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Legitimacy through CSR disclosures? The advantage outweighs the disadvantages

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ABSTRACT

On the one hand, CSR is regarded as a means to strengthen legitimacy; on the other hand, stakeholders might become skeptical and distrust CSR disclosures. We develop a model by assuming that CSR disclosures both directly increase and indirectly decrease a company's legitimacy. The experimental study (N = 233) tests this CSR dilemma model by using three CSR disclosures of a commodity trading company as the stimuli, ranging from low to high communicated CSR engagement. The SEM reveals that the extent of communicated CSR has a positive effect on corporate legitimacy despite a high degree of stakeholder skepticism.

1. Legitimacy through CSR disclosures?

Although Switzerland is the hub of the global raw materials market, commodity trading companies went unnoticed by the Swiss public for a long time. Glencore Xstrata, which is now the third biggest company in Switzerland, had neither a PR division nor a spokesperson until 2011. It was thus the human resources manager who took delivery of the "Public-Eye-Award" in 2008, a "prize" for unethical business practices. Since then, the days of calm are over for these companies, with social movements and political initiatives striving for tighter regulation of the commodities sector. In particular, a campaign of the "Berne Declaration", a non-profit organization, has triggered more than 30 parliamentary initiatives (Sprecher, 2014; pp. 21–22). In 2013, three Swiss government departments jointly stated in the "Background Report: Commodities" that Switzerland expects CSR that goes beyond profitability and statutory requirements, for instance by participating in the "UN Global Compact" (FDFA, FDF, & EAER, 2013, p. 37). Alarmed by these recent developments, leading commodity trading companies like Glencore Xstrata have begun to communicate about CSR engagements—apparently in order to (re)gain legitimacy (Du & Vieira, 2012). This raises the question: *Can commodity trading companies enhance legitimacy through CSR disclosures*?

PR and CSR research provide two contrasting answers to this question. On the one hand, CSR is regarded as a means for companies to gain legitimacy (Chen, Patten, & Roberts, 2008; Deegan, 2002; Dowling & Pfeffer, 1975). Podnar and Golob (2007) found empirical evidence that CSR is "a way for a company to gain the license to operate and goodwill in the public eye" (p. 336). For commodity trading companies this would mean that CSR disclosures are worth doing in order to enhance legitimacy. On the other hand, Morsing, Schultz, and Nielsen (2008) caution companies about the "'Catch 22′ of communicating CSR": Although publics would expect companies to engage in CSR they nevertheless do "not appreciate" corporate communication about it (p. 108). Moreover, Ashforth and Gibbs (1990) warn companies with tarnished legitimacy about the "self-promoter's paradox": the lower the perceived legitimacy of a company, the more skeptical will publics be of legit-

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imation attempts (p. 186). Commodity trading companies belong to a controversial sector. If they try too hard to (re)gain legitimacy through CSR, they run the risk of achieving the exact opposite (Lindgreen et al., 2012; p. 394).

Referring to Bartlett (2011), we can conclude for the moment that commodity trading companies “are damned if they do [CSR] and damned if they do not”. In order to resolve the two contrasting answers, Bartlett recommends that PR and CSR research analyze the “tension that nestles between the accusations of ‘spin’ and ‘greenwash’ around persuasion models” (p. 81). Following Bartlett’s recommendation, the paper’s aim is to develop and test a “CSR dilemma model”, which postulates that a direct positive impact of extensive CSR disclosures on perceived “corporate legitimacy” is indirectly suppressed and counteracted by “stakeholder skepticism” (Elving, 2013; Pomering & Dolnicar, 2009; Pomering & Johnson, 2009; Pomering, Johnson, & Noble, 2013). Elving (2013) explains that skepticism is associated with the “tendency to disbelief” and “distrust”, the attribution of “egoistic motives”, and even “cynicism” (p. 279). In this paper, we understand stakeholder skepticism as a generic term that encompasses the perceptions of “content credibility” and “persuasion intent”, which in turn evokes “reactance” as a socio-psychological defense mechanism (Brehm & Brehm, 1981; Quick, Shen, & Dillard, 2013).

This study addresses a research gap of PR and CSR research. There are as yet relatively few studies, as Bögel (2015) points out, “that use socio-psychological theory to examine psychological variables that determine how CSR information is processed and evaluated” (p. 129). Hence, the focus on the raw material sector and its commodity trading companies is less peculiar than it may seem. In the light of both their tarnished legitimacy and their recent, tentative CSR disclosures, an experimental study about a commodity trading company seems highly capable of testing whether or not the general “CSR dilemma model”, which takes stakeholder skepticism into account, is valid.

2. Developing the CSR dilemma model

There is no common definition of what is meant by “CSR” (Carroll, 2008; Crane, McWilliams, Matten, Moon, & Siegel, 2008; Lee, 2008; Marrewijk, 2003). In this paper, we understand CSR as a specific form of responsibility, which is – from a social sciences perspective – a multi-relational ascription that embraces a *subject*, an *object*, an *authority*, and a *criterion*: *somebody* has an obligation for *something*, towards *somebody*, on the basis of a certain *normative standard* (Bachmann & Ingenhoff, 2013). According to Pincoffs (1988), these responsibility-ascriptions take place in social interactions between individuals.

Referring to the CSR-ascription model of Bachmann and Ingenhoff (2013), we define CSR disclosures as specific, mediated responsibility-ascriptions, according to which companies (*subjects*) have the obligation to generate profits and revenues, accomplish social, political, and cultural benefits, or maintain or improve the quality of the environment (*objects*, Elkington, 1998), towards affected stakeholders (*authorities*, Freeman, 1984), on the basis of normative standards that are within and beyond profitability and legal requirements (*criteria*, Carroll, 1991). CSR ascriptions take place in social interactions between corporate members, who are authorized to act and speak in their company’s name (such as CEOs, PR officers, CSR officers), and individual members of the public. CSR disclosures are usually mediated through corporate websites (Esrock & Leichty, 1998; Maignan & Ralston, 2002; Capriotti, 2011), which perpetuates the “illusion” that companies are actors or moral persons.

Against this backdrop, we can specify what is meant by the “extent of CSR”. Accordingly, the extent of CSR is a continuum bounded between mandatory and discretionary CSR. We speak of a low extent of CSR when self-ascribed obligations are limited to accomplish mandatory normative standards in a given society, such as a company’s obligations to make products, generate profits, obey the law, or respect human rights. In contrast, we speak of a high extent of CSR when self-ascribed obligations exceed normative standards and thus are not compulsory but discretionary, for instance, with respect to philanthropic donations.

2.1. Proposition: CSR directly strengthens legitimacy

There is no common definition of what is meant by “legitimacy” either (Deegan, 2002; pp. 292–299). In this paper, we tackle this construct from a social-psychological perspective because the study’s aim is to understand how CSR disclosures are processed and evaluated by individual members of the public. In line with this, we define legitimacy, by referring to Tost (2011), as an individual’s perception or attitude as to how a company attempts to reach desirable goals or outcomes (*instrumental dimension*), how it treats others with dignity and respect (*relational dimension*), and how it acts consistent with normative standards (*moral dimension*) (Tost, 2011; further Tyler, 1997; Tyler, 2006). In line with our theoretical assumptions, we can make the proposition that authorized corporate members can strengthen their company’s legitimacy through extensive CSR disclosures. Discretionary CSR disclosures express that the company induces desirable outcomes for its stakeholders (*instrumental dimension*), that it treats its stakeholders with dignity and respect (*relational dimension*), and that its actions exceed normative standards such as profitability and legal requirements (*moral dimension*). Hence, we propose that:

H1. The greater the extent of a company’s CSR disclosure, the greater its corporate legitimacy as perceived by its stakeholders.