literature above indicates that the results of a number of researches are confirmed; others are insignificant statistically; but other results are contrary to those previously reported. The results of various studies (Patten, 1992, 2000; Deegan and Gordon, 1996; Guthrie and parker, 1990; Deegan and Rankin, 1996) have been confirmed legitimacy theory perspective as an explanatory factor for voluntary social disclosure. However, the analysis of Guthrie and Praker (1989) has failed to support legitimacy theory as an explanation for corporate social reporting. A number of studies (Brown and Deegan, 1998; Buhr, 1998; O'Donovan, 1999, 2002) report that environmental disclosure strategies of management appeared to be tied to the extent of media attention devoted to environmental issues. Annual report disclosures are used as a strategy to change perceptions about a company. In contrast, O'Dwyer (2002) suggests that in the Irish context, at least, the use of corporate social disclosures within the annual report are not be used as part of a portfolio of legitimising strategies. A number of researches are theoretical when describing what is being disclosed, there has been much debate about how to measure and classifying social and environmental disclosure (Gray et al., 1995a; Adams, 2002, 1998). As mentioned, literature indicates that changes in social norms and values, as well as, public pressure are the reasons for the need of organizational legitimation. The following figure (1) summarizes previous discussion.

Figure (1) Legitimacy theory and corporate social disclosure - (Source: Mousa, 2004, p: 124)



4. General Steps to Suggest a Conceptual Framework of Legitimacy Theory

Reviewing the literature indicates that legitimacy theory focuses on explaining companies' motivations for social and environmental disclosures. It addresses questions about the description and explanation of companies' behaviour towards society. In an attempt to present the necessary characteristics of legitimacy theory, a number of methodological steps are suggested to present a general framework of legitimacy theory as follows:

Step 1: The concept of legitimacy theory

Legitimacy theory can be regarded as a conceptual framework based on the existence of social and exchangeable relationships between a company and the community. This framework aims to explain why companies may engage in particular social and environmental disclosures, and how they do that, as well as, what impact environmental disclosure has on the public and community. A company's behaviour towards the community can identify the type of relationship between them whether it is contribution or breakdown, if a company does not bear its social and environmental responsibility. Therefore, legitimacy theory may be defined as logical reasoning in the form of set broad principles by which environmental disclosure practice can be explained or may be predicated.

Step 2: Objectives of legitimacy theory

Since legitimacy theory seeks to explain companies' motivations for social and environmental disclosures, it may help to explain these motivations for any company (whatever its activities). In a world where economic activity systematically generates environmental harm, regulation is seen to offer a solution (Everett and Neu, 2000, P. 19). Gray (1996, P. 7) observes that if environmental reporting is to become systematic, widespread and useful, it must be covered by regulation. Deegan et al. (2000) argue that stakeholders have a right to know about environmental implications of company's operations at all times, not just when management has been shocked into action be legitimacy threatening events. Regulation might be necessary to ensure that this right to know is satisfied. Gray (1992, P. 415) points out that the information content in companies' statements is governed by the categories recognized in law and quasi-law can probably now be expanded… to include, particularly, social and environmental impact information. Across time, laws and regulation related to environmental protection have increased in many countries. They impact on companies therefore, many stakeholders would be wary of the potential financial risks associated with companies' activities. For example, the prosecution of companies for environmental crime has increased steadily since the founding in 1982 of the environmental protection agency's office of criminal enforcement and penalties have escalated from an average fine of $ 48,000 in 1986 to $ 195,000 in 1988 (the Economist, 1990, P. 38). Epstein (1996, PP. 5-6) points out that in the US changes in environmental legislation have increased civil and criminal penalties and forced financial stakeholders to consider environmental issues in their risk/ return assessments. The objectives of this theory can be identified as describe the relationships between a company and the community; explain companies' motivations for social and environmental disclosures; present how companies can use legitimacy strategies; determine the impacts of social and environmental disclosures on the public and society.

Legitimacy theory may help in predicting management's responses to particular events or crisis.

Step 3: Explicit hypotheses

Literature of legitimacy theory can provide hypotheses as primarily or underlying hypotheses or assumptions, which refer to hypotheses that are as yet unproven and may, in fact, not require proof if they lead to relevant ideas and a logical development of thought and useful conclusions. A hypothesis can be tested by comparing it with observed phenomena. If the hypothesis is consistent with the phenomena, the hypothesis is confirmed (Hendriksen, 1982; Watts and Zimmerman, 1986). The hypotheses can be suggested as follows:

- ***A company's survival***

Legitimacy theory hypothesises that a company's survival depends on obtaining and maintaining social approval. A company should accept accountability for the social and environmental implications of its operations. If it fails to comply with demands of society, a company will face threats to its legitimacy and consequently to its survival. Companies are facing increasing pressures to publicly account for their environmental performance. Active stakeholders and lobby groups have successfully exerted pressure on companies to improve their behaviour (Rosthorn, 2000). For example, Shell in 1995 experienced a lot of negative publicity after it announced its decision to sink the Brent Spar in the Atlantic Ocean.

Environmental protection groups, especially, Green Peace, started a public campaign to prevent this (Hooghiemstra, 2000). A firm's ultimate survival may well depend on developing and maintaining a recognizable image and favourable reputation (Gray and Balmer, 1998).

- ***Impact on the public's perception***

A company's ultimate survival may depend on developing and maintaining a recognisable image and favourable reputation. Corporate disclosure represents a strategy to alter the public's perception about companies' legitimacy; for example, some companies increased environmental disclosure after environmental incidents because of public pressure and media attention. Companies attempt to offset or mitigate the negative impact of these incidents by increasing the disclosure of more positive environmental information.

- ***Focusing on strong points (favourable information)***

Companies are reluctant to provide any information within their annual reports about any negative environmental implications of their operations. Corporate image may impact on existing companies and their financial position. For example, Herremans et al. (1993) investigated the relationship between corporate social reputation and profits. The study's findings indicated a positive relationship between reputation for social responsibility and profitability over an extended period of time. Also, the authors point out that the current environmental investments will result in a future competitive advantage and future profits. Rosthorn (2000, P. 9) states that "the market capitalization of British Biotech fell by 90 % in just a few months because of its behaviour towards the environment". Companies provide environmental information, which is favourable to their corporate image. It appears that companies believe there is a need to legitimize the existence of their operations by increasing disclosure of positive environmental information (Deegan and Rankin, 1996). Companies may gain many benefits when they have a good image, for example, Fombrun (1996) argues that companies with good reputation can, among other things, charge premium prices, access capital markets, attract investors more easily, and usually obtain lower interest rates.

- ***Self-protection***

Companies publicise their social and environmental responsibility towards society to legitimize their operations, as a means of self- protection. this protection helps a company to emphasise survival, to avoid regulatory actions against it, to create a positive image or reputation, and to gain competitive advantages. companies are being asked for information on how they deal with the environment. many groups (the relevant public) want to know what impact companies are having on the environment and how they are dealing with those impacts. they want reassurance that companies are operating responsibly towards the environment and society's values, and if they are not, how to improve their performance in the future to gain the acceptance of their existence in society.

STEP4: TESTING THE HYPOTHESIS

Otley and Berry (1994, p.48) point out that "a theory must be capable of being refuted; that is the propositions advanced from the theory must be testable against evidence or phenomena". A hypothesis is tested by comparing it with observed phenomena. If the hypothesis is consistent with the phenomena, the hypothesis is confirmed (Watts and Zimmerman, 1986). Empirical testing of the hypotheses is beyond of this study, testing hypotheses here is based on comparing previous hypotheses with observed results from existing studies in the paper to recognise whether the hypotheses are confirmed, then it can be concluded principles of legitimacy theory.

Step 5: Suggesting Principles of Legitimacy Theory

A principle here is regarded as a set of ideas, which makes companies behave in a particular way or a rule, which explains the way of something such as, the phenomena of voluntary social and environmental disclosures. Two principles of legitimacy theory can be suggested as follows:-

- ***The benefit***

Deegan (2002) indicates that companies' motivations for environmental disclosure might include; the desire to comply with legal requirements. This would not be a major motivation in a great deal of countries given the lack of requirements in relation to social and environmental disclosures and associated verifications; to achieve economic advantages; to comply with community expectations (or social contract); to respond to negative media attention, particular environmental incidents (reporting here as a result of certain threats to the organization's legitimacy). Many business opportunities arise from good environmental practice. These include the marketing benefits arising from reputation for environmental protection. Companies bear their social and environmental responsibility towards society to get these benefits arising from a clean public image. Companies use environmental and social reports to communicate favourable information about their activities to the public.

- ***Self-laudatory claims***

Tilt (1994) investigated the potential influence of pressure groups on corporate social disclosure. The author found that lobby groups were users of corporate social disclosure and annual reports were the most commonly used medium for corporate social information. Epstein and Freedman (1994) conducted a survey to determine whether individual investors need social information and the nature of this information. The authors found that 82 % of the investors wanted to see environmental and social disclosure included in the annual report such as, product safety, quality and environmental activities. These results indicate that investor interests and information requirements are more heterogeneous than is often assumed the implication being that such disclosures are of interest to at least a subset of financial stakeholders. Deegan and Rankin (1999) argued that providing environmental information to interested parties can provide them with a source of power to drive changes to corporate behaviour. The authors presented some examples for using environmental information in determining a number of issues such as whether to invest or lend funds to an organization, whether to consume an organization's products, whether to use an organization's products in the production process and whether to supply labour or other resources to the entity environmental information may also be important in determining whether local communities will support the continued operation. There are many vehicles of communication, which companies can employ to achieve specific objectives, such as, advertising, public relations brochures and employee newsletters. However, corporate social and environmental reports are the most effective way to improve the image or reputation of a company by making self-laudatory claims.

A. Conclusions

Legitimacy theory has been utilised a great deal of research to provide useful insights concerning companies' behaviour towards their society and the environment. Literature on legitimacy theory indicates that it may help to explain the motivations of companies to engage in environmental reporting. it provides a foundation for understanding how and why companies may use external reports to benefit themselves. Corporate environmental disclosure is provided in response to public pressure, regulation and external economic events. Developing a conceptual framework of legitimacy theory as a coherent set of logical elements or principles may provide an opportunity for more understanding of the nature of corporate social and environmental disclosures. This framework may provide an explicitly look to show the returns of legitimacy strategies. Social and environmental reports can be considered the most commonly accepted vehicle of communication. These reports give a company the chance to make self-laudatory statements without significant costs and provide a unique opportunity for a company to design a positive image with its stakeholders. The paper provides an overview concerning how legitimacy theory works. The paper is just a step through long path in the area of explaining the mechanism of working legitimacy theory.

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