



The relationship between legitimacy, reputation, sustainability and branding for companies and their supply chains

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ABSTRACT

This paper aims at filling a gap that we perceive to exist in the scientific literature as to legitimacy, reputation and sustainability and their interrelationship to corporate and supply chain branding. A series of innovative theoretical frameworks are provided interrelating companies and their value (supply) chains with legitimacy, reputation, and branding which are essential conditions to achieve sustainability and competitive advantage based on dyadic and social context consonance to the benefit of society and all stakeholders involved. An urgently required better understanding of the concepts and their interrelations is enhanced by a synthesized explanatory basis entailing an eclectic mosaic of interdisciplinary theories (institutionalist, neo-institutionalist theories, the viable system approach, isomorphism and identity) to improve corporate and supply chain performance. To better inform managerial practice the theoretical considerations are spiced with case studies among which especially the currently debated supply chain case of the European horse meat scandal is illuminated suggesting concrete managerial cross-functional implications in the food industry. The paper culminates in the call for a newly to-be-established marketing stream we call 'Sustainable and Curative Marketing'.

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1. Introduction

A lack of co-ordinated corporate or supply chain response to new and often threatening trends and pressures exerted by macro environmental stimuli has a negative bearing on the reputation of the company and its supply chain. Threatening incidents can be corporate and supply chain scandals (i.e. European horse meat scandal) or non-compliance with national or international legal regulations (such as Basel III; transfer pricing). To avoid these lacunae, brand managers are recommended to better protect the consistency of their brands' values during their supply chain journey (Lopez, 2011) and to better adapt to their social context. This implies that the rules in the global business arena need to change: brand managers, supply chain members, consumers and stakeholders, must become co-operating gladiators to arrive at the best possible practices and grow a sustainable brand (Barrow, 2013; Lindgreen, Xu, Maon, & Wilcock, 2012; Lopez, 2011; Meads & Sharma, 2008). According to Barrow (2013), "it is crucial that everyone involved is making decisions based on the impact for the whole value chain and that they are given the tools to understand how a design or process change will affect the cost and footprint, from the raw material level through a product's end of life". For this purpose, our paper innovatively

synthesizes and explains a number of conceptual frameworks for improving the overall corporate and supply chain performance to the benefit of society and all stakeholders involved. We link the notions of sustainability, ethical/social responsibility, Corporate Social Responsibility (CSR) and supply chain management with the legitimacy, reputation and branding concepts. Acknowledging the differences and effective interplay between legitimacy and reputation, according to the sustainability concept, becomes important when carrying out governance activities and when planning supply chain management. The paper culminates in the call for a newly to be established marketing stream we call 'Sustainable and Curative Marketing'.

The conceptual basis of this work rests on the assumption that, although different in their respective purposes, legitimacy and reputation can become mutually supportive 'institutions', i.e. conditions, useful to acquire social status and competitive advantage, both of which are key objectives for companies and their supply chains. An urgently required better understanding of the concepts and their interrelations is enhanced by an explanatory basis provided by interdisciplinary theories (institutionalist, neo-institutionalist theories, the viable system approach, isomorphism and identity) to improve corporate and supply chain behavior. Finally, the paper introduces a new paradigmatic suggestion, called curative marketing, which appeals for increased reflection on current marketing shortcomings triggered by a restitution spirit as a precondition to improve the current lacunae. Intending to better inform managerial practice the theoretical considerations are spiced with case studies among which especially the currently debated supply

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chain case of the European horse meat scandal is illuminated suggesting concrete managerial implications for various business functions in the food industry.

2. Legitimacy and corporate performance perceptions

The term legitimacy was defined by Parsons (1956, 1960) and then Weber (1978) as a state of congruence towards laws, rules and social values. Scholars of social theory, organization, and the Resource-based View Theory introduced the notion of legitimacy in their theories (Johnson, Smith, & Codling, 2006; Ruef & Scott, 1998; Salancik & Pfeffer, 1978; Suchman, 1995). In the late '70s, pioneers of the Neo-Institutional approach, such as Meyer and Rowan (1977) and Zucker (1977), while analyzing the ability of an organization to achieve survival, stressed the importance of expressing behavioral patterns conforming to standards, rules and beliefs of the reference context, in addition to more established factors such as organizational efficiency. From the seminal work of Meyer and Rowan onwards, all scholars belonging to the neo-institutional school argue that organizations that shape their behavior to moral rules and regulations of their reference context can be defined as legitimate. According to Fan (2005) (in Kaufmann, Vrontis, & Czinkota, 2012; Camilleri, 2008), effectively communicating legitimacy related values might give the company a differential and competitive advantage. In this context, Hawn, Chatterji, and Mitchell (2011) differentiated between market (related to market actors) and social legitimacy (related to non-market actors) in generating economic value and, innovatively, investigated their interactions. They elicited that increasing their social legitimacy is less beneficial for companies being already on a high level of market legitimacy; on the other hand, the high level of market legitimacy may substitute for a decreasing social legitimacy.

This constant search for contextual conformity and, hence, survival may shield the company from any behavioral change that could induce sanctioning reactions (i.e. strikes) from context members (Brown, 1998). The meaning of legitimacy employed in this study is succinctly expressed by Scott (1995, p. 45), who argues that “legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws”. The social dimension of branding in this context is expanded by Meads and Sharma (2008, p.9) who state that: “The business becomes a social purposeful system with the brand aspiring towards ‘social value’” (Meads & Sharma, 2008, p.9).

2.1. Central hypothesis

These definitions mark the central hypothesis of our research: legitimacy should be regarded the *conditio sine qua non* both to the social acceptance of the company and to a coherent implementation of reputation strategies.

These considerations, however, highlight the existence of a gap in the line of studies regarding corporate/brand reputation. According to research by Van Riel and Fombrun the corporate image that stakeholders develop as a result of corporate communication activities, refers to four domains (product, social, financial and employment) and is aimed to distinctly recognize the company from among its many competitors (Brown, Dacin, Pratt, & Whetten, 2006; Davies, Chun, da Silva, & Roper, 2001; Fombrun, 1996; Fombrun & van Riel, 2003; Gioia, Schultz, & Corley, 2000; Illia & Lurati, 2006; Pruzan, 2001; Scott & Lane, 2000; Van Riel & Fombrun, 2007; Whetten & Mackey, 2002). However, this assumption considers conformity of the company to rules, norms and cultural values of the reference context, as a behavior merely aimed at standing out in the competitive scenario characterized by a condition of rivalry. This view overlooks that behavior consistent with context requirements also allows the company to reach a perceptive, solely institutionally and even context targeted, positioning in constituencies' minds (cognitive legitimacy) and does not necessarily result in

distinctive evaluations compared with competitors, or an effect on financial results (Suchman, 1995). Hence, corporate legitimate behavior should not be regarded as having competitive and/or financial motives in the first place.

For example, many place marketing studies conclude that the extent of compliance of an organization with social expectations can reinforce or reduce a territory's attractiveness (for example, companies that do not meet environmental standards may make the area in which they operate to be perceived as highly polluted and, therefore, economically, socially and/or touristically unattractive) (Chiu, 2011; Zimmermann, 2001).

Following this line of thought, corporate behavior and, in its wake, the entire supply chain behavior, may trigger a dual (economic and institutional) approach towards its reference context.

This work shows that in the first case, when corporate behavior is merely geared towards the bottom line, reputation is exclusively seen as the capacity to cause results related to competitiveness.

The institutional approach, on the other hand, caters to the social, cultural, ethical role that the company plays within its reference context, and, therefore, is also about how the company itself is socially perceived by the community with which it interacts either directly or indirectly (Rindova, Williamson, Petkova, & Sever, 2005).

2.2. Differences between legitimacy and reputation

Some researchers describe the firm as either a *social* (Kogut & Zander, 1996) or a *discursive* (Tsoukas, 1996) community, or as a *community of practice* (Constant, 1987; Kreiner & Lee, 1999). Shifting the perspective, scholars like Kjellberg and Helgesson (2006), Andersson, Aspenberg, and Kjellberg (2008), or Araujo, Kjellberg, and Spencer (2008), and Storbacka and Nenonen (2008) refer to the notion of co-created markets as actors increasingly engaged in market and/or social practices. Recurring social practices, undertaken by individuals and social organizations within a social system, enable the establishment of relations between social players. Such relations in turn will evolve to mutual adaptation of social actors' respective activities (Giddens, 1984). This phenomenon marks a process of *reflexive self-regulation*, typical of social integration phenomena and of cybernetic systems as well as the expression of relational reciprocity among actors who are co-present (Staber & Sydow, 2002; Wiener, 1948; Bateson, 1977; Beer, 1959, 1966, 1985; Yolles, 1999). Berger and Luckmann (1966), furthermore, argued that organizations eventually mirror their environment as they reflect socially assembled realities.

A constant search by the company for such a state of consonance in the creation and/or maintenance of its relationships and mutual adjustment/change of practices and behavior employed by the social players, therefore express the existence of a continuous adaptation process (Golinelli, 2010; Maturana & Varela, 1980).

In such a dynamic business scenario, the corporate system constantly looks for players with which to create and maintain lasting relations, through the development of, first, a state of consonance, and, then, of resonance. Consonance, as previously mentioned, is a condition that is achieved when the relevant players (corporate and supply chain system and context members) identify a common language and shared emotions/passions, while resonance marks a relational evolution in which the players create opportunities to reach common goals (Barile, 2006; Golinelli, 2010).

Regarding the status, the individual stakeholder could fulfill an alternative or complementary double role. For example, an individual could be a citizen and/or a consumer. In the first case the corporate aim should be to satisfy the environmental and social norms (legitimate behavior), and in the second case to evoke some idiosyncratic features arousing a distinct positioning compared to other competitors (reputation related behavior).

The plan is to have the stakeholder express relational consensus following an assessment of corporate conduct. That conduct in turn is

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