Ⅳ 査読論文

# Quest for a Single Theory to Explain Managerial Motivations for Sustainability Disclosures: Legitimacy Theory, Stakeholder Theory or Institutional Theory

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## 要　旨

経営者がサステナビリティ情報を開示する動機を説明する際，研究者は正統性理論，ステークホルダー理論，制度論といった 3 つの基礎理論を参照し，様々な仮説のために利用する。正統性理論は利己的である企業は開示を通じて企業経営を行っていくための社会的承認を求める，ステークホルダー理論は企業が「強力な」ステークホルダーを特定し，彼らのための開示を構築する，制度論は企業は「同型化」を追求し，サステナビリティ開示を含む社会分野および産業分野のさまざまな側面を模倣すると主張する。本稿の目的は，前述の経営者の動機に関する説明を容易にするために，上記の 3 つの理論のなかから単一の（適切な）理論を提示することである。本稿は文献レビューに基づく分析である。「単一理論」に関する結論に達する前に，それらの各理論を「単一理論」と（仮定的に）見なし，3 つの理論を比較する。つまり，各理論が単一理論として選択されたと仮定して，各理論の長所と短所を分析する。結論として，大部分の状況において，制度論がステークホルダー理論と正統性理論の両方を補完可能であり，サステナビリティ開示に関する経営者の動機を説明できる単一の理論であることが明らかになった。ただし，制度論が「単一理論」として選択された場合でも，特定のシナリオにおいては，ステークホルダー理論または正統性理論が制度論よりも優れている。本稿での考察をもとに，研究者は，サステナビリティ開示に関する問題を理解，説明，規定できるのとともに，前述の理論に関わる概念的枠組みを作成することができるであろう。

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# I Introduction

Organizations want to tune themselves with their surroundings, and hence, they communicate with society and related stakeholders (Coopers and Lybrand, 1993). There are numerous channels for organizational communication, such as advertising, public relations brochures, employee newsletter, annual report and so on (Deegan, 2002; O'Dwyer, 2001; Deegan and Rankin, 1999); among these, annual report is the most commonly accepted and recognized communication vehicle (Buhr, 2002). Following the popularity and acceptance of the annual reports, sustainability-related disclosures used to be a tiny part of it. However, nowadays, there are composite report (integrated report)—holding traditional annual report and sustainability disclosures —and standalone report (sustainability report), which contains only sustainability-related information; both the reports hold ESG (Environmental, Social and Governance) related issues.

Accounting reports (i.e., annual report, integrated report, sustainability report) are broadly considered as social, political and economic documents, that could influence economic and political arrangements and may also vibrate the private interests of a given firm. Interestingly, Corporate Social Reporting (CSR)(1), i.e., sustainability disclosures, are mostly voluntary; yet, firms publish sustainability information and take such efforts seriously to communicate varied categories of information to a given community or related stakeholder groups. This contrasting phenomenon has pushed numerous academics to dig deep to understand the managerial motivations behind such voluntary disclosures (Deegan, 2014b; Deegan, 2002; Guthrie and Parker, 1990).

To make the assessments more complex, there remain varied sources of managerial motivations for publishing voluntary sustainability information (Holder-Webb *et al.*, 2009). In most cases, managers are motivated from interest-based angles; however, few managers are motivated from corporate responsibility-based perspectives too. Furthermore, managers with irrational motivation, pursuing institutionalized pressures are also existent. To explain or interpret such managerial motivations, three fundamental theories are vastly accepted and practiced upon, namely, legitimacy theory, stakeholder theory and institutional theory. Choice of theory—for the researchers—in explaining managerial-motivations differs in accordance with individual value judgment (Deegan, 2014a). These three theories share some common features and have some contrasting ones too. Dissimilarities among these theories denote that depending on a given context, a certain theory might have better explanatory power compared to the others; the contribution of this paper comes from this angle of dissimilarity.

This paper attempts to find out whether there could be a 'single theory'—either legitimacy theory, stakeholder theory or institutional theory—that generally fits into all the contexts for explaining the managerial motivation for publishing sustainability disclosures. In other words, can a 'single theory' complement the other two theories in a comprehensive manner? Before approaching the said question, this paper also offers a comprehensive comparison of the three theories, along with a detailed presentation of the sources of managerial motivations for publishing sustainability disclosures. In this context, it is mention-worthy that there is another paper—Fernando and Lawrence (2014)—that used these same three theories to build a framework and tried to connect CSR motive or behavior with those. However, this paper adds values in a couple of ways: a) it integrates the idea of managerial motivation for CSR in a detailed way and b) it attempts to find out an all-rounder theory that may complement the other ones in most scenarios. This is a desktop-research, conducted by reviewing numerous pieces of literature and positioning related thoughts into the framework of this paper. The rest of the paper is arranged as such: section-2 depicts a conceptual framework and comprehensive comparison of legitimacy theory, stakeholder theory and institutional theory; section-3 enumerates varied sources of managerial motivations for publishing sustainability disclosures; section-4 holds findings and analysis, and the last section posts concluding remarks along with future research scope.

## II Conceptual Framework: Legitimacy Theory, Stakeholder Theory and Institutional Theory

Prior to the discussion related to the three fundamental CSR-explanting theories, one should remember that theory can only offer an abstract version of reality without comprehensive insights regarding phenomena (Deegan, 2014a). Again, researchers' diversified value judgments are vital determinants in the theory selection process while conducting a study (O' Leary, 1985).

Legitimacy theory, stakeholder theory and institutional theory are three frequently used theories to interpret managerial motivation for publishing sustainability information (Deegan, 2014a). According to Gray *et al.* (1996), organizations are a part of a social system, consisting with various entities (e.g. state, individual, group); legitimacy theory, stakeholder theory and institutional theory can be utilized to shed lights on the role of information and disclosure, in the relationships among organizations and the said entities. Hence, the mentioned three theories might also be termed as system-oriented theories.

Interestingly, all these theories root back to a wider theory, named as, 'political economy theory'. Political economy (system) consists of the social, political and economic framework. Additionally, economic issues are hard to explain without referring to social, political and institutional frameworks. Notably, accounting report, such as CSR is also considered as social, political and economic documents. Moreover, accounting is anything but routine calculations and is a significant mechanism for economic and social management (Gray *et al.*, 1996; Guthrie and Parker, 1990; Burchell *et al.*, 1980). Since, legitimacy theory, stakeholder theory and institutional theory are configured with system-related concepts, and CSR (sustainability information) is an economic document, the suitability of these theories to explain managerial motivations for publishing sustainability information is quite evident. According to various researchers (Deegan, 2002; Gray *et al.*, 1996), while explaining the relationships among organizations, states, individuals and groups, some social and political theories bank on the role of information and disclosure. These theories are considered appropriate in interpreting sustainability disclosures.

There are two branches of political economy theory: *classical* and *bourgeois*. The classical branch is sourced to the work of Karl Marx. According to him, there remains inequality, class interest, and class struggle in society, and the state only intensifies these negativities. Bourgeois branch, on the other hand, holds that power is widely spread in the state and no single individual can influence the society significantly, in a consistent manner. It assumes that the interactions between the groups are held in a pluralistic world. Notably, legitimacy theory and stakeholder theory are derived from the bourgeois branch of political economy theory. However, institutional theory can be trailed back to both the classical and bourgeois branches (Gray *et al.*, 2010; Gray, Kouhy and Lavers, 1995; Gray *et al.*,1996).

Such, attachment of accounting to the bourgeois branch is also criticized. There are researchers who argue that accounting perceives the society as a pluralistic place and assumes that the mass can have their voice in the economic practices; whereas, it is controlled by the elites of the society who use accounting as a tool to maintain their dominant position. On the contrary, since, accounting information can influence the balance and distribution of wealth along with income and power in society, it should pay heed to the classical branch of political economy theory, too (Cooper and Sherer, 1984; Lowe and Tinker, 1977).

## 1. Legitimacy theory

According to Suchman (1995), legitimacy is a measure of the attitude of society toward a corporation and its activities. He also pressed that, legitimacy relies upon the values that a society holds and behaviors that it believes are acceptable. Legitimacy is also understood as a 'resource' that an organization may utilize for its continuous growth and survival (Dowling & Pfeffer, 1975; O'Donovan, 2002). Legitimacy theory assumes that there remains a 'social contract' between the organization and the society. Society supplies various resources to the organizations—factors of production, approval to operate and so on—and expects the organization to provide with socially desirable goods and services, along with environmental care (Shocker and

Sethi, 1974; Mathews, 1993). Logically, if a firm fails to comply with the 'social contract', it may face several negativities: its cost of capital may increase; it may have difficulties in accessing resources; it may face various sanctions from regulatory bodies; its capital market standing may be hurt; and, ultimately, its existence could be threatened (Cao *et al.*, 2010; Dirk, 2007; Longenecker *et al.*, 2007; Lott *et al.*, 1999).

When there is an expectation gap between the society and the organization, regarding the operations of a given organization, a 'legitimacy gap' or 'legitimacy threat' appears. It happens because social expectation may change over time and sometimes previously hidden information regarding an organization are unearthed. Interestingly, to mitigate such a gap, various disclosure-based strategies are mostly pursued by managers. These strategies also vary according to the objective —whether to 'gain', 'maintain' or 'defend' legitimacy—of the organization (O'Donovan, 2002; Nasi *et al.*, 1997; Lindblom, 1993; Sethi, 1977). Ashforth and Gibbs (1990) maintain that there are two management paths, by which, organizations want to mitigate legitimacy gaps: *substantive* —doing something practical to mitigate the gap—management and *symbolic*— showing off to claim that they are doing something practical without actually doing it—management. Publishing fabricated sustainability information to minimize the legitimacy threat is one of the most popular symbolic management techniques among the managers. Additionally, according to different phases of organizational life-cycle and strategical requirements, legitimation tactics differ; these are: *gaining* legitimacy (when firms approach fresh product/operation), *maintaining* legitimacy (when firms assume that they have a certain level of acceptance in the society) and *repairing/defending* legitimacy (when a firm's acceptance is disturbed and it faces unforeseen crises) (Deegan 2014a).

Various theoretical standpoints—political economy, legitimacy, stakeholder, institutional, agency, positive accounting and accountability —have been referred, so far, for explaining the grounds for publishing sustainability information. Among these, the most utilized one is the legitimacy theory. There remain numerous evidences that when managers sniff legitimacy threats, they adopt various legitimizing strategies, e.g., altering the perception and expectations of the relevant publics, justifying the operations and goals of the organizations and so on (Belal and Momin, 2009; Campbell *et al.*, 2003; Deegan, 2002; Lindblom, 1993; Dowling & Pfeffer, 1975).

However, even if legitimacy theory is the most popular one to the researchers while interpreting managerial motivations behind publishing CSR, it is not without flaw. Firstly, it is assumed that upon detecting a legitimacy gap, managers disclose positive sustainability information regarding the organizations and the perceived gap is mitigated; sadly, there is no objective measurement technique for understanding the extent of mitigation in the legitimacy gap (Deegan, 2014b). Secondly, it is commonly believed that a firm publishes CSR to legitimize itself. Interestingly, there are pieces of evidence that a firm may publish sustainability information, not only to legitimize thyself but also to legitimize a specific notion of an economic, political and social system (Gray *et al.*, 1995; Archel *et al.*, 2009). Lastly, legitimacy threats assumed by the managers arise from the expectation gaps sourced to various individuals of society. Nonetheless, managers and the said individuals have different personas that may complicate the legitimacy gap assumption-measurement process of the managers and expectation gap judgments of diversified individuals; sadly, it is yet to be addressed by legitimacy theory (Deegan, 2014a).

## 2. Stakeholder theory

Organizations should focus not only on their shareholders' interests but also on the interests of the other stakeholders, who can affect organizations or can be affected by them. Simply put, stakeholders have a 'stake' at organizations' operations and output (Freeman *et al.,*2004; Freeman, 1984). Hence, non-owning stakeholders should be brought under the firms' umbrella of consideration along with the owning-stakeholders (shareholders).

Researchers are divided into two groups while defining the boundary of stakeholder theory's consideration; some are enthusiastic to consider 'all and sundry' (having a stake) and others happen to be more strategical with 'direct-interest-based' perception. Wearing (2005) and Gray *et al.* (1996) postulate that stakeholder theory embraces the demand of all the parties who can influence a given organization (directly or indirectly) or can be influenced by it. To add, it also acknowledges the complex relationships between firms and the stakeholders, holding that, such relationships are built not only on interest but also on responsibility and accountability. On the flip side, Woodward and Woodward (2001) and Mitchell *et al.* (1997) argue that stakeholder theory tends to identify the stakeholders worthy of management's focus; analysis from such position helps to recognize those deserving groups, to whom the business should be accountable and towards whom the business-efforts might be channeled. Such diversion leads us to a dual-mode discussion of stakeholder theory, namely, '*ethical*' and '*managerial*'.

### (1) Ethical (normative) branch of stakeholder theory

From a normative perspective, the business has true social responsibilities. Hence, managers should try to optimize the interest of all the stakeholders, regardless of their ability (power) to influence the outcome of the business. However, in a conflicting scenario, managers must toil to balance the contradictory interests of the stakeholders in concern, as much as possible (Hasnas, 1998). On most occasions, stakeholders' interests are considered according to their benefit-based relationship with the shareholders. On the contrary, Donaldson and Preston (1995) has an alternative view and hold that stakeholders' interest should be considered because they have intrinsic rights—which should not be violated—and not because consideration of such interests will result in a beneficial shareholder-position. Again, focusing on the accounting information perspective, O'Dwyer (2005) embraces that, regardless of the capability of stakeholders to directly affect organizations' survival they should be provided with related information regarding organizations' impact on them; information should be there to aid them, even if they decide not to utilize those. This view supports the *'accountability model'* postulated by Gray *et al.* (1991), which signifies that reporting is responsibility-driven—not demand-driven—and agent (firm) should disclose all the information for the principal (stakeholders) in corporate social reports, mentioning the extent to which they have discharged their responsibilities. Interestingly, nowadays, some transnational corporations are bigger than the economic capacities of the countries in which they operate and are politically connected too. Such a scenario begets immense responsibility and accountability on the shoulder of those companies to care for human rights and the environment (UNRISD, 2004).

Stimulatingly, such moral consideration of stakeholders would lead to an undefined (broad) boundary. From a pragmatic perspective, this type of comprehensive consideration is almost impossible to manage. To add, such a normative position only offers guidance focusing on the shareholder-based organizations, which, may not be empirically viable (Deegan, 2014a; Donaldson and Preston, 1995). In reality, organizations weigh a certain stakeholder group or responsibility towards it by reflecting upon the group's impact on shareholder value. Clarkson (1995) aided the said pragmatic consideration of stakeholder groups by dividing them into two groups, namely, *primary* and secondary; the former can have an impact on the survival of the organization and the later can be influenced or can influence the organization in an insignificant manner. Such disagreement between the ideal and real scenarios demands the introduction of the managerial branch of stakeholder theory.

### (2) Managerial (pragmatic/strategic) branch of stakeholder theory

Introduction to this pragmatic branch of stakeholder theory would clarify managers' perceptions regarding interest management of various stakeholder groups and why they prefer to embrace a strategic position.

It is impractical to respond to the requirements of all the stakeholder groups. Therefore, the organizations will respond to the requirements of only those stakeholder groups who are deemed as 'powerful' (stakeholders having control over the supply of important organizational resources); consequently, the most powerful ones are satisfied first (Buhr, 2002; Nasi *et al.*, 1997; Ullman, 1985). The concept of 'powerful' can also be interpreted as 'important'. Interestingly, Mitchell *et al.* (1997) proposed a framework to identify the important stakeholder groups—from an organizational perspective—referring to three determinants, namely, *power*, *legitimacy,* and *urgency*. *Power* refers to the influential capability of the stakeholders, *legitimacy* denotes stakeholders' demand-conformation to norms, values, and beliefs of society and *urgency* signifies whether stakeholders' demands require immediate action or not. Additionally, while explaining the objective measurement procedure of the legitimacy of an organization, Hybels (1995) identified four critical (powerful) stakeholders, e.g., state, public, financial community, and media.

Gray *et al.* (1996) tied this pragmatic managerial perception with stakeholder importance and corporate reporting and held that to manage or to manipulate the stakeholders, i.e., to gain their support or to distract their disapproval, managers take the aid of corporate reporting, e.g., publishing financial and social accounting information. Again, Lindblom (1993) added that organizations want to establish a 'socially responsible' image by performing socially acceptable activities and publishing information regarding those, which is also a part and parcel of their 'stakeholder relationship management' strategy. Nonetheless, this relationship management is not straightforward, since it is complex to manage the heterogeneous stakeholder interests with homogeneous (general) sustainability information. According to Miles (2002) and Mitchell *et al.* (1997), corporate social disclosures leads to conflicts among stakeholders and balancing such conflicts requires a ranking of the stakeholder-groups, based on the power they hold. Gray (2001) postulated that—from the managerial perspective—this ranking is not always conscious or obvious; however, it can be utilized to understand, why information-demand of some of the stakeholder groups are met and some are not.

In practice, managers never embrace either the ethical or the managerial perspective. If it is assumed that there is a continuum of possible positions between the two extremes, i.e, ethical and managerial, managers would be obliged to stay at different positions of the continuum, according to a given context. Naturally, it is impossible to introduce 'moral imaginations' while operating in the market, and simultaneously, it is unwitty to ignore the notion of 'right' and 'wrong' too (Deegan, 2014a; Wicks, 1996).

## 3. Institutional theory

The concept of institution, it's elements, and the molding process form the shape and explanatory power of institutional theory. Different types of *isomorphic* attitudes pursuing the institutional-mold and the concept of *decoupling* may also aid to interpret the managerial motivations for publishing sustainability disclosures.

'Institution' refers to varied rules, regulations, ideas, understanding and cultural frameworks that advance to a level of social permanency, which is subject to a given context. Socially permanent actions/processes and organizational forms are understood as 'institutionalized' and gain 'taken-for-granted' status. Again, when the said accepted aspects become highly institutionalized, these go beyond the discretion of individuals and firms and are considered as legitimate practices. These institutions have a reality of their own and create an external coercive force on individuals, which eventually shapes organizational behaviors (Zucker, 1987; Meyer and Rowan, 1977; Berger and Luckmann, 1966).

According to Scott (2008), three pillars constitute the skeleton of institutional theory, namely, *regulative* (rules, laws and related sanctions), *normative* (values and norms reflecting certain collective expectations) and *cultural-cognitive* (taken-for-granted symbolic systems and meanings). The regulative pillar is tied to government and other influential coalitions; the normative pillar denotes the notions of morality and is influenced by educational background and professional experience; the cultural-cognitive pillar—a strong psychological reconciliation tool—is subjectively held, yet, exists as a part of objective reality. Organizations want to be in the same footing, pursuing the elements of the said three pillars and their goal is to be legitimate—such legitimacy doesn't guarantee efficiency, though—in the eyes of the related stakeholders. To reach this goal, organizations pick gaps between their informal practices and approved ones and embrace various forms of isomorphisms to mitigate the said gaps (Deegan, 2014a). DiMaggio and Powell (1991), explained that organizational institutionalization occurs through three different isomorphic mechanism, viz., a) *coercive isomorphism* (feeling pressurized to copy a certain action or practice due to sanctions attached with it, which may come from regulatory authority, professional body and powerful stakeholder groups); b) *normative isomorphism* (pursuing standardized benchmarks sourced to social values, norms, professionalism, formal education, and professional networks); c) *mimetic isomorphism* (copying the operations and practices of successful peer-organizations for competitive advantage, e.g., modern technology, reporting practice and so on).

### (1) How Organizational fields develop and change? How institutional changes take place?

Isomorphism follows varied ways and means depending on a given 'organizational field'. An organizational field can form around issues that are perceived as vital related to the interests and objectives of a given industry, such as sustainability disclosure publishing patterns for those organizations who want to be seen as 'responsible' to the environment (Levy and Kolk, 2002; Hoffman, 1999). Organizational fields have a significant level of diversity in the initial phase; yet, when a given field becomes well established, an unavoidable push towards homogenization becomes dominant (DiMaggio and Powell, 1983). Various local organizational fields press the shape of sustainability reporting practices. Nevertheless, lately, the global issue-based field of sustainability reporting is replacing the local-based ones. This global level of institutionalization stems from the global concept of corporate social reporting and varied reporting standards, e.g., GRI, UN Global Impact, Carbon Disclosure Project (KPMG, 2011; Kolk, 2011; Kolk, 2010; Chen and Bouvain, 2009; Kolk *et al.*, 2008).

### (2) How regulatory and normative regimes may explain isomorphism of sustainability disclosure?

Voluntary corporate reporting, i.e., sustainability disclosure, is modified and changed in accordance with various institutionalized influencers, which is an isomorphic process too (Dillard *et al.*, 2004). Various regulatory and normative regimes, as a catalyst for the said modifications, are worth mentioning.

Regulatory regimes vary and may define the publication patterns (institutionalization) of sustainability information. History of corporate reporting to regulatory bodies, e.g., SEC, on environmental issues, goes a long way back in the USA, which gives rise to formal legal governance and rationalizes the development of extended voluntary reporting (Kolk, 2005; Kagan and Axelrad, 2000). On the other hand, in EU countries, publishing environmental information in the corporate reports is partially explainable by referring to a recommendation made by EU to its member countries in 2001, that pushed for the legislation of the ESG disclosures (Criado *et al.*, 2008). Interestingly, in Malaysia, firms are pressurized to abide by the ESG disclosure, if they want to secure governmental contracts (Amran and Haniffa, 2011). Whereas, in Japan, a quasi-regulatory pressure to specify the internal accounting procedure in managing the environmental issue is arising from a detailed environmental reporting guideline (Kolk, 2005).

Normative pressures can explain varied patterns (institutionalization) of sustainability information publication too. Pressures may stem from environmental-reporting award chasing culture lead by a professional organization, mass-acceptance of the necessity of external verification of sustainability information, social expectation regarding disclosing purchasing practices of firms, political endorsement of publishing ESG information and industry structure forcing to pursue a certain environmental reporting behavior, such as European Eco-Management and Audit Scheme (EMAS) in Germany (Bebbington *et al.*, 2012; Chen and Bouvain, 2009; Wenk, 2004). Interestingly, the institutionalization of GRI (Global Reporting Initiative)—a universally accepted sustainability reporting standard—is a mixed case of normative and regulatory pressure. Firstly, GRI was embraced by most of the firms, because it became industry norms. Secondly, GRI occurred simultaneously in an era when there were extended efforts for harmonizing international accounting standards and its development process had some involvements of international accounting bodies too. The first one denotes normative pressure and the second one regulatory potential (Higgins and Larrinaga, 2014; Kolk, 2011).

Institutional theory is one of the most dominant theories in organizational research fields. It is applied to study various phenomena, viz., responsible business behavior, sustainability reporting, sustainability management accounting, auditing, the role of accounting profession and accounting standard-setting process (Deegan, 2014a; Chen and Roberts, 2010; Dillard *et al.*, 2004). However, institutional theory is not without negativity. According to Hoffman (1999) and Oliver (1991), it is criticized for its inability to address fluctuations and for neglecting the role of social catalysts in the institutionalization process. Again, 'isomorphism' and 'institutionalization' are two of the vital-most concepts on which institutional theory banks; these two concepts may provide moral or financial perspective-based support for a given interpretation; nevertheless, it may not vouch for efficiency (Carpenter and Feroz, 2001; DiMaggio and Powell, 1983).

## 4. Comparison of legitimacy, stakeholder and institutional theories

### (1) Similarities

Legitimacy theory, stakeholder theory and institutional theory share the same root, (almost) same nature and similar orientations. Again, these can be aligned in the same string from the perception of 'adaptation' and 'decoupling'.

All the theories tend to interpret human activity, in relation to a social, political and economic framework, and hence, root back to a broader theory, namely, *political economy theory*. To clarify, legitimacy theory, stakeholder theory and institutional theory are sourced to the *bourgeois political economy theory* which assumes that the world is a pluralistic place; institutional theory can also explain pursuing the *classical political economy theory*, which assumes that there are class struggles and sectional conflicts in society. To add, these three theories are system-oriented, i.e., these focus on the nexus between the organization and the operating environment (system) around it. Stimulatingly, all these are positive in nature and are shaped to interpret, explain and predict organizational and managerial actions. However, the ethical branch of stakeholder theory is an exception—being normative in nature—that embraces a 'should-shouldn't' position regarding organizational and managerial actions (Deegan, 2014a; Gray *et al.*, 2010; Hasnas, 1998; Gray *et al.*, 1996).

These theories tend to explain a phenomenon based on its 'adaptation' to a certain aspect. legitimacy theory enumerates the adaptation of organizational operations based on social contract, stakeholder theory discusses the same adaptation from stakeholder groups' requirements perspective and institutional theory focuses on adaptation based on regulatory, normative and cultural-cognitive symbols and meanings (Scott, 2008; Hasnas, 1998; Mathews, 1993; DiMaggio and Powell, 1983).

Organizational 'decoupling'—a discrepancy between organizational activities and its claim—is also another criterion on which all the theories press. Legitimacy theory claims that organizations discharge corporate social responsibilities not because they mean welfare, but because they care for self-interest. Stakeholder theory (ethical branch) holds that firms communicate their care for the interests of all the stakeholders; actually (managerial branch), they care for only those stakeholders who are powerful enough to influence their survival (Deegan, 2014a; Gray *et al.*, 1996). On the same note, even if some institutional theory-based researchers claim that the isomorphism process of the firms is irrational and imposed, others postulate that organizations go through such isomorphism to (ultimately) legitimize themselves (Higgins and Larrinaga, 2014; Carpenter and Feroz, 2001).

### (2) Dissimilarities

Legitimacy theory deals at a conceptual (abstract) level, which is concerned with perceptions of society and processes that would uphold that perception, i.e., to honor the social contract. There is only one general social contract, without any subdivision. On the other hand, stakeholder theory deals at a micro-level, i.e., identifying specific stakeholder groups to integrate their interests in the organizational activities; hence, there are multiple contracts with different stakeholder groups. Whereas, institutional theory assumes macro-level isomorphism in various regulatory, normative and cultural-cognitive setups, without any contractual relationships (Scott, 2008; Moerman and Van der Laan, 2005; Deegan, 2002; Carpenter and Feroz, 2001).

Again, legitimacy theory and stakeholder theory both adopt a 'managerial' (strategic) perspective and assume that organizations' actions are opportunistic, and it is usual to manipulate with evocative symbolic management to pursue their interests, in respecting social contract or in selecting critical stakeholders. Whereas, institutional theory holds that, sector-wide 'structuration dynamics' create cultural pressures and force organizations towards isomorphism; in such cases, organizations are irrational (not opportunistic) and do not have any managerial goal to attain. They act in a certain way, simply because their peers do the same, and in a specific context, certain actions have gained 'taken-for-granted' status (Higgins and Larrinaga, 2014; Suchman, 1995). This notion is also evident in the sustainability information publishing horizon. In polluting industries—where firms want to legitimize themselves to society or a given stakeholder group—publishing sustainability information is more common, compared to other industries; it supports the thoughts of legitimacy theory and stakeholder theory. Nevertheless, a supporter of institutional theory would hold that, in a given industry (organizational field), publishing an exaggerated amount of sustainability information might just be an institutionalized pattern (Kolk, 2010; Brown and Deegan, 1999; Roberts, 1992).

Various theories, along with legitimacy theory, stakeholder theory and institutional theory have been utilized in the area of corporate social reporting, i.e., sustainability information publication; each of these focuses on social issues disturbing the firms and their response against those. However, these theories differ in two spectrums, namely, the nature of the issues' management and motivations behind such management (Deegan, 2014a, Nasi *et al.*, 1997; Gray *et al.*, 1996).

## Ⅲ Managerial Motivations for Publishing Sustainability Disclosures

Corporate communication through annual reports (mandatory) and other voluntary reports—integrated reports and sustainability reports—are common these days. Managers (firms) decide the type, timing, format and medium of disclosing information. Such decisions are made at an 'abstract level', mostly without considering the needs of the stakeholders (Van der Laan, 2009). This philosophy of managers denotes that, generally, they are motivated either by the interest of the firm or by their own. Nonetheless, there are other sources of managerial motivations for publishing sustainability disclosures, sourced to corporate responsibility and institutionalized pressures.

### 1. Motivations based on interest

These days, to stakeholders, ESG (Environmental, Social and Governance) issues are vital and they want to invest more in the companies, who portray better corporate responsibility related to ESG issues. Hence, to the managers, disclosing ESG-related information happens to be a way to show-off that they are responsible and worth-investing (Uysal, 2014; Roberts, 1992).

Some firms believe that distinguishable Corporate Social Reporting (CSR) practices are highly likely to earn them a corporate reputation among their stakeholders, which, may also differentiate them among the responsible firms (Bayoud, *et al.*, 2012; Mahony, 2012).

Firms want to recruit qualified and loyal employees, maintaining a low staff-turnover ratio. Therefore, they publish sustainability-related information focusing on their responsibility towards human-resource development and how employees' interests are tied with the long-term value creation of the firm, so that, the employees possess a positive perception regarding the firms. Two popular sustainability disclosure publication frameworks—GRI and IIRC—that most firms follow, also support this notion (Waddock, *et al.*, 2002).

Margolis and Walsh (2003), found that the organizations that engage in CSR activities and disclose information regarding those, happen to have a positive financial outcome. They concluded that there lies a positive connection between CSR performance/ disclosure and corporate performance.

Firms disclose voluntary information (more than required by laws and regulations), to air positive signal related to their CSR performances (signaling theory). To add, Value of a given firm may increase in the capital market if the firm is ready to disclose credible private information (sustainability information), that lead to risk-reduction of decision making (Thorne *et al.*, 2014; Mahoney, 2012; Connelly *et al.*, 2011).

Organizations may become vibrated by

several global factors, such as international market access, international standardization, foreign investment opportunities, overseas supply chain integration and so on. Publishing sustainability information is a befitting measure to take advantage of and to provide for the said global determinants (Visser, 2011).

Mangers/firms assess their relevant publics (critical stakeholders) based on their influential power over the firms and then to manage/manipulate the relationship with them offer proactive sustainability disclosures. As an aftermath of these sustainability disclosures, managers/firms expect to have the support of their critical stakeholders or to distract their disapproval (Neu *et al.*, 1998; Gray *et al.*, 1996; Roberts, 1992).

Organizations consider 'legitimacy' as one of their vital resources for continuity and profit. Hence, they integrate the concept of legitimacy (gaining, maintaining and defending legitimacy) in their ESG-based disclosures. Most of the researchers assume that for the organizations, one of the major aims for publishing sustainability information is to manage legitimacy (Deegan, 2014b, 2000; Gray, *et al.*, 1995; Ashforth and Gibbs, 1990). Interestingly, some recent studies (Bachmann and Ingenhoff, 2016; Castelló and Galang, 2014) are more direct and postulate that in a dynamic political and social context, sustainability disclosures are the means (for the companies) to obtain legitimacy.

If anyone embraces a primitive notion regarding the objective of business, following the work of Friedman (1962), one may assume that whatever business does, it points towards 'profit'. Again, the work of Watts and Zimmerman (1986)—regarding positive accounting theory—tends to explain managerial actions related to accounting choices and stakeholder groups' relationships based on opportunistic behavior. Motivations tied to profit or opportunistic behavior may force us to assume that, sustainability disclosures are also driven by the same ground(s). However, there are non-interest-based motivations also, which are discussed in the next section.

## 2. Motivations based on corporate responsibility

In many economic theories, it is simplified that all human actions are based on self-interest. This opportunistic perspective is also held by various researchers while interpreting the motivation behind sustainability disclosures (Deegan 2014a). However, such comprehensive simplification covers the positive side of human motivation and deprives us of a plausible alternative interpretation of motivation for publishing sustainability disclosures. Few researchers—supporting this positive notion—state that there are socially responsible organizations that have ethical notions built in their system/operations and act responsibly without considering vested interest. To add, managerial motivations for publishing sustainability information are sometimes related to legitimacy, not always (O'Dwyer, 2002; Oliver, 1991).

To some researchers, the emergence of

non-financial reporting (sustainability disclosures) can be attached to the corporate concern of increasing transparency for various stakeholders. It is also held that providing required information to the stakeholders and fulfilling management commitments (accountability) is the vital-most internal driver for sustainability reporting (ACCA, 2010; Nielsen and Thomsen, 2007).

Organizations engage in various corporate responsibility-based activities. Nonetheless, it is not enough to engage only; they are also required to reveal such information to the mass. Hence, firms disclose non-financial (sustainability) information to reduce information asymmetry; it allows investors and other key stakeholders to evaluate vital performance indicators of firms in a better manner (Huang and Watson, 2015; Holder-Webb *et al.*, 2009). Furthermore, Wilmshurst and Frost (2000) conducted a survey (respondents were CFOs only) to understand the prime influencer of publishing sustainability disclosures; surprisingly enough, the respondents marked 'predictivity of information' as the prime one.

## 3. Motivations based on institutionalized compulsion

When managers find that some social practice/actions, norms and regulations have become institutionalized, they naturally embrace those without being rational or selfish. They follow institutionalized practice simply because, their peers do, and such practices have become 'taken-for-granted' in their operating environment (Deegan, 2014b; Oliver, 1991).

Organizations/managers want to be in the molds of the institutionalized actions, practices and norms that have already become 'taken-for-granted' in a given organizational field; they just want to be like others, want to align with subtle social pressures and become an ordinary member of a surrounding (Higgins and Larrinaga, 2014; DiMaggio and Powell, 1991). When an organization is perceived as somewhat unique or unfit in a given organizational field, numerous stakeholders tend to have less amount of confidence in it, which pushes the organization in an uncertain operational terrain. Hence, to avoid such uncertainty, organizations pursue varied isomorphisms (Deegan, 2014a; Higgins and Larrinaga, 2014). Again, when a firm is not sure regarding the best available practice, it just follows the industry leader, without knowing the efficiency or ultimate consequence of a given practice; it simply wants to follow the institutionalized corporate aspects (DiMaggio and Powell, 1983).

Further clarification on sources of motivation and better explanatory power can be achieved, if the nature of sustainability disclosures can be ascertained, i.e., whether a given sustainability disclosure is solicited (NGOs, ethical investment fund researchers, trade union leaders, information intermediaries and others ask for social information from firms) or voluntary (information provided by managers without regulatory pressure) (Van der Laan, 2009). If a given sustainability disclosure is solicited, managerial motivations can be traced back to a specific stakeholder group, which may be interest or responsibility based; on the contrary, if it is voluntary, motivations are most likely to be interest-based.

While analyzing the interpretational potentiality of a given theory in explaining managerial motivations for publishing sustainability disclosures, notes on diversified sources of motivation will bring useful logics onboard. For the sake of a quick understanding a summary table is presented here:

**Table 1: Motivational sources of managers for publishing sustainability disclosures**

| Interest-based sources | Responsibility-based sources | Institutionalized compulsion-based sources |
|---|---|---|
| Inviting investments from shareholders (Uysal, 2014; Roberts, 1992) | Providing transparency and accountability (ACCA, 2010; Nielsen and Thomsen, 2007) | Pursuing the institutionalized actions, practices, norms and aligning to subtle social pressures (Higgins and Larrinaga, 2014; DiMaggio and Powell, 1991) |
| To manage corporate reputation (Bayoud, *et al.*, 2012; Mahony, 2012) | Reducing information asymmetry for external users of information (Huang and Watson, 2015; Holder-Webb *et al.*, 2009) | Avoiding uncertainty (Deegan, 2014a; Higgins and Larrinaga, 2014) |
| Attracting and retaining qualified employees (Waddock, *et al.*, 2002) | Increasing predictivity of information (Wilmshurst and Frost, 2000) | Following successful peer organizations' practices, actions and technology (DiMaggio and Powell, 1983) |
| Fostering corporate performance (Margolis and Walsh, 2003) | | |
| Increasing firms' value through positive signaling (Thorne *et al.*, 2014; Mahoney, 2012; Connelly *et al.*, 2011) | | |
| Providing for globalization demand (Visser, 2011) | | |
| To manage or manipulate stakeholders (Neu *et al.*, 1998; Gray *et al.*, 1996; Roberts, 1992) | | |
| Gaining organizational legitimacy (Bachmann and Ingenhoff, 2016; Castelló and Galang, 2014) | | |
| For Profit and for pursuing opportunistic behavior (Watts and Zimmerman, 1986; Friedman, 1962) | | |

## Ⅳ Findings and Analysis

This section endeavors to point out the 'single theory' from legitimacy theory, stakeholder theory and institutional theory that might be able to explain diversified managerial motivations for publishing sustainability information. In the said quest, salient features of these three theories and how one theory may complement the explanatory capabilities of the other(s) are considered. Table 2 presents a comprehensive comparison among legitimacy theory, stakeholder theory and institutional theory; taking notes from this table is imperative for understanding the upcoming analytical paragraphs.

**Table 2: Comprehensive comparison summary of the three theories**

| Factors and references | Legitimacy theory | Stakeholder theory | Institutional theory |
|---|---|---|---|
| **Perspective** (Higgins and Larrinaga, 2014; Gray *et al.*, 1996; Suchman, 1995) | Resource and strategy based (managerial) | Balancing stakeholders' interest based (managerial) | Isomorphism and structuration dynamics based (imposed) |
| **Root, orientation, nature** (Deegan, 2014a, Gray *et al.*, 2010; Hasnas, 1998; Gray *et al.*, 1996) | Bourgeois political economy theory, system-oriented, positive theory | Bourgeois political economy theory, system-oriented, positive and normative theory | Bourgeois and classical political economy theory, system-oriented, positive theory |
| **General scope** (Scott, 2008; Moerman and Van der Laan, 2005; Hasnas, 1998) | Micro (abstract or conceptual) | Micro (stakeholder group) | Macro (institutional field) |
| **Constituents** (Deegan, 2014a, Higgins and Larrinaga, 2014) | Social contract, legitimacy gap, sustainability disclosures, legitimacy management | Stakeholders' rights to information, their varied interests and their power, urgency, legitimacy | Regulative, normative, cultural-cognitive pillars; organizational fields and various isomorphisms |
| **Research coverage** (Deegan, 2014a, Deegan, 2014b, Higgins and Larrinaga, 2014) | Use of sustainability disclosures in legitimacy management (mostly, gaining, maintaining, defending legitimacy) | Use of sustainability disclosures in balancing stakeholders' interests | Organizations' actions, operations and patterns of sustainability disclosures; why these follow a certain pattern? |
| **Contract-orientation** (Scott, 2008; Deegan, 2002) | To society (single contract) | To stakeholder groups (multiple contracts) | No contract, copying patterns for appropriateness |
| **Interest interpretation** (Higgins and Larrinaga, 2014; Suchman, 1995; Ullman, 1985) | Selective and self-interest based | Identifying interests of critical stakeholder groups | Imposed, impulsive and irrational |

## 1. Does legitimacy theory have the properties to be considered as the 'single-theory' explaining managerial motivations for sustainability disclosures?

The configuration of legitimacy theory (following table 2), suggested by various researchers, leads us to an interest and resource-based strategical ground. Social contract happens to be a vital assumption of legitimacy theory, based on which the other causalities of it revolve around. Thus, the explanation potentiality of this theory blooms the most, when there remain legitimacy gap or threat and strategical requirements for getting the approval of continuity from a given community or society; objective measurement of organizational legitimacy (Mahmud, 2018) may aid in detecting such scenario. Interestingly, this theory fails to address contracts with various stakeholder groups in a standalone manner (Deegan, 2014a). To add, it is not well-poised to explain corporate responsibility based—irrational and selfless—motivations for publishing sustainability information and is yet to relate varied personas of managers shaping the assessment of legitimacy gap or threat that influence motivation(s) for sustainability disclosures (Deegan, 2014b). These limitations of legitimacy theory hinder it from becoming the 'single theory' that can explain managerial motivations in all scenarios.

## 2. Or, is it stakeholder theory, with better coverage for explaining managerial motivations?

Following table 2, it is gathered that the focus of stakeholder theory is (broadly) maintaining non-owning stakeholders' interests along with the shareholders one. Such emphasis could be universal, i.e., ethical or stakeholder groups' power-based, i.e., managerial (strategical). Remarkably, while explaining the motivations for sustainability disclosures, the managerial branch is preferred over the ethical branch and such disclosures of a given firm reflect the interest of critical stakeholders (Friedman and Miles, 2002). Stakeholder theory can explain in a detailed manner based on individual stakeholder contract, whereas, legitimacy theory can explain based on a general social contract only. To add, stakeholder theory can cover both interest-based (managerial) and responsibility-based (ethical) motivational ground. However, it fails to cover for neutral (peer-firms' influence based) sources of motivation. Moreover, in the real world, managers do not take any absolute ethical or strategic position; rather, they opt for places that are in between these two extreme-continuums, that differ according to varied contexts (Rowley, 1998). This diversion of theory from the real-world scenario dwarfs the explaining capability of stakeholder theory.

## 3. Is institutional theory the 'single theory' having a 360° coverage?

Institutional theory possesses an upper hand as regards to complementing both the legitimacy theory and stakeholder theory. Its three pillars (*regulative*, *normative* and *cultural-cognitive*), three isomorphic patterns (*coercive*, *normative* and *mimetic*) and concept of '*decoupling*' cover most of the explanatory arsenals of legitimacy theory and stakeholder theory, and even better some of it.

The very concept of 'legitimacy' is drawn from the ideas of neo-institutional theory (the modern version of institutional theory) and legitimacy theory is a specific case of institutional theory's *regulative* pillar (Higgins and Larrinaga, 2014). Moreover, Scott (2008) claims that three pillars of institutional theory can be assumed as three distinguishable bases of legitimacy and hence can complement legitimacy theory—which doesn't have such subdivision—with supplementary logics to interpret managerial motivations.

Even if researchers related to institutional theory (follow table 2) vouch for the irrational and compulsive nature of managerial motivations, few researchers claim that such compulsion for becoming homogeneous to peer firms ultimately leads to the urge of organizational legitimacy; invariably, reaching to this end-goal happen to be the target for most of the managers. According to Scott (1995), legitimacy is nothing but a 'condition' that aligns with relevant rules, laws, norms and culture. Additionally, coercive, normative and mimetic isomorphism bring legitimacy on the table, as regards to organizational forms and processes (Deegan, 2014a; DiMaggio and Powell, 1983). Unerman and Bennet (2004) are a bit more specific and tag the idea of '*mimetic* isomorphism' to corporate social reporting. To them, firms pursue the reporting practices of successful peers that are perceived as innovative by the external stakeholders to maintain or extend organizational legitimacy. Again, they add that managers are motivated to mime their leading peers because they want to maintain or enhance their competitive advantage. Additionally, a key idea of institutional theory, '*decoupling*' (actual organizational practices don't match with shown or claimed practices), covers another notion of legitimacy theory, i.e., managers adopt symbolic management of legitimacy to show-off their alignment with approved practices and utilize ESG disclosures (sustainability disclosures) to portray an unreal image related to social and environmental performance of their firms (Dillard *et al.*, 2004; Ashforth and Gibbs 1990). Such, alternative positions regarding institutional theory highlight that it may cover both irrational (compulsive) and rational (legitimacy, competitive advantage, symbolic management) grounds of managerial motivation for publishing sustainability disclosures, complementing legitimacy theory in an extended manner. Supporting institutional theory's superiority Gray *et al.* (2010) postulated that, legitimacy theory might be the dominant theory used in social and environmental accounting (SEA) research, yet, institutional theory would become the 'mainstream theory' replacing legitimacy theory, in due course of time.

Stakeholder theory (managerial) has its focus on identifying powerful stakeholders' demands and aligning organizational practices and operations according to those. Such pressure can also be explained or complemented by *coercive* isomorphism of institutional theory, i.e., powerful stakeholders can coerce an organization to pursue specific institutionalized practice and operation (DiMaggio and Powell, 1983). A classic instance of coercive isomorphism—based on the garment industry of Bangladesh—was presented by Islam and Deegan (2008). They highlighted that the Bangladeshi garments industry was forced not to use child labor and to improve working conditions due to coercion from varied powerful stakeholders, such as largescale western buyers, western news media and activists; this phenomenon can be interpreted by both stakeholder theory and institutional theory. Again, if a firm is giving importance to economically marginalized (not powerful) stakeholders due to industry trait, it can be interpreted by *mimetic* isomorphism. According to Unerman and Bennet (2004), managers pursue mimetic isomorphism of varied practice and operations because they want to maintain or enhance external stakeholders'—both economically powerful and marginalized groups—interests. However, managers consider the interests of marginalized stakeholders, given that, such consideration is accepted by powerful stakeholders.

Adding to institutional theory's comprehensive explanatory ability, Higgins and Larrinaga (2014) hold that, sustainability disclosure is an aftermath of three isomorphic mechanisms, which can take varied forms in diversified contexts and different stages of institutionalization. *Coercive* isomorphism can be used to interpret sustainability disclosures as a response to regulatory, capital providers' and consumers' demand; *normative* counterpart can be utilized to explain sustainability disclosures as a persuasion of voluntary efforts backed by social responsibility; and finally, *mimetic* isomorphism can be considered to explicate such disclosures as a feedback to any taken-for-granted actions in a given organizational field.

Institutional theory's three pillars and three isomorphic aspects, its ability to interpret both rational and irrational (compulsive) motivations and the concept of '*decoupling*' make it a befitting candidate for becoming the 'single theory' that may explain diversified managerial motivations for publishing sustainability information.

## 4. Are legitimacy theory and stakeholder theory out-of-order, then?

Institutional theory has the capability to complement and cover the explanatory capacities of both legitimacy theory and stakeholder theory. However, it doesn't mean that legitimacy theory and stakeholder theory are of no use, consequently. Rather, in some specific scenarios—which are tailormade for the typical explanatory regimes of legitimacy theory and stakeholder theory—these two theories are (perhaps) better poised to interpret.

When negativity regarding a specific organization or industry is universally accepted in a society or community (not in a specific stakeholder group), legitimacy theory is better poised to interpret managerial motivation for publishing sustainability information. For instance, when Exxon Oil Company spilled oil in Alaska, it disturbed the legitimacy of the oil industry, as a whole (Patten, 1992). Any sustainability disclosure published by companies in the North American oil industry after the said incident should be interpreted by legitimacy theory. Besides, when firms introduce new products and struggle against a common accusation, i.e., marked as a dirty organization, they try too much to prove their worth to the society;

subsequently, sometimes they pursue symbolic management (Ashforth and Gibbs, 1990). Such scenarios should also be brought under the microscope of legitimacy theory.

On the flip side, if it is evident that a certain sustainability disclosure is published targeting a specific stakeholder group and such disclosure is not common to other organizations of the industry, stakeholder theory may be utilized, instead of institutional theory. Recently, UK-consumers are becoming more concerned regarding the 'ethical sourcing' of garments (Morgan Stanley, 2016). In this scenario, if a UK garment retailer publishes sustainability disclosures targeting its consumers, mentioning its ethical sourcing ventures, it should be interpreted by stakeholder theory. Furthermore, if a given sustainability disclosure is 'solicited', i.e., requested by a certain stakeholder group, stakeholder theory is more likely to come up with a better explanation.

## V Conclusion and Scope for Future Research

There is a tendency among researchers to opt for a 'legitimate theory' for a given research genre. Very few researchers have the gut to stay outside the accepted region of intelligence. Hence, in a specific timeline, one or more theories become popular and consequently considered as legitimate one(s). Legitimacy theory is the current 'legitimate theory' for explaining managerial motivations for publishing sustainability information and stakeholder theory is also mildly popular. Intriguingly, institutional theory is well equipped to take over both legitimacy theory and stakeholder theory and become the 'single theory' for the said explanation of managerial motivations, since it can complement both the theories to a great extent. However, in special scenarios regarding interpreting motivations, legitimacy theory or stakeholder theory may override institutional theory. Therefore, considering institutional theory as the supreme theory will not be wise; it should rather be considered as a general theory with the broadest explanatory coverage.

Researchers of institutional theory have considered it as a theory that can explain both irrational (institutionalized compulsion) (Higgins and Larrinaga, 2014) and rational (legitimacy, competitive advantage) (Deegan, 2014a; DiMaggio and Powell, 1983) managerial motivations; a future research scope lies here to clear or add to this clutter. Again, empirical tests utilizing institutional theory may be conducted in the future—considering sustainability disclosures of varied organizations—to establish the interpretational superiority of institutional theory over other theories.

### Notes

(1) Corporate Social Reporting (CSR) is used synonymously to sustainability disclosures

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