Legitimacy through CSR disclosures? The advantage outweighs the disadvantages

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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-
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; Pomerling & Dolnicar, 2009; Pomerling & Johnson, 2009; Pomerling, 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.
2.2. Proposition: CSR indirectly weakens legitimacy

Given that strategic and persuasive actions are dominant in the world of corporations, individual stakeholders have sound reason to be skeptical towards discretionary CSR disclosures (Elving, Golob, Podnar, Ellerup-Nielsen, & Thomson, 2015, p. 122). We assume that stakeholder skepticism encompasses a heterogeneous group of effects that are suspected to suppress or even counteract the positive effects of CSR disclosures. With regard to the literature on stakeholder skepticism towards CSR, we suppose that there are two intertwined mediated effects (e.g., Brønn, 2011; p. 119; Elving, 2013; p. 282).

Firstly, we assume that stakeholders may have the impression that mediated CSR disclosures are “decoupled” from actual corporate practices. As a consequence, it may seem reasonable for stakeholders to distrust mediated extensive CSR disclosures (Bentele & Nothhaft, 2011; Christensen, Morsing, & Thyssen, 2013, pp. 377–379). We suppose therefore that content credibility is a suppressor variable.

H2. The extent of CSR disclosures is negatively related to its content credibility.

H3. The content credibility of CSR disclosures is positively related to the company’s legitimacy.

Secondly, we assume that stakeholders may have the impression that communication from companies is inherently persuasive (Holladay & Coombs, 2013). When stakeholders perceive CSR as merely strategic and persuasive, they can “develop negative feelings when they feel an organization is promoting its CSR efforts too vigorously” (Coombs & Holladay, 2009; p. 99). This assumption is in line with empirical research about persuasion knowledge and psychological reactance (Quick et al., 2013). The “Persuasion Knowledge Model” states that individuals learn to cope with strategic communication (Friestad & Wright, 1994)—including CSR disclosures (Pomering & Dolnicar, 2009; Pomering & Johnson, 2009). We therefore assume that

H4. The extent of CSR disclosures is positively related to the stakeholders’ perception of persuasion intent.

Furthermore, the perception of persuasion intent evokes “reactance”, which is, according to the psychological reactance theory, a “motivational state that is hypothesized to occur when a freedom is eliminated or threatened with elimination” (Brehm & Brehm, 1981; p. 37). Reactance is a psychological defense reaction to everything that threatens personal freedoms, including persuasive messages (Brehm & Brehm, 1981; pp. 121–150; Meirick & Nisbett, 2011; Moyer-Gusé, Jain, & Chung, 2010; Moyer-Gusé & Nabi, 2010). Hence, we propose that

H5. The stakeholders’ degree of perceived persuasion intent is positively related to the stakeholders’ degree of reactance.

As a consequence, individual stakeholders restore their personal freedoms by derogating the credibility of the CSR disclosures. In this way, we can derive the following two hypotheses from reactance research (Jenkins & Dragojevic, 2011; Koch & Zerback, 2013).

H6. The stakeholders’ degree of reactance is negatively related to the perceived content credibility of the CSR disclosures.

H7. The stakeholders’ degree of reactance is negatively related to the company’s legitimacy.

2.3. Postulated relationships

Fig. 1 provides a summary of all hypotheses. The CSR dilemma model is a synthesis of the two contrasting propositions. Accordingly, the direct positive impact of a company’s “Extensive CSR Disclosure” on its “Legitimacy” is firstly suppressed by a decreased “Content Credibility”, and secondly counteracted by the “Perceived Persuasion Intent” and “Psychological Reactance”, which in turn lowers the “Content Credibility” of the CSR disclosure as well as the “Company’s Legitimacy”.

3. Experimental study

In order to test this causal model, we conducted an experimental study with a single-factor between-groups design. Three different CSR disclosures of a fictional Swiss commodity trading company named “Suolo Inc.” served as the stimuli (the company’s name is derived from Italian, which is one of the national languages in Switzerland, and means “soil”). The CSR disclosures ranged from low to high extent.

In order to increase the external validity, all materials – such as texts, numbers and graphics – are based on websites from existing commodity companies with headquarters in Switzerland (Glencore Xstrata, Trafigura Beheer BV, and Mercuria Energy Group Ltd). The instrument (stimulus material and items) was in the German language.

3.1. Experimental design and stimuli

All materials of Suolo Inc. were presented in the layout of a corporate website. Participants were randomly assigned to one of the three groups. At first, all participants saw the same self-description of the company (“about us”), which indicated that Suolo Inc. is a global player. An excerpt of the website text is as follows:
Suolo is one of the world’s largest global diversified natural resource companies and a major producer and marketer of more than 45 commodities. Our operations comprise over 75 mining and metallurgical sites, oil production assets and agricultural facilities.

Afterwards, each participant read one of three randomly assigned versions of Suolo Inc.’s webpage on CSR. These stimuli served as the independent variable and were increased by degrees in terms of the extent of the CSR disclosure. The first group read solely the following paragraph about Suolo Inc.’s recent accession to the UN Global Compact.

“Suolo Inc. has joined the United Nations (UN) ‘Global Compact’ in 2014. The United Nations Global Compact is a voluntary initiative that seeks to advance universal principles on human rights, labor, environment and anti-corruption through the active engagement of the corporate community, in cooperation with civil society and representatives of organized labor. The UN Global Compact was announced by then UN Secretary-General Kofi Annan in 1999. Today, more than 5,000 companies in more than 145 countries are signatories. We are now part of the world’s largest ‘Corporate Social Responsibility’ (CSR) initiative.”

Besides this paragraph about the UN Global Compact, participants of the second group read an additional paragraph with the subhead “Our contributions within our core competencies” on Suolo Inc.’s webpage on CSR. Here, the company informs about voluntary CSR within the raw materials sector:

“We show within the commodities sector voluntary engagements that go beyond the legal requirements and binding international agreements. One of our most significant environmental projects has entered the final phase: the 500 million US Dollar, three-stage upgrading of the Mopani copper smelter in Zambia. In 2014 we continued our strong commitment to community development and supporting the communities in which we operate. We invested almost 90 million US Dollars, primarily to improve education and health for workers and their families, as well as to address long-term community requirements with a view to helping communities support themselves in the future.”

Participants of the third group read – besides the aforementioned texts – an additional paragraph about Suolo Inc.’s voluntary donations beyond its production chain, which had the subheading “Our contributions beyond”:

“Suolo Inc. sees itself as a part of communities. We are the leading company in terms of ‘Corporate Social Responsibility’ (CSR) by supporting charity and environmental programs. We support the ‘Beijing Music Festival’ and sponsor the first violin of ‘la Sinfonietta de Genève’. We contribute to the wellbeing and recreational activities of disadvantaged, chronically ill children at the ‘Marange House Centre’ in South Africa. Suolo Inc. sponsors a series of ‘International Union for the Conservation of Nature’ (IUCN) conferences. The conferences are structured to increase awareness of environmental policy in developing countries.”

There are two advantages of this experimental design (Fig. 2). Firstly, in most social science experiments, stimulus variables have merely nominal level. Possibilities for statistical data analysis are thus restricted. In this paper, the text-building block concept allows us to understand the experiment’s stimulus variable at ordinal level because it scales the “Extent of CSR Disclosure” (Hayes, 2005; pp. 20–23). For practical reasons we can grasp the stimulus variable in this study at quasi metric level in order to run regression based analyses, such as Structural Equation Modeling (SEM). Secondly, the text-building block concept makes a manipulation check obsolete because it is certain that the extent of CSR disclosure increased (O’Keefe, 2003, p. 257).
3.2. Sample

Students of social sciences from a Swiss university (233 in total, 153 women, 80 men; M<sub>age</sub> = 21.3 years, SD = 2.3, age range: 18–40 years) were asked to fill in a questionnaire. Students are an appropriate sample in this case because the purpose of this experimental pilot study is to test general causal assumptions of socio-psychological processes, which are independent of specific populations (consistent with Falk & Heckmann, 2009; p. 537).

3.3. Measurements

All items were judged on 7-point Likert scales (1 = “strongly disagree” and 7 = “strongly agree”). The order of items was randomized in order to control for possible side effects. We avoided items that were supposed to measure the same construct appearing immediately after each other. All items were in the German language.

3.3.1. Content credibility (of CSR disclosure)

We measured this construct with two items adapted from Koch and Zerback (2013): “I consider all information about Suolo’s CSR as credible” (cre1) and “All information about Suolo’s CSR seems trustworthy to me” (cre2) (Cronbach’s α = 0.878; M = 4.12; SD = 1.28). We took into account the fact that the stimuli differ with regard to the length and extent CSR disclosure by using the wording “all information”.

3.3.2. Corporate legitimacy

There is as yet no measurement scale for corporate legitimacy as a perception (Vergne, 2011). In order to measure this construct, we therefore derived three items from our above definition of legitimacy: “It seems to me that Suolo Inc. acts consistent with socially accepted norms and values” (leg1), “In my opinion, Suolo Inc. seems to be a legitimate company” (leg2), “I have the impression that Suolo Inc. complies with social and ecological standards” (leg3) (Cronbach’s α = 0.741; M = 4.41; SD = 1.00).

3.3.3. Perceived persuasion intent

Again we adapted items from Koch and Zerback (2011, 2013) in order to measure this construct: “I have the feeling that Suolo Inc. wants to convince others of their leading role with respect to CSR” (per1), “Suolo Inc. deliberately tries to convince others that they are a very responsible company” (per2), and “I think that Suolo Inc. deliberately tries to persuade others with respect to their CSR” (per3) (Cronbach’s α = 0.717; M = 5.69; SD = 0.96).

3.3.4. Psychological reactance

Like Koch and Zerback (2013), we relied on items developed by Herzberg (2002) in order to measure reactance as a one-dimensional construct (see also Hong & Faedda, 1996; p. 177; Quick et al., 2013; p. 172). We used the following two items: “It bothers me how Suolo Inc. presents itself as a role model in terms of CSR” (rea1) and “Seeing the way Suolo Inc. wants me to believe that they do CSR, I feel inclined to think the opposite” (rea2) (Cronbach’s α = 0.786; M = 3.50; SD = 1.42).
3.4. Structural Equation Modeling

We applied “Structural Equation Modeling” (SEM) for the statistical analyses because this statistical method allows us to determine the effect of the stimulus (“Extent of CSR Disclosure”) on the output measure (“Corporate Legitimacy”) and – at the same time – to take mediator variables (“Content Credibility”, “Perceived Persuasion Intent”, “Psychological Reactance”) into account (consistent with Bollen & Pearl, 2013; pp. 316–318; Pearl, 2014). We used Maximum Likelihood (ML) and Bootstrapping (5000 samples) as the estimate. These standard settings allow the testing of SEM even if distributions are not normal (Preacher & Hayes, 2008; p. 880). All calculations were run using SPSS 22 and Mplus 7.3.

4. Results

The CSR dilemma model fits the empirical data of the questionnaires. The SEM’s global fit indices are acceptable overall: $\chi^2 = 57.99, df = 38, p = 0.02; \text{RMSEA} = 0.05$ with 90% CI. between 0.02 and 0.07, $p = 0.54; \text{CFI} = 0.977; \text{TLI} = 0.977; \text{SRMR} = 0.057$ (Hu & Bentler, 1999; Hooper, Coughlan, & Mullen, 2008) (see Fig. 3 and Table 1).

According to the results, the “Extent of CSR Disclosure” has a positive effect on “corporate legitimacy” ($\beta = 0.13, p = 0.03$), which confirms H1. This positive effect is in fact even stronger because “content credibility” is a positive mediator variable rather than a suppressor variable (the total effect of “Extent of CSR Disclosure” on “Corporate Legitimacy” is $\beta = 0.26, p = 0.01$). Although the “Extent of CSR Disclosure” has a significant effect on “Content Credibility”, H2 has to be rejected because – contrary to our expectation – the effect is positive ($\beta = 0.13, p = 0.03$). The results confirm H3, which postulated that the content credibility of the CSR disclosures positively affects the corporate legitimacy ($\beta = 0.57, p = 0.01$).

There is no statistical relation between the “Extent of CSR Disclosure” and the “Perceived Persuasion Intent” ($\beta = 0.02, p = 0.80$)—which leads to a rejection of H4. An additional Analysis of Variance (ANOVA) confirms this result. There is no significant difference between the three experimental groups in terms of “Perceived Persuasion Intent”: $F(2,230) = 0.354, p = 0.70$, group 1 = 5.64, group 2 = 5.76, group 3 = 5.66. The Scheffé test also confirms this result ($p = 0.71$). The level of “Perceived Persuasion Intent” was high overall ($M_{\text{Total}} = 5.5$ on a 7-point Likert scale). The results statistically
confirm H5 that the “Perceived Persuasion Intent” has a positive effect on “Psychological Reactance” (β = 0.17, p = 0.04). However, the effect is very small. As a consequence, the variance explained is also very small (3 percent). The results clearly confirm H6 and H7. “Psychological Reactance” strongly decreases the “Content Credibility” (β = −0.62, p = 0.01) of the CSR disclosures as well as the perceived “Corporate Legitimacy” (β = −0.31, p = 0.01).

5. Discussion

According to the results of this experimental study, commodity trading companies are not “damned if they do” CSR. In fact, quite the opposite is true: They can (re)gain legitimacy through extensive CSR disclosures—even though stakeholders are highly skeptical in terms of perceived persuasion intent and psychological reactance. The advantage of enhanced legitimacy through discretionary CSR disclosures thus outweighs the disadvantages around stakeholder skepticism. The results of this study confirm De Roeck and Delobbe’s (2012) finding that “a strong engagement in CSR initiatives can, even in controversial industry sectors, support organizational legitimacy” (p. 407). Two findings of the present study are of particular interest for PR and CSR researchers.

Firstly, one surprising result is that content credibility is a positive mediator variable rather than a suppressor variable between the extent of CSR disclosure and a company’s credibility. An explanation might be the “Truth Effect”, which is a tendency of individuals to perceive information as true the more they are exposed to it (Hasher, Goldstein & Toppino, 1977; Koch & Zerback, 2013). Accordingly, the more extensive a company’s CSR disclosure the more credible individual stakeholders perceive its content to be. An additional explanation could be that the used stimulus materials include many facts and numbers. Participants might have had the impression that Suolo Inc. would not risk mentioning verifiable facts about their CSR engagement unless they were credible. A follow-up study could test the CSR dilemma model by using stimuli that contain empty promises instead of concrete facts and numbers.

Secondly, the results indicate that psychological reactance has strong effects on the content credibility of CSR disclosures as well as the company’s legitimacy. However, we do not yet know what triggers reactance when it comes to CSR communication. All we know from the results is that reactance is not triggered by the extent of CSR disclosure. Therefore, a deeper understanding of reactance could help to resolve the opposing answers to the question of whether extensive CSR disclosures strengthen or weaken a company’s legitimacy. Here, a promising approach could be to incorporate the “Uses and Gratifications Theory”, which can explain why and how people seek CSR disclosures (Bögel, 2015). The CSR dilemma model could also be adapted for research on crisis responsibility. Here, crisis response strategies such as apologies could be evaluated with regard to the boomerang effects of stakeholder skepticism on a company’s legitimacy (Coombs, 2007; Sohn & Lariscy, 2012).

This study has several limitations, such as an artificial experimental situation, short-term effects, a non-significant model path, and the use of a fictional company from a specific sector. In order to be more precise, the constructs “Perceived Persuasion Intent” and “Psychological Reactance” in particular are difficult to measure in surveys (Brehm & Brehm, 1981; p. 37; Quick et al., 2013; p. 171). There is a good case for believing that respondents in survey situations are more skeptical than in everyday situations. With regard to this study, this might explain the high average score of the variable “Perceived Persuasion Intent”. We thus recommend that future research should refer to a recent study from Ham, Nelson & Das (2015), who provide an extensive review on how to measure persuasion knowledge. Unfortunately, their article was published after this paper’s experimental study was conducted. Moreover, it must be noted that “Corporate Legitimacy” was measured by a non-validated scale. Although the reliability scores of the items are satisfactory, a validated scale on how to measure legitimacy is needed. It should also be taken into account that the constructs “Perceived Persuasion Intent”, “Psychological Reactance” and “Corporate Legitimacy” are multi-dimensional (Kim, Levine, & Allen, 2014; Quick & Stephenson, 2007; Tost, 2011).

6. Conclusion

Despite the limitations of this experimental study, we believe that it advances the understanding of corporate communications by examining how individual stakeholders process and evaluate CSR disclosures. Moreover, the raw materials sector seems to be an interesting object of study for future research because commodity trading companies play a pivotal role in the global economy and have become a controversial topic in public and political discussions (Kirat, 2015). With commodity trading companies coming under the scrutiny of activists, politicians and the media, PR and CSR researchers should also pay more attention to them.

References
