Degree Project
Level: Master in Business Administration

Legitimation Strategies in the reporting of Negative CSR Aspects

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Subject/main field of study: Business Administration
Course code: FÖ3027
Credits: 15
Date of examination: 1st June 2017

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Abstract:

The survival of organizations is dependent upon their legitimacy since legitimacy provides them with access to valuable resources. Organizations do not possess legitimacy, but rather it is ascribed to them by the society they are in when their actions meet societal expectations. Fulfillment of these societal expectations requires the moral and practical obligations of organizations which we call Corporate Social Responsibility (CSR). To show their CSR performance, organizations have increasingly adopted the practice of CSR reporting. In CSR reporting, organizations are expected by their stakeholders to disclose both positive and negative aspects. Although disclosing negative aspects can pose a threat to organization’s legitimacy, a third party reporting them may cause more severe damages to the legitimacy of the organization. Therefore, organizations are motivated to legitimize their negative aspects by using legitimation strategies.

Using the typology of Coombs and Holladay (1996), in combination with the legitimation strategies by Hahn and Lülfs (2014) as our frameworks, and the non-financial reports of the top ten German chemical companies as our illustrative cases, we investigate and interpret the choice of legitimation strategies used by organizations to report different types of negative aspects in CSR reports. Our findings show that there is a clear pattern in the use of corrective action as a legitimation strategy for all types of negative aspects. Furthermore, we identified instances, where a new type of legitimation strategy, which we called shifting blame legitimation strategy was used. We interpreted our findings using analytical reasoning and theoretical framework such as the concept of symbolic and substantive approach to interpret our findings. Based on the findings, we concluded that the dominant pattern identified falls under the substantive approach, theoretically known for helping companies retain their legitimacy.

Keywords:

Legitimacy, negative aspects, Corporate Social Responsibility, sustainability, non-financial reporting, voluntary disclosure, legitimation strategies, symbolic approach, substantive approach
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Table of Abbreviations

CAQDAS Computer Assisted Qualitative Date Analysis Software
CO2 Carbon dioxide
CSR Corporate Social Responsibility
e.g. exempli gratia (for example)
et al. et alia (and others)
etc. et cetera (and so on)
EU European Union
GRI Global Reporting Initiative
i.e. id est (that is)
IIRC International Integrated Reporting Council
NGO Non-governmental Organization
SD Sustainable Development
VCI Verband der Chemischen Industrie (association of the chemical industry in Germany)
1 Introduction

This thesis focuses on the topic of Corporate Social Responsibility (CSR) reporting by which organizations disclose their CSR activities to retain legitimacy. Legitimacy is viewed as the social acceptance of organizations and their activities and is regarded as a critical resource for organizations (Ashforth & Gibbs, 1990). With regard to the term CSR reporting, it is used as an umbrella term for nonfinancial, sustainability, corporate citizenship, or corporate responsibility-labeled reports which are all used by researchers in advancing knowledge in the field, but by using different labels (Lock & Seele, 2016).

Although CSR reporting has been a voluntary practice for many big organizations, showcasing their CSR activities to their stakeholders (Beal, 2013), there has also been development towards enforcing a mandatory CSR disclosure practice (for example the European Union Directive 2014/95/EU). The voluntary disclosures of CSR, have been criticized for being prone to interpretations as well as greenwashing (Hahn & Lülfs, 2014). CSR reports should, however, uniformly and accurately portray CSR activities, including both positive and negative aspects (GRI, 2011; IIRC, 2013). Regardless of CSR reports being voluntary or not, the effect of disclosing negative CSR related aspects creates a dilemma for organizations, and are hence problematic. This is because disclosing negative aspects can harm an organization’s legitimacy, whereas failing to report the negative aspects could also have the same consequences if third parties uncover them first (Reimsbach & Hahn, 2015). Consequently, the challenge faced by organizations is how to report negative CSR aspects to preserve their organizational legitimacy, while meeting the stakeholders’ expectations for transparency.

The term negative aspect refers to what Coombs and Holladay (1996) denote as a crisis, whereby both terms mean organizational aspects, which do not conform to societal expectation. Henceforth, negative aspects will be used to refer to the term crisis used by Coombs and Holladay (1996). Coombs and Holladay (1996) posit four types of negative aspects: accidental (unintentional and internal), transgressional (intentional and internal), faux pas (unintentional and external), and terroristic (intentional and external). What constitutes intentional/unintentional and internal/external will be discussed further in the theoretical framework section.
According to Hahn and Lülfs (2014), organizations use six strategies as defense tactics when negative aspects threaten their image or legitimacy. These strategies, which they refer to as legitimation strategies are: 1. Marginalization strategy whereby organizations likely attempt to legitimize a negative aspect by interpreting it as non-relevant, unimportant, or negligible; 2. Abstraction strategy where organizations claim the widespread nature of the negative aspect as being inherent to the industry; 3. Indicating Facts whereby organizations simply state the existence of a negative aspect as a fact without providing explanations or justifications for it; 4. Rationalization strategy whereby organizations attempts to explain and justify negative aspects by referring to the usefulness or importance of the negative action; 5. Authorization strategy whereby organizations aims at legitimization by referring to authority; 6. Corrective Action whereby organizations indicate corrective actions planned or taken towards negative aspects in CSR reports.

With organizations being expected by their stakeholders to disclose negative aspects in their CSR reports, the questions as to which of the legitimation strategies organizations use to disclose their different types of negative aspects in their CSR reports, arise. This is because as indicated above the different choices of legitimation strategies may have a direct bearing on the reputation and legitimacy of an organization. The aim of this study is, therefore, to investigate and interpret the choice of legitimation strategies used by organizations to report different types of negative aspects in CSR reports.

Considering this aim, the study attempts to answer the following research questions:

- *Is there a pattern between the use of legitimation strategies and types of negative aspects reported by organizations?*
- *How can the patterns / non-patterns identified be interpreted?*

As suggested above, this study will make use of the six legitimation strategies of Hahn and Lülfs’ (2014) and the four types of negatives aspects of Coombs and Holladay (1996) as our frameworks for this study. We believe the choice of the legitimation strategies is appropriate because they are derived from empirical studies on proactive reporting of negative aspects of CSR. Similarly, despite the fact the four types of negative aspects of Coombs and Holladay (1996) were first introduced over two decades ago, from our literature search, we observed that they are extant and still being used popularly in academics.
Furthermore, to answer our research questions, an illustrative study of the German chemical sector companies will be used. We are concentrating on the chemical sector as it is perceived by society as one of the sectors with high environmental impacts (Brammer & Millington, 2005; ENERG-Ice, 2013), causing pollution and risk to human lives through hazardous chemicals (ENERG-Ice, 2013). In keeping with Chauvey, Giordano-Spring, Cho & Patten (2014), firms in the chemical sector, which are considered to be socially exposed, are subjected to a higher degree of social and political pressures and hence, more likely to use their CSR reports to appear legitimate. Moreover, it is worth noting that Germany is home to some of the world’s largest chemical companies (Dullforce, 2015).

By addressing the above research question, this study hopes to identify the interesting relationship between legitimation strategies and types of negative aspects based on the two frameworks. Prior to conducting this study, our literature review revealed that often research on legitimation strategies and negative aspects are conducted independently and not linked to each other. We are however of the opinion that by combining legitimation strategies and negative aspects, one can achieve a more structured view and understanding of the strategies used by organizations to attain legitimacy through reporting of negative aspects. Hence, our study builds on the proactive strategies for CSR reporting suggested by Hahn and Lülfs (2014) by considering the different types of negative aspects. Moreover, the findings of this study will add up to the general understanding of legitimation strategies in negative aspects CSR reporting. Managers may be able to consciously select their legitimation strategies when reporting their negative aspects, bearing in mind the theoretical implications of the strategies on their company’s legitimacy. Finally, stakeholders, who may be consumers of the CSR reports and bestow legitimacy, may find purpose in the findings and discussions of this paper contributing towards their judgment of affirming or negating the credibility of the reports.
2 Conceptual Framework

As the aim of this study is to examine the legitimation strategies organizations use to report the different types of negative aspects, it is important to understand the underlying concepts and theories behind legitimacy and CSR reporting. This section presents these concepts, highlighting the reporting of negative CSR aspects and its link to legitimation strategies.

2.1 Legitimacy and CSR

Legitimacy, according to Suchman (1995), describes the idea that the conduct of an organization can be deemed to be in accordance with norms and beliefs of the society it is situated in. Ashforth and Gibbs (1990) regard legitimacy as acceptance of the activities of an organization by society, which is an essential resource for the organization.

These definitions of legitimacy highlight two essential characteristics of the concept of legitimacy. Firstly, the aspect of organizations not possessing legitimacy is inherently existent in both definitions. Legitimacy can only be ascribed to organizations by the society, which perceives them to be or not to be legitimate. The second characteristic is the approval and social acceptance of the conduct of organizations by the society they are situated in. This acceptance by society is vital for the existence of the organization (Ashforth & Gibbs, 1990; Hahn & Lülfs, 2014; Scherer, Palazzo and Seidl 2013) since it provides the organization with economic benefits, such as access to resources. Scherer et al. (2013) provide a further definition of legitimacy, stating that corporations are ascribed with legitimacy when their actions “satisfy the social expectations of their environment” (p. 262). A firm’s resources, they further argue, are closely tied to its legitimacy.

Turning to CSR, we believe it is worthwhile to start our discussion with the relationship between the concept of Sustainable Development (SD) and CSR. This is because increasingly both terms have come to be used interchangeably in the corporate and research world (Ebner & Baumgartner, 2006). The concepts of SD and CSR have gained importance over the past decades which is evident in the sheer number of publications attributed to these concepts (Ebner, & Baumgartner, 2006). The definition of SD, which one comes across frequently, is the one by the United Nations, which defines SD as “meeting the needs of the present without compromising the ability of future
generations to meet their own needs” (United Nations, 1987, para. 2). Although the concepts of SD and CSR have gained importance over the past decades and are increasingly being used interchangeably and synonymously in the corporate and research world, they have a distinction in their original applications (Ebner & Baumgartner, 2006). CSR is an organizational-level decision issue, whereas SD is a country-level or global commitment or set of initiatives based on its three pillars, i.e. economic development, social development, and environmental protection (Perez-Batres, Doh, Miller & Pisani, 2012,). As this thesis is focused on organizations and their reporting of the non-financial aspects, the term CSR has been used consistently throughout to keep the original meaning.

When one looks at the definition of the term CSR, there is yet to be a consensus over it (Beal, 2013). The European Commission provides a definition, portraying CSR as “the responsibility of enterprises for their impact on society” (European Commission, 2011, p. 6). Although brief, the European Commission’s (2011) definition is broad and open to interpretations. Other definitions of CSR are a bit more specific and narrow, stating what and to whom the corporation should be responsible for. An example of such a definition is the one by Beal (2013), who defines Corporate Social Responsibility as:

The moral and practical obligation of market participants to consider the effect of their actions on collective or system-level outcomes and to then regulate their behavior in order to contribute to bringing those outcomes into congruence with societal expectations. (p. 4)

With this definition of CSR, Beal links organizational actions with that of societal expectations, highlighting that organizations mold their actions with the intention of aligning the consequences of those actions to mirror the expectation of society. When organizations take actions towards meeting those societal expectations it becomes important to report them and measure them. This brings us to the concept of CSR reporting which is presented in the subsequent section.
2.2 CSR reporting

The communication of CSR activities to all stakeholders has become important for organizations, as organizational mission goes beyond just the profit-making motive (Tixier, 2003). According to Tixier (2003), management in any organization is advised to report organizational actions and crisis related to CSR in a factual manner. Although, there are some critics who consider CSR communications as merely a marketing or public relation tools, also known as instrumental discourse, the factual and transparent communicative aspect of CSR communication, also known as the deliberative discourse, should be the preference to achieve moral legitimacy for organizations (Seele & Lock, 2015). In other words, in deliberative discourse, the goal is to meet the expectations of all stakeholder involved, while in instrumental discourse the priority is to fulfill the economic needs of the organization.

Furthermore, Seele and Lock (2015) indicate the existence of a multitude of published and unpublished CSR communication materials produced by large organizations. The published CSR materials are meant for the consumption of the outside stakeholders whereas the unpublished materials are often confidential and usually kept within the organization. Seele and Lock (2015) suggest categorizing the CSR communication tools using the deliberative/instrumental and published/unpublished dimensions:

- unpublished and instrumental: CSR strategy papers, internal compliance handbook, code of conduct;
- unpublished and deliberative: stakeholder roundtables, stakeholder dialogues, employees, non-governmental organizations (NGOs), advocacy groups, special interest groups, and intranet;
- published and deliberative: weblog, social media, and wiki; and finally
- published and instrumental: CSR websites, CSR reports, and CSR brochures.

Although large organizations may use more than one CSR communication tool to communicate their CSR activities to their stakeholders, the use of the latter group containing the focus of this study, i.e. CSR reports, is considered as more informative or persuasive (Seele & Lock, 2015). In line with this, CSR communications are strategically used as a response to legitimacy threats, the
discourse used in the communications can influence stakeholders’ view of the negative aspects and the organization in crisis (Coombs & Holladay, 1996).

According to Tschopp and Huefner (2015), the practice of CSR reporting by organizations has emerged only recently and it is still in its infancy. While the more established practice of financial reporting is mainly to attract more investment, CSR reporting is done to meet the needs of a wider network of stakeholders including employees, customers, suppliers, shareholders, management, governments, NGOs, media, and the public for multitude purposes (Tschopp & Huefner, 2015). Some of the use of CSR reporting are: for regulatory purposes by governments, for investment decisions by investors, for increased disclosure of non-financial risks by NGOs, for cost savings, for motivating employees, and to strengthen reputation or build relationships across the supply chain by the disclosing organization itself.

Having outlined the concepts of CSR communication, CSR reporting, and CSR reports, let us summarize their subtle distinctions. As indicated above, CSR communication is the broader domain where both CSR reporting and CSR reports belong, and by which organizations inform both their internal and external stakeholders about their economic, social, and environmental activities as part of their corporate communication. On the other hand, CSR reporting is mostly focused on external communications by using a variety of reporting tools, such as corporate web reporting, CSR information in annual financial reports, and non-financial reports. Hence, CSR reports are the published type of CSR reporting which stand-alone as printed or pdf formats. As readers by now have understood, the focus of this thesis is on the published CSR reporting, i.e. the stand-alone CSR reports.

As mentioned above, although CSR reports seem to fall under the public relations group, these reports may still get acceptance and usefulness by external stakeholders thereby improving organization’s accountability (Graafl et al., 2003 as cited in Ziek, 2009). It can also be stressed that voluntary CSR disclosure help organizations withstand the social and political pressure exerted by non-market stakeholders, such as NGOs, policymakers, or the media, thereby allowing organizations to reinstate their favorable impressions of their CSR performance, thus preserving their organizational legitimacy (Hahn & Lülfs, 2014).
While admitting that organizations are increasingly disclosing their environmental and social impacts through CSR reports, Michelon, Pilonato, and Ricceri (2015; 2014) present the following criticisms on CSR reports based on their previous and several other proponents works. CSR reports may lack relevance, completeness, and credibility resulting in their failure to impact sustainable development. The critics also argue that CSR reports dilute, conceal (in long format reports), or obscure negative aspects from users. In conclusion, the critics say that CSR reports take symbolic approach aimed at impression management rather than taking the substantive approach of serving as an accountability tool in meeting expectations of stakeholders. The challenge for organizations is then to present a true picture of their CSR activities in a transparent and accountable manner to garner the legitimacy of stakeholders.

Organizations can take actions in improving the transparency and accountability of their CSR reports by providing a balanced and reasonable reflection of their sustainability performance through the reporting of both the positive and negative aspects thereby enhancing their brand, reputation, and assure their continuity in operations (GRI, 2011). Furthermore, organizations may find motives for voluntary disclosure of negative aspects of CSR to gain the trust of stakeholders and avoid the risk of exposure to the negative aspects by third parties which can be even more damaging to the stakeholders’ trust (Hahn & Lülfs, 2014; Reimsbach & Hahn, 2015). We can further cite an empirical study by Bachmann and Ingenhoff (2016), where they acknowledge the advantage of CSR reporting as outweighing its disadvantage while recognizing the dilemma and skepticism on the use of CSR reports. This means the higher the degree of organization’s CSR reporting, the greater its organizational legitimacy as perceived by its stakeholders (Bachmann & Ingenhoff, 2016). One can then reaffirm the centrality of legitimacy for organizations practicing voluntary CSR reporting.

While what we have discussed so far relates to the voluntary CSR disclosure, recent developments show that there is an increasing move towards a mandatory disclosure. One such example is the European Union (EU) Directive 2014/95/EU, a mandatory measure to harmonize reporting practices thereby increasing transparency and accountability through application of common sustainability codes. The aim of the EU directive is “to enhance the consistency and comparability of non-financial information disclosed throughout the [European] Union” (Council Directive 2014/95/EU, art. 6). In line with the directive, Germany, one of the prominent EU member state,
has started the implementation of its new Sustainability Code as of January 2017. Under this code, certain organizations in Germany will be subjected to the mandatory disclosure of non-financial aspects of their operations. The Sustainability Code applies to large organizations with more than “500 employees, a balance sheet total of over EUR 20 million and/or a net turnover in excess of EUR 40 million” (German Council for Sustainable Development, n.d., p. 1). With the implementation of the Sustainability Code, affected organizations are required to transparently provide information on environmental, social, employee, human right, anti-corruption, and bribery issues (German Council for Sustainable Development, 2016). It is worth noting that since the reports reviewed for this research are from 2016, they are not subjected to the Sustainability Code, and therefore voluntarily disclosed. Although mandatory reporting, and thus, the EU Directive as well as the new German Sustainability Code are not subject of our research, we deem it necessary to mention them, since they may have an impact on future CSR reporting.

2.3 Negative Aspects of CSR Reporting

According to Hahn and Lülfs (2014), “the negative aspects in CSR reporting include statements referring to factual and/or potential corporate conduct that had or has a (potentially) negative impact on the realization of sustainability” (p. 404). These negative aspects can be ascribed to three areas of sustainability dimensions (GRI, 2011; Hahn & Lülfs, 2014). The first dimension is the ecological one, incorporating the pollution of the ecological environment (air, soil, water, etc.) or production of toxic waste, harmful emissions, or hazardous substances, and so on, due to operations by the organization. The second is the social dimension, which includes work-related accidents, bribery or fraud, breaches of data privacy, and incidents of child labor or discrimination. The third dimension is the economic aspect which is financial in nature, such as violations of certain accepted financial reporting rules. The negative aspects related to the economic sustainability dimension are usually assumed to be covered by the traditional mandatory financial reporting (Hahn & Lülfs, 2014). As the aim of the study is about the self-reporting of non-financial CSR reports, further treatment is only limited to the first two dimensions.

Consequently, the negative aspects of CSR can then be understood as organizational actions or activities that are incongruent with stakeholders’ expectations. A crisis in this sense can be viewed
as a potentially damaging situation to organizational legitimacy for failing to meet stakeholders’ expectations (Coombs & Holladay, 1996). Henceforth, the term negative aspects of CSR will be used in place of crisis to mean the same in this study.

2.4 Typologies of Negative Aspects

In the introduction chapter, we argued that the choices of proactive legitimation strategies can be studied in a more structured way by linking them with the types of negative aspects in CSR reports. In line with this, our literature review brought us to the four types of negative aspects by Coombs and Holladay (1996), which to date is still being cited in recent researches (for example Kim and Choi’s research from 2016). In a later work, Coombs and Holladay (2002) proposed categorizing negative aspects into three clusters, namely the victim cluster, the accidental cluster, and the preventable cluster. Although this work is more recent, we find the four types of negative aspects to be better suited for our research purposes. This owes to the fact that with the four types we have an extra category to our disposal, which enables us to further differentiate the negative aspects identified.

According to Coombs and Holladay (1996), they categorize negative aspects into four types based on two dimensions. One dimension of categorizing negative aspects is based on the cause of negative aspect’s origin also known as negative aspect’s locus, i.e. being internal or external to the organization. The other dimension is based on the intentionality, i.e. intentional or unintentional negative aspect. Consequently, using these dimensions, Coombs and Holladay (1996) suggest a 2x2 matrix category system of negative aspect types (figure 1), i.e. accidental (unintentional and internal), transgressional (intentional and internal), faux pas (unintentional and external), and terroristic (intentional and external). In this context, internal refers to a negative aspect resulting from an action taken by the organization itself, whereas external refers to the negative aspect being created by an external party outside of the organization. Similarly, intentional refers to the purposefully inflicted negative aspect by an actor, whereas unintentional refers to the negative aspect that was not inflicted purposefully. In terms of characterizing the different negative aspects, the transgressional negative aspect is an intentional action caused by the organization itself, whereas the accidental type of negative aspect is characterized by an unintentional infliction of
negative aspect by the organization. On the other hand, the terroristic negative aspect is intentional and caused by an external party, i.e. not caused by the organization. When we come to faux pas as a negative aspect, its definition is problematic and not straightforward. This is because of the unclear and ambiguous nature of the cause of the negative aspect. According to Coombs and Holladay (1996), the root of the negative aspect lies within the organization, where the action is not intended to be negative. It is, however, the perception of an external party which transforms this unintentional act into a negative aspect. In that sense, the negative aspect is externally caused since it is a third party which actually turns it into a negative aspect. The organization itself might not see nor intend any wrong doings. This leads us to conclude that the faux pas negative aspect is situational and dependent on the perception of certain actors in the society. In light of this, for our research purposes, we categorized those negative aspects as faux pas, where there is no general consensus in the society on whether or not they are negative aspects.

*Figure 1: Four type of negative aspects*

![Four type of negative aspects](image)

*Note: Based on Coombs and Holladay (1996)*
The categorization of the negative aspects into the four types may vary through time with the frequency of the negative aspects which is also termed as the stability dimension (Coombs & Holladay, 1996). Stakeholders are more likely to associate responsibility to the organization when a negative aspect occur repeatedly over a period as opposed to a one-time event. A repeatedly occurring negative aspect may be perceived as stable and more intentional where the stakeholders begin to think it can be prevented. This is to say that in cases where for example, organizations face multiple accidental issues, if these are not properly addressed, the company will be held responsible for these events. Thus, the initial accidental negative aspect transforms into a transgressional negative aspect.

According to Coombs & Holladay (1996), the cause of the four types of negative aspects has its basis in stakeholders’ perception by which the more stakeholders attribute responsibility for the negative aspect to the organization, the greater the threat to legitimacy. This implies internally caused negative aspects as having more impact on legitimacy due to the responsibility that the stakeholders ascribe to the organization for its occurrence. In addition, Coombs and Holladay (1996), based on an empirical study, reveal that transgressional negative aspects create a greater reputational damage than the accidental types. The means organizations which might be perceived as being able to prevent a negative aspect should have a more negative image than an organization perceived to have little or no control over a negative aspect (Coombs & Holladay, 1996).

2.5 Legitimation strategies

As the previous sections have highlighted, organizations face the dilemma of reporting negative aspects where both disclosure and non-disclosure can pose a threat to organizational legitimacy. We also stated how non-disclosure of negative aspects can have aggravated consequence on an organization’s legitimacy in the event of a third-party disclosure. This section of the paper focuses on the strategies organizations use to legitimize the negative CSR aspects in their reporting.

In line with our research aim, we discovered the legitimation strategies by Hahn and Lülfs (2014) to serve our purposes best, since they are specifically formulated for CSR reporting. CSR reports are mostly proactive in nature as they are usually used in disclosing the positive and negative aspects of the organization’s CSR performance before a third party discloses them. Hahn and Lülfs
(2014) developed their proactive legitimation strategies while studying CSR reports by means of an inductive research. These strategies are proactive in the sense that firms use them to voluntarily disclose negative incidents, which have the potential of damaging the firm’s legitimacy. The strategies suggested by Hahn and Lülfs (2014) are marginalization, abstraction, indicating facts, rationalization, authorization, and corrective action. Organizations employ the marginalization strategy to make negative incidents seem less relevant. With this strategy, firms do not seek to avoid taking responsibility for the negative occurrence. They rather accept blame to some degree but they downplay the negative incident to give the impression that what happened is not important or relevant (Hahn & Lülfs, 2014). The strategy of abstraction is focused on diluting negative incidents by generalizing them to the whole industry, which the organization operates in (Hahn & Lülfs, 2014). The organization shifts the blame from itself, by indicating that the negative occurrence is a challenge faced by other organizations in the same industry.

With the strategy of indicating facts, organizations merely mention the occurred negative incident, without providing further information nor explanation (Hahn & Lülfs, 2014). This strategy can also be used to manipulate stakeholders by making the organization seem objective and unbiased. Hahn and Lülfs (2014) argue that in the absence of independent reports of the same incidents, stakeholders might not be able to evaluate the extent of the disclosed incident. By means of the rationalization strategy, negative incidents are explained by justifying their occurrence with the function of the practices, which caused them (Hahn & Lülfs, 2014). This strategy, similar to the indicating facts strategy, portrays the actions of the organization as objective and rational. With the help of the authorization strategy, organizations preserve their legitimacy by referring to third parties (either regulatory bodies or regulations) when a negative incident occurs (Hahn & Lülfs, 2014). By referring to a third party, they seek to validate the occurrence of the negative aspect. Hahn and Lülfs (2014) point out that the success of this strategy is highly dependent on the legitimacy of the organization being referred to. The final strategy identified by Hahn and Lülfs (2014) is the corrective action strategy, which provides measures to mitigate and prevent the occurrence of the negative incident in future.

Below is an overview of the six legitimation strategies proposed by Hahn and Lülfs (2014)
### Table 1: Overview of legitimation strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginalization</td>
<td>Making negative aspects seem irrelevant</td>
</tr>
<tr>
<td>Abstraction</td>
<td>Diluting negative aspects by generalizing them to the whole industry</td>
</tr>
<tr>
<td>Indicating Facts</td>
<td>Merely mentioning negative aspects without further information or explanation</td>
</tr>
<tr>
<td>Rationalization</td>
<td>Justifying negative aspects through their function</td>
</tr>
<tr>
<td>Authorization</td>
<td>Referencing third parties (either regulatory body or peer organization) to validate negative aspect</td>
</tr>
<tr>
<td>Corrective action</td>
<td>Providing measures to mitigate and avoid negative aspects in future.</td>
</tr>
</tbody>
</table>

*Note: Based on information by Hahn and Lülfs (2014)*

### 2.6 Categories of Legitimation Strategies

Extant literature (Ashforth & Gibbs, 1990; Hahn & Lülfs, 2014; Shabana & Ravlin, 2016) propose that strategies used by organizations to gain, preserve and/or restore legitimacy can be classified into two major approaches, the substantive and the symbolic approaches. The substantive approach describes strategies, which organizations employ to affect real change in their organizational processes (Ashforth & Gibbs, 1990; Rodrigue, Magnan & Cho, 2013; Hahn & Lülfs, 2014). In terms of voluntary disclosure of negative aspects in CSR reports, legitimation strategies, which aim at clearly informing stakeholders fall under the substantive approach (Shabana & Raylin, 2016). On the other hand, the symbolic approach is directed towards portraying an image, which seems to be in congruence with societal expectations (Ashforth & Gibbs, 1990; Rodrigue et al., 2013 Hahn & Lülfs, 2014). When it comes to organizations voluntarily disclosing negative aspects, strategies, which are manipulative and are used to change the perception of the society to view the organization and its actions as legitimate, are grouped under the symbolic approach (Ashforth & Gibbs, 1990; Hahn & Lülfs, 2014; Shabana & Raylin, 2016). Symbolic strategies are more directed
towards managing the organization’s image rather than offering a true report of negative aspects (Shabana & Raylin, 2016).

Given the above-mentioned typologies of legitimation strategies, Hahn and Lülfs (2014) proceed to classify their six legitimation strategies into the two legitimacy approaches. The table below presents the categorization of the strategies:

Table 2: Categorization of legitimation strategies

<table>
<thead>
<tr>
<th>Substantive approach</th>
<th>Symbolic approach</th>
<th>Mixed approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Corrective action</td>
<td>• Marginalization</td>
<td>• Indicating facts</td>
</tr>
<tr>
<td></td>
<td>• Abstraction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rationalization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Authorization</td>
<td></td>
</tr>
</tbody>
</table>

*Note: Based on information by Hahn and Lülfs (2014)*

As seen in the table above, a majority of the legitimation strategies proposed by Hahn and Lülfs (2014) can be categorized into the symbolic approach, with the strategy of indicating facts being perceived as both substantive and symbolic, depending on whether or not one views indicating facts as being rational and unbiased (substantive) or as pretending to be rational and unbiased (symbolic). Although in the study by Hahn and Lülfs (2014), the strategy of abstraction was categorized as a mixed approach, we found it better suited as a symbolic approach, since it denotes the distancing oneself from responsibilities and shifting blame to the industry. This strategy bears similarities with the authorization approach, where the organization also legitimizes its negative aspects by putting the blame on a third party.

According to Hahn and Lülfs (2014), the substantive approach helps strengthen organizations’ legitimacy. This can be considered an advantage of the approach and therefore of the legitimation strategies, which fall under this approach. In contradiction, the symbolic approach can potentially weaken and damage the legitimacy of organizations if the manipulative nature of the strategies is
discovered (Hahn & Lülfs, 2014). For the strategies under the symbolic approach, this means that their usage can potentially damage rather than preserve legitimacy. It is of interest to see that although the symbolic approach can damage an organization’s legitimacy, most the strategies identified by Hahn and Lülfs (2014) fall under this category. Considering that repairing a damaged legitimacy is more difficult than preserving it (Suchman, 1995), it is surprising to notice that a majority of the legitimation strategies could potentially cause harm to the organization’s legitimacy. In their 2013 study on how organizations in complex and heterogeneous environments manage legitimacy, Scherer et al. (2013) offer a possible explanation for the identified phenomenon. They point out that the cost of changing organizational structure and processes to incorporate societal expectation influences the organization’s choice of legitimation strategy. Organizations opt for deceptive and manipulative strategies when the cost of organizational change and consequently matching organizational processes to societal expectation is high. In such a case, organizations opt to portray an image, which aligns with the expectation of their society without actually having changed their internal processes and structure. In contrast, if the benefits associated with being legitimate outweighs the cost of organizational change, organizations are more likely to change their structure and processes to reflect societal expectation (Scherer et al., 2013). Keeping the cost factor in mind, one can deduce that the substantive approach is associated with high costs for the organization, since it brings real change, whereas the symbolic approach involves less cost, since it aims at only changing the perception of stakeholders and not to bring about real change.

Scherer et al. (2013) observe that strategies have their advantages and disadvantages. It is to be noted that the advantages and disadvantages of the symbolic and substantive approaches pointed out above also apply to strategies categorized under the respective approaches. The success of the employed strategies, they further observe, is situational, meaning that “some strategies seem to work better in certain situations than in others” (Scherer et al., 2013, p. 272)

Owing to this, it may be advantageous for companies to combine various legitimation strategies, to combine the advantages of each and in so doing, better address the legitimacy strategies they face (Scherer et al., 2013; Berrone, Gelabert & Fosfuri, 2009).
3 Methodology

In this section of our paper, the steps taken to carry out our research will be presented, describing our research approach, data collection, and analysis of the collected data, linking these to the aim of our research. We further present considerations pertaining to the quality and ethics associated with our research.

3.1 Research Approach

To reiterate, the aim of this study is to investigate and interpret the choice of legitimation strategies used by organizations in reporting negative aspects of their CSR activities. The research involves identifying and deciphering the strategies used to report negative CSR aspects. Due to the nature of our research, we deem it appropriate to primarily conduct this research as a qualitative study, where words, rather than numbers play a major role. The advantage of using this approach for our purposes is, as Saunders, Lewis, and Thornhill (2016) point out, that it enables researchers to gain deeper understanding and knowledge about a specific issue, in our case about the use of legitimation strategies. In line with this, the study follows systematic and iterative steps of sorting, coding, and identifying the meanings and discourses of the textual data using predefined keywords and categories derived from the two frameworks presented in the chapter above.

Although our research is based on textual data and identifying their meaning, a part of the steps we adopted for the data analysis, are more of a quantitative nature. This approach was opted for at this stage since there was a need to count the frequencies of the reported negative aspects and the legitimation strategies used to disclose them in order to identify the pattern between the two.

3.2 Data Collection

In order to answer the research questions stated in the introductory section of this paper, secondary data in the form of stand-alone CSR reports or sections from an annual or integrated report from the German chemical sector companies were collected and analyzed. Notwithstanding the diversity in terms of the names of the individual reports, they are similar in the sense that companies utilize
them to disclose the non-financial part of their activities. In the case of integrated reports and annual reports, the reports also have a financial section. Based on our research aim, our focus lies only on the non-financial disclosure and thus, the financial parts were not included in our analysis.

Since collecting the reports of all German companies in the chemical industry is impractical due to time constraint, only the top ten German chemical companies are considered instead. The reports we selected for our study are from BASF SE (hence BASF), BAYER AG (hence BAYER), Fresenius SE & Co. KGaA (hence Fresenius), Henkel AG & Co. KGaA (hence Henkel), Linde AG (hence Linde), Evonik Industries AG (hence Evonik), Merck KGaA (hence Merck), Covestro AG (hence Covestro), and Lanxess AG (hence Lanxess). These companies represent the ten largest companies in the chemical industry in terms of revenue in Germany\(^1\) (VCI, 2016), and, in the case of BASF and BAYER, are even among the largest chemical companies in the world (VCI, 2016).

The rationale behind selecting the ten largest companies in the German chemical industry lies in the fact that larger companies (both in size and revenue) are prone to draw more attention from their society and are more likely to disclose negative aspects as a means of appearing legitimate (Chauvey et al., 2014). In that respect, the chosen companies can be regarded as key players in the chemical industry and are hence in the public eye. Their actions are therefore the focus of public scrutiny, especially negative consequences of their actions (Chauvey et al., 2014). Figure 2 below shows an overview of the top ten chemical companies in Germany, which, with the exception of Boehringer Ingelheim, have been selected for this research.

\(^1\) Although Boehringer Ingelheim is among the ten largest chemical companies in Germany in terms of revenue, we could not find their published report on their non-financial activities, neither as a stand-alone document nor as part of their financial report. Based on this, we were not able to include Boehringer Ingelheim in our research.
3.3 Data analysis

To help us in spotting negative aspects, we searched the reports using a set of keywords (see Appendix 2) with the help of NVivo. We opted to use NVivo, since it is, according to Saunders et al. (2012), a commonly used Computer Assisted Qualitative Data Analysis (CAQDAS) tool. The main reason for the use of CAQDAS tool is to manage a large amount of textual data in sorting, categorizing, and relating relevant sections according to specified criteria. In addition, the use of a

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2 VCI (Verband der Chemischen Industrie e.V.) is the association of the chemical industry in Germany.
CAQDAS tool will increase both the transparency and methodological rigor (Saunders et al., 2012). This is achieved due to the ease of exploring and searching for themes based on criteria and language used, and the ease of coding and recoding of identified texts based on meaning and relationships. Additionally, the tool will also enable us to write memos, comments, notes, etc. to record thoughts systematically in relation to the text data.

The process to decide on which keywords to use for our research can be broken down into two. We began by first reading through the non-financial section of one report and subsequently noting the words, which are associated with negative aspects of CSR. We decided to go through one report first in order to have a general idea of the types of negative aspects reported, and additionally to understand which keywords are associated with the reporting of negative CSR aspects in the chemical industry. To ensure the reliability and validity of the selected keywords, we worked independently to generate the keywords and then discussed their findings, each contributing in creating the list of keywords. We supplemented our list with the generic keywords suggested by Hahn and Lülfis (2014), i.e. negative, incident, accident, adverse, harm, risk, and conflict, and with the concrete topics such as corruption, spill, child labor, and discrimination. When searching the report for sections containing the keywords in NVivo, some of the words led to unintended search results, such as harm resulting in pharmaceutical, ban resulting in bank, etc. We rectified this problem by adding an affix to the word in question such as harmed, banned, etc. Using these keywords enabled us to quickly identify the sections, which could possibly contain a negative CSR aspect in the reports.

By using the with stemmed words setting for our search, we increased the possibility of identifying sections, which did not directly include any of our keywords but contained negative aspects. As the name suggests, the with stemmed words setting searches a document for words with the same stem, for example searching for reduce to find reduce, reduced, reducing, which further broadens and enriches the search results. As a qualitative data analysis tool, NVivo searches for the location of specific keyword(s) and words and highlights these. This eliminates the need to read through whole documents, in our case, reports, of which some had over 300 pages. However, using keywords, we are cognizant that some of the negative aspects reported might not be included in our work. To reduce the odds of this happening, we have made our list of keywords extensive and included words covering specific topics where a high probability of negative aspects occurrence
observed through our reading of the sample CSR report. Examples of such keywords we used include safety, security, supplier, emission, etc. We also used NVivo’s *broad context* text search setting, which enabled us to read a larger amount of the context around the keywords searched, i.e. the surrounding paragraph, to get the meanings in the discourse.

As mentioned in the preceding chapters, the collected reports were analyzed to identify and interpret the legitimation strategies used to disclose different types of negative aspects. In addition to the typology of crises, which was used to categorize the negative aspects, the framework of legitimation strategies offered by Hahn and Lülfs (2014) was used to categorize the reports into the respective strategies. This framework is presented in the table below.

*Table 3: Framework for categorizing strategies*

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Characteristics / Definition</th>
<th>Typical Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginalization</td>
<td>Make negative aspects seem less relevant</td>
<td>Judgmental phrases and adjectives (no + adjective, minor, small, insignificant)</td>
</tr>
<tr>
<td>Abstraction</td>
<td>Dilute negative aspects by generalizing them to the whole industry, which the organization operates in</td>
<td>Vagueness and ambiguity (some, various, etc.)</td>
</tr>
<tr>
<td>Indicating facts</td>
<td>Merely mention the occurred negative aspect, without providing further information nor explanation</td>
<td>Quantification of negative aspect</td>
</tr>
<tr>
<td>Rationalization</td>
<td>Explain negative aspects by justifying their occurrence with the function of the practices</td>
<td>Explanation of factual reasons (due to, caused by, etc.)</td>
</tr>
<tr>
<td>Authorization</td>
<td>Preserve their legitimacy by using regulations or regulatory bodies to validate negative aspects</td>
<td>Specific mentioning of legitimizing authority or benchmark</td>
</tr>
</tbody>
</table>
With the help of the keywords and NVivo, we were able to review the selected reports and specifically search for passages, which contained negative CSR aspects. Working independently, these sections were first coded, i.e., categorized, with the four types of negative aspects and then in a second step, the types of legitimation strategies were assigned to the sections. The coding structure has two main parent codes or categories (see figure 3), i.e. type of negative aspects and type of legitimation strategies and initially a total of ten sub-codes.
After coding the identified sections with the types of negative aspects and the legitimation strategies, the researchers analyzed each document individually to identify whether or not there were patterns between the types of negative aspects and the legitimation strategies. Analyzing each document individually after all the reports were coded is an essential step, as it ensures that the researchers were not predisposed when coding the subsequent reports.

3.4 Considerations on research quality

As observed by Saunders et al. (2016), researchers using the qualitative approach might face the issue of proving the quality of their research. This is due to the fact that reliability and validity as characteristics of research quality are most often associated with quantitative research (Bryman &
Bell, 2015; Saunders et al., 2016). Reliability refers to the extent to which another researcher, using the same research design at a different point in time, can arrive at the same research findings as the previous researcher(s) (Krippendorff, 2005). For qualitative research, Guba and Lincoln (1985 as cited in Bryman & Bell, 2015) equate reliability with dependability. Validity, on the other hand, relates to the extent to which the collected data and findings reflect what was intended to be measured or the intended outcome. Validity is equated with credibility by Guba and Lincoln (1985 as cited in Bryman & Bell, 2015) for research using the qualitative approach.

The data analysis part of our research involves identifying meanings and coding texts into predefined categories. Due to its subjective nature, this step can be seen to be problematic in terms of research quality. We nevertheless took steps to assure the reliability (dependability) and validity (credibility) of our research. We worked independently to generate the keywords used to identify the negative aspects in the reports. These keywords act as a compass, pointing us towards the sections with negative aspects in the reports. The steps we took to generate the keywords and ensure their validity has already been described in detail in chapter 3.3 above, so they will not be repeated in this section. With regard to the generalizability (which Guba and Lincoln (1985 as cited in Bryman & Bell, 2015) equate with transferability) of our findings, it has to be noted that the extent to which the results can be transferred is limited. This is due to the small number of cases included in our report. The limited transferability of qualitative research is supported by Bryman and Bell (2015), who confirm that generalizability in qualitative research can be problematic since case studies and small sample sizes are often used. Saunders et al. (2016) however propose that the transferability of the research can be put in the hands of the readers, as long as the researcher provides them with the “research questions, design, context, finding and interpretations” (p. 206).

Furthermore, the review of the reports was first conducted individually by each researcher and in the subsequent step discussed and the individual works/codes were aligned. Both coders used the same criteria derived from the theoretical frameworks of the four types of negative aspects by Coombs and Holladay (1996) and the six types of legitimation strategies by Hahn and Lülfs (2014). This step is necessary in order to find out whether all coders can reliably apply the same codes (Mayring, 2014; Ryan & Bernard, 2000 as cited in Kohlbacher, 2006). In the process of coding, both coders used annotations and memos to note ambiguous areas, discrepancies, or deviations.
from the set criteria. In cases where there were discrepancies in the categorization of the negative aspects and the legitimation strategies, they were discussed, often referring to the frameworks of Hahn and Lülfs (2014) and Coombs and Holladay (1996) and using the researchers’ own analytical reasoning, to arrive at an agreement. A summary of the reviewed reports, showing the number of sections, which were identified by NVivo using our keywords can be found in Appendix 1.

Throughout the iterative data analysis process, accounts on possible revisions or changes to the keywords and criteria, re-coding of texts, and discussions on deviations and their resulting changes were documented.

3.5 Ethical Considerations

Research can be influenced by moral and ethical issues (Bryman & Bell, 2015; Saunders et al. 2016). The researcher should, therefore, take these aspects into consideration when conducting his research. For our research, our data, i.e. reports, were collected from the websites of the companies we selected. These reports are published on the respective websites by companies with the knowledge that they can be accessed by the general public. It was therefore not seen as a necessity to request permission from the individual companies before including their reports in our research. It can further be pointed out that the reports are meant for public consumption. In this respect, we did not violate any data protection by making use of these reports in our research. Basing ourselves on the same argument, the names of the companies were not anonymized, neither generally in the whole paper nor in the specific sections where we included examples from the reports. We as researchers handled the coding and interpretation of the reported negative aspects in a professional and objective manner to eliminate unintentionally causing harm to the image of any of the companies included in this research. To this end, all reports were subjected to the same criteria in terms of coding and interpretation.

3.6 Research Limitations

As our data analysis was based on one year (2016) non-financial reports, i.e. a cross-sectional snapshot of CSR performance, we understand the limitation of our study in providing a picture of
a strategy standpoint for individual negative aspects examined. However, since our focus is on finding patterns between legitimation strategies and negative aspects rather than about individual cases, this limitation will not reduce the credibility of our study. Furthermore, as already mentioned we acknowledge the low generalizability of our study to the chemical sector due to the low representativeness of the nine companies.
4 Key Findings and Analysis

In this chapter, we will present and discuss our key finding based on our review and analysis of non-financial reports found on the selected companies’ websites.

4.1 Distribution of Negative Aspects

From the reviewed reports, we were able to identify negative aspects matching the types of negative aspects brought forth by Coombs and Holladay (1996).

Figure 4: Distribution of negative aspects

![Distribution of Negative Aspects](image)

From the figure above, one can see that the most dominant type of negative aspect (approximately 74.5 percent) we identified in the reviewed reports was transgressional. An example of transgressional negative aspect is “In 2016, the volume of hazardous waste produced was up over the previous year by 7.8% to a total of 118,000 metric tons” (Covestro, 2017, p. 35). This large number of transgressional cases might be because this is the type of negative aspect with the strongest effect on stakeholders (Coombs & Holladay, 1996). Hence, companies might feel the need to disclose it before a third party does, in which case the legitimacy of the organization faces a larger threat (Hahn & Lülfs, 2014). However, this is our own speculation based on theory and
reasoning. It should be noted that the revealed high number of transgressional aspects may also be as a result of diverse reasons. One possible reason may be that transgressional negative aspects are prevalent in these companies, hence not a deliberate disclosure strategy on the part of the companies. Another reason could be that in the heavily scrutinized German chemical sector, these large companies are at the center of attention giving them no option but to report most of their transgressional negative aspects before a third party discloses them.

The second most frequently identified negative aspect is the accidental type of negative aspect with nearly 8.8 percent in our reviewed reports. An example of accidental negative aspect is “Regrettably, four people lost their lives in work-related accidents in 2016” (Bayer, 2017, p. 115). Although similar to transgressional negative aspects, the cause of the negative aspect lies with the company, the negative aspect is not intended by the company and thus, the amount of responsibility attributed to the company is less severe (Coombs & Holladay, 1996). It can thus be assumed that the impact of accidental negative aspects on legitimacy might be weaker than that of the transgressional negative aspect.

Faux pas and terroristic negative aspects were among the least commonly used negative aspects in the reports we analyzed, with almost 7 percent each of the total negative aspects reported. Owing to the fact that faux pas is the unintentional negative action by a company, which can be perceived by some stakeholders as negative, and the locus of terroristic lies outside the company, both types of negative aspects may not pose a strong threat to the company’s legitimacy. They are therefore not the focus of companies when reporting negative aspects. This is reflected in the few number of faux pas and terroristic cases reported. To illustrate, an example of faux pas found in the reports is “We only conduct animal studies when they are required by law and approved by respective authorities” (BASF, 2017, p. 102). In this example, one can infer from the context that the use of animal testing is protested by some groups forcing the company to take an assuring discourse. “Our audits have revealed some deviations with respect to working hours and payment of the minimum wage, especially in China. Here, we have called for improvements on the part of our suppliers” (BASF, 2017, p. 93), is an example of a terroristic negative aspect. Here, the company is showing how it has become a victim of the actions of its suppliers.

In the course of our analysis, we came across reported negative aspects, where due to how they were vaguely reported, we could not clearly assign them to a specific type of negative aspect. With
the ambiguous information provided when disclosing such negative aspects, one can assume that it is likely to classify them in any of the four negative aspects. Provided we had more information for the vaguely reported cases, it would have been easier to also categorize these cases into the respective negative aspect. We termed these types of negative aspects as generic. An example of a generic negative aspect is illustrated in this quote: “In 2016, we conducted 77 audits around the world. In the course of the audits, a total of 1,641 corrective actions were agreed upon” (Henkel, 2017, p. 26). For the reader, the cause of the incidents, which required corrective actions is not clear. As a result, it cannot be categorized under any of the four negative types. Our newly identified generic negative aspect, was the least identified negative aspect, making up a little over 3 percent of the reported negative aspects. The low number of this negative aspect is due largely to the fact that it comprises those negative aspects, which were vaguely reported and could thus not be assigned to a specific type. This illustrates that in most cases, it was possible to identify the negative aspects clearly and categorize them into their respective types.

4.2 Distribution of Legitimation Strategies

With regards to legitimation strategies, figure 5 below illustrates the distribution of the legitimation strategies identified.

*Figure 5: Distribution of legitimation strategies*

<table>
<thead>
<tr>
<th>Distribution of Legitimation Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstraction</td>
</tr>
<tr>
<td>12 (1.48%)</td>
</tr>
</tbody>
</table>
The most common one we identified was corrective action at roughly 47.71 percent (see figure 5). A possible reason for the predominant use of this strategy could be that organizations see the need to portray to their shareholders that they are either already doing something to prevent the negative aspects from occurring in future or they plan to put measures in place to inhibit the occurrence of the negative aspect in future (Hahn & Lülfs, 2014). An example of a corrective action discourse is “At the Haina site in the Dominican Republic, we reduced plastic waste by 30% last year and reduced our electricity consumption by about 8% by using new lighting and air-conditioning technologies” (Fresenius, 2017, p. 34). In this example, the company is seen reporting the actions taken to reduce the impact of the negative aspects and the results those actions brought about.

With only 1.48 percent of the legitimation strategies used, abstraction was one of the least strategy found in the reviewed reports. Considering that most of the negative aspects reported were similar across reports, it comes as a surprise that abstraction was not often identified in our reports. This is because one can assume that some of these challenges were faced by every company in the chemical sector, and the use of abstraction strategy might serve the purpose of diluting the negative aspect by generalizing them to the whole sector, hence avoiding a direct hit from concerned stakeholders. However, we assume that by using abstraction, companies portray themselves to be passive in their actions and signalize furthermore to their stakeholders that they are not capable of withstanding the challenges of the industry they are in. This might paint a negative image of the company in the eyes of the stakeholders. A similar conclusion can be drawn for the lower number of the newly identified strategy, i.e. shifting blame, which will be discussed later in this section.

An example of abstraction strategy is “2016 also painfully demonstrated to us that, despite all our caution and protective measures, risks in the chemical industry cannot be ruled out” (BASF, 2017, p. 7).

Figure 5 also shows that indicating facts is the second most frequently used strategy and accounts for 19.28 percent of the total strategies identified. In addition to this strategy being used by companies to appear as being rational and unbiased, we identified instances, where companies seemed to be genuinely reporting and stating facts, sometimes even with further explanation. This duality identified in the strategy of indicating facts aligns with the finding of Hahn and Lülfs (2014), where indicating facts is categorized as a mixed approach, representing both the symbolic and substantive approaches. In the case of the symbolic approach, organizations strive to be
perceived as unbiased, whereas with the substantive approach organizations are merely disclosing facts and in some cases, add explanations to give the stakeholders more information on the issue at hand. An example of the substantive version of the indicating facts strategy is “About 77 percent of the freshwater used in 2016 was surface water, mainly from rivers. Just under 1 percent comprised recycled water and rainwater” (Evonik, 2017, p. 65). In contrast, “Our water usage totaled 1,649 million cubic meters in 2016” (BASF, 2017, p. 108) is an example of a symbolic use of indicating facts.

Pertaining to authorization as a strategy, our research revealed that it makes up only 5.19 percent of the identified legitimation strategies, and it is mainly used to disclose transgressional and faux pas negative aspects. Our findings also show that companies resort to using the authorization strategy as a means of portraying to their stakeholders that their actions are within the boundaries of standards and rules. “As a matter of principle, Henkel only uses animal testing if this is stipulated by legal regulations” (Henkel, 2017, p. 60) illustrates the use of the authorization strategy. In this example, the company resorts to legitimizing a negative aspect of its operation by referring to how it operates within the legal boundaries.

In general, we were able to categorize the various strategies found to the strategies suggested by Hahn and Lülfs (2014). There were, however, a few cases where a new strategy could be detected. We named this new strategy shifting blame. Our new strategy can be characterized as companies distancing themselves from the negative aspect and thereby eluding responsibility. This characteristic of eluding responsibility is also common to the strategy of abstraction. What however makes shifting blame unique as a strategy, is that the blame is put on a third party, whereas in the case of abstraction it is placed on the whole industry. “The suppliers addressed have confirmed to us that they do not source minerals matching this definition of conflict minerals from the Democratic Republic of the Congo or its neighboring countries” (BASF, 2017, p. 95) is a good illustration of how companies seek to shift responsibility. In this example, the company is trying to portray to the stakeholders that should conflict minerals be discovered in their products, they should not be held accountable. In other words, it is the responsibility of their supplier. In our view, this strategy, similar to abstraction strategy, has a passive sense to it and likewise, depicts the company as not having a more active approach with regard to dealing with negative CSR aspects. Based on this, stakeholders might perceive or view the company as not being strong
enough to address the challenges it faces. Nevertheless, these remains a speculation of the researchers.

Table 4: Overview of Strategies with new strategy

<table>
<thead>
<tr>
<th>Strategies as proposed by Hahn and Lülf's (2014)</th>
<th>Characteristics / Definition</th>
<th>New strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginalization</td>
<td>Make negative aspects seem less relevant</td>
<td>Shifting blame</td>
</tr>
<tr>
<td>Abstraction</td>
<td>Dilute negative aspects by generalizing them to the whole industry, which the organization operates in</td>
<td>Distance the organization from the negative aspect by shifting accountability to a third party.</td>
</tr>
<tr>
<td>Indicating facts</td>
<td>Merely mention the occurred negative aspect, without providing further information nor explanation</td>
<td></td>
</tr>
<tr>
<td>Rationalization</td>
<td>Explain negative aspects by justifying their occurrence with the function of the practices</td>
<td></td>
</tr>
<tr>
<td>Authorization</td>
<td>Preserve their legitimacy by using third parties (either regulatory bodies or other companies) to validate negative aspects</td>
<td></td>
</tr>
<tr>
<td>Corrective action</td>
<td>Provide measures to mitigate and prevent the occurrence of the negative aspect in future</td>
<td></td>
</tr>
</tbody>
</table>

*Note:* Based on information by Hahn and Lülf's (2014) and own research findings

4.3 Pattern between Legitimation Strategies and Negative Aspects

In line with our aim, we were able to identify a pattern between the negative aspects and the type of legitimation strategy used to report them (see figure 6). This pattern was initially identified in the report we first reviewed. With the review and analysis of the subsequent reports, this pattern proved to be almost constant and stable across all reports. The persisting overall pattern also signaled us our attainment of data saturation.

In terms of the relationship between the negative aspects and legitimation strategies, we discovered a consistent pattern between the use of specific legitimation strategies for disclosing specific
negative aspects. The most dominant of these patterns was the strong link between the use of corrective action as a legitimation strategy to disclose transgressional negative aspects (see figure 6). Out of all the total number of transgressional negative aspects identified, 46.67 percent were reported using corrective action as a legitimation strategy.

\[3\] An overview of each negative aspect with its relationship with the legitimation strategies is provided in Appendix 3 - 7.
**Figure 6: Pattern between legitimation strategies and negative aspects**

**Table 5: Pattern between legitimation strategies and negative aspects in percentages**

<table>
<thead>
<tr>
<th></th>
<th>Abstraction</th>
<th>Authorization</th>
<th>Corrective Action</th>
<th>Indicating Facts</th>
<th>Marginalization</th>
<th>Shifting blame</th>
<th>Rationalization</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accidental</td>
<td>0 (0%)</td>
<td>3 (4.69%)</td>
<td>35 (54.69%)</td>
<td>16 (25%)</td>
<td>8 (12.5%)</td>
<td>2 (3.13%)</td>
<td>0 (0%)</td>
<td>64 (100%)</td>
</tr>
<tr>
<td>Faux pas</td>
<td>2 (3.92%)</td>
<td>6 (11.76%)</td>
<td>23 (45.10%)</td>
<td>11 (21.57%)</td>
<td>4 (7.84%)</td>
<td>2 (3.92%)</td>
<td>3 (5.88%)</td>
<td>51 (100%)</td>
</tr>
<tr>
<td>Generic</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>11 (45.83%)</td>
<td>9 (37.50%)</td>
<td>3 (12.50%)</td>
<td>1 (4.17%)</td>
<td>0 (0%)</td>
<td>24 (100%)</td>
</tr>
<tr>
<td>Terroristic</td>
<td>0 (0%)</td>
<td>1 (1.82%)</td>
<td>30 (54.55%)</td>
<td>14 (25.45%)</td>
<td>8 (14.55%)</td>
<td>2 (3.64%)</td>
<td>0 (0%)</td>
<td>55 (100%)</td>
</tr>
<tr>
<td>Transgressional</td>
<td>10 (1.63%)</td>
<td>32 (5.20%)</td>
<td>287 (46.67%)</td>
<td>106 (17.24%)</td>
<td>76 (12.36%)</td>
<td>9 (1.46%)</td>
<td>95 (15.45%)</td>
<td>615 (100%)</td>
</tr>
</tbody>
</table>
The large portion of transgressional negative aspects being reported with the corrective action strategy may underpin the immense impact transgressional negative aspects have on the legitimacy of a company (Coombs & Holladay, 1996). The use of corrective action as a legitimation strategy can, therefore, be interpreted as a rational move by companies to signalize that they are doing something to prevent the transgressional negative aspect from reoccurring. The corrective approach, which, according to Hahn and Lülfs (2016) falls under the substantive legitimation approach, is used to affect real change, thereby incorporating the societal expectations into the company’s processes. To illustrate, the use of corrective action strategy in a transgressional negative aspect is shown in this example: “Through the approximately 270 EDISON projects initiated since 2012, we aim to annually save around 94 metric kilotons of CO2 in the medium term” (Merck, 2017, p. 70). In this example, the company is trying to substantiate to its stakeholders the projects it is implementing to reduce the amount of CO2 emission.

A similar assumption can be made for the identified pattern between the use of corrective action to legitimize terroristic and accidental negative aspects. These are either unintentional consequences of the actions of the organization or they are caused externally (e.g. by suppliers) and to that effect, not the fault of the reporting company. By using the corrective action approach, organizations are gesturing to their stakeholders that even though they are not responsible for the occurrence, they have put or are putting in measures to prevent these from happening in future. This is vital for the legitimacy of the company since the multiple occurrences of accidental and terroristic negative aspects put the organization in a negative light. It denotes that the company is knowingly tackling the source, be it accidental or terroristic negative aspects, to avoid being perceived by stakeholders as intentionally allowing the occurrence of the negative aspect (Coombs & Holladay, 1996). An illustration of the use of corrective action in a terroristic negative aspect is “In 68 cases, supplier assessments showed that insufficient attention had been paid to sustainability aspects. Here too, corrective action was initiated” (Evonik, 2017, p. 50). This is an excerpt taken from the company disclosure on corrective actions taken to support the suppliers in meeting expected standards. An example of the use of corrective action in accidental negative aspect is “The rate of occupational injuries has been falling for several years. Intensive training once again contributed to this success in 2016” (Bayer, 2017, p. 115).
A further pattern, which we observed in our research was the connection between the legitimation strategy of indicating facts and transgressional negative aspect. Although corrective action remains the prominent legitimation strategy used to report transgressional negative aspects, the strategy of indicating facts is the second most dominant one and was used to report 17.24 percent, of all transgressional negative aspects. In section 4.2 above, we described the duality which is present in the strategy of identification facts. This duality could however not be identified with respect to the use of indicating facts to disclose transgressional negative aspect. A majority of the transgressional cases reported using indicating facts were mere stating of facts, with no further elaboration. Only a few cases of the substantive approach of indicating facts were discovered in conjunction with transgressional negative aspects. We conclude that the symbolic approach of this strategy is favored when reporting transgressional negative aspects since this strategy makes the reporting organization seem objective in their reporting. As argued by Hahn and Lülfs (2014), the strategy is used in cases, where stakeholders might not be able to evaluate the extent of the reported incident without further independent reports.

An example from our research is the use of the symbolic type of indicating facts to report negative aspects pertaining to emission, either to air or water. In general, without further information, e.g. in the form of reference values, one gets the impression that the company is objectively reporting incidents although this may not be the case. An example of this is “Absolute emissions of air pollutants from our chemical plants amounted to 26,735 metric tons in 2016” (BASF, 2017, p. 109). In this example, the company seems to disclose the amount of emission to air objectively although it did not provide readers of the report with industry average or standard for a better interpretation of the amount reported. In the cases of transgressional negative aspects, where the substantive approach of indicating facts, were used, the reporting company provided reference values from 2015, which indicated that there has been an improvement from the previous year. In light of this, it is our assumption that organizations opt for the symbolic form of indicating facts when they deviate from the general standards or from their previous years and for the substantive approach when they have been able to achieve an improvement in the reporting year. An example of the latter is “Emissions of ozone-depleting substances as defined by the Montreal Protocol totaled 25 metric tons in 2016 (2015: 23 metric tons)” (BASF, 2017, p. 109). In this example, the company is indicating an increase in emission providing a reference to the 2015 value.
Our review of the documents revealed that the rationalization was often used to report transgressional issues, in situations where companies cannot avoid the occurrence of the negative aspect being disclosed, or in cases where preventing them might be associated with high cost. This point is illustrated in the research by Scherer et al., (2013) who postulate that companies are more likely to use a deceptive or untrustworthy strategy when the cost of changing the processes or structures in the company is high (Scherer et al., 2013). Proceeding from this, we believe that the dominant use of the rationalization strategy for transgressional negative aspects stems from the fact that the company will incur high costs in an attempt to rectify those negative aspect, hence the choice of this strategy instead of the corrective action strategy. An example of this can be “The year on year increase in our absolute Scope 1 emissions was largely due to the 4.4 % rise in volumes sold” (LANXASS, 2017, p. 79). Here, the company seems to be rationalizing the increase in absolute emission by making it a function of the increase in volume sold. In other words, the company is implying what the consequence will be on volume sold if it has to reduce or even stop emission.

Following a similar argument as for rationalization, we ascribe the use of marginalization as a strategy to report transgressional negative aspect, to the cost associated with enforcing real change in the company’s structure and processes. By trivializing the negative aspects associated with their actions, companies eliminate the necessity to effect change, thereby manipulating the perception of the stakeholders. An example of the use of marginalization in transgressional aspect is “A small proportion of palm oil and palm oil derivatives are used in our production processes” (Evonik, 2017, p. 52). In this example, although it is not expressly stated in the discourse, one can learn from the context that the use of palm oil and its derivatives is widely discouraged from an environmental sustainability perspective. The reporting of the use of palm oil and its derivatives as small proportion can then be termed as a marginalizing strategy in a transgressional negative aspect.

From our analysis, we discovered that the use of legitimation strategies across the negative aspects seems to follow a similar pattern, as can be visualized in figure 7. For example, corrective action is, as we already stated the most prominent strategy followed by indicating facts and the difference between the two strategies can be observed to be almost similar throughout the disclosure of the negative aspects. An exception to this consistent pattern is the case of transgressional negative
aspect, where the strategy of rationalization is not only visibly high but also almost as high as the strategy of indicating facts. This could again be related to our previous argument that the more frequent use of rationalization in transgressional aspects as compared to the other negative aspects, could possibly (but not necessarily solely) be justified by the cost of rectifying those negative aspects. This, however, remains the assumption of us, the researchers. There might other reasons for the exceptionally high number of rationalization in transgressional cases. With regard to why there is seemingly a constant pattern in the distribution of legitimation strategies across the negative aspects, we could not arrive at a possible interpretation of this discovery. We suggest that this is a further possible research avenue.

Figure 7: Legitimation strategies with negative aspects

In addition to the identified patterns, an interesting discovery of our research was the combined use of legitimation strategy in reporting one negative aspect as can be seen in figure 8 below.
**Figure 8: Relationship between the legitimation strategies**

<table>
<thead>
<tr>
<th>Legitimation Strategies</th>
<th>Abstraction</th>
<th>Authorization</th>
<th>Corrective Action</th>
<th>Indicating Facts</th>
<th>Marginalization</th>
<th>Shifting Blame</th>
<th>Rationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstraction</td>
<td>-</td>
<td>0 (0%)</td>
<td>4 (2%)</td>
<td>0 (0%)</td>
<td>2 (2%)</td>
<td>1 (6%)</td>
<td>1 (1%)</td>
</tr>
<tr>
<td>Authorization</td>
<td>0 (0%)</td>
<td>-</td>
<td>20 (11%)</td>
<td>8 (7%)</td>
<td>3 (3%)</td>
<td>0 (0%)</td>
<td>5 (5%)</td>
</tr>
<tr>
<td>Corrective Action</td>
<td>4 (50%)</td>
<td>20 (56%)</td>
<td>-</td>
<td>56 (51%)</td>
<td>39 (44%)</td>
<td>9 (50%)</td>
<td>47 (56%)</td>
</tr>
<tr>
<td>Indicating Facts</td>
<td>0 (0%)</td>
<td>8 (22%)</td>
<td>56 (32%)</td>
<td>-</td>
<td>26 (30%)</td>
<td>3 (17%)</td>
<td>16 (19%)</td>
</tr>
<tr>
<td>Marginalization</td>
<td>2 (25%)</td>
<td>3 (8%)</td>
<td>39 (22%)</td>
<td>26 (24%)</td>
<td>-</td>
<td>4 (22%)</td>
<td>14 (17%)</td>
</tr>
<tr>
<td>Shifting Blame</td>
<td>1 (13%)</td>
<td>0 (0%)</td>
<td>9 (5%)</td>
<td>3 (3%)</td>
<td>4 (5%)</td>
<td>-</td>
<td>1 (1%)</td>
</tr>
<tr>
<td>Rationalization</td>
<td>1 (13%)</td>
<td>5 (14%)</td>
<td>47 (27%)</td>
<td>16 (15%)</td>
<td>14 (16%)</td>
<td>1 (6%)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>8 (100%)</td>
<td>36 (100%)</td>
<td>175 (100%)</td>
<td>109 (100%)</td>
<td>88 (100%)</td>
<td>18 (100%)</td>
<td>94 (100%)</td>
</tr>
</tbody>
</table>
In most cases, corrective action was the strategy used in combination with other strategies. Corrective action is the only strategy categorized by Hahn and Lülfs (2014) as a substantive approach, with the other strategies falling under the symbolic approach or under the mixed approach category. For example, from figure 8, we can see that abstraction makes up 2 percent, authorization 11 percent, indicating facts 32 percent, marginalizing 22 percent, shifting blame 5 percent, rationalization 27 percent of the total combination of corrective action. Strategies under the substantive approach are geared towards actually changing organizational actions to align those actions and their consequences to those of the society (Hahn & Lülfs, 2014; Rodrigue et al., 2013). The symbolic approach, on the other hand, is characterized by organizations manipulating their stakeholders into believing that their actions and consequences of their actions are in line with the expectations of society (Hahn & Lülfs, 2014; Rodrigue et al., 2013). Accordingly, Hahn and Lülfs (2014) argue that whereas the substantive legitimation strategies can help build legitimation, the symbolic approaches have a tendency of damaging the legitimacy of the organization, if their manipulative nature is discovered.

Keeping the characteristics of the two approaches in mind, it comes as no surprise that in the reports reviewed, the strategy of corrective action is predominantly combined with other strategies. As a substantive strategy, corrective action signalizes to stakeholders that the negative issues are being tackled by the company. The combined use of legitimation strategies is reflected in the work of Scherer et al. (2013), who postulate a combined use of strategies since this can help organizations better address the legitimacy challenges they face regarding their CSR activities. It can, therefore, be assumed that using corrective action with other strategies, which according to Hahn and Lülfs (2014) could have a weaker effect on the legitimacy of organizations, is a means to mitigate the adverse effects the other legitimation strategies might have on the organization’s legitimacy.
5 Conclusion

Legitimacy, as we have pointed out, is vital for the existence and survival of every organization, and it is through legitimacy that organizations can gain resources necessary for their survival. Legitimacy is not possessed by organizations but rather it is ascribed to them by the society they are in for meeting societal expectations. We further pointed out that organizations report activities they undertake when striving to meet societal expectations. An example of such a disclosure is the reporting of CSR activities in CSR reports. Such disclosures can be problematic since they are expected to include both the positive and negative aspects of the organization’s CSR activities. By disclosing negative aspects, however, organizations open themselves up to the threat of causing damage to their legitimacy.

Therefore, the aim of our study was to investigate and interpret the choice of legitimation strategies used by organizations to report different types of negative aspects in CSR reports. In line with this aim, we reviewed nine non-financial CSR reports of the top ten German chemical companies. From our findings, we conclude that there is a clear pattern regarding the frequency of legitimation strategies in reporting these negative aspects. The most prominent of this pattern is the use of corrective action as a legitimation strategy to disclose transgressional negative aspects. Concerning the types of negative aspects, we found transgressional negative aspects to be by far the most frequently reported ones in the reviewed reports. Although we identified and classified most to the four types of negative aspects posited by Coombs and Holladay (1996), there were few exceptions that did not match any of the four types. These exceptions were due to the vagueness in reporting and were termed as generic negative aspects. Similarly, we identified the use of all the six legitimation strategies suggested by Hahn and Lülfs (2014), with corrective action being by far the most frequently identified strategy in the reports. We also discovered few exceptions that significantly deviated from the criteria set for any of the six legitimation strategies. As these exceptions shared a similar characteristic of distancing the company from accountability, we termed them as shifting blame.

Our findings also revealed that the high number of transgressional negative aspect reported with corrective action is to assure stakeholders and thereby retain the company’s legitimacy. It is our assumption that since the companies examined are from the top ten German chemical sector by
revenue, they may have the financial resource to absorb the associated high cost of corrective action. For this reason, they seemed to largely embrace the costly and more substantive corrective action instead of shunning away from it. This was even more evident whenever the cost associated with the negative aspect did not entail ceasing operation. In conclusion, from the identified patterns, while we attest the existence of a fair amount of symbolic type of legitimation strategies aimed at manipulating stakeholders’ perception, we argue that the dominant strategy identified falls under the substantive approach, theoretically known for helping companies retain their legitimacy.

We can conclude that this thesis, through its findings and discussions, has contributed to the academic understanding of the prevailing patterns between the use of legitimation strategies in different types of negative aspects disclosed in CSR reports. It is our belief that the addition of shifting blame as a new legitimation strategy is a significant contribution towards the existing framework by Hahn and Lülfs (2014). This addition broadens our understanding of the legitimation strategies used by companies to legitimize their negative aspects of CSR performance. Moreover, the findings and discussion also have practical relevance for managers. This research firstly helps managers to reflect on how negative aspects are reported in their organization, and in addition, to consciously select their legitimation strategies when reporting negative aspects, bearing in mind the theoretical implications of the strategies on their company’s legitimacy. For stakeholders, this research may enlighten them on the connection between the use of legitimation strategies to report negative aspects. The awareness of this might contribute to their understanding and judgment of the CSR activities of organizations.

For future research, it will be interesting to see if the same identified pattern will hold true with the use of reports from the opposite spectrum (i.e. smaller companies, with constrained financial resource), different sectors, or geographical location. A further future research avenue could lie in the research of the identified patterns over a period of time. Future research could investigate whether the pattern between negative aspects and legitimation strategies is constant over the years, or if changes be observed when the dimension of time is factored in. Considering the newly enforced German Sustainability Code, it will also be interesting to see if the identified patterns will persist in the 2017 non-financial reports.
6 References


# 7 Appendices

## Appendix 1 - Summary of reviewed reports

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of report</th>
<th>Pages of report</th>
<th>Pages of non-financial part</th>
<th>Number of search results with negative aspects</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henkel</td>
<td>Sustainability Report</td>
<td>141</td>
<td>141</td>
<td>574</td>
<td><a href="http://www.henkel.com/blob/739776/ea223436c05ffbdce4c495fdcd53c05a/data/2016-sustainability-report.pdf">http://www.henkel.com/blob/739776/ea223436c05ffbdce4c495fdcd53c05a/data/2016-sustainability-report.pdf</a></td>
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<td>Covestro</td>
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<td>52</td>
<td>52</td>
<td>211</td>
<td><a href="http://investor.covestro.com/en/reports/gri-reports/">http://investor.covestro.com/en/reports/gri-reports/</a></td>
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</tbody>
</table>
## Appendix 2 - List of keywords used

<table>
<thead>
<tr>
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<th>Corruption</th>
<th>Incident</th>
<th>Reported</th>
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<td>Injury</td>
<td>Requirement</td>
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<td>Alleged</td>
<td>Damage</td>
<td>Issue</td>
<td>Resign</td>
</tr>
<tr>
<td>Avoid</td>
<td>Deviation</td>
<td>Lawsuit</td>
<td>Risk</td>
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<tr>
<td>Aware</td>
<td>Died</td>
<td>Litigation</td>
<td>Rose</td>
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<td>Banned</td>
<td>Discrimination</td>
<td>Loss</td>
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</tr>
<tr>
<td>Case</td>
<td>Emission</td>
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<td>Situation</td>
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<td>Challenge</td>
<td>Fraud</td>
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<td>Spill</td>
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<tr>
<td>Child labor</td>
<td>Harmed</td>
<td>Penalty</td>
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<tr>
<td>Claim</td>
<td>Hazard</td>
<td>Protection</td>
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<tr>
<td>Clean up</td>
<td>Hotline</td>
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<td>Compliant</td>
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<td>Recurrence</td>
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<td>Impact</td>
<td>Reduced</td>
<td>Violation</td>
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<td>Improve</td>
<td>Regret</td>
<td>Waste</td>
</tr>
<tr>
<td>Corrected</td>
<td>Inadequate</td>
<td>Remedial</td>
<td>Whistleblower</td>
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Appendix 3 - Distribution of legitimation strategies for transgressional negative aspect

Transgressional with Legitimation Strategies

<table>
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</table>
Appendix 4 - Distribution of legitimation strategies for terroristic negative aspect

![Bar chart showing distribution of legitimation strategies](image-url)
Appendix 5 - Distribution of legitimation strategies for accidental negative aspect

Accidental with Legitimation Strategies

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Appendix 6 - Distribution of legitimation strategies for faux pas negative aspect

Faux pas with Legitimation Strategies

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Appendix 7 - Distribution of legitimation strategies for generic negative aspect

Generic with Legitimation Strategies

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</tr>
<tr>
<td>Indicating Facts</td>
<td>9</td>
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<td>Marginalization</td>
<td>3</td>
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<td>Shifting blame</td>
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<tr>
<td>Rationalization</td>
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</tr>
</tbody>
</table>

Abstraction: 0
Authorization: 0