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Theoretical Perspectives Of Corporate Environmental Reporting: An Overview

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ABSTRACT

During the last three decades concern for protection of environment has gained momentum. Respect for the environment is now part of any responsible strategy of corporate world. Industries are now more open to the better environmental performance. Now the performance of a business concern is not only judged on financial parameters but also on the basis of contribution towards protection of environment. Some efforts are made to standardize the environmental management system and environmental reports at international level but still a lot of efforts are required in this direction. Present paper is an attempt to look into various Theoretical Perspectives of Corporate Environmental Reporting.

Keyword: Corporate Environmental Reporting, Triple Bottom Line Reporting, Sustainability Reporting, Stakeholder Theory, Legitimacy Theory

INTRODUCTION

The term environment can be explained in a multi-dimensional way. Quoting in the words of various individuals and bodies; Einstein quotes "Environment is everything but myself". The European Commission defines environment as "the physical surroundings and includes air, water, land, flora, fauna and non-renewable resources as fossil fuels and minerals." In this contemporary world, considering the fast pace of population growth industrialization has become essential.To pay heed to the growing demands of the increasing population any nation cannot obviate the need of industrialization. However, this approach is misplaced because parallel to industrialization goes environmental degradation disturbing the ecological balance of our planet. Industries like Chemicals, Pesticides, Cement, FMCG and Petroleum are contributing towards ecological degradation.

Today, Environmental Impact Assessment has become a basic tool in sustainable development. Now various stakeholders expect more disclosures from companies on environmental impact and performance. As a result a large number of companies all over

the world have started reporting on environmental issues in their annual reports. Business and industries are increasingly realizing their role in sustainable development management and hence a new area of management is fast emerging known as 'Environmental Accounting and Reporting'. An environmental report is a document published by the company through which company gives information to the various stakeholders regarding the environmental issues related to the company. It not only establishes a link between company and the stakeholders, but also promotes cooperation on environmental issues between company and various concerned parties.

HISTORY OF CORPORATE ENVIRONMENTAL REPORTING

The concept of Corporate Social Disclosure (CSD) in annual reports of the companies first emerged as a companion to the debate on corporate social responsibility in the late 1960s and early 1970s. At that stage, Corporate Environmental Disclosure (CED) was not addressed separately, but was considered as part of the Corporate Social Disclosures. Normally such disclosures were included by the companies in their annual reports, but most of the time, these disclosures were incomplete, inconsistent, incomparable, unverified and declarative in nature rather than quantitative or in monetary terms. However, in mid 1970s, the global financial crunch rippled the force with which corporate disclosures were made in the financial records. The Global meltdown laid stress over the firms to work towards increased profitability against their societal responsibilities.The issue of global concern of deterioration of the environment was first manifested in the United Nations Conference on Human Environment which was held at Stockholm in June 1972.The parameters kept in focus while this manifestation was the dangers posed to the quality of human life by continuous degradation of ecological assets and increased level of pollutants due to industrialization emissions.To tackle this global concern,United Nations Environment Programme was established resulting into creation of World Commission on Environment and Development in 1983,headed by Madam Brundtland,Prime Minister of Norway.Such International manifestations have also inspired various nations to coin and frame various rules and regulations for environmental protection. For example Eastman Kodak published its first Environmental Reports in 1988. As a result of green revolution and growing concern for environmental protection, in the early 1990s Corporate Environmental Disclosure emerged as separate field of disclosures, different from Corporate Social Disclosure. Some key events during the last few decades that illustrate the growing interest in sustainable development are outlined below:

- 1970: First 'Earth Day' was celebrated on 22nd April, 1970.
- 1970: U.S. Congress authorized the creation Environmental Protection Agency (EPA) for tackling environmental issues.

- 1972: The United Nations Conference on the Environment washeld at Stockholm for considering environmental issues.
- 1976: The Organisation for Economic Co-operation and Development (OECD) releases the OECD Guidelines for multinational enterprises as a set of voluntary standards and principles for responsible business.
- 1980: World Conservation Strategy was held at Switzerland, with the objective of defining the sustainability Development.
- 1985: Toxics Release Inventory (TRI), a publicly available database containing information on toxic chemical releases and other waste management activities released in the United States.
- 1987:World commission on Environment and Development published a report "Our Common Future", which comprehensively defined the term sustainable development.
- 1992:UN Convention on climate change was held at Rio-de-Janerio popularly known as 'First Earth Summit', where declaration on saving climate was agreed and signed by different countries of the world.
- 1992: Coalition for Environmentally Responsible Economies (CERES), issued guidelines for establishing environmentally sound investment policies.
- 1993: Public Environmental Reporting Initiative (PERI), issued environmental reporting guidelines.
- 1994: Global Environmental Management Initiative (GEMI), issued guidelines for environmental management.
- 1996: The International Organization for Standardization releases its first environmental standard, ISO 14000.
- 1997: The Global Reporting Initiative (GRI) is formed by Ceres and the Tellus Institute, two Boston-based nonprofit organizations. The GRI releases its Sustainability Reporting Guidelines in 2000.
- 2000 :On the initiative of UN Secretary General, Kofi Annan, United Nations Global Compact was established to promote global corporate citizenship. United Nations Global Compact issued ten fundamental principles in the area of human rights, labour, and environment protection.
- 2000 :The Carbon Disclosure Project is created to encourage companies to disclose their greenhouse gas emissions.
- 2001: Africa's Development (NEPAD), a partnership between various African countries was formed to provide a common strategy for development of African countries.

- 2001: At the fourth World Trade Organisation (WTO) ministerial conference in Doha, Qatar, a new round of trade negotiationsfocused on promoting sustainable development was held.
- 2003: AccountAbility releases its AA1000 Assurance Standard.
- 2006: Amsterdam Global Conference on Sustainability and Transparency was organized.
- 2010: The GRI and GC sign a Memorandum of Understanding in which the two initiatives agree to align their efforts to promote CSR.
- 2010: The International Organization for Standardization releases its first CSR standard, ISO 26000.
- 2011: Ministry of Corporate Affairs (MCA), Government of India, issued National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business.
- Fourth set of guidelines known as G4 was issued by Global Reporting Initiatives (GRI).

CONCEPT OF CORPORATE ENVIRONMENTAL REPORTING

The concept of Corporate Environmental Reporting can be understood and analysed by understanding the meaning of Reporting and Corporate Disclosure individually.Reporting aims at providing apt and useful information about the economic and corporate affairs to various parties like investors and potential investors,creditors,government and other stakeholders.Corporate disclosures are those items in annual reports which are of material use to various users.According to Longman Dictionary, reporting is the "fact or details that tell you something about a situation, person, event etc". In the case of corporate reporting, Bromwich (1992) defines it as "new knowledge, which leads to a change in actions of decision-makers". So the corporate reporting aims at providing useful information about its activities to present and potential investors, creditors and other stakeholders. This information may be voluntary or involuntary, quantitative and qualitative but has an important impact on the decision makers.

Choi (1973) defines corporate disclosure as "the publication of any economic information relating to a business enterprise quantitative or otherwise, which facilitates the making of investment decisions". This is a narrow definition of disclosure, as it suggests that disclosure is made only to facilitate investment decisions and ignores the fact that in addition to those users (e. g. investors and creditors) who make investment decisions, there are a number of other users (such as environmentalists, labour unions, and the community) who are interested in different aspects of business activities (Bedford, 1973). A more extensive definition was provided by Cooke (1989),who defined corporate

disclosure as "those items in corporate annual reports that are relevant and material to the decision-making process of users who are unable to demand information for their particular needs".

However, the emphasis of corporate reporting shifted from financial reporting to non-financial reporting in the late 1970's and a large number of firms started including non-financial information in their corporate reports. But, despite the extensive movement in the 1970s of Corporate Social and Environmental Disclosures (CSED), there is still neither widespread recognition nor agreement on how CSED should be defined (Gray et al., 1995).

One of the earliest attempts comes from Gray et al. (1985) who defined CSED as "the process of communicating the social and environmental effects of organisations economic actions to particular interest groups within society and to society at large". Moreover, Gray et al. (1987) argued that organisations use CSED to discharge their social accountability. They explained social accountability, as "the responsibility to account for actions for which there is social responsibility under an established contract. Further social responsibility means a responsibility for actions which do not have purely financial implications and which are demanded of an organisation under some implicit or explicit identifiable contract". However this definition gives more emphasis on the compulsory disclosures under the various laws and provisions as it says that organization take up only those activities which are demanded from it, but there are many activities in which firm involves itself without being demanded by anybody. Such activities are voluntary activities.

Mathews (1993) gives more attention to voluntary disclosure rather than compulsory. This might be due to the absence of mandatory requirements for such disclosure in most countries. Mathews defined CSED as "voluntary disclosures of information, both qualitative and quantitative, made by organisations to inform or influence a range of audiences. The quantitative disclosures may be in financial or non-financial terms". This definition of Mathews considers only voluntary disclosures that are undertaken by the firms. However, it considers both financial and non-financial disclosures.

Clarkson et al. (2006) divided environmental disclosures into two categories: hard and soft. This categorization is based on the quality of the information disclosed. Hard disclosures include: governance structure and management systems, credibility, environmental performance indicators and environmental spending. Soft disclosures include: vision and strategy, environmental profile, and environmental initiatives. Hard disclosures are considered to be of higher quality because it is difficult for poor environmental performers to mimic the disclosures.

Some of the other definitions given by different experts are given in following table.

Table Definitions of corporate environmental reporting/disclosure

Environmental reporting is an umbrella term that describes the various means by which companies disclose information on their environmental activities. This should not be confused with corporate environmental reports (CERs), which represent only one form of environmental reporting. CERs are publicly available, stand-alone reports issued voluntarily by companies on their environmental activities.	Brophy& Starkey, 1998, p. 151-153.
Corporate environmental disclosure can be viewed as an outcome of management's assessment of the economic costs and benefits to be derived from additional disclosure.	Blacconiere&Northcut, 1997, p. 154-157.
Environmental reporting relates to data that is gathered in accounting systems, recognised, classified, measured, calculated or estimated, recorded, verified and then disclosed.	Schaltegger& Burritt, 2000, p. 272.
Corporate environmental reporting is a "process of communicating externally the environmental effects of organizations' economic actions through the corporate annual report or a separate stand-alone publicly available environmental report".	O'Dwyer, 2001, p. 9.
Corporate environmental reporting is an activity which includes "outlines of the organization's attitude to the environment, glossy pictures of 'bits of the environment', reference to EMS and environmental audit, tables showing selected data on the levels of emissions and wastes produced by the organization and suggestions about levels of environmental investment".	Gray &Bebbington, 2002, p. 241.
Environmental disclosure can be defined as the disclosure made by an organisation about its positive and negative impacts on the broader physical environment within which it operates.	Deegan, 2010, p. 96.
Environmental reporting is used to illustrate the	Solomon, 2010, p. 261.

way in which companies discharge their accountability in the social and environmental area.	
Environmental reporting is a multi-faceted and rapidly developing field that influences companies' communication strategies and image profiles, as well as the organisation, staff, accounting systems, and particularly their underlying information management systems.	Isenmann& Marx-Gomez, 2004, p. 1-4.

Source: ShamimaHaque 'Climate Change-Related Corporate Governance Disclosure Practices: Evidence from Australia', p 31-32.

PRINCIPLES OF ENVIRONMENTAL REPORTING

Different studies have suggested different principle of corporate environmental reporting. Following are some of the important principles.

i) Sustainability:

Sustainability deals with theactions, which if taken at present can help society in future. Raw materials of an extractive nature, such as coal, iron or oil are once used, are not available for future use. So, this is one of the main concerns of the society as these materials are limited in quantity. In future therefore, we need some alternatives to fulfill the functions currently provided by these materials and resources. The principle of sustainability in environmental reporting implies that society must not use resources more than it can regenerate. This can be defined in terms of carrying capacity of the ecosystem and described with input- output model of resource consumption.

ii) Accountability:

Most of the actions of a firm affects the external environment. Accountability is process associated with recognizing such affect therefore assuming responsibility for the effect. More specifically, the principle of Accountability implies, the reporting of effect of actions of the firm to all the parties having effect of such actions that is stakeholders. Accountability therefore necessitates the developments of appropriate measures of environmental performance and reporting of the actions of the firm of all stakeholders.

iii) Transparency:

Transparency is very important principle in environmental reporting due to the fact that there is lot of information which is available to internal users but such information and

background detail is not available to the external users. Transparency as a principle in environmental reporting, means that all material information having impact on environment must ascertained and pertinent fact are not disguised within that reporting. Thus, all the effects of the actions of the organization, including external impact, should be apparent to all.

THEORETICAL PERSPECTIVES OF CORPORATE ENVIRONMENTAL REPORTING

A number of theoretical perspectives have been utilised in an attempt to explain the existence of, and motivation for, voluntary environmental disclosures of company annual reports. Gray, Kouhy and Lavers (1995) categorise these attempts into three broad groups being decision-usefulness studies, economic theory studies and social and political theory studies. Decision-usefulness studies in the environmental disclosure literature tend to fall into two broad categories (Gray, Kouhy& Lavers 1995b) being the decision-makers emphasis and the decision-models emphasis (Deegan 2006). The decision-makers emphasis focuses upon what users want and includes studies that ask participants to rank items in terms of their importance, such as asking investors to rank the type of information they would like included in the annual report in order of importance (Epstein & Freedman 1994). On the other hand, studies based on the decision-models emphasis attempt to determine whether social responsibility information has an information value to financial markets or participants. While Gray et al (1995) do criticise decision-usefulness studies as being 'mis-specified and under-theorized', they do acknowledge that the associated literature has raised the level of importance of social responsibility reporting and led, in part, to the emergence of economic theories such as Positive Accounting Theory.

POSITIVE ACCOUNTING THEORY (PAT)

This theory was made popular by Watts and Zimmerman (1986). They define Positive Accounting Theory as being concerned with explaining accounting practice. It is designed to explain and predict which firms will and which firms will not use a particular method. Positive Accounting Theory is based on the wealth-maximisation and individual self-interest concepts underlying economic theory (Gray,Kouhy&Lavers 1995b). As such it is consistent with the argument that the primary responsibility of the corporation is 'to use its resources and engage in activities designed to increase its profits' (Friedman 1962). Hence, explaining the existence of social and environmental disclosure within the PAT framework provides a somewhat limited view of the phenomenon. A typical utilisation of PAT explains movements towards socially or environmentally responsible behaviour and/or disclosure as being a result of market forces 'that directs the self-interest of the entrepreneur into socially useful channels' (Abbott &Monsen 1979). While it

would be unrealistic to ignore the presence of this behaviour, relying upon self-interest and expectations of wealth-maximisation as the main or sole motivation for corporate environmental disclosures has been criticised as social and political factors also impact upon the corporation (Gray, Kouhy& Lavers 1995). Corporations operate within an environment of many constituents, often with conflicting aims and objectives. Now the firms are not solely responsible for economic objectives but community expect companies to act in socially and environmental responsible manner. Consequently, the application of many economic theories, including PAT in the discussion of corporate social and environmental behaviour and disclosure has been described as 'not only empirically implausible but also highly offensive' (Gray, Kouhy and Lavers 1995b, p. 52).

POLITICAL ECONOMY THEORY

Political Economy Theory (PAT) is based on the economic concept of self-interest. This theory believes that companies with large number of shareholders is more likely to be in public eye and is subject to more disclosures. These corporations are generally watched by regulatory agencies for their activities and generally exposed to political attack such as pressure for social responsibility, price control and corporate taxes. This pressure crates a threat for the companies like increase government intervention and strict regulations. Devices such as social responsibility campaign in media can be employed by firms to minimize government intrusion (Watts and Zimmerman, 1978).

The usefulness of political economy theory is that it does not focus solely on the economic self-interest and wealth-maximization of the individual or corporation. Instead, the political economy theory (PET) considers the political, social and institutional framework within which the economic activities take place (Gray, Kouhy and Lavers, 1995). Adams, in his study found that firms report only that information which creates a positive impression about the firm and generally there is a tendency to hide the negative information. He noted that the high level of social disclosure in the UK compared to other European countries could be seen as a corporate attempt to prevent further social and environmental regulation in the UK. Several empirical studies have identified an increase of social and environmental annual report disclosures that correspond with periods where those issues peaked in importance politically and /or socially (Guthrie and parker, 1989). So, in this context we can say that corporate use social and environmental disclosures as a strategic tool for changing the perception of external users towards the business.

Gray, Owen and Adams (1995) usefully classified the political economy theories into two streams; that is the Classical and Bourgeois variant of political economy theory views. The Classical political economy theory is linked to the works of Marx and the existence of class interest, power and conflict within society. It is the classical political economy theory

views corporate environmental reporting as tool to legitimize the corporate ideology and ensure achievement of overall objective of profitability.

However under Bourgeois political economy approach, corporate social environmental reporting is considered to be a function of social and/or political pressure, and companies facing greater social/political pressures are believed to provide more extensive corporate social environmental reporting. Corporate social environmental reporting is seen as a response to competing pressures from various stakeholders such as governments, customers, creditor's suppliers, the general public and other social activist groups.

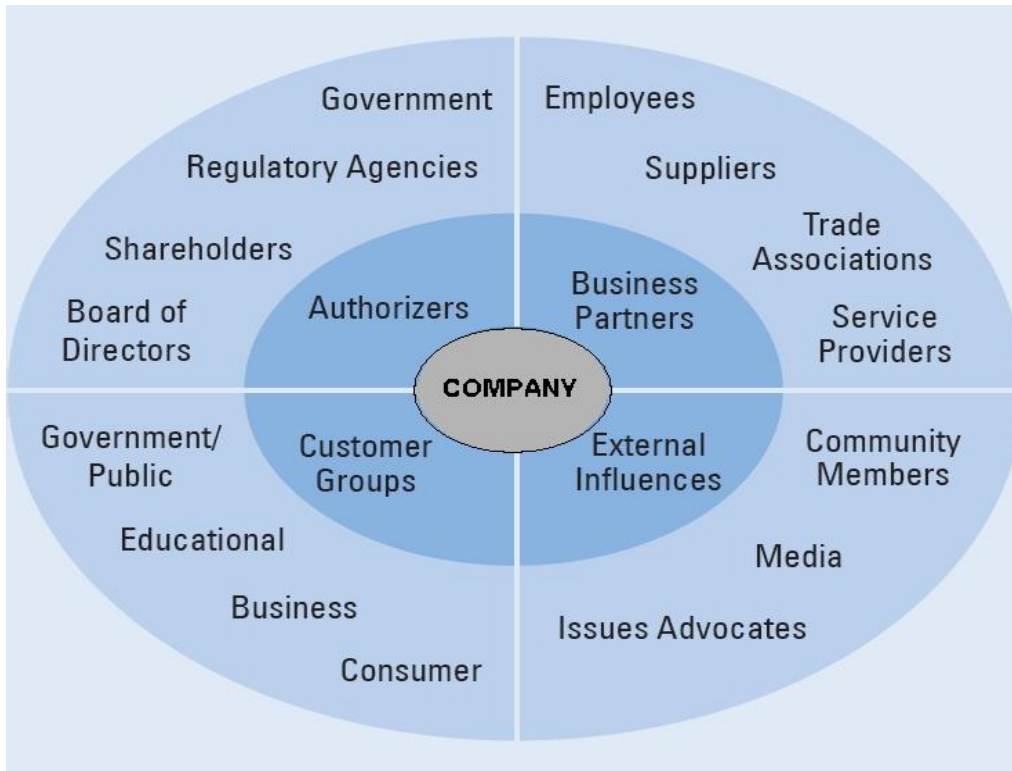
STAKEHOLDER THEORY

The concept of Stakeholder Theory was first described by Freeman (1984), in his book titled "Strategic Management: A Stakeholder Approach". The basic concept of the stakeholder theory is that the firm's success depends upon the successful management of relationships with stakeholders. However the term 'Stakeholder' is very wide and its definition has undergone substantial change over a period of time. Initially it wasassumed that the term stakeholder refers only to the shareholders. This definition was based on the views of Friedman (1962) who believed that the corporation's only objective is to maximize the wealth of its shareholders. However, this definition of stakeholder was changed by Freeman (1984) who gave it a broader perspective. He defined the stakeholder as "any group or individual who can affect or is affected by the achievement of the firm's objectives". So in his definition he covered all those persons which are affecting the business or being affected by the business. Hill and Jones (1992) defined stakeholders as "constituents who have a legitimate claim on the firm". As per these definition an organization is likely to have many stakeholders such as shareholders, customers, suppliers, employees, creditors, competitors, public interest groups, local communities, governmental bodies, stock markets, industry bodies, national and international society and the general public. On the basis of above definitions stakeholders can be divided into various groups such as internal or external; primary or secondary; owners or non-owners of the firm; owners of the capital or owners of less tangible assets; actors or those acted upon; those existing in a voluntary or an involuntary relationship with the firm; and resource providers to or dependents of the firm etc. Freeman divided the stakeholders in two categories i.e. primary stakeholders and secondary stakeholders. According to him the primary stakeholders are those stakeholders without continuous support and participation of which a company cannot survive as a 'going concern'. These are the persons who have either direct economic stake in the business or have a direct impact of functioning or decision making of the business such as shareholders, creditors, managers and employees, customers, suppliers, and regulatory stakeholders. Shareholders provide capital to the firm

and in return expect a risk-adjusted fair return from the business. Similarly creditors provide finance to the business and expect fair return, safety of funds and repayment as per agreed schedule. Managers and employees are very important part of the business and provide the firm with time, skills, commitment etc. and in return expect a remuneration which is in proportion to their efforts and also expects fair working conditions. Consumers are very important for the business as they provide revenue but at the same time they expect value of their money. Suppliers provide the firm with the required inputs and similarly they seek fair price of their goods and services. Regulatory stakeholders include government and other regulatory bodies. On one side government provides required infrastructure for the business and on the other side, they expect business to pay tax honestly.

Secondary stakeholders though don't have a direct control or interference in the business but still they can affect the business through their influence on primary stakeholders. Secondary stake holders include the general public and media. The general public, as taxpayers, provides the firm with a national infrastructure and in exchange, they expect corporate citizens not to violate the rules of the game established by the public. The media, through mass communication technology, can influence society's perception of a company. Hence, it can mobilize public opinion in favor of or against a corporation's environmental performance.Company's stakeholders can be grouped in the following four categories:

- **Authorizers** – this group includes government, regulatory authorities, shareholders, and the Board of Directors. These are the stakeholders who have authority over the company and authorize its decisions;
- **Business partners** – employees, suppliers, trade associations, and service providers are all business partners. These stakeholders help company in reaching its objectives;
- **Customer groups –** all kind of customers fall within this stakeholder group; and
- **External influences** – community members, media, and issue advocates also influence company's decision-making process.



Source: Based on Dell (2007), Dell's Sustainability Report for fiscal year 2006.

Stakeholder Model

The stakeholder theory asserts that corporation's continued existence requires the support of the stakeholders and their approval must be sought and the activities of the corporation adjusted to gain that approval(Chan, 1996). The more powerful the stakeholders, the more the company must adapt. Environmental reporting is thus seen as part of the dialogue between the company and its stakeholders (Gray, Kouhy and Lavers, 1995). Stakeholder theory has two different categories (Gray et al., 1996; Deegan, 2000). The first category relates to the ethical or normative branch (which is prescriptive) and the second category relates to the managerial branch (which is descriptive). The ethical or normative perspective of stakeholder theory argues that all stakeholders have certain minimum rights that must not be violated and should be met regardless of the power of the stakeholders involved. Accordingly, and in conformity with the concept of social contract, all stakeholders have a right to be provided with information about the organization's impact on them, regardless of whether or not such information would be utilized (Deegan, 2000). Taking the same view about the rights to information, Gray et al. (1996) define accountability as "the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible". They argue that

such accountability involves two responsibilities or duties: (a) the responsibility to undertake certain actions; and (b) the responsibility to provide an account of those actions.

LEGITIMACY THEORY

The concept of legitimacy though discussed by many researchers but not properly defined by many. This concept has its roots in many areas. According to Rosen (1979), the term "legitimacy" is coined from the classical Latin "legitimus", meaning according to law. However as considered by many researchers the term law here not only means the rules and regulations as enforced by the legal system of the place but the social laws on base of which the moral and ethical behavior is judged. Legitimacy has been defined by Lindblom (1994) as:

"……a condition or status which exists when an entity's value system is congruent with the value system of the larger 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."

Normally the organisational legitimacy is from different perspectives. First perspective considers that organization is legitimate if it is economically viable. The second perspective is based on both economic viability as well as legal viability i.e. adherence to laws. The third perspective is most wide in scope and views that organisation can only be truly legitimate only if it combination of economic viability, adherence to laws and congruence with generally accepted social values and norms in place.

The first perspective considers that an organization is only legitimate only if is economically viable i.e. it is providing fair return to its shareholders who have provided funds for the business of the organization. Friedman (1962) proposed that an organisation's sole responsibility, and thus legitimacy, was to maximize profits. Mathews (1993) indicates that organisational legitimacy does not arise from merely making a profit and abiding to legal requirements. The second perspective is based on compliance with the laws of the day. So, as per this perspective an organization can be considered legitimate only if it is abiding all the rules and regulations as framed by the legal authorities. In case a firm is violating the laws it cannot be considered as legitimate firm.However this perspective of legitimacy is narrow in scope and does consider only rules and regulations framed by legal authorities and not the social rules and norms.

The third perspective is wider in scope and not only considers first two perspective but also social norms and values. Mathews (1993) indicates that organizational legitimacy does not arise from merely making a profit and abiding to legal requirements. Instead, reference to the prevailing norms and values of society is fundamental in ensuring that an organization is bestowed legitimacy. As per organisational legitimacy theory there are four

stages of legitimacy and a firm may be in any of these four stages. These four stages are given as follows:

1. **Establishing Legitimacy.** At this stage firm wants to establish the legitimacy. This phase generally occurs during the initial stage of firm's development. During this stage though firm's main stress is on the economic legitimacy but the organisation must be aware of "socially constructed standards of quality and desirability as well as perform in accordance with accepted standards of professionalism" (Hearit, 1995).
2. **Maintaining Legitimacy.** This is the phase in which most of the firms operate. Generally firms believe that there won't be much problem in maintaining legitimacy once it is established. However it is not that easy as it appears. Legitimacy is not a static concept rather it is a dynamic concept. . "Community expectations are not considered static, but rather, changes across time thereby requiring organisations to be responsive to the environment in which they operate. An organisation could, accepting this view, lose its legitimacy even if it has not changed its activities from activities which were previously deemed acceptable (legitimate)" (Deegan et al., 2002).
3. **Extending Legitimacy.** Once the firm has successfully maintained is legitimacy, they want to extend it. Sometimes firm enters in a new market or want to change its position in the current market. At that point of time there is need of extending the legitimacy. This can give rise to a need to extend legitimacy which is "apt to be intense and proactive as management attempts to win the confidence and support of wary potential constituents" (Ashford and Gibbs, 1990).
4. **Defending Legitimacy.** There are certain incidents which challenge the legitimacy. Such incidents may be external or internal. So, a firm needs to defend its legitimacy. "Legitimation activities tend to be intense and reactive as management attempts to counter the threat" (Ashford and Gibbs, 1990,). Not only the major incident needs defending the legitimacy but a firm continuously needs to defend its legitimacy, by the mere fact that "corporations must fulfill both a competence and community requirement to realize legitimacy… Satisfaction of stockholder interests often occurs at the expense of community concerns (e.g., the despoiling of the environment, the use of labour) while, conversely, responsibility to the larger community often occurs at the expense of the stockholder" (Hearit, 1995). It is this last phase that has tended to be the main focus of accounting researchers. It also provides us with the clearest opportunity to examine the crucial link between legitimacy and resources.

Legitimacy theories are based on assumption that an organization's existence depend on the fact that how society perceives the business. It assumes that business is a part of

interconnected social, political, institutional, and economic system and it must be in consistent with political economy, social contract, and institutional theories. If the corporations do not appear to operate within the bounds of the behavior considered appropriate by the community, then the community will act to remove the organization's right to continue its operations. When an actual and potential disparity exist between the business and social value systems, this will lead to threats to organizational legitimacy in the form of legal, economic, and other sanctions. Sethi (1978) identified four possible business strategies an organisation may adopt to narrow any legitimacy gap:

1. Do not change performance, but change public perception of business performance through education and information.
2. If changes in public perception are not possible, change the symbols used to describe business performance, thereby making it congruent with public perception.
3. Attempt to change societal expectations of business performance through education and information.
4. When strategies 1 to 3 are ineffective, bring about changes in business performance, thereby closely matching it with society's expectations.

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