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The Corporation in Global Business

Building and Securing Organizational Legitimacy

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Agenda

- ▶ Corporate legitimacy
- ▶ Pragmatic, cognitive and moral legitimacy
- ▶ The politicization of the company
- ▶ Communicative legitimacy in the theory of deliberative democracy
- ▶ Gaining, maintaining and repairing legitimacy
- ▶ The role of NGOs
- ▶ Questions for discussion

Corporate legitimacy (1 / 2)

- ▶ „Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.“

(Suchman, 1995, p.574)

- ▶ Legitimacy: conformation with social norms, values and expectations (Palazzo/Scherer, 2006, p. 71)

Corporate legitimacy (2 / 2)

- ▶ Legitimacy is vital for organizational survival
 - Resources
 - Support of constituents
 - Difficulties regarding social exchanges

- ▶ Reasons why legitimacy might be challenged:
 - Financial scandals
 - Participation in the “race to the bottom”
 - Human rights violations
 - Environmental side-effects
 - Collaboration with repressive regimes

→ During the globalization process, legitimacy has become even more important

(Palazzo/Scherer, 2006, pp. 71)

Shell and the Ogoni people

- ▶ Oil extraction in Ogoni territory
- ▶ No economic or social benefits for Ogoni people
- ▶ Ken Saro-Wiwa: The Movement for the Survival of the Ogoni people (MOSOP)
- ▶ Ken Saro-Wiwa and eight other MOSOP leaders arrested and sentenced to death
- ▶ Shell was called for intervention but refused
- Loss of legitimacy, losses in revenues

(Wheeler et al., 2002, pp. 300)

Theoretical Framework

- ▶ Where to start?
- ▶ Suchman (1995):
 - Defining legitimacy
 - Legitimacy for what?
 - Types of legitimacy

Defining legitimacy

- ▶ „*Legitimacy* is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” Suchman 1995: 574
- ▶ „*Legitimacy* can be understood as the conformation with social norms, values, and expectations.” Oliver 1996
- ▶ „The acceptance of the organisation by its environment.” Kostova & Zaheer 1999: 64

Legitimacy for what?

- ▶ Continuity vs. Credibility
- ▶ Passive vs. active support

Types of legitimacy

Suchman (1995):

- ▶ Pragmatic Legitimacy
- ▶ Moral Legitimacy
- ▶ Cognitive Legitimacy

Types of legitimacy

- ▶ Exchange Legitimacy
- ▶ Influence Legitimacy
- ▶ Dispositional Legitimacy

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Types of legitimacy

Moral Legitimacy

- ▶ Output (Consequential) Legitimacy
- ▶ Input (Procedural) Legitimacy
- ▶ Structural Legitimacy
- ▶ Personal Legitimacy



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Types of legitimacy

Cognitive Legitimacy

- ▶ Comprehensibility
- ▶ Taken-for-granted

The politicization of companies (1 / 2)

- ▶ “Multinational corporations have developed an economic, social, and political power that is comparable to the power of nation states”
(Scherer/Palazzo, 2006, p. 78)
- ▶ Corporations take on former governmental responsibilities such as protecting human rights or defining social or environmental minimum standards (Scherer/Palazzo, 2006, p. 78)
- ▶ Companies have become “the most important new political institution in the contemporary political order” (Mitchel, 1986, p. 208; cited by: Palazzo/Scherer (2006), p. 78)

The politicization of companies (2 / 2)

- ▶ Multinationals are not only “addressees of regulation but also authors of rules with public impact” (Scherer/Palazzo, 2007, p. 1098)
- ▶ This new political role of business makes the pragmatic and cognitive concepts of legitimacy highly disputable, since they are not grounded on the assumption of globally and politically acting companies (Scherer/Palazzo, 2006, p. 78)
- ▶ Problem: Democratic governments are legally elected by their people, but politically acting multinational corporations aren't (Scherer/Palazzo, 2007, p. 1098)

Communicative legitimacy in the theory of deliberative democracy (1 / 2)

- ▶ public deliberation of free and equal citizens
- ▶ participants address their conflicts, share information, exchange arguments and make their decisions
- ▶ Engage in true dialogue

(Palazzo/Scherer, 2006, pp. 80)

Communicative legitimacy in the theory of deliberative democracy (2 / 2)

- ▶ Responsibility of civil society: question, criticize, publicize
- ▶ better and broader accepted political decisions, deeper mutual understanding of the involved stakeholders
→ contribution to sustaining moral legitimacy

(Palazzo/Scherer, 2006, pp. 80)

Legitimacy Management

▶ Strategies to

- Gain legitimacy
- Maintain legitimacy
- Repair legitimacy

(Suchman 1995)

Legitimacy Management

▶ Gaining legitimacy

- ▶ Challenge: new sector vs. existing sector
- ⇒ Select among environments
- ⇒ Confirm to environments



Legitimacy Management

▶ Maintaining legitimacy

- ▶ Challenge: heterogeneous environment
- ⇒ Perceive change:
Monitor your environment!
- ⇒ Protect accomplishments:
Build up trust/supportive beliefs



Legitimacy Management

▶ Repairing legitimacy

- ▶ Challenge: unforeseen crisis
- ⇒ Offer normalizing accounts
deny, excuse/justify, explain
- ⇒ Restructure
Monitors and watchdogs, replace management
- ⇒ Don't panic

Legitimacy Management

- ▶ Repairing legitimacy through restructuring
- ▶ The Siemens bribery scandal
 - ▶ Monitoring: Chief Compliance Officer
 - ▶ Replace Management: resignation of CEO (Klaus Kleinfeld)

The role of NGOs (1 / 2)

- ▶ NGOs as mediating forces between the market and morality (Palazzo/Scherer, 2006, p. 81)
- ▶ Preemption, capitulation, resistance (Spar/La Mure, 2003, p.79)
- ▶ Firms respond differently because of different opportunities, constraints and costs (Spar/La Mure, 2003, p.79)
- ▶ Transaction costs, brand impact, competitive position, personal opinion of CEOs (Spar/La Mure, 2003, pp.79)

The role of NGOs (2/2)

- ▶ *Unocal*: significant switching costs
→ resistance
- ▶ *Nike*: few transaction costs, threat to brand image
→ initial resistance, then engagement and capitulation
- ▶ *Novartis*: brand image, reputation, competitive advantage
→ Preemptive capitulation

(Spar/La Mure, 2003, pp.86)

Questions for discussion

- ▶ Should Shell have forced the Nigerian military government not to carry out the death penalties because of its economic power in the region?
- ▶ Are NGOs legitimate political actors?
- ▶ Have you ever questioned a company's legitimacy and therefore not bought its products?

Questions for discussion

- ▶ Do different sectors/industries need different legitimacies?
- ▶ Input vs. Output Legitimacy: What is more necessary for a company to have?
- ▶ Did Aldi Suisse succeed in gaining (and maintaining) legitimacy?

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