

UNIVERSITY OF CANTERBURY

Sustainability, reputation and legitimacy:

An in-depth case study of organisational
systems and decision-making at a multi-national
company

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for the degree of Master of Commerce at the
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**Dedicated to
my dearest parents and brother**

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ABSTRACT

Purpose

This purpose of this thesis is to investigate a company's understanding of 'sustainability' and how this concept is integrated into organisational processes and decision making. Firstly, the internal sustainability systems which lead up to external social and environmental reporting will be examined. Secondly, the role of reputation management and legitimacy in driving company response behaviours around short-term and long-term environmental issues will be explored. Prior research is mainly limited to studies on external social and environmental reporting. The present study adds to the literature by exploring the internal mechanisms and behaviours which underlie external reporting practice. New theoretical insights are provided into legitimacy theory by presenting a framework linking aspects of reputation, resource dependence theory, and stakeholder theory.

Design and methodology

Research is conducted through an in-depth case study at a wholly-owned foreign affiliate of a large multinational organisation involved in an environmentally sensitive industry. Data collection was extensive, including semi-structured interviews and non-structured talks with 26 participants from top management executives through to production workers. Access was also granted to confidential reports, participation in the company's annual environmental seminar and a stakeholder engagement meeting. Analysis was conducted in a number of phases, framed around research questions and themes drawn from prior literature.

Findings

Findings and discussion are presented on three major research questions. Findings on the first research question about internal sustainability systems in the company suggest that senior management are incorporating sustainability issues into strategic planning. However, concerns over the environment have not fully cascaded down to the lower levels of the firm. Although Management Control and Environmental Management Systems are well integrated, these systems are relatively decoupled from the external reporting process. The second and third research questions focus on the distinction between the concepts of “reputation” and “legitimacy” in the case company. Three short-term issues and a long-term strategic decision in the company are outlined to illustrate how company response behaviours change according to: 1) the visibility of the issue, 2) stakeholder salience, and 3) the interconnectedness of stakeholders around the problem. The case company prefers direct action to contain problems where possible, and external reporting only features in some scenarios. Ultimately, it is proposed that reputation and legitimacy must be understood in terms of *behaviours* as well as external reporting *outcomes*.

Originality/value

There has been a considerable focus on external reporting in corporate sustainability research, particularly in the accounting literature. The work that has been done on internal systems has been largely limited to case study work focused on characteristics and preconditions of sustainability processes together with limitations in current practice. The purpose of this research is to produce an in-depth case study looking at company responses to sustainability issues. It provides some new perspectives on the well researched concept of legitimacy along with some potential avenues for further theory development.

CHAPTER ONE

INTRODUCTION

1.1 Overview

The objective of this thesis is two-fold. First, the research will attempt to better understand the internal processes which lead up to external sustainability reporting in a New Zealand company. Second, the study will explore a company's understanding of sustainability and how 'reputation' and 'legitimacy' may explain company decision making in response to short-term and long-term environmental issues. The following chapter provides a brief background of the key literature from Social and Environmental Accounting and other relevant fields. This leads to a discussion of the research questions which guide the present study. Contributions of the thesis are then explained concluding with an outline of how the thesis is organised.

1.2 Background

“There are many things we do not know about the future. But one thing we do know is that business as usual will not continue for much longer.”

Lester R. Brown¹

The 'business as usual' model has been accused of leading to significant environmental degradation (Shrivastava, 1995). Considerable external pressure for change has meant that “[t]he greening of organisations is now upon us” (Parker, 2000a). Sustainability and climate change issues have been maintained in the public arena, fuelled by documentary films such as

¹ Brown (2008) – *Plan B 3.0 Mobilizing to Save Civilisation*

“An Inconvenient Truth” and a raft of books discussing the issue from a range of perspectives (see, for example, Lynas, 2004; Carter, 2001; Flannery, 2005; Hamilton, 2007). Discretionary reporting on Corporate Social Responsibility first started in the 1970s, but it was the WCED Report² in 1987 which popularised a framework for defining ‘sustainable development’, and heightened urgency towards addressing increasing pollution and environmental degradation. Earth Summits held by the United Nations subsequently led to the ratification of the Kyoto Protocol (1997) by most developed countries³. As a signing member country, New Zealand has agreed to reduce Green House Gas (GHG) emissions to an average of 1990 levels by the end of the commitment period from 2008 – 2012 (Kyoto Protocol, 1997; MFE⁴, n. d.). This has led to the development of significant policy including the Climate Change Response Act (2002), and the New Zealand Emissions Trading Scheme (NZ ETS), which may impose significant financial costs on business, particularly on environmentally sensitive industries. The increasing scale of government policy has applied pressure on New Zealand companies to better understand and more effectively manage the environmental impacts of their operations (see, for example, Parker, 2000a; Lämsiluoto and Järvenpää, 2008).

A recent KPMG (2011) report suggests that New Zealand is lagging behind the world in terms of the ‘quality of communication’ and ‘level of process reporting’ in its external Corporate Responsibility reporting. This may be because 71 percent of New Zealand (NZ) firms report a significant degree of ambiguity and confusion over the definition of sustainability and its implications for business (KPMG NZ, 2008). Nonetheless, global trends in voluntary disclosure have been increasing with 64 percent of N100⁵ companies and 95

² Also known as the Brundtland Report (1987).

³ Kyoto Protocol – Status of Ratification available at:
http://unfccc.int/files/essential_background/kyoto_protocol/status_of_ratification/application/pdf/kpstats.pdf

⁴ Ministry for the Environment

⁵ N100 companies are the top 100 companies in each of the 34 countries surveyed by KPMG.

percent of G250⁶ companies preparing some form of Corporate Responsibility disclosure. Furthermore, levels of external assurance of voluntary disclosures are stable around the 40 percent for N100 companies. The collection and reporting of this additional information represents a significant cost for companies, raising questions about the motivations of this disclosure (Doane, 2002). The KPMG (2011) survey finds that 67 percent of G250 companies agree that brand and image concerns are a key driver for reporting, with 58 percent considering ‘ethical considerations’ as the next highest driver. While the reporting practice seems to be flourishing, questions have been asked about whether voluntary disclosures are simply an exercise in ‘corporate green-washing’ (Adams, 2004; Lyon and Maxwell, 2011).

1.3 Motivations for the study

Social and Environmental Accounting literature has mainly focused on the external reporting behaviour of organisations (see, for example, Lamberton, 2005; Moneva et al, 2006; Cho and Patten, 2007; Parker, 2005; Parker, 2011a; UNEP/SustainAbility, 1994-2006; KPMG, 1993-2011; GRI⁷, 2000, 2006; ACCA/CorporateRegister, 2004). More limited is the research on internal sustainability systems, as well as the degree of integration between these systems and strategic decision making (Adams, 2002; Adams and Frost, 2008). This may explain the considerable amount of uncertainty and confusion about how the concept of sustainability should be operationalised in business (KMPG NZ, 2008; Milne, 1996).

There are significant gaps in understanding the internal systems that lead up to external reporting (Adams and Larrinaga-Gonzales, 2007). Nonetheless, business associations, agencies and the accountancy profession have been keen to promote the benefits of external

⁶ 250 companies from the Fortune Global 500 list.

⁷ Global Reporting Initiative

social and environmental reporting, claiming greater levels of stakeholder accountability are backed by a business-case that leads to greater organisational value (NZBCSD, 2002; Arthur D. Little, 2001; KPMG, 2001).

Despite growing external stakeholder pressure for sustainable development, and an increasing prevalence of organisations communicating sustainability performance, some argue “...only very few of them are taking steps towards managing it” (Bonacchi and Rinaldi, 2007 p. 463). Adams (2004) argues that there is a ‘lack of completeness’ in external reports creating a ‘performance-reporting gap’. This is compounded by Archel et al’s. (2008) claim that organisations are strategically setting reporting boundaries instead of discharging accountability through the triple bottom line. There are concerns over the usefulness of such reports to stakeholders and suggestions that more companies use “social and environmental reporting for PR [public relations] purposes than for legitimate risk-management reasons” (Doane, 2002 p. 3). These criticisms are compounded by claims that companies have attempted to report in the reverse order, creating external reports and performing environmental auditing before thinking about the accounting techniques to support these functions (UNEP/SustainAbility, 1996).

Very recent case study based work reveals a diverse and inconsistent range of methods of management control and external reporting (Durdan, 2008; Adams and Frost, 2008). In some instances claims of sustainability performance through external reporting appear to be effectively de-coupled from internal management control systems. This may be explained by research which suggests that there is a lack of understanding about how sustainability goals and reporting practices should be integrated into strategic planning, how to identify key stakeholders and key performance indicators, and how to choose between the variety of reporting guidelines and styles available (Adams and McNicholas, 2007). Furthermore,

where indicators do exist, these measurement systems are not linked to decision making processes within the firm (Searcy et al., 2008).

Arguably, management accounting has been distanced from any core sustainability effort rather than integrated as part of the solution. While the study of environmental management accounting has made some inroads at a practical level, and through associations like EMAN (the Environmental Management Accounting Network), it is notably absent from the leading academic journals in the field such as *Management Accounting Research* and *Journal of Management Accounting Research*. In particular, the literature is lacking in an understanding of how new tools and techniques either could be or are being used by senior managers to formulate and implement strategic change (Ball & Milne, 2005; Adams and Frost, 2008). Furthermore, while prior literature has investigated the relationship between strategy-setting and management control, or between management control and reporting, all three of these processes have not been examined together.

This provides the motivation for the first research question:

RQ 1 - How is 'sustainability'⁸ integrated into the case company's internal processes such as strategy-setting, management control and external reporting? To what extent are these internal processes connected to each other?

Moreover, this research responds to calls for more descriptive work in sustainability accounting, by providing an in-depth case study of a company, operating in an environmentally sensitive industry (Salzmann et al., 2005; Adams and Larrinaga-Gonzales, 2007). The richness of data on the case company's context and systems allowed for a probing of internal decision making behaviour around three short-term environmental issues and a

⁸ For the purposes of this thesis, sustainability is defined broadly and encompasses areas such as the environment and Health and Safety following the case company employees' perspective of the notion.

long-term strategic issue. In doing so, a novel perspective is added to the well studied notion of legitimacy in Social and Environmental Accounting research (see, for example, Deegan et al., 2002). Drawing on the well expounded literature on stakeholder theory (Freeman, 1984) and resource dependence theory (Pfeffer and Salancik, 1978; 2003), this research contributes a more refined understanding of the difference between legitimacy and reputation and how these concepts feature in company behaviour (Deephouse and Suchman, 2008). Ultimately, this thesis and the theoretical model that is developed provides a novel perspective on the decision making of organisations in response to environmental incidents.

The following two research questions were developed after continued interviewing, further site visits and several phases of data coding as described in Chapter 4 – Methodology:

***RQ 2** - Why is managing 'sustainability' issues important for the case company?*

***RQ 3** - How and why do reputation management and legitimacy feature in the case company's responses to environmental incidents?*

1. 4 Contributions of this research

This study adds to the literature by providing a comprehensive single case study of the New Zealand subsidiary of a large multinational company involved in an environmentally sensitive industry. Data collection was extensive including more than 26 semi-structured interviews, informal conversations over meals and social occasions, and 11 different site visits. Furthermore, access was granted to confidential notes and meeting agendas, an external stakeholder engagement meeting, and the company's annual environmental seminar. In addition, 15 years worth of annual reports and other internal company documents were examined. Data was analysed through a tiered coding process which started with general themes derived from the research questions. Subsequent coding became more refined to

probe possible theoretical perspectives and interesting case studies which emerged from the data.

This thesis contributes to current literature by presenting a comprehensive study of the internal *behaviours* within a company that lead to external sustainability reporting *outcomes*. In Chapter 6 – Findings, the thesis will explain that while sustainability is ingrained in senior management perspectives, these have not fully cascaded to lower levels of the firm (Umashev and Willet, 2008). The tensions between existing Management Control Systems (MCS) and Environmental Management Systems (EMS) in setting decision making priorities are also discussed. Consistent with earlier studies, decoupling between internal management systems and external sustainability reporting raise questions over the credibility and accountability of what is reported (see, for example, Adams, 2004; Durden, 2008). Ultimately, the present research extends prior literature by providing a richer understanding of the linkages and disconnections between strategy-setting, internal systems and external reporting in a single company.

Academics have suggested that theory in Social and Environmental Accounting research has stagnated and that legitimacy theory has become the dominant theoretical lens at the expense of ‘newer imaginings’ which may contribute strongly to the development of practice (Parker, 2011b; Bebbington et al., 2008b). In an attempt to move forward, Chapter 7 – Discussion and Analysis develops an exploratory “stakeholder web” response model to summarise the company’s actions in a number of decision making scenarios around three main characteristics: 1) stakeholder salience, 2) interconnectedness of stakeholders and 3) external visibility of the issue/incident. The model is constructed by outlining how legitimacy theory and reputation can explain employee perceptions about the need for sustainability, and by then discussing the way these perceptions influence response behaviour within the case

company. Overall, this thesis is a first step to mapping the internal processes, behaviours, reputation management and legitimating practices of a company in an environmentally sensitive industry. It is hoped that the stakeholder web model may contribute to current theorisation and offer a more nuanced explanation of company actions and reporting on sustainability issues.

1. 5 Organisation of this thesis

This thesis is organised into eight chapters starting with a review of the relevant literature presented in Chapter 2. This will set the landscape for Chapter 3 outlining how and why the research questions for this study were derived. The research methodology contained in Chapter 4 explains the process taken to answer the research questions, from data collection to the analysis of interview transcripts and field data. Chapter 5 provides some international and New Zealand policy context which then anchors a description of the case company. Chapter 6 presents findings regarding the first research question on the internal systems at the company. Chapter 7 then addresses the last two research questions which will distinguish between reputation and legitimacy, and subsequently provide a theoretical framework to explore the company's response behaviour to environmental issues. Finally, Chapter 8 summarises, concludes and provides suggestions for future research.

CHAPTER TWO

LITERATURE REVIEW

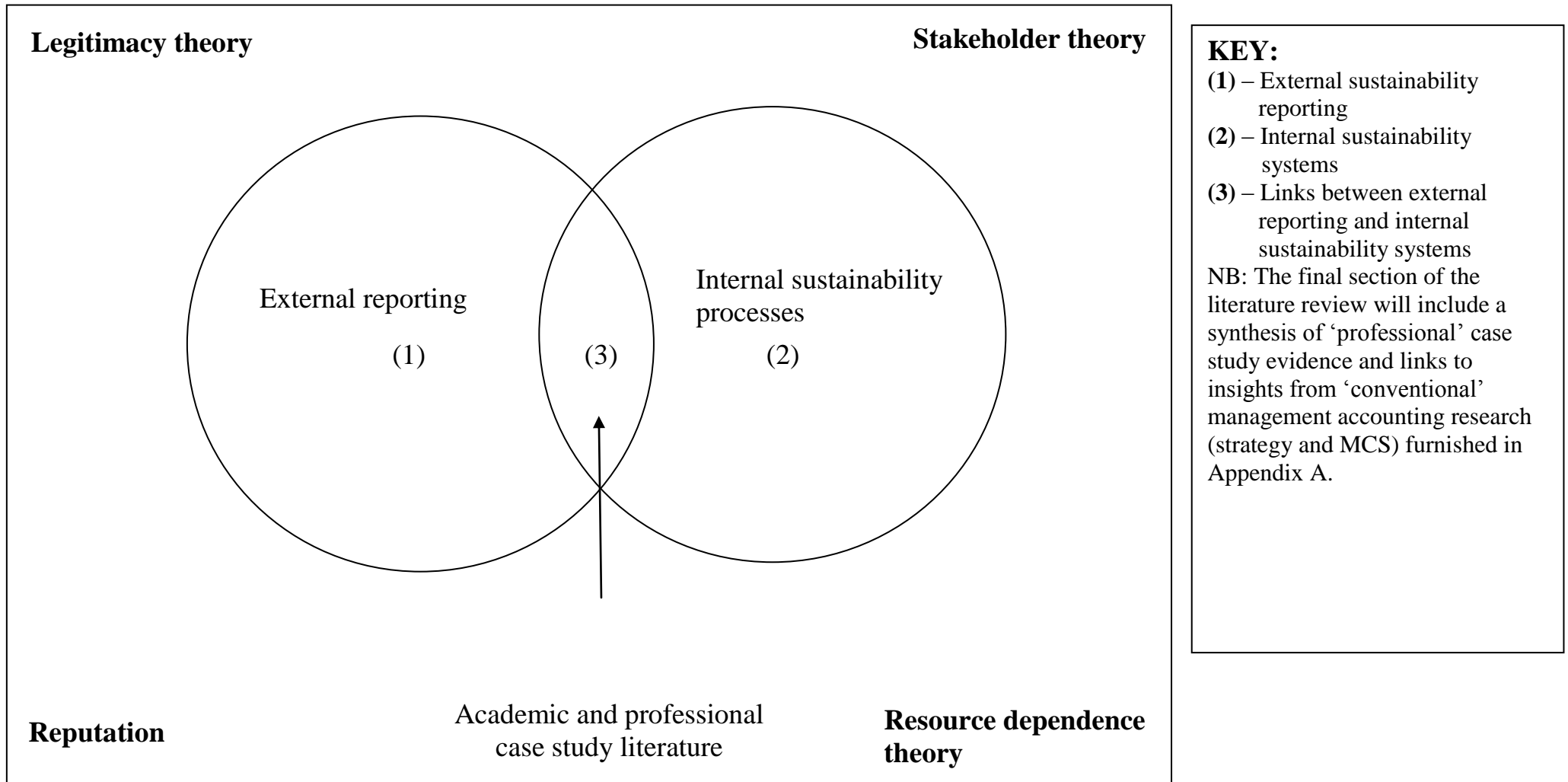
2.1 Overview

The chapter is structured around several parts. The first section will introduce a theoretical framework harnessing legitimacy, reputation, resource-dependence and stakeholder theories. This framework will enrich the discussion and analysis presented in Chapter 7.

The second section will discuss Social and Environmental Accounting (SEA) research into external reporting and internal control systems. The final section will provide a brief synthesis of professional case study literature on the integration of sustainability issues into organisational systems and reporting.

Diagram 2.1 on the next page provides a graphical representation of the structure of the literature review.

Figure 2.1 – Structure of the literature review



A discussion of legitimacy, reputation, stakeholder and resource dependence theories provides a theoretical foundation for the present research. Then the literature on Social and Environmental Accounting will be explained (depicted as (1), (2), and (3) on the diagram above).

2.2 Theoretical framework

2.2.1 Legitimacy theory

There is extensive research on legitimacy theory as a major driver for companies to report social and environmental information (Neu et al., 1997; Deegan and Rankin, 1996; Deegan and Gordon, 1996). Brown and Deegan (1998) define legitimacy theory as a supposition that organisations constantly attempt to function within the accepted norms and customs of the communities in which they operate (see also, Dowling and Pfeffer, 1975; Deephouse and Suchman, 2008). This definition is commonly presented in a range of different disciplines and fields (see the literature review of legitimacy by Deephouse and Suchman, 2008 and Bitektine, 2005). Legitimacy is conferred by its ‘constituents,’ who are internal and/or external actors who make decisions about the legitimacy of an organisation (Perrow, 1970; Ruef and Scott, 1998). Sethi (1975) long ago pointed to the problems that might arise when a ‘legitimacy gap’ occurs between constituents’ expectations and firm behaviours, and Deegan and Rankin (1996) claim that without legitimacy, the ‘social contract’ that society has with the company may be withdrawn (see also, Shocker and Sethi, 1974).

Legitimacy, then, has positive spin-offs and “justifies the organization’s role in the social system and helps attract resources and the continued support of constituents” (Ashforth and Gibbs, 1990 p. 177, citing, Parsons, 1960). Prior research shows that environmental information disclosures increase in times of increased public pressure – that is, when a legitimacy threat might be present or perceived (Deegan and Rankin 1996; Deegan et al, 2002; Cho and Patten, 2007). Deegan and Rankin (1996), for example, found that when Australian companies were under environmental prosecution they increased the quantity of positive environmental information they disclosed. Milne and Patten (2002) using an experimental design suggested that under certain circumstances, positive environmental

disclosures can “repair” an organisation’s legitimacy in the face of negative environmental shocks. And Deegan et al. (2002) examined the social and environmental disclosures of BHP Ltd over a 14 year period and found that the management of the company released positive non-financial disclosures to counteract negative media attention.

O’Donovan (2002) extended prior work by Ashforth and Gibbs (1990), Oliver (1991) and Suchman (1995) to explain “legitimation tactics” expressed in annual report disclosures. The quasi-experimental design used vignettes of different scenarios asking for managers to comment on their responses. Findings suggest that management responses to environmental incidents change according to whether they are trying to gain, maintain or defend legitimacy.

The following table is adapted from O’Donovan (2002 p. 363):

Table 3.1: Annual report disclosure matrix

Purpose of response	Significance of event	Legitimation/intention of annual report disclosure			
		Avoid	Alter values	Alter perceptions	Conform
Gaining	High Medium	Likely Likely	Very likely Unlikely	Likely Possibly	Very unlikely Possibly
Maintain – high	High Medium	Very unlikely Unlikely	Very likely Possibly	Likely Likely	Very likely Possibly
Maintain – low	High Medium	Likely Very likely	Possibly Inconclusive	Very likely Likely	Very unlikely Unlikely
Repair	High Medium	Very likely Unlikely	Unlikely Unlikely	Very likely Very likely	Very likely Likely

Tilling and Tilt (2010) have recently extended O’Donovan’s (2002) framework by conducting a longitudinal study of an Australian tobacco firm that has faced many threats to its reputation. The novelty of their work is that it adopts a resource-based view of the company, performing a detailed quantitative analysis of its annual statements to understand the flow of resources spent by the company and the themes of the company’s

communications with external stakeholders (Hybels, 1995; Tilling and Tilt, 2010). They too found that organisational disclosures, at least in part, are driven by a need to create legitimacy for the operations of the company. As Sethi (1975) realised long ago, corporate communication can be used to (1) correct public misunderstandings of organisational performance, (2) alter public expectations of organisational performance, (3) communicate improved (social responsibility) performance, and (4) distract public attention away from poor organisational performance (see also, Lindblom, 1994). This emphasis on the role of communication in legitimacy (and hence annual report disclosures), however, may have led to an overemphasis on such reporting and less emphasis on an analysis of the role of legitimacy and its antecedents in internal organisational systems and decision making.

2.2.2 Reputation

New theorisations may serve to augment our understanding of decision making and its linkages to reporting and communication in a context of legitimacy. Bebbington et al. (2008a) claim that there is sufficient critique and debate in prior literature “which points towards the possibilities of more diverse and varying explanations of CSR reporting and the need to put ‘flesh’ on the ‘bones’ of legitimacy theory explanations” (p. 338). They propose a refinement and addition to conventional notions of legitimacy theory, drawing on understandings of risk management. Citing legitimacy and stakeholder theories, Unerman (2008, p. 363) suggests that “[Reputation Risk Management] RRM theory provides a more refined explanatory framework...” than those existing theories. Adams (2008), however, is more cautious and questions whether RRM is in fact distinct from conventional understandings of legitimacy and merely serves to confuse rather than enlighten. Bebbington et al.’s (2008b) response argues for pluralism and openness to multiple theoretical

perspectives. Further, they see reputation and legitimacy as distinct concepts that should be differentiated.

To understand this risk management behaviour, Bebbington et al. (2008a) proposed adopting Benoit's (1995) framework of image restoration strategies (see also, Hogan and Lodhia, 2011). The authors then analysed the Shell 2002 annual report and framed the reporting discourse against Benoit's (1995) framework. While the research found evidence that Shell may be applying image restoration techniques to manage their reputation, analysis is limited to external reporting behaviour. This thesis is primarily concerned with the internal systems, processes and behaviours at an organisation. Therefore, the present study offers some ability to extend Bebbington et al.'s (2008b) conceptualisation of reputational risk and more specifically, reputation. The current research focuses on the difference between reputation as an intangible asset, and legitimacy as a socially conferred 'licence to operate,' and how these concepts relate to decision making at a company. Results of this analysis will be presented in Chapter 7 – Discussion and Analysis. The following sections will provide a richer definition of reputation before linking this to resource dependence and stakeholder theories presented later in the chapter.

Deephouse and Carter (2005) provide a means by which to distinguish reputation and legitimacy. They suggest that legitimacy is a binomial measure which an organisation either has or has not. Reputation on the other hand is a measure based on a range of criteria which is conferred relative to the standing of other similar firms. Reputation is based on subjective evaluations by internal and external audiences. While reputation can be measured on many dimensions (Deephouse and Carter, 2005), Bebbington et al. (2008a) suggest that most studies have used quantitative indices of reputation focussing on five elements: 1) financial performance, 2) quality management, 3) social and environmental responsibility, 4) employee

quality, and 5) the quality of goods/services produced. In recent years, there has been a movement towards understanding reputation in a more holistic and complex sense. There is a growing body of literature (mainly in Management) which has culminated in a number of field reviews attempting to refine the concept (see, for example, Bitektine, 2005; Deephouse and Suchman, 2008; Barnett et al., 2006; Gotsi and Wilson, 2001). However, reputation is still a term that is interchangeably and confusingly used (Deephouse and Suchman, 2008). Therefore, it needs to be defined in the context of this thesis.

Bebbington et al. (2008a), citing Fombrun and Van Riel (1997), have suggested that there are two main perspectives for understanding reputation. The economic/management theme views reputation as a resource. Sociological literature considers reputation to be a socially constructed judgement about the integrity and dependability of an organisation. Therefore, it considers reputation to be an outcome of a process of evaluation of the company's past performance (Deephouse and Suchman, 2008). The management literature provides a fruitful conceptualisation of "reputation" through a resource based view of organisations. Favourable reputation is considered a strategic asset that firms can manage to gain a competitive advantage (Deephouse and Suchman, 2008; Deephouse, 2000; Roberts and Dowling, 2002), essentially becoming part of the relationship between "exchange partners" and their decision making processes (Deephouse and Suchman, 2008 p. 62). Fombrun and van Riel (1997) argue that reputation "produce[s] tangible benefits: premium prices for products, lower costs for capital and labour, improved loyalty from employees, greater latitude in decision making, and a cushion of goodwill when crises hit" (p. 57; see also, Bebbington et al., 2008a p. 339). McWilliams and Siegel (2001) suggest specifically that CSR related activities create a reputation that a firm is honest and reliable. Citing Fombrun and van Riel (1997) again,

Bebbington et al., (2008a) suggest that “maintaining a good reputation may be a sound business decision because it could help you withstand future reputation shocks” (p. 339).

Fombrun et al. (2000) suggest that reputational capital is constantly at risk because of the regular interactions between an organisation and its stakeholders. Bebbington et al. (2008a) also recognise the potential for further research to understand how organisations meet diverging demands of multiple stakeholders. This thesis argues that different stakeholders possess relative levels of power and urgency, and hence may elicit different responses from management based on their perceptions of stakeholders’ abilities to provide (or withhold) critical resources. To date, the literature on external sustainability/CSR reporting has been substantial. Considerably less emphasised have been the mechanisms and systems which underlie the external façade adopted by organisations. For example, while reports may convey the discourse that is finally reported, how does the reporting function consider what information to report and to whom? How do managers view reputation and how do they try to manage it? What is the importance of reputation in decision-making? Bebbington et al. (2008a, p. 355) suggest that a “possible avenue of research in this area could explore a more sociologically informed analysis of reporters’ motivations (via interviews and/or case studies)”. The present research is grounded in trying to provide some, albeit tentative answers, to the questions above by augmenting legitimacy theory with reputation risk management theory, and further drawing on understandings from resource-dependence theory and stakeholder theory.

Before turning to the field work and the case study, the following sections briefly illustrate key aspects of resource-dependence theory and stakeholder theory. The discussion is not presented as a substantive review, but an exploration of some key ideas drawn on later to frame and interpret the field work.

2.2.3 Resource dependence theory

Although one might see the origins of resource dependence theory in Cyert and March's (1963) *Behavioural Theory of the Firm*, it has certainly come to be seen as a major theoretical framework since Pfeffer and Salancik's (1978) *The External Control of Organisations* (Hillman et al., 2009). The organisation is defined as a fluid system that reacts to and is shaped by external factors. Pfeffer and Salancik (1978) propose that to "understand the behaviour of an organization you must understand the context of that behaviour – that is, the ecology of the organization" (p. 1). This perspective of an organisation is very much in line with the view taken by institutional and legitimacy theory in that an entity has to continually understand and adapt to contingencies in the external environment.

Hillman and Keim (2001) argue that "[t]he resource-based view of the firm contends that a firm's ability to perform better than the competition depends on the unique interplay of human, organizational, and physical resources over time" (p. 127). Managers have the ability and responsibility to reduce environmental uncertainty and dependence by commandeering power which is crucial to securing important resources (Hillman et al., 2009; Ulrich and Barney, 1984). Organisations therefore strategically seek to minimise the power exerted over them by external actors and increase their own legitimate claim to action over others (Hillman et al., 2009 p. 2). This may motivate some of the urgency of action over externally visible issues which could lead to censorship of the organisation and potential threats to its licence to operate. Indeed, Hillman and Keim (2001) argue that a "history of repeat dealings with actors such as employees, customers, suppliers, and local communities will generate reputational capital and trust (Barney and Hansen, 1994; Ring and Van de Ven, 1992, 1994)" (p. 127).

I have already presented an argument to view reputation as a resource that must be managed. Resources which are difficult to replicate and intangible are argued to lead to competitive advantages over competing firms (Hillman and Keim, 2001 citing Atkinson et al., 1997; Barney, 1991; Teece, 1998). Indeed, Russo and Fouts (1997) argue from a resource-based perspective that environmental policy plays a role in gaining broad organisational benefits which allow them to earn “premium profits.” Organisations interact with other parties in a given field creating relationships where “reputation is important and fair dealing and moral treatment by both (or multiple) parties enhance the value of relationships” (Hillman and Keim, 2001 p. 127). These exchanges are important to secure resources for each party, where reputation is also an asset that needs to be managed and protected. We argue that reputation is developed between the organisation and many stakeholders in different ways. The reputation built with customers in terms of the quality of product that is supplied may be quite distinct from the reputation that is built with communities around the organisation where people may see the company as a good corporate citizen. Although different types of reputational asset may be created between diverse stakeholder groups, there is the possibility of migration effects between them because of the inter-connectedness of organisations (Harrison and St. John, 1996). Pfeffer and Salancik (1978) introduce the resource dependency perspective and interorganisational relations as five propositions, three of which are highlighted below:

2) these organisations are not autonomous, but rather are constrained by a network of interdependencies with other organisations; 4) organisations take actions to manage external interdependencies, although such actions are inevitably never completely successful and produce new patterns of dependence and interdependence; and 5) these patterns of dependence produce interorganisational as well as intraorganisational power, where such power has some effect on organisational behaviour. (p. 26 – 27)

A key aspect of resource dependence theory (RDT) is the inter-connectedness of different parties in the organisational field and how these relationships may change because of the power (or salience) that some may exert over organisations. Pfeffer and Salancik (1978) suggest five actions that firms can take to minimise environmental dependencies, but these are mainly limited to financial or governance issues such as board of directors' management, mergers and acquisitions and executive succession. Hillman et al. (2009) conducts a field review of RDT and suggests that "research using RDT should talk to one another to more fully appreciate how dependencies are reduced" (p. 12). Some stakeholder theorists have argued that organisational survival depends on a company's ability to provide value to its stakeholders so "that each primary stakeholder group continues as part of the corporation's stakeholder system" (Clarkson, 1995 p. 107). Of particular importance for organisations is the ability to understand, prioritise and connect relationships and interdependencies (Donaldson and Preston, 1995; Harrison and St. John, 1994; Freeman, 1984).

2.2.4 Stakeholder theory

Freeman (1984) asserts that stakeholder theory concerns an understanding of entities which can impact an organisation and management's responses to those entities. As such, it has clear overlaps with resource dependence theory which conceptualises the management of power between relationships. Stakeholder theorists argue that the company must pay attention to the environment and the constituents that make up its environment. It is argued that "[a] network of relationships connects the company to a great number of interrelated individuals and constituencies, called stakeholders" (Perrini and Tencati, 2006 p. 297; see also Freeman, 1984; Donaldson and Preston, 1995; Post et al., 2002). These relationships are important for the success and survival of the firm and must be managed appropriately (Post et al., 2002). In this sense, Phillips et al. (2003) argue that stakeholder theory is similar to resource-

dependence theory which lends confidence to a model attempting to interconnect the two perspectives.

The preceding discussion of resource dependence theory in section 2.2.3 suggests that power exerted over the organisation by external constituents needs to be managed. Stakeholder theory purports that there are various levels of stakeholder importance (Post et al., 2002; Madsen and Ulhøi, 2001; Frooman, 1999). The salience of stakeholders may have a considerable influence on the way companies interact with external parties, and exemplified “[t]he survival of many structures, organizations and organizational forms without ringing cultural endorsement suggests that there may be some truth to this. But in the absence of broad-based cultural support, the characteristics of those particular sources that do grant endorsement may matter quite a bit” (Deephouse and Suchman, 2008 p. 57).

Mitchell et al. (1997) is a seminal paper which introduces three attributes of stakeholders: 1) power, 2) legitimacy and 3) urgency. Citing Weber (1947) and Salancik and Pfeffer (1974), Mitchell et al., (1997) recognise that the power of a stakeholder can be defined in terms of a stakeholder’s ability to achieve their desired outcomes. Legitimacy, in the context of Mitchell et al.’s (1997) paper, refers to the legitimacy of power held by a stakeholder. Finally, urgency adds a dimension between the relationship of a company and its stakeholder and refers to the immediacy of the stakeholder’s need, and the importance of their demands.

Prior research has found that companies have changed their decisions because of external pressure from stakeholders that may eventually cause reputational damage (Perrini and Tencati, 2006 referring to Klein, 2000; Hertz, 2001; Bandura et al., 2002; Bakan, 2004). Post et al. (2002) suggest that “[t]hese relationships are the essential assets that managers must manage, and they are the ultimate sources of organizational wealth” (p. 8). I extend this

argument, to incorporate a conceptualisation of reputation as the asset which must be managed to gain, maintain, or repair relationships between salient stakeholders. Frooman (1999) adopts a resource based focus on stakeholder theory to suggest that stakeholders have inter-relationships with one another. Influences on one group may have causal effects on other stakeholders. These ideas will feature in the development of the ‘stakeholder web’ model introduced in Chapter 7 – Discussion and Analysis.

There are a number of perspectives on stakeholder theory. I have adopted an instrumental perspective which provides a basis for examining how the management of a company may manipulate stakeholders in order to achieve their corporate agenda. The key area of focus with this perspective is on whether stakeholder management has positive spin-offs for corporations, especially since this particular seam of the theory has been under-researched (Berman et al., 1999). Instrumental stakeholder theory aligns well with resource-dependence theory in the sense that: “corporate survival depends in part on there being some "fit" between the values of the corporation and its managers, the expectation of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell its product” (Freeman, 1984 p. 107).

In the input-output model of stakeholders, investors, employees and suppliers contribute inputs which the firm then transforms into outputs which are sold to customers (Donaldson and Preston, 1995). This perspective takes an economics/finance oriented view of the transactions and proposes that each stakeholder that provides resources (via legal contractual transactions) to the corporation receives rewards for their efforts. Clearly, in light of the discussion of legitimacy, reputation and resource dependence, a more nuanced and complex understanding of stakeholder relationships is required in which exchanges beyond transactions, including symbolic exchanges, are articulated. Hillman and Keim (2001)

emphasise the value that can be created between companies and stakeholders through relational interactions rather than transactional ones. Harrison and St. John (1996) introduce examples where webs of interdependencies can arise between stakeholders as organisations deal with increasingly uncertain environments (Hillman and Keim, 2001).

The theoretical perspectives which guide the current study have now been established. The following section introduces prior literature on external sustainability reporting with a focus on trends in current practice and gaps in knowledge.

2.3 External sustainability reporting

The discretionary disclosure of firms' impacts on society and the physical environment in annual reports dates back to the 1970s, but only in more recent times have such practices become more widespread (ACCA/CorporateRegister, 2004). Indeed, since the 1990s corporate environmental reporting emerged as a standalone phenomenon, and since then "triple bottom line", "sustainable development" and "sustainability" reporting have become common practice among large organisations in Europe, the USA, Canada and other developed nations (KPMG 2011; 2008; 2005; 2002; Elkington, 1998). Coupled with such reporting developments have been reporting award schemes, reporting guidelines (GRI⁹ 2002, 2006), and in some instances the independent verification and audit of such reports (see, for example, ACCA reporting awards in New Zealand).

Consequently, external social and environmental reporting has been promoted in New Zealand through the New Zealand Business Council for Sustainable Development (NZBCSD) which consists of approximately 71 member companies, with a combined turnover of approximately 43% of New Zealand's GDP in 2008 (Milne et al., 2009). The

⁹ Global Reporting Initiative

NZBCSD's (2002) sustainability reporting guidelines outlined a number of internal and external drivers that were claimed to add value to business. While the external factors primarily relate to increasing a company's reputation, the internal factors encourage the use of sustainable development reporting in driving strategic change, reducing business risk, and stimulating innovation. More interestingly, the guide promotes this form of reporting as a tool in "[m]otivating, empowering, and aligning staff consistent with strategic objectives," and in "[a]ttracting and retaining high calibre employees" (NZBCSD, 2002 p. 10).

External social and environmental disclosure is becoming mainstreamed with the recent KPMG 2011 CSR survey confirming the upward trend in external disclosure with 95 percent of G250¹⁰ companies producing a Corporate Responsibility report. New Zealand has also been re-introduced into the survey, but is among the countries with the lowest level of reporting with only 27 percent of top companies producing a Corporate Responsibility report. G250 companies indicated that reputation, ethics, employee motivation and innovation are top drivers for producing additional non-financial disclosures (KPMG, 2011). However, New Zealand firms may be lagging behind, especially because 71 percent of participants in the KPMG NZ (2008) sustainability survey reported confusion about what 'sustainability' means for business.

Adams and Frost (2007) suggest that "[t]here are many social and environmental reporting and accountability guidelines; indeed, the choice is often confusing to companies" (p. 4). Triple bottom line (TBL) reporting is just one form of the broader category of sustainability reporting and is defined as a "reporting mechanism designed to encourage businesses to give closer attention to the whole impact of their commercial activities, rather than just their financial performance" [emphasis in original] (Robins, 2006 p. 1). Furthermore, Robins

¹⁰ The 250 largest companies in the world as defined by the KPMG survey.

(2006) claims that TBL reporting requires the company to take into account the company's stakeholders. The GRI's "Sustainability Reporting Guidelines" evolved out of initial attempts at creating international standards for measuring the Triple Bottom Line. These guidelines were designed to provide information on three main aspects; the social, environmental, and economic performances of an organisation. Lamberton (2005) comments that although some forms of accounting measure social and environmental factors in monetary terms, the GRI has moved to qualitative forms of reporting with the use of narrative in conveying results.

However, the underlying motives for companies to engage in voluntary disclosure have attracted much attention and cynicism in recent years. Undertaking such a procedure is very costly in terms of time, money and other managerial resources that are used in deriving such statements. Doane (2002) is predominantly a critic of the existing voluntary disclosure of environmental and social information but still provides a useful insight into why companies willingly disclose such information. The first argument revolves around the premise that companies that are transparent and honest about their environmental and social performance will be able to manage risk better than those companies that are not and so positively affect financial performance. The second argument is that businesses use "social and environmental reporting for PR purposes than for legitimate risk-management reasons" (Doane, 2002 p. 3). TBL reporters claim that they are satisfying an informational need of their stakeholders. Some commentators are sceptical of this motive and imply that the additional disclosure of information may be "green-wash" and a case of cannibals with forks; adding some notional sense of civility to an otherwise ruthless business ethic (Lyon and Maxwell, 2011).

Although there are a number of criticisms of TBL reporting (see, for example, Byrch et al., 2011), the growing popularity and use of this type of reporting by companies prompts the claim that "GRI is the most relevant institution in the sustainability reporting context"

(Moneva et al., 2006 p. 126). This shows the importance of understanding the usefulness of this information to stakeholders.

While there has been a considerable amount of literature on external reporting, Higgins et al., (2011) argue that this is based on limited empirical research. The researchers undertook an extensive survey of preparers of social/environmental reports in Australia and then conducted telephone interviews with 64 companies. Results from the study are rich and provide intricate perspectives on reporting motivations and behaviour. The strongest reasons to provide external reports arise from efforts to pursue a sustainability/value-based strategy (78% of respondents), managing social/environmental impacts (75% of respondents) and external stakeholder pressure (48%). Findings also suggest differing motives and expectations of reporting outcomes from 'visible' compared to 'less visible' firms. Consistent with the KPMG (2011) survey discussed above, most companies considered external reporting to be a way of signalling a commitment to sustainability in an effort to improve or manage reputations. These insights have interesting implications for the case company studied in the present research and will be discussed in Chapter 7 – Discussion and Analysis later in the thesis.

2.4 Reviews of Social and Environmental Accounting literature

Parker (2005) conducted a comprehensive review of Social and Environmental Accounting (SEA) literature in academic journals. Findings suggest that the greatest number of publications were concerned with 1) national practices/regulations, 2) regulation and international codes or standards, and 3) external disclosure. Relatively few articles were published on internal SEA processes and contextual factors including environmental management systems and management accounting. These findings are also echoed in a later

field review conducted by Parker (2011a) where most emphasis in SEA literature is still placed on national practices and external disclosure with few articles published on EMS/Management accounting, SEA philosophy or SEA performance.

Higgins et al., (2011) outlines the limited nature of social and environmental reporting research concluding that analysis has mainly concentrated on reporting rather than engagement with managers and most work examines large companies with an emphasis on the ‘naughtiest’ or ‘dirtiest’ industries. Indeed, Parker (2005) reported that the interface between environmental management systems and management accounting, together with the relationships between SEA and social and environmental strategy, are under-researched. Importantly, the paper concluded that:

“[i]mpact on policy and practice calls for active engagement in the process of design and experimentation with SEA systems, structures and processes” (Parker, 2005 p. 851).

Owen (2008) also developed a commentary on SEA practice arguing, in amongst a rich discussion of the literature, that external reporting is a ‘one-way’ communication that lacks stakeholder engagement and does not have a significant influence on organisational priority setting (Owen, 2008, citing Thompson and Bebbington, 2005). The usefulness of external reporting is questioned and the ‘managerialist’ turn suggested by Parker (2005) is critiqued. However, Owen (2008) still agrees with Parker (2005) in calling for greater engagement with stakeholders and actual practice - albeit with a slightly divergent perspective on how to do this.

In a subsequent review, Burritt and Schaltegger (2010) disagreed with Owen (2008) and argued that more work is needed which provides some practical ‘managerial’ perspectives that may help to develop sustainability accounting and aid management in decision making.

Although some academics may have differing perspectives, general agreement tends to promote more open and novel approaches to studying SEA practice (see, for example, Parker, 2011b). In particular:

“[o]ur SEAR [Social and Environmental Accounting research] agenda can further benefit from further attention to expanding the small corpus of work done to date in comparing corporate SEA disclosures against third-party public/media reporting of SEA activity and impact by the same companies” (Parker, 2011b p. 20).

The gaps identified in these extensive reviews of the SEA literature provide some impetus for a study of the internal sustainability *behaviours* and *actions* in companies.

2.5 Research into strategy and internal sustainability systems

While existing studies have provided many insights into reporting practice, very little is understood about the internal reporting processes within a company (Adams and Larrinaga-Gonzales, 2007). Research to date indicates that managers have a narrow definition of corporate social performance, interpreting ‘good corporate citizenship’ against a backdrop of shareholder value maximisation (O’Dwyer, 2003). Commentators claim that the strategic importance of sustainable business practices is clear from the competitive gains that can be had (Parker, 2000a; Christmann, 2000; McGee, 1998; Aragon-Correa and Sharma, 2003; Berry and Rondinelli, 1998). Indeed, Samy et al. (2009) argue that “it is increasingly and widely accepted that attempting to isolate business from society is unrealistic and that dichotomising economic and social objectives as distinct and competing is false” (p. 203).

Parker (2000a) asserted that there is a dearth of information on the use of internal decision and control systems together with the corporate philosophies which underpin these systems. Key inferences from the study indicate that companies had a tendency to incorporate

environmental costs into normal operating cost classifications. Furthermore, environmental costing suffered from accountants' lack of consideration for environmental issues, especially in recognising 'non-monetary' value. Environmental managers also did not comprehend the potential for better environmental costing to aid decision making. In the same year, Parker (2000b) proposed recommendations advocating a better understanding of environmental costing and integration with decision making. Environmental Management Systems¹¹ (EMS) are becoming increasingly important, although some firms treat these systems as tools for image manipulation, whereas others use EMS to grow in their environmental commitment (Nash and Ehrenfeld, 2001). More recent studies suggest that progress is still stunted and that the "reigning mentality [of larger companies] is still one of an overemphasis on production-related issues and cost-cutting, rather than utilizing these mechanisms as strategic tools" (Da Silva and Teixeira, 2008 p. 212).

It is also clear that informal control systems, rather than formal controls, tend to dominate socially responsible decision making (Norris and O'Dwyer, 2004). This may, in part, be due to the lack of guidance that is available to "translate the concept of sustainable development into daily business action" (Bonacchi and Rinaldi, 2007 p. 463).

Burritt et al., (2002) developed a framework which identifies the information needs that sustainability accounting needs to provide for a range of different decision settings. A range of books and publications from Roger Burritt and Stefan Schaltegger have made important contributions to environmental management accounting (see, for example, Burritt and Schaltegger, 2001; Burritt, 2002; Burritt et al., 2002; Schaltegger et al., 2003; Schaltegger and Wagner, 2006; Schaltegger et al., 2006; Burritt and Schaltegger, 2010). Epstein and

¹¹ Environmental Management Systems are defined as "formal structures of rules and resources that managers adopt to establish organizational routines that help achieve corporate environmental goals" (Nash and Ehrenfeld, 2001 p. 62).

Wisner (2001) followed by Figge et al. (2002) provided normative justifications for integrating sustainability into the Balanced Scorecard¹². Indeed, a recent study by Eljido-Ten and Tjan (2011) highlights the increasing trend for companies to implement and disclose the use of Sustainability Balanced Scorecards (see also, Eldenburg et al., 2011). Nonetheless, Adams and McNicholas (2007) assert that there is still a lack of understanding about how sustainability goals and reporting practices should be integrated into strategic planning, how to identify key stakeholders and key performance indicators, and choosing between the variety of reporting guidelines and styles available.

Adams' (2002) study was one of the first to investigate the internal reporting and decision-making process. Findings suggest that there are significant internal contextual variables such as management attitudes towards reporting, the reporting process, and legislation and external verification which impact on the quantity and quality of reporting. Later, Norris and O'Dwyer (2004) explored the motivations and management control systems that encourage socially responsible decisions amongst managers. A key result from the investigation was that managers were concerned that minimal formal processes were in place to measure and track social outcomes, thereby, refocusing managers onto financial objectives. Moreover, a tension between formal and informal control systems was highlighted.

Bonacchi and Rinaldi (2007) specifically discuss sustainability in a management accounting context. The key focus of the study is how to implement management accounting into sustainability processes by discussing two management control systems. The authors suggest that management control systems for implementing sustainability need to include the following: 1) performance evaluation of the triple bottom line, 2) stakeholder evaluations,

¹² The Balanced Scorecard is a multi perspective performance management system. See for example, Kaplan and Norton 1996, 2001.

and 3) identifying performance drivers and formalising the system. However, practice seems to be counterintuitive in that companies have started to report externally first before creating proper management systems (UNEP/Sustainability 1996). The question then arises as to the true purpose and integrity of reporting systems, and if these are called into question, how can management accounting serve to strengthen companies' sustainability efforts.

Adams and McNicholas (2007) investigated the key barriers encountered by organisations in preparing sustainability reports. An action research methodology was adopted that allowed the researchers to have some degree of participation in the sustainability reporting process. Some of the key impediments to reporting were: 1) an inadequate understanding of how strategic planning could incorporate sustainability objectives and 2) choosing Key Performance Indicators (KPIs) that would meet stakeholder needs.

Later, Adams and Frost (2008) tried to address the issue of selecting KPIs by examining the way they are developed and used in decision-making and performance evaluation. Encouragingly, external reporting has led to developments in data gathering processes and decision-making. However, the extent to which decision-making was influenced by KPIs depends on what decision-making functions were being emphasised. Furthermore, the ability to implement sustainability processes was limited by the existing systems and methods inherent in the firm.

Research conducted by Da Silva and Teixeira (2008) suggests that environmental management systems may be used as a way of addressing "production related issues and cost cutting, rather than utilizing these mechanisms as strategic tools" (p. 212). Moreover, Searcy et al. (2008) argue that "existing data and indicators suffered from a lack of effective analysis and were in many cases not linked to decision-making processes, goals or targets" (p. 139).

Adams and Harte (2000) claim that incorporating additional data into business processes could make organisational accountability a more engaging process. Finally, Bonacchi and Rinaldi (2007) conclude that “an increasing number of companies are currently communicating sustainability performance but only a very few of them are taking steps towards managing it” (p. 463).

Lämsiluoto and Järvenpää (2008) found that the forces for implementing EMS changed over time from external factors such as compliance and certification, to internal drivers concerned with environmental performance and profitability. After extensive field work in Spanish companies, Albelda-Pérez et al. (2007) identify six ‘intangible assets’ that will increase environmental performance namely: 1) awareness of employees, 2) environmental knowledge, 3) skills and expertise of employees, 4) the commitment of managers, 5) cross-functional coordination, and 6) the integration of environmental issues into strategy setting.

The following diagram is extracted from Albelda-Pérez et al. (2007) on page 417:

PLACEMENT OF SITES AMONG THE LEVELS OF EMBEDDEDNESS		Indicators of environmental embeddedness					
		Awareness of employees	Environmental knowledge, skills and expertise of employees	Commitment of managers	Cross-functional coordination and communication	Integration of environmental issues in strategic planning process	Use of management accounting practices
Levels of embeddedness	Primary	AA, BB, EE					
	Visible	CC, DD, GG, HH, II					
	Advanced	FF, JJ					

Figure 2.2: Level of environmental embeddedness from Albelda-Pérez et al., (2007) p. 417

Figure 2.2 shows the 10 Spanish companies interviewed and the intangible assets they possess. Companies which possess all of the intangible assets are rare, but the ‘level of embeddedness’ increases when more factors are attained. These embedding assets will have useful insights for the discussion in the Findings Chapter later in the thesis.

In Albelda’s (2011) paper exploring the role of management accounting in enabling environmental management, the author finds that accounting serves a mixed role; it facilitates environmental management, but at the same it creates a barrier for greater levels of environmental accountability. Although management accounting practices reinforce elements such as continuous improvement, compliance and communication, they do not significantly alter corporate priorities, allowing the ‘business as usual’ mentality to prevail. However, after investigating the practices at Procter and Gamble, Riccaboni and Leone (2010) argue that the integration of social and environmental factors with conventional planning and monitoring systems is the key to implementing sustainability strategies. Because of the lack of empirical work in this area, Albelda (2011) concludes that “there is an increasing interest concerning the integration of sustainability issues with strategic management and performance measurement in management accounting literature” (p. 81).

In view of the conclusions and gaps in the literature identified above, the proposed research seeks to investigate the interrelationships between strategy, management control systems, and external reporting, in order to get a deeper understanding of the reporting process and how information is used in decision-making. To ground the results and discussion of this thesis in empirical evidence, a brief overview of the professional case study literature on the topic is presented in the next section.

2.6 Professional case study literature

The following section will briefly synthesise some of the key lessons from the professional case study literature on internal sustainability systems mainly published in ACCA (2008) and CIMA (2006; 2011a, 2011b). These reports conduct in-depth case studies or surveys which add rich insight into the current state of sustainability practices in organisations. In particular, the ACCA (2008) report documents six comprehensive case studies, from a number of industry sectors, which will be used to provide some insight into internal processes and external reporting practices in these companies. These conclusions will be connected to findings from the present research company in Chapter 6.

2.6.1 Motivations

Numerous organisations have proposed a range of motivations for private profit seeking companies to undertake sustainability related initiatives, including risk mitigation, increasing reputation and brand image, greater transparency and accountability to stakeholders, and reduction in costs and increased competitive advantage (see, for example, NZBCSD, 2002; CIMA, 2011a; CA, AICPA, & CIMA, 2010). CIMA (2011a) asserts that “[a] socially and environmentally ethical approach ensures a company’s ability to thrive in the long-term by protecting its reputation, its licence to operate, its supply chain, its relationships with partners and its ability to recruit talent” (p. 3).

Evidence from a range of professional case studies conducted by ACCA (2008) suggests that at least some of these arguments resonate in company practice. In the case of a large construction company, “Civil Constructions,” it appeared that environmental accidents and legal reproach pre-empted the decision to manage health, safety and the environment. Greater public and media attention together with the controversy surrounding climate change have

applied external pressure on corporations to manage these issues (CA, AICPA, & CIMA, 2010). Indeed, it appears this external pressure is particularly strong for those companies involved in environmentally sensitive sectors, such as “National Miner”, a large Australian mining company:

“[o]ver recent years, the scale of environmental concern has resulted in greater costs to the organisation and a significant change in the level of interest by various stakeholders in the overall environmental performance of the company” (National Miner in ACCA, 2008 p. 30).

Greater public pressure to manage environmental concerns may have initiated the first steps in the process, but the companies surveyed in the ACCA (2008) report have now begun to incorporate sustainability issues at a more strategic level.

2.6.2 Strategy

In most companies, an overarching environmental policy is generally constructed which frames the parameters and priorities for the way the organization will address the environment. From this policy, general targets are set (KPIs) and then reported on (see, for example, “Civil Constructions” in ACCA, 2008 p. 9). Some companies have followed a regimented process which is akin to conventional methods of strategy setting and management control as is the case with “Capital Water”, a government owned water utility company. Capital Water has an overarching five-year *Corporate Plan* which includes a detailed set of objectives for the upcoming year. Each division has a business plan, most commonly with a one-year focus. The *Corporate Plan* is developed using both a top-down and a bottom-up approach. The board receives monthly reports on performance against the *Corporate Plan*, primarily on financial data, perhaps a result of the business planning process

which is the responsibility of the financial controller. A *Statement of Corporate Intent* is prepared annually for government and this sets out financial targets. The *Corporate Plan* includes environmental targets, although fewer than previously as the environmental focus has become a more ‘business as usual’ approach, with a greater trust in the environmental management system.

2.6.3 Environmental Management Systems

The development of the EMS and internal management systems have been encouraged through external stakeholder pressure. The ISO 14001 system has been a very popular choice of standard from the case literature, especially for the more environmentally intensive companies. This is highlighted by comments from National Miner,

“The ISO 14000 series and the associated credibility with the series are still important for the company... there needs to be a process and system around the management of anything and 14001 is a recognised internationally based system that’s considered to be sufficient for environmental management purposes...” (National Miner in ACCA, 2008 p. 27).

National Miner also outlined the difficulty of developing internal EMS because of the lack of external auditors able to appraise such systems. The company also highlighted stakeholder engagement as a key component in licensing considerations. As a result, the EMS is evolving as operations develop and stakeholders are consulted on the continual development of the system.

2.6.4 Decoupling

CIMA (2011b) suggests that sustainability control systems “may remain peripheral to and decoupled from core business activities and fail to reshape strategy,” and that “there is a danger that sustainability practices can be symbolically adopted, whether for reporting or stakeholder purposes” (p. 1). Furthermore, Civil Constructions in the ACCA (2008) report indicate that there is no direct link between the “sustainable diagnostic tool” and target setting. But in some companies, there seems to be more integration between the management systems and the strategic formulation function of the firm because of deliberate attempts to embed the system as in “Driland Water”, a water retailer, which describes its systems as:

“all integrated now...so it’s now not just an add-on process but it’s core to the business and so the management system allows us to drill in with different questions. So rather than being the primary structure of why we operate, it’s a screening tool to get the information out of our focus to delivering our strategic objectives.’ (Driland Water in ACCA, 2008 p. 51).

The next section will explain the decoupling between EMS and external sustainability reporting.

2.6.5 External reporting and communication

“Local Miner” is a company with a smaller profile than National Miner. However, its environmentally sensitive operations have necessitated the need to constant engagement with stakeholders. The company has a plethora of communication tools to inform and gain feedback from stakeholders. Given the localised nature of the company’s operations, the community relations officer utilises more direct means of engagement. This may include letter drops and/or a door knock of the local area. The informal communication does not

simply serve as a reporting mechanism but as a tool which conditions the community to changes in activity and receiving feedback on performance.

The role of local bodies and state regulators is also pronounced. Companies have identified the need to satisfy regulatory and environmental restrictions as a high priority because of the legitimacy threats involved in not doing so. Most companies which are heavily dependent on natural resources tend to proactively forge “strong” relationships based on ‘trust and mutual understanding’ with the intention of creating a buffer against potential negative events in the future or having a positive reputation buffer when renegotiating site licences. To this extent, the company works closely with regulators to fulfil their expectations in relation to the operating licence, environmental review, mine safety and reporting on performance (see for example, Local Miner in ACCA 2008 p. 36).

CIMA (2006) provides evidence that external sustainability reporting practices are tenuous in most companies. National Miner in ACCA (2008) suggested that, “[t]he argument from the company is that sustainability is about managing processes, not reporting on processes through a separate report” (p. 28). And further, they suggest that a report should not be about ‘green-washing’ the company’s activities:

“Good sustainable management is about the process and management control systems and the ethics systems that you have built into the company in terms of the way you manage the company. It’s not about providing a report that takes pictures of beautiful environmental things that we do.” (ACCA, 2008 p. 29).

Moreover, “Plastic Solutions”, a plastics manufacturing company argues that there are confidentiality issues around what information to report, and barriers to surmount in terms of who prepares the final document:

“External reporting is not encouraged because of perceived confidentiality of information that would be disclosed to potential competitors, so there is no environmental or sustainability reporting. Custodianship of the Annual Report rests with accountants, with a focus on financial information, which was seen as an additional barrier to reporting.” (ACCA, 2008 p. 21).

Furthermore, external reporting seems to be directed towards a certain set of stakeholders implying that information contained in reports could be intentionally limited. This seems to be based on a belief that few stakeholders outside the organisation read sustainability reports. Companies provide more tailor made information to external stakeholders as necessary through sources such as company newsletters. Stakeholder engagement is one of the key activities that companies are meant to undertake if they are to be truly accountable for their performance. However, it seems much more important for some firms to “manage” rather than necessarily “engage” their stakeholders:

“The community stakeholders are encouraged to come to us so we can fix it because there’s not much point them all running off to the EPA complaining because then the EPA comes to us and then we fix it, so we would – things like we’ve got a twenty-four hour hotline, so if you hear a noise or you see a truck or you see dust, we want you to ring us straight away and that will be turned off or covered up or whatever within hours” (Local Miner in ACCA, 2008 p. 34).

The decentralised nature of some large entities such as National Miner has also led to some problems with providing a cohesive reporting framework, even though EMS systems have been developed through ISO 14001. The primary reason for this is because communication

on environmental management had not established itself through the organisation as each operating site was the “owner” of their own EMS and performance targets.

2.6.6 Decision making

In terms of the internal control and reporting systems’ impact on decision making, there seems to be a great significance in accounting for the costs associated with environmental damage and management, but also with factoring in the interests of various external stakeholder groups like customers and governments:

“The capital costs associated with environmental programmes have resulted in the corporate office seeking to take a more strategic consideration of environmental impact. Increased interests of external stakeholders, such as customers and governments, are key catalysts for the company to consider a more strategic approach” (National Miner in ACCA, 2008 p. 30).

It is interesting to note that decision-making around the environment is a careful balancing act, and it seems that there are some incentives to meet pre-determined standards rather than go over and above expectations:

“The reason given by the company for the lack of a formal process to consider the social and environmental impacts of capital investment decisions is that once Environmental Plan targets are met, the regulator will not approve additional costs to make further environmental improvements” (Capital Water in ACCA, 2008 p. 39).

This seems to be particularly the case in short-term operation decision making where the Business Improvement Manager commented that the capital decision making process “lacked formalisation or robustness”:

“A case in point would be water main renewals, you know, we’re gonna have to cost to fix a water main as opposed to keep repairing etc, but the social dislocation that occurs when an unexpected main breaks, at the moment we haven’t got a cost for that, but we’re aware of it. So when things get relatively close you say, well, what are the other factors that you have to take into account” (Capital Water in ACCA, 2008 p. 39).

2.6.7 Licence to operate

Finally, concern over gaining and maintaining the licence to operate is one of the major issues identified by most companies, particularly those involved in the mining or resource intensive sectors. There seems to be general consensus that day to day compliance is managed well by the internal control mechanisms, but communicating the company’s performance to external stakeholders has proved to be very challenging, especially because of the very technical nature of the environmental data.

Some companies agreed that compliance was very important in building reputation. Without a history of good performance and accountability securing permits would be a challenge for future projects: “...if you don’t have a good compliance history then it’s much harder to get approval for the next thing you want to do.” (Civil Constructions in ACCA, 2008 p. 6).

To gain licences to operate, companies even undertake projects which do not strictly accrue any financial return:

“...capital projects are justified basically for two reasons – simplistically for either compliance, in other words licence to operate, or for economic return... I’m simplifying a very complicated process, but really there are capital projects which provide the licence to operate, they have no economic return other than keeping you in business.”

(Executive General Manager, Marketing) (National Miner in ACCA, 2008 p. 27).

CIMA's (2011b) statement emphasises that "[i]n general, reputational risk considerations are seen as an overarching theme encapsulating not only commercial but also legal and other drivers relevant to the CSR agenda" (p. 12). Issues concerning the reputation and 'licence to operate' of the case company used in the present research will be raised in Chapter 7 – Discussion and Analysis.

2.7 Summary and conclusions

This chapter has provided an overview of several theoretical perspectives. Legitimacy theory posits that organisations constantly attempt to function within the norms, customs, and expectations of society (Deegan et al., 2002). The debate over the viability of Reputation Risk Management as a new conceptual lens was then discussed, but emphasis was placed on Bebbington et al.'s, (2007) call for theoretical pluralism. This subsequently led to the definition of 'reputation,' as a relative scale with which to judge an organisation, but more importantly, as an intangible asset that could be strategically managed to an organisation's favour (e.g. Deephouse and Suchman, 2008). Resource-dependence and stakeholder theories augmented an understanding of how reputation and legitimacy could be garnered to maintain power in relationships with salient stakeholders (see for example, Pfeffer and Salancik, 2003; Mitchell et al., 1997).

Prior research on external sustainability reporting (and Social and Environmental accounting) was then presented. Following this, research into internal sustainability systems was explained in conjunction with empirical evidence from the professional case study literature. Insights from this literature provide a useful background for the results of the present research study furnished in Chapter 6 – Findings.

At this juncture, it must be noted that a considerable amount of literature on ‘conventional management accounting research’ was surveyed to understand the linkages or disconnection between strategy and conventional management control systems¹³. A summary of this literature is furnished in Appendix A. As the focus of this thesis is on sustainability systems, it suffices to acknowledge that there has been a considerable amount of research into strategy and management control; however, the results of these studies are neither straightforward nor clear. The ambiguity of prior work may be attributed to the variety of research methods and the diversity of the factors that are observed or described.

In response to this, there has been greater emphasis over recent years on undertaking more qualitative in-depth studies to explore the processes behind strategy and management control development. Stringer (2004) asserted that “to develop a cumulative body of performance management research, future research needs to examine the operation of overall performance management processes by using in-depth research methods to understand the use, rather than the existence of performance management processes” (p. 1). This call to action has also influenced the methodology chosen for this particular study.

The next chapter briefly summarises key aspects of the literature review and provides a basis for the three research questions of the current study.

¹³ Also referred to as Performance Management Systems (PMS).

CHAPTER THREE

RESEARCH QUESTIONS

3.1 Overview

This chapter briefly synthesises the literature discussed in Chapter 2 and provides a basis for the three research questions which will guide the present study. These research questions are derived from gaps identified in prior literature or where this study can contribute to current theorisation. This said, it must be noted that “qualitative researchers often don’t develop their eventual research questions until they have done a significant amount of data collection and analysis” (Maxwell, 2005 p. 65). The research questions which formed part of the initial research proposal were more concerned with the strategy setting, MCS/EMS, and external reporting functions in an organisation. However, these initial questions were revised multiple times as the data collection and analysis process raised ‘more interesting’ or theoretically useful possibilities that had not been considered in the original scope of the project.

3.2 Research Question 1 – Sustainability and organisational processes

There is now a considerable body of research on external sustainable and corporate social responsibility reports (see, for example, Parker, 2011a). Much less is known, however, about the functions these reports are intended to serve, both in terms of internal audiences (e.g. planning and learning) and external audiences (e.g. external stakeholder engagement). Similarly, even less is known about the inter-relationships between sustainability reporting systems, environmental management systems, conventional (financial) management control

systems and strategic formulation and implementation (Adams and Larrinaga-Gonzales, 2007). In recent years, a number of studies have examined internal contextual factors and their relationships to the development of sustainability-reporting (e.g. Adams, 2002; Adams and McNicholas, 2007). However, there is a need for studies to understand how internal management control systems inter-relate with environmental management systems and strategic decision making (Adams and Frost, 2008; Da Silva and Teixeira, 2008), and how these may or may not relate to the processes of external stakeholder reporting (Durden, 2008; Adams and Larrinaga-Gonzales, 2007; Bonacchi and Rinaldi, 2007).

The current research project attempts to answer academic and professional body calls [CIMA¹⁴, CPA¹⁵ and to some extent ACCA¹⁶] for more research into sustainability and business strategy by investigating the interrelationships between strategy, management control systems (both financial and sustainability), and external social and environmental reporting. A key focus of the study is to understand whether internal control systems and external reporting are integrated, and to what extent these processes feature in strategy setting. Conventional management accounting research on strategy and management control has called for more in-depth qualitative case studies which answer a broad scope of questions about internal organisational processes¹⁷ (Stringer, 2004; Otley, 1999). Research Question 1 (RQ1) was inspired by the lack of knowledge on internal sustainability systems. Results for this question will be presented in Chapter 6 – Findings.

¹⁴ Chartered Institute of Management Accountants

¹⁵ Certified Public Accountants Australia

¹⁶ Association of Certified Chartered Accountants

¹⁷ Prior work on conventional management accounting research is summarised in Appendix A (as stated earlier in Chapter 2).

***RQ1:** How is ‘sustainability’¹⁸ integrated into the case company’s internal processes such as strategy-setting, management control and external reporting? And, how and to what extent are these internal processes connected to each other?*

3.3 Research Question 2 – Strategic importance of managing sustainability

A number of business associations, agencies and the accountancy profession have been keen to promote the benefits of organisations voluntarily integrating sustainability into business processes and producing external reports (NZBCSD, 2002; Arthur D. Little, 2001; KPMG, 2001). Results from earlier research indicate that motivations for continued Corporate Social Responsibility (CSR) disclosure are perplexing and may not achieve the intended results of management (see, for example, O’Dwyer, 2002; 2003). KPMG NZ (2008) conducted a survey on New Zealand business perspectives on sustainability and reporting. Findings conclude that many organisations are confused over the definition of sustainability and how it could be meaningfully incorporated into company activities (KPMG NZ, 2008). The latest KPMG 2011 survey reports higher levels of external CSR reporting across the ‘top 250 global companies’. New Zealand has been included for the first time in the survey since 1996, but it is among the countries labelled as “starting behind”; countries whose overall reporting is deemed to be low in terms of “process maturity” and “quality of communications” (KPMG, 2011 p. 4). New Zealand’s position relative to other surveyed nations is shown in the bottom left quadrant of Figure 3.1 on the next page. The survey suggests that countries and companies in this category “tend to report using a single media channel and are not demonstrating significant results regarding the growing maturity of their information systems and processes” (p. 5).

¹⁸ For the purposes of this thesis, sustainability is defined broadly and encompasses areas such as the environment and Health and Safety.

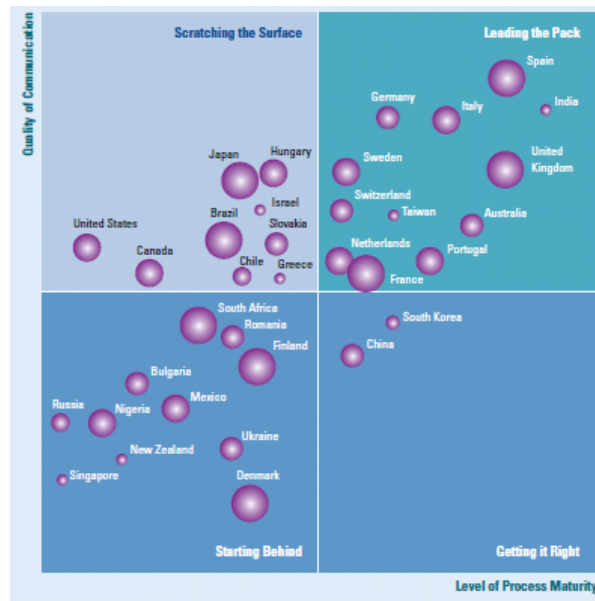


Figure 3.1: Results of the KPMG 2011 CSR reporting survey (p. 4).

After conducting an extensive review of Social and Environmental Accounting (SEA) literature, Parker (2011a) finds that most research has focused on national practices and external disclosure with few articles on SEA philosophy and EMS/Management accounting. Higgins et al. (2011) agree, citing the large concentration of studies focused on external reporting rather than on engagement with managers. Therefore, it is timely to thoroughly investigate a New Zealand company's conception of sustainability, particularly because empirical evidence highlights the low quality of New Zealand reporting and the relative dearth of literature on the strategic importance of managing sustainability. For example, why implementing sustainability issues, or creating the perception of doing so, important for the company? What are the benefits of being sustainable in terms of managing the environment and Health and Safety issues? Is the company attempting to appease a particular group with sustainability efforts, and if so, why is this necessary? Fundamentally, this research sets out to understand the perceptions of the strategic importance of sustainability from a New Zealand perspective by asking:

RQ 2: Why is managing 'sustainability' issues important for the case company?

Notions of reputation, legitimacy, licence to operate and stakeholder salience are key features in the answer to this question which is explored in the first part of Chapter 7 – Discussion and Analysis.

3.4 Research Question 3 – Reputation, legitimacy and company behaviour

Studies of legitimacy theory and Reputation Risk Management (RRM) have mainly been limited to exploring the external reporting behaviour of organisations (see, for example, Deegan et al., 2002; O'Donovan, 2002; Tregidga and Milne, 2006; Tilling and Tilt, 2010; Bebbington et al., 2008a; Hogan and Lodhia, 2011). These two theoretical perspectives have been used to explain the motivations and objectives of external reporting *outcomes*. However, there is considerable scope to extend theory by understanding the internal decision making *behaviour* which underlies the reporting process.

Reputation is a lucid concept that has a number of slightly varied dimensions because of the interdisciplinary nature of prior research (Bebbington et al., 2008a; Deephouse and Carter, 2005; Deephouse and Suchman, 2008; Bitektine, 2011). A popular way to distinguish reputation from legitimacy is by theorising it as an 'intangible asset' that leads to future reward through financial gain or damage mitigation. Legitimacy is considered a bimodal concept where companies either have legitimacy or do not (Deegan et al., 2002; Deephouse and Carter, 2005). This creates an interesting possibility for exploring the subtle nuances between the case company employees' understanding of reputation and legitimacy, and how, if at all, these concepts feature in their response behaviour to environmental incidents.

Mitchell et al. (1997) described the ‘salience’ of stakeholders using three indicators: 1) power, 2) urgency and 3) legitimacy. If an organisation is to function within the norms and expectations of society, then it must satisfy the demands of salient stakeholders (see, for example, Deegan et al., 2002; Frooman, 1999; Mitchell et al., 1997). The instrumental perspective of stakeholder theory (Donaldson and Preston, 1995) suggests that organisations treat stakeholders as entities which must be managed in order to achieve organisational objectives.

Therefore, it seems important to understand the internal decision making of organisations in appeasing salient stakeholder’s concerns. The current research will be a useful attempt to understand how and why reputation and legitimacy feature in these decision making processes following environmental incidents/issues in the case company. In particular, this research will extend the literature by understanding legitimacy and reputation management through company actions and not only through examining external reporting practice:

RQ 3: *How and why do reputation management¹⁹ and legitimacy feature in the case company’s responses to environmental incidents?*

3.5 Summary and conclusions

This chapter has served as a bridge between the insights garnered from the literature review in Chapter 2 and the research agenda for the present study. Three research questions were derived from gaps in current knowledge or theoretical understanding. These questions drive the research methodology discussed in Chapter 4 – Research methodology, and the

¹⁹ The author acknowledges that there is a specific body of literature dedicated to “reputation management”. However, in the context of this thesis, “reputation” is defined as akin to an intangible asset (as defined in Chapter 2 – Literature Review) which affects the relationships between an organisation and its stakeholders.

subsequent analysis and discussion which is presented in Chapter 6 - Findings, and Chapter 7
– Discussion and Analysis.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Overview

This chapter will present details on the qualitative case study approach that was used to collect and analyse data. Data collection included semi-structured interviews and non-structured talks with 26 participants from top management executives through to production workers, access to confidential reports, and participation in the company's annual environmental seminar and a stakeholder engagement meeting. Analysis was framed around the research questions and themes drawn from prior literature.

4.2 Qualitative case study research

This study uses an interpretive case study to gather and examine data (Chua, 1986; Ryan et al., 2002; Scapens, 2004; Stringer, 2007). This type of method is becoming increasingly common, and indeed, encouraged in accounting research to provide rich insights into organisations and their operating contexts (Stringer, 2007). Prior research studying internal organisational factors around environmental and corporate social responsibility systems have also primarily resorted to adopting a case study based approach (for example Durden, 2008; Norris and O'Dwyer, 2004, Adams, 2002; Adams and McNicholas, 2008; Adams et al., 2008).

Case study methodology is appropriate when investigating research questions which seek to describe processes or explain certain phenomena (for research questions framed with the words “how” and “why”), when the researcher has no control over behavioural aspects, and the research focuses on contemporary issues (Yin, 1994; Bryman and Bell, 2007). Referring to ‘organizational disciplines,’ Lee et al., (2007) argue that “the strength of doing qualitative field studies (Ahrens and Chapman, 2006 p. 832) is that they ‘avoid thinning out data beyond the point where it loses its specificity and becomes bland.’” A case based research method enables organisations to be understood within context, and enables an in-depth understanding of processes and employee perceptions through obtaining information from a variety of different sources (Yin, 1994, cited in Norris and O’Dwyer, 2004). In this sense, the study aims to “[develop] rich descriptions and insights, interpretations, and explanations of events and actions, and theoretically comprehensive explanations about complex phenomena that have been observed in their naturally occurring context” (Parker, 2001 p. 323).

Analysing a single company in considerable detail will add to the literature discussed in Chapter 2 by *exploring* company processes using existing theory as a guide (Yin, 2003). Furthermore, this study will add to theoretical perspectives by *explaining* company actions and behaviour around sustainability issues as in the Analysis and Discussion chapter presented later in the thesis (Yin, 2003; Keating, 1995; Vaivio, 2008). In this sense, the researcher is seeking to refine current theorisation on environmental management systems and company action around sustainability issues (Keating and Harris, 1995; Vaivio, 2008).

Single case studies are relatively common in the management accounting literature investigating organisational factors or contexts (see, for example, Stringer (2007) for a comprehensive review). Indeed, management scholars have argued for the explanatory power of single case studies (Siggelkow, 2008). The case study site is appropriate because of the

unique access granted to the organisation, and its maturity in triple bottom line reporting and environmental management systems (Yin, 2003).

4.3 Company selection

The nature of the study requires the examination of the relationships between strategy, management control systems (financial and environmental) and external reporting. “Industries traditionally associated with adverse environmental impact have extended histories in reporting environmental information” (Guthrie and Parker, 1989, cited in Adams and Frost, 2008 p. 300). Mature reporters that have a considerable public image with a history of annual sustainability disclosures were chosen from the New Zealand Business Council for Sustainable Development (NZBCSD). There are a number of reasons for selecting research cases based on these criteria. Firstly, the New Zealand Business Council for Sustainable Development is a large and influential body with a membership base totalling a combined turnover value of approximately 43% of New Zealand’s Gross Domestic Product in 2008 (Milne et al., 2009)²⁰. Secondly, it is claimed that member companies are invited to the organisation because of their leadership in sustainability issues, with a number of organisations preparing sustainability or triple bottom line reporting for a number of years before joining. While other sustainability organisations exist such as the Sustainable Business Network, the companies affiliated with these organisations are not expected to produce external social and environmental reports as part of satisfying membership criteria. Finally, it was important to select companies that have a relatively large public profile so that issues raised by prior research over organisational legitimacy and reputation can be explored. In order to observe any relationships between external reporting and the internal decision

²⁰ However, because of a changing membership base this figure tends to fluctuate from year to year.

making processes of a company, a mature reporter with a number of years experience was chosen.

The University of Canterbury and the researcher's supervisory team have a number of warm contacts with some of the member organisations of the NZBCSD. It is through this established relationship that an organisation was selected based on the aforementioned criteria around public visibility, size and maturity in external sustainability reporting. After an initial meeting with the former CEO of the company, the researcher was put in touch with the current CEO, Sustainability Manager and Human Resources Director for the company. After discussing the nature and scope of the project with the Sustainability Manager and Human Resources Manager, approval was granted to begin interview work and data collection. It was envisaged that the researcher would be allowed access to all levels of the company, although interviews were shortened, where necessary, to accommodate the time constrained schedules of the senior management team. An Environmental Manager soon became the "insider" and mentor in the company (Maxwell, 2005). They were the key connection in negotiating access to key sites and employees and helped provide insights and background information regarding the operations of the company. This proved to be vital in gaining access to the necessary senior managers, documents and meetings which would allow for a thorough understanding of the internal operations and philosophy of the company.

4.4 Data collection

The complexity of a real business situation requires in-depth insights into the nature of sustainability processes within firms. The literature on management control and environmental management systems has a focus on using semi structured interviews to gather data and perceptions about the implementation and subsequent use of information (Adams

and Frost, 2008; Adams et al., 2008; Norris and O'Dwyer, 2004; Da Silva and Teixeira, 2008). Norris and O'Dwyer (2004) also undertook a comprehensive site tour and review of internal reports, restricted web pages and documentation. In a similar manner, this research project has kept a broad focus on gathering information from a range of sources.

Prior studies have identified the importance of internal contextual factors in understanding external reporting behaviour in companies (see, for example, Adams, 2002). In order to capture as much data as possible about the internal perceptions, processes, tensions and synergies between variables, the data collection process was kept open and flexible.

4.5 Data Sources

4.5.1 Interviews

A comprehensive study of the company was conducted over nine months through approximately²¹ 26 semi-structured interviews with a range of staff from Executive Committee members through to front line employees. Qualitative semi-structured interviews are a common technique used in collecting case study data (Lee and Humphrey, 2006). Prior to each interview, the researcher read a number of interview methodology books and articles to thoroughly understand the implications of the method and potential pitfalls for early career researchers to avoid (Creswell, 2003; Denzin and Lincoln, 2008; Yin, 2003; Saldaña, 2009; Bernard and Ryan, 2010; Humphrey and Lee, 2004). A semi-structured approach was chosen because it allowed the researcher flexibility and scope to explore new and emerging themes as they were unearthed during the course of data collection. In this sense, it ensured that the researcher was able to fully grasp and understand the tensions and intricacies of the case site

²¹ This figure is kept approximate as only 26 interviewee transcripts/field note records were used in developing the study. Other 'informal talks' were not reported in this thesis because of the brevity of the conversation.

in order to gather a rich set of data. While this may have had the potential to change the research from its original focus, the final ‘story’ being told would better reflect the research interest in the case study site itself and potentially grant the researcher access to previously under-explored veins of work, thus making a greater contribution to the literature. However, the research direction did not alter from the original motivation to investigate the tensions and interrelationships between internal company structures and the external façade portrayed through external reporting²².

Semi-structured interview questions were derived from the previously stated research questions and prior research and tailored to each actor depending on their position within the firm. Also, the researcher gained general feedback on the interview questions and focus of the study from a range of colleagues and a departmental research proposal presentation. This was subsequently followed up by attending both the APIRA 2010 Emerging Researchers Colloquium early on in the data collection phase to further refine and gain feedback on research evidence and the CSEAR 2010 Emerging Researchers Colloquium where some tentative results were discussed within a forum. This provided further useful insights into the data analysis process. Overall, these forums served to allay any concerns regarding the general themes, process and reporting of the research.

A general interview guide (Appendix B), together with an information sheet outlining the purpose and scope of the project and Ethics Committee approval²³ (Appendix C) were sent to the company prior to conducting interviews so that employees could prepare and understand

²² The researcher very much appreciates the financial support of AFAANZ through receiving an AFAANZ Emerging Scholar’s Grant 2010. This covered all necessary research related costs.

²³ Ethics Committee approval is required for all research projects at the University of Canterbury deemed to have potential ‘ethical risks’. This process involves providing a comprehensive review of data collection methods, techniques and interview questions. Any risks need to be identified and a plan presented on the way they will be mitigated. Final approval generally takes a minimum of one month.

the nature of the project before the interviews commenced. Approximately half of these interviews were tape recorded on digital media and professionally transcribed. On instruction from the organisational insider, the remaining interviews were not recorded both for the comfort of the participants, and to increase the integrity and truthfulness of the information gathered. During and immediately after each interview, as many notes as possible were taken to ensure answers were recorded to the fullest extent possible. A research journal was kept by the researcher to take note of any interesting observations, the mood and feelings during the meeting, and some possible leads to follow up on in subsequent interviews.

4.5.2 Informal occasions

Further to formal interviews, the primary researcher also attended several informal lunch and dinner appointments, social events, and undertook some lengthy journeys with a number of company employees. The researcher was invited to socialise with employees on a number of occasions which allowed for “open” and “honest” conversations which were then detailed in a research journal. This presented an interesting and candid opportunity to interact with a range of staff and gain views and information that may not otherwise be available to a researcher. Fundamentally, it also allowed a better and richer understanding of company culture and social construction within the entity, especially around issues like hierarchy, authority and the interaction of various work roles within the departments and subsections of the company. This informal interaction also facilitated further access to employees within the company that otherwise would not have been included in the study.

4.5.3 Site visits and formal confidential meetings

A total of 11 different sites were visited at a number of locations. The researcher received a full tour of each location together with thorough explanations of facilities and operational processes. Normally, the researcher flew to each site and spent two days driving to and from the different facilities in the area. Privileged access was also allowed to the Annual Environmental Seminar for all environmental employees, a stakeholder engagement meeting and internal company gatherings. Together with personal interactions, the researcher took detailed notes of his own perceptions and feelings, together with any facts that seemed to stand out to him at the time. These notes were later typed and used to augment the interview transcripts. Various information sheets and explanatory material were also accumulated. Access was granted to confidential meeting agendas, reports and the company intranet only available to employees. These provided rich primary documents with which to further analyse and understand the operations of the case company. Table 4.1 on the following page depicts the role and management position of the interviewees.

The variety of information sources enabled an in-depth investigation of the different perspectives and processes of sustainability reporting and management, both from a strategic perspective (top management) and a more operational one (staff involved in the recording and preparation of social and environmental information).

Table 4.1: Interviewees from the organisation

	Title	Role
<i>Senior Leadership</i>		
1	Chief Executive Officer	Executive Team
2	Chief Financial Officer	Executive Team/Financial
3	Human Resources Manager	Executive Team
4	Project Controller	Senior Management
5	External Relations manager	Senior Management
6	Environmental Manager 1	Senior Management
7	Environmental Manager 2	Senior Management
8	Environmental Manager 3	Middle Management
9	Environmental Employee 1	Business Unit Advisor
10	Environmental Employee 2	Business Unit Advisor
11	Environmental Employee 3	Facility Advisor
12	Environmental Employee 4	Facility Advisor
13	Line Manager 1	Business Unit Manager
14	Line Manager 2	Regional coordinator
15	Line Manager 2 Assistant	Regional coordinator
16	Line Manager 3	Business Unit Manager
17	Accountant	Financial
18	Sales Manager 1	Senior Management
19	Sales Manager 2	Business Unit Manager
<i>Operations</i>		
20	Line Manager 4	Business Unit Manager
21	Line Manager 5	Business Unit Manager
22	Line Manager 6	Business Unit Manager
23	Line Manager 7	Business Unit Manager
24	Advisory employee	Facility Advisor
<i>Employee - Informal talks</i>		
25	Employee 1	Facility level
26	Employee 2	Facility level

4.6 Data Analysis

Data consisted of information gathered from internal and external documents, interview transcripts and observations that the researcher made while on field visits. Most interviews were between 30 and 50 minutes in length. Over 70,000 words were transcribed from the 14 tape recorded interviews. Field notes taken during the non-recorded interviews amounted to more than 20,000 words (an extract from the field notes is included in Appendix C). Annual reports spanning the last 15 years were collected including hard copy versions which are no

longer available, together with company sales brochures, staff updates and customer newsletters. Official information sheets regarding particular operations of the company, confidential meeting agendas and meeting notes including PowerPoint presentations were gathered.

The researcher approached the analysis with an interpretive worldview (Chua 1986). Analysis was subjective and it is acknowledged that there is potential for perception bias and reflexivity of interview subjects (Bryman and Bell, 2007; Maxwell, 2005). In his work on the use of ethnography in accounting research Dey (2002) argues that:

“ethnographic studies allow researchers to immerse themselves within their chosen empirical setting for long periods. During this time the researcher’s experience, in terms of his or her participation and/or observation at the research site, is used to generate a narrative-based interpretation of the events that took place” (Dey, 2002 p. 106).

Although Dey (2002) points to the ‘controversy’ of using ethnographic research methods in accounting, he asserts the importance of such detailed studies in gaining rich insight into organisational processes. While this present study does not contend to be a ‘full ethnography,’ data collection was extensive and conducted over a number of months at many company sites. As mentioned earlier, a considerable amount of time was spent dining, socialising and travelling with key interviewees. Great care was taken to understand the culture, context and mindsets of the people interviewed. The researcher kept a journal commentary of all site visits and interviews and took comprehensive notes. This built up a consistent and thorough picture of the organisation.

Following a relatively similar study on managers’ perceptions of Corporate Social Responsibility, analysis was a perpetual activity that happened throughout the period the

interviews were conducted (O'Dywer, 2002). Maxwell (2005) proposes that qualitative analysis consists of a variety of activities including reading and thinking about interview transcripts, writing memos and constructing coding categories. The researcher constantly reviewed notes and company documentary evidence during the period of data collection. Notes were colour coded, multiple diagrams explaining relationships between interviewees and emerging patterns were constructed. Field notes were typed onto computer documents and categorised.

Bernard and Ryan (2010) recommend manual coding as a starting point for analysis using 'pencil-and-paper' methods, highlighters, colour schemes and manual data sorting. The researcher adopted this method for all coding phases because it allowed a greater degree of intimacy with the data. Data from internet sources and hard copy documents were read in detail again before 'final' coding analysis began. This consisted of a review of 10 company annual reports and many website pages to immerse himself in the company and its environment. Interview transcripts were then read a number of times during the analytical process. Where possible, the original tapes were listened to again to ensure that the complexity of the real interview in terms of mood, emotions and accentuations were captured. Any issues were flagged as the notes were compiled. Themes and motifs emerging from interview data led to more probing of subsequent interviewees on those topics.

Smith (2011) suggests "[w]e can enter into the field situation with very little theory to cling on to; the intention may be to develop theory as a result of initial case findings" (Smith, 2011 p. 140). Literature on internal sustainability processes is relatively sparse which provides limited scope for applying prior theoretical perspectives to the present study. However, Layder (1998), cited in Saldaña (2009), asserts that theory can drive the analytical process.

Indeed, Corbin and Strauss (2008) suggests that it is the ability to show the inter-relationships between themes and constructs that yields developments in theory.

For this reason, data was initially coded into several general keys such as strategy-setting, management control/environmental management systems, external reporting (shown as Tier 1 on figure 4.1 included on the next page). During this process, it became clear that ‘reputation’, ‘image’, ‘trust’ and ‘legitimacy’ were key words or ideas used in the discourse of employees. These words guided the researcher to introduce theoretical perspectives from ‘legitimacy theory’ and ‘Reputation Risk Management’ to analyse the data again. The researcher familiarised himself with these theoretical perspectives by reviewing the seminal work identified in the Literature Review Chapter. This aided the mapping of concepts, themes and the initial relationship between these components. Then data were revisited and analysed again. The broad categories which constituted Tier 2 analysis are shown on diagram 4.1. The actual coding process progressed further than these three categories and allowed for more subtlety in identifying, for example, different types of legitimacy and how they were conferred by different stakeholders. Subsequent exploration of the primary data together with further data collection illuminated several illustrative case examples (Tier 3) on the internal decision making behaviour in the company. These examples illustrate the concepts, themes and perspective identified in the Tier 2 coding.

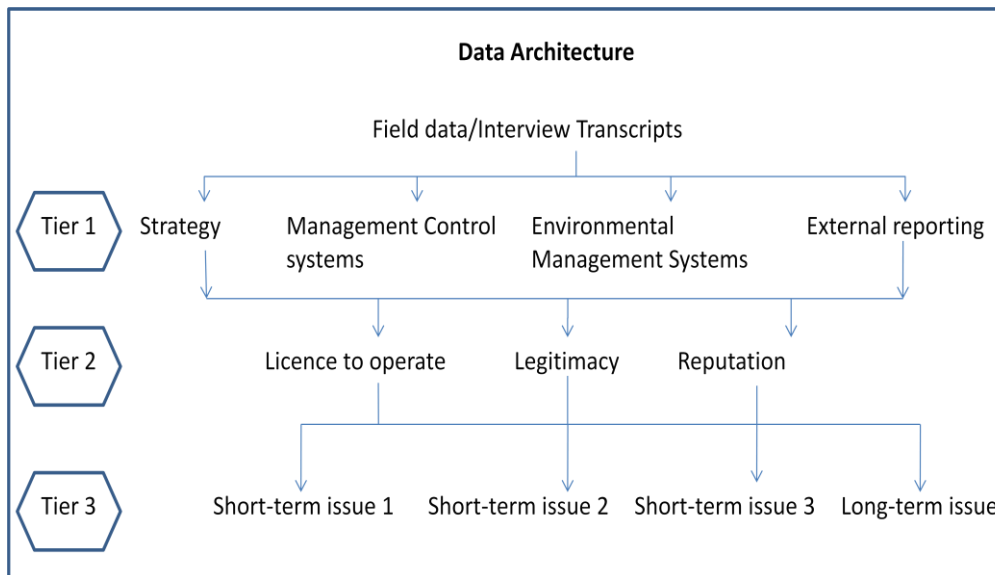


Figure 4.1: Data Architecture

An ‘aggregated’ coding sheet for the three tiers is presented in Appendix E. It must be noted that diagram 4.1 is a stylised conceptualisation of the coding process. The broad codes identified in Tier 1 and Tier 2 were then fractured into more specific labels to facilitate an in-depth probing of the transcripts (Maxwell, 2005). An extract from Environmental Manager 2’s transcript is shown in Appendix F. In this Appendix, the overarching code of ‘EMS’ in Tier 1 is deconstructed into identifiers such as ‘KPI tracking,’ ‘Priorities of KPIs and ‘Lagging and Leading Indicators.’ This was done for both Tier 1 and Tier 2 codes to provide greater subtlety to the analysis, and to elucidate the construction, as well as the relationships between the concepts. All interview transcripts were analysed in this way.

Following Saldaña’s (2009) book, *The Coding Manual for Qualitative Researchers*, multiple quotations from a number of individuals, and other evidence, were gathered under each code (Appendix G). Emerging themes were noted and a comprehensive case description was prepared presenting a detailed account of the organisational actors and processes in the case company (Creswell, 2003). This description was continually refined and expanded as the coding process continued. A final report to the company was then produced containing

general findings from the research together with potential suggestions for improvements to company processes. This report was presented at an Executive Board meeting and disseminated to relevant personnel. An extract from this report is included in Appendix H.

Once feedback on the case report was received, a final case description was typed describing the concepts, themes and different ‘case sites.’ During this final process a number of diagrams were drawn and rehashed to explain the relationships between internal contextual variables, concepts and themes. This subsequently led to the discussion and analysis presented in the Findings chapter – Chapter 6 and the Discussion and Analysis chapter – Chapter 7.

4. 7 Summary and conclusions

This chapter discussed the reasons a qualitative case study based method is appropriate to explore the research questions outlined in earlier chapters. Data collection was extensive including approximately 26 semi-structured interviews/talks, 11 major site visits, informal meetings and social gatherings, together with participation in internal company meetings and an external stakeholder engagement meeting. Access to confidential documents and external sustainability reports was granted providing a rich source of primary data. Data analysis was conducted using the research questions and prior theory as a framework for multiple phases of coding and interpretation. The context of the case study will be briefly explored in the next chapter and set the landscape for the Findings as well as the Discussion and Analysis chapters presented later in the thesis.

CHAPTER FIVE

NEW ZEALAND CONTEXT AND DESCRIPTION OF CASE SITE

5.1 Overview

This chapter provides the context for the operations of the case company. Understanding potential external influences, driven by regulation, policy and social norms, allows for a more subtle interpretation of the case findings presented in the following chapters. Some important external policy influences which may have a bearing on the case organisation's internal sustainability systems are explained in this chapter. These include the Kyoto Protocol (1997) and New Zealand policy, such as Emissions Trading Scheme NZ as well as the Resource Management Act (1991). Finally, a brief section on ISO 14001 accreditation precedes a description of the case study organisation and a number of its operating sites.

5.2 External contextual influences on sustainability and climate change

5.2.1 Kyoto Protocol (1997)

The United Nations (UN) General Assembly convened the World Commission on Environment and Development (WCED) in 1983 in recognition of a growing global concern about environmental degradation and its ramifications for social and economic development. Following the release of the WCED (1987) report titled, *Our Common Future*, a series of World Summits were held to discuss, debate and create plans for global environmental policy under the UN Framework Convention on Climate Change (see, for example, Rio Earth

Summit 1992, UNFCCC Kyoto Summit 1997; Copenhagen Climate Change Conference 2008). The first summit was convened in Rio De Janeiro in 1992 and set the foundation for the Kyoto Protocol to be ratified in 1997. The Kyoto Protocol (1997) conferred a legally binding agreement on the member countries that signed to reduce GHG emissions by 5.2% of 1990 levels by 2012.

Although the United States has not ratified the protocol and Canada has recently withdrawn from the agreement, the majority of other Annex 1 countries²⁴ including NZ have signed. The targets set under the Protocol have been a key driver for New Zealand Government policy and initiatives aimed at curbing emissions.

The more recent Copenhagen Summit on Climate Change in 2009 was marked by the “Climategate” controversy which raised concern over the credibility of scientific information on global warming (see, for example, Delingpole, November 22, 2009). Initially, the Copenhagen Summit was heralded as a crucial and potentially historic meeting where tangible steps towards managing climate change could be agreed upon. However, many heads of state failed to agree on key resolutions, and the final draft paper that was released was “taken note of” but not ratified (“UN says Copenhagen deal a start”, Dec 19, 2009). While global momentum on climate change initiatives still seem to be serviced with “non-binding” agreements, they still carry a considerable amount of weight because of increasing political interest and public attention. Interest groups such as Greenpeace, Friends of the Earth, World Wide Fund for Nature and the World Development Movement have also continued to keep these issues in the public arena (see, for example, Greenpeace International website²⁵; Peter, October 4, 2011). The ‘mainstreaming’ of environmental issues have provided greater

²⁴ Industrialised and developed countries deemed as having the necessary economic capacity to commit themselves to reduction targets.

²⁵ www.greenpeace.org

impetus for organisations, especially those in environmentally sensitive industries like the present case company, to manage GHG emissions and the environmental effects of operations.

5.2.2 New Zealand policy and regulation

New Zealand has already proposed a series of action plans for the country if a binding agreement on climate change can be agreed upon. One target the country has set is to reduce emissions to between 10 and 20 percent below 1990 (NZ Government, 2009). As part of achieving this target, The Climate Change Response Act (CCRA) (2002) was introduced as the major piece of legislation governing the New Zealand Government's action to meeting its Kyoto Protocol (1997) commitments. The CCRA (2002) outlines how the New Zealand government will manage its emissions and also sets in place the foundation for an Emissions Trading Scheme. Environmental legislation such as this signal a continued stance by the New Zealand Government to take a more proactive approach and leadership on emissions reduction initiatives. As addressed above, this could have potentially far reaching consequences on some heavy emitting industries in the country.

There have been further global meetings to try and consolidate global action on climate change (e.g. UNFCCC negotiations, UN Climate Change Conferences in 2010 and 2011). This continuing uncertainty is an issue and a threat to the case company, especially in planning future capital investment decisions where the costs of GHG emissions need to be considered.

5.2.2.1 NZ Emissions Trading Scheme

The Emissions Trading Scheme NZ (ETS) was introduced by the Labour Government in 2008. This ETS proposed a national all sectors greenhouse gas emissions trading framework.

In its original form, the scheme was uncapped with a free allocation of “NZ Units” to emitters which can be bought, purchased and sold at an initial set price of \$25 per tonne (Stewart, November 12, 2011). The subsequent National Government, which was elected in 2009, amended the ETS scheme to make it more “workable and affordable”. This amendment proved contentious with a slim majority passing the bill (63 in favour compared to 58 against) (Watkins, November 25, 2009). The ETS continues to be a challenging and much debated issue with many industry groups submitting on the topic and actively trying to negotiate more favourable terms.

The present case study company is considered to be part of a large group of companies which are heavy emitters. An industry board has been formed to represent industry interests and provide general oversight over technical areas of practice. The case company has been a vocal submitter to the policy development process because of the substantial costs it faces under the ETS. Some firms have highlighted the competitive inequity created when some countries have adopted wide ranging ETS schemes compared to other nations which have decided to defer or simply not implement a scheme. This creates a considerable cost gap among different firms operating out of different countries. Firms which have striven to reduce cost structures and increase efficiency may still be out-competed by rivals who do not have to bear emissions costs. Especially concerning, is that firms operating in developing countries (which do not have Emissions Trading Schemes of their own), are able to under-price existing firms in the economy.

Because of the strategic importance of the ETS and its implications for the case company’s operations in NZ, the company has dedicated Environmental Managers in senior positions who are responsible for debating issues concerning the ETS and climate change policy. The company was a member of a sustainable business group which advocated a self developed set

of external reporting practices and operating principles. This sustainability organisation promoted its leadership on sustainability related issues and its intention to participate in the policy development process. However, the case company recently dissociated itself from the group citing differences in opinion about the direction leadership in the group was taking. Indeed, the company noted that a number of heavy emitters had chosen to leave the organisation because of this.

Nevertheless, the company is still a committed member of another sustainable development organisation and has sought to undertake comprehensive reporting under GRI guidelines (GRI, 2006). Its in-depth reporting, particularly on carbon emissions and targets, may be attributable to the increasing scrutiny of the industry. The company is also part of a global initiative to map emissions growth over the coming decades. All companies which are part of this industry initiative have agreed to implement certain key actions as a minimum membership requirement.

As part of this agreement, companies involved need to report against preset indicators such as CO2 emissions and safety measures. Some of these indicators are required to be externally verified. These indicators help develop forecasting models for the industry which, at least in part, inform the way the company strategically understands its future requirements, especially in terms of its commitment to reducing its CO2 emissions. These models also help the company to understand its potential future obligations under the ETS.

5.2.2.2 Resource Management Act 1991 (with 2009 amendments)

The Resource Management Act 1991 (RMA) is the primary piece of legislation which governs the way the environment should be managed and controlled in New Zealand. “It’s based on the idea of the sustainable management of our resources, and it encourages us (as

communities and as individuals) to plan for the future of our environment” (MED, 2009 p. 02).

The RMA is important in that it encourages stakeholders in a community to actively participate in the decision making surrounding natural resources in a locality. It provides “everyday New Zealanders”, together with other interested parties, the ability to submit their opinions about the importance of particular natural resources and how they should be used or protected. Indeed, this places a significant amount of power in the hands of local stakeholders who “are best placed to know [their] own surroundings, and we should be involved in deciding what needs to be protected and how” and further, “[w]hile the RMA provides a guide to what’s important in our environment, it generally leaves the decisions about how to manage the environment in the hands of the local community” (MED, 2009 p. 03).

Councils are charged with the responsibility of administering the terms of the RMA. There are 12 regional councils in NZ who manage public resources within the areas they control. The 68 city and district councils have a similar role, but one which is concentrated on more specific aspects of RMA consent like new subdivisions and land developments, plans to clear native bush and planned changes to historic buildings.

The RMA also sets out an Environmental Protection Authority (EPA) which deals with issues of national importance, for example, for a district plan to be changed. The EPA processes the applications and hands decision making authority to the Environment Court. Under the RMA, district and local councils are required to prepare environmental plans which set out the scope for key environmental priorities and management policies for the area. The public may make submissions to guide the development of the environmental plan. Figure 5.1 below illustrates

the overarching framework for the RMA, breaking down national environmental regulations and standards into regional and district plans.



Figure 5.1: Resource Management Act (1991) with 2009 amendments
Source: MED (2009) p. 05

Resource consent is required if an entity wants to take actions which the district plan does not allow or where special conditions are necessary. Resource consents are obtained from the local bodies such as the regional or district and city councils. In some circumstances, where there is a complex issue that could have wide ranging consequences, the decision may be made by an expert council such as the Environment Court. Figure 5.2 on the following page provides some examples of the types of consents that can be granted by different issuing authorities.

The council in charge of consent may deem a proposal needs to be ‘publicly notified’ if they consider it to have an effect which is substantial and in the public interest. Any interested

party can then make submissions on applications. Public hearings allow submitters to voice their concerns and for the party (or parties) applying for consent to respond. Stakeholder consultation is seen as a crucial part of the consent process. Usually, there may be technical evidence presented by those in favour and those against the proposal and the Environment Court has to consider a final resolution as to whether to grant consent or not, and if so, under what conditions. This process could take months, and in some cases years. The time and monetary costs of large scale consent applications are considerable.

Consent types and the consent authorities responsible for issuing them		
Consent type	Consent authority responsible	Examples
Land-use consent	Regional councils and/or district and city councils	To erect a building. To convert a garage in a residential neighbourhood into a shop. To establish papakainga housing.
Subdivision consent	District and city councils	To divide a property into two or more new titles, using fee simple or unit title mechanisms.
Coastal permit	Regional councils	To build a wharf on the coast below the mean high water springs mark. To discharge stormwater into coastal waters.
Water permit	Regional councils	To take water from a stream for an irrigation scheme. To build a dam in the bed of a river.
Discharge permit	Regional councils	To discharge stormwater from a service station through a pipe directly into a lake. To discharge exhaust fumes from a wood curing kiln into the air.

Figure 5.2: Consents granted under the RMA (1991)
Source: MED (2009) p. 09

Once consent has been given, the local consent authority has the ability to monitor and issue fines if breaches of the consent conditions have occurred. Infringement notices can lead to fines of between \$300 and \$1000 (MED, 2009). Some fines may be higher if the breach is serious. Abatement notices can be issued which means the entity has to cease the activity which is impacting on the environment. In cases where serious breaches have occurred, the

council may decide to take legal action against the entity. The RMA (1991) has provided impetus for larger companies with complex structures and processes to adopt Environmental Management Systems to manage consent requirements.

5.2.3 ISO 14001

The case company has adopted an ISO 14001 type Environmental Management System for a number of years. An EMS conforming to the ISO 14001 (2004) is purported to be “a management tool enabling an organization of any size or type to:

- “identify and control the **environmental impact** of its activities, products or services, and to
- **improve** its environmental performance continually, and to
- implement a **systematic approach** to setting environmental objectives and targets, to achieving these and to demonstrating that they have been achieved”

(ISO 14001 essentials, n.d.)

Furthermore, the ISO standard setting body proposes that the 14001 standard provide:

- 1) a “framework for a holistic, strategic approach”
- 2) “generic requirements” for an EMS; and
- 3) “a common reference for communicating about environmental management issues between organisation and their customers, regulators, the public and other stakeholders”.

Furthermore, the ISO system requires a “commitment to compliance” together with a commitment to “continual improvement”. The case company has adopted the ISO 14001 accreditation standard which provides the requirements for an Environmental Management System (EMS). The ISO framework had been a popular choice for many large organisations building an EMS, with purported benefits suggesting a greater coherence of processes leading to better environmental performance (Rondinelli and Vastag, 2000). Its key advantage is that

it provides an internationally recognised and relatively comparable framework for firms to follow. The case company has separate auditing procedures by an external assurance provider to ensure compliance to the ISO 14001 standard. Details about the case study company and its organisational context will be furnished in the following sections.

5.3 Background of case study company

5.3.1 Research Site

The Group Company is a large multinational that is located across tens of countries. The group of companies operates in an environmentally sensitive industry and revenue totals tens of millions of dollars per annum. The company has been active in New Zealand for decades, with the division employing hundreds of employees across a diverse range of operating sites. The Group Company's corporate strategy has been about strategically expanding into markets and divesting from units as needed, especially if profitability was at stake. The group of companies is controlled and managed by Headquarters, the global base of operations. The global CEO and his team make decisions that span the whole company's strategic operations and even capital investment decisions in the individual sub units of a country. Each defined geographic area of the world is managed by a different Regional Director who reports to the Headquarters. They are held responsible on a range of different indicators including financial, production, environmental as well as Health and Safety goals. These Regional Directors are responsible for a portfolio of CEOs who run the subsidiary operations within a particular country.

The research site was the New Zealand subsidiary of the international Group Company. While the national subsidiary has a close relationship with its parent company facilitated by a comprehensive reporting regime, a reasonable amount of autonomy is allowed for the local

board of directors to govern operations as necessary in line with the parent company's philosophy of "International benchmarks. National control." This dynamic presents a very novel case study of how an international company deals with the pressure to satisfy global trends and requirements, and balances this with the realities of factors specific to each locality in which it operates.

The New Zealand subsidiary operates a quasi-business unit structure. There are a number of Business Units each headed by a General Manager who is held accountable to the NZ CEO. There are several functional silos such as Human Resources, Finance and Health and Safety that provide direct support to operating units or are commissioned to do work that is important to the whole entity.

The company has implemented an Environmental Management System from the early 1990s just after the release of the WCED Brundtland Report (1987). This has been extended to incorporate ISO14001 environmental certification and sits alongside the ISO 9001 quality standard the company also holds. The company has a very comprehensive and systematic reporting and control structure on five tailored perspectives based on the Balanced Scorecard. These perspectives include cost, Health and Safety, environmental, financial and quality perspectives. The reporting system spans multiple layers, both across the entity in New Zealand, and also internationally. Health and Safety has been emphasised as extremely important to the company for a number of years, particularly because of the safety hazards on some global operating sites which have led to relatively frequent worker accidents and injury. While the New Zealand division has avoided serious harm to an employee for a number of years, these incidents continue to occur in other countries, especially in the developing world. To ensure consistency and accuracy of control systems and reporting, workplace audits are

conducted regularly and cover a number of elements under Health and Safety, Accident Prevention, Environmental Accident Prevention and Quality assurance.

5.3.2 Visibility, stakeholder threats and stakeholder management

The company has been vocal in lobbying for change to the NZ Emissions Trading Scheme. It is most interesting that employees from all levels of the organisation, from top management right through to labouring positions, understand the importance of protecting and sustaining the case company's image in order to ensure their "licence to operate." Constant attention is given to the way the company looks externally, and this self consciousness seems to stem from the heightened scrutiny that external stakeholders place on the organisation. Implications from this self perception will be further explained in Chapter 7 - Discussion and Analysis.

The case company is prone to 'attack' from stakeholders living in close proximity to the main operating facilities. The notion of stakeholder salience is particularly emphasised because of the company's dependence on retaining consents from Local Councils in order to keep operating. The case company is a very visible target in the communities in which it operates. Often, it is one of the biggest, if not the number one, employer within a particular locality. Any incident may have wide ranging repercussions on its business. The company's behaviour around these issues will be explored in Chapter 7 – Discussion and Analysis.

Interviewees have mentioned the importance of 'managing stakeholders' and 'keeping them on side'. Important operating sites have 'Stakeholder Engagement Meetings' every quarter and are usually conducted by high level managers within the company. These meetings are not just seen as a way for stakeholders to voice any issues but also as a way for the company to manage stakeholder concerns. The meeting the researcher attended was attended by nine

people excluding the researcher; five were company staff, one local council representative and three neighbours surrounding the operating site. The case company incurred a significant cost in terms of management time and money for holding these meetings. However, these meetings are seen as important relationship/trust building activities which help to encourage stakeholder communication on important issues. They also serve as a stakeholder management tool where any issues can be dealt with and show local councils that the company is “doing its best” to look out for the interests of the people with whom it works.

5.3.3 Sustainability reporting

The company in New Zealand has produced an annual report that summarises its Triple Bottom Line performance. This information is aggregated into a global social and environmental report prepared by Headquarters. The New Zealand Annual Report is prepared voluntarily and not necessitated by external requirements. It has been produced for a number of years and developed into a consistent reporting format. Stakeholder engagement arising from the report is minimal. However, the NZ subsidiary organises a number of stakeholder meetings at its major operating sites. This will be explained further in the Findings as well as the Discussion and Analysis chapters.

A brief introduction to the contents of the company’s external reporting on social and environmental issues is presented in Table 5.1 below.

Table 5.1: Brief content analysis of external reporting in the case company

Year	Content
X1	Environment briefly discussed in CEO's report but mainly focused on environmental initiative, partners involved, and effects on cost savings and environment.
X2	Environment again briefly discussed in CEO's report. Some mention of environmental management systems which have been in place for several years but no elaboration of what these are or how they help measure or improve performance. Environmental initiative mentioned above is discussed once again.
X3	Even less is reported in the environmental section of the CEO's report. Briefly discussed three prosecutions because of consent breaches but no details were given. Introduced a new environmental training program. Health and Safety is discussed in a separate brief section with targets given for reductions.
X4	First comprehensive disclosure of the Environment and Health and Safety in a separate section. Some discussion of policy, environmental management systems and recycling initiatives. Some quantitative data is provided about resource usage and GHG emissions (including targets). Health and Safety policy is outlined and average hours lost per injury quantified.
X5	The report seems less substantial and more broad brush. Fewer items seem quantified as thoroughly as before. Instead there are more narrative disclosures. Health and Safety also occupies less space and writing. More emphasis on narrative discussion.
X6	Standalone report is produced with more comprehensive environmental and safety disclosure. It is purported as a first step on the path towards a fully standalone and thorough Triple Bottom Line Report.
X7	This year's report builds on last year. A comprehensive report with disclosures on health and safety, community oriented activities, the environment and economic performance. The content and extent of disclosure would place the company high among the reporting companies in NZ.
X8	A familiar reporting style emerged in this year which is consistent to present day. It appears that the extent of reporting has been reduced from prior Triple Bottom Line reports.
X9	The reporting style is relatively well set now. Good reporting on emissions.

As the years have progressed it seems that the reporting is becoming much more minimal and rudimentary. The NZ subsidiary's recent external reports contain less environmental data than previous reports. What is disclosed more readily now is the environmental plan and to what extent initiatives are achieved or not. This may be because the external report in NZ is considered neither an Annual Report (containing detailed financial reports, management commentary and forecasts) nor a standalone sustainability/triple bottom line report. It provides basic information under a variety of different sections including social, employees, community, environmental and economic impacts of the company's operations. The report is

produced by an external Public Relations company through interviews with certain line managers and relevant staff from functional groups such as Health and Safety. Some sections of the report are prepared by company employees themselves. All information is finally reviewed and signed off by the NZ subsidiary's External Relations Manager and Senior Management. More detailed and frequent reports are filed with relevant local councils regarding specific consent conditions (such as noise levels etc). This specific data is not normally disclosed in the Annual Report.

When considering whether the company will produce a standalone report, some do not consider it necessary given the fact that Headquarters produces its own standalone report. Information from all of its global subsidiaries is gathered and collated through the extensive reporting systems that they have and an aggregated picture is presented. The most recent global social and environmental report is considered to be very good by global standards. The use of the NZ external report will be further discussed in subsequent chapters.

5.3.4 Operating Site Alpha

The first site, Operating Site Alpha²⁶, is located in beautiful lush countryside on the border between two regions (which are controlled by different local council authorities). It occupies a significant area of land and is hidden from sight by carefully planned rows of trees and bunds (earth mounds) which have naturally and artificially been created around the circumference of the site. There are several residential/semi-rural properties which neighbour the site and this has necessitated Stakeholder Engagement Meetings. The site has a number of consent issues it has to monitor and report on including: 1) noise levels, 2) air emissions, 3) water emissions and discharges.

²⁶ This is a pseudonym given to one of the case company's operating sites.

The site is run by a line manager who is held responsible for the general upkeep of the facility and reports to the General Manager of a business unit. There was a recent leadership change at the site which meant that an “Acting Manager” was in place at the time of the study. The Acting Manager had a diverse portfolio involving a number of roles at Alpha. His main duties involved mid-term planning (plans for the weeks and months ahead) and operational planning relating to daily or weekly goals. Reporting is regular and prioritised with Health and Safety measures being the top priority, followed by environmental indicators and finally production related issues. The reports measure actual performance with budgeted figures. Variances then need to be explained to senior management.

The Alpha site is large and there are a number of environmental and safety issues which the line manager needs to deal with on a regular basis. The site is very active with a stream of traffic coming into and leaving the site. At the time of the research, a number of contractors were also renovating part of the site and numerous employees²⁷ may be working on the premises at any time. A number of vehicles are generally active on the site. Foot traffic is more localised to a smaller area because of the large size of the site. Every time a visitor enters the heart of the property they must pass through a standardised safety induction which outlines the potential hazards, operating protocol and action steps in the event of an emergency. This process is thoroughly completed by a manager in charge. Safety gear is provided before site tours. This induction was consistently carried out on every site the researcher visited.

The site has a number of buildings which house some administrative staff, technical experts and consultants, and general staff. Under New Zealand labour laws, each employer is

²⁷ Exact details of each site have been masked to preserve the anonymity of the company.

required to provide its employees with amenities like toilets and shower facilities together with a 'tea room' where staff can take work breaks. These common meeting rooms contained posters and images of company policy, visions, and general announcements. Safety posters with the company safety slogan were a dominant feature of every operating site the researcher visited. Information on environmental posters was generally less visible, but this may be a result of the 'early stages' in cascading these issues to lower levels of the firm as will be discussed in the next chapter.

5.3.5 Operating Site Beta

The second site, Operating Site Beta, is located near a relatively dense residential neighbourhood. It has a strategic location which is necessary for managing the company's supply chain. The site is relatively small but still occupies a prominent and visible part of the geography. There are a number of employees who work at the site and most of their roles concern maintenance of operations so that distribution is not compromised. One staff building is on the site with the rest of the space dedicated to the operations of the company.

The site has one manager who admitted that environmental initiatives did not generally filter down to this level of the company as most significant issues arose upstream in the supply chain. Key issues for this site manager included: 1) sales distribution, 2) Health and Safety practices and initiatives, 3) maintenance and 4) budgeting. Health and Safety issues were prioritised above environmental issues. As the site was in charge of ensuring distribution and quality, service and customer oriented issues were seen as the highest priority. On demand "toolbox" meetings were held with employees to discuss these issues. Cost control was emphasised and weekly reports were sent to a more senior manager. Explanations had to

given for budget variances. As with most sites, the company's safety policy, safety pyramid and "risk identification" posters are displayed around the main meeting rooms.

5.3.6 Operating Site Delta

The third site, Operating Site Delta, is a large facility which has been in operation for a considerable amount of time. It has been a pillar in the local community, providing jobs and a high profile throughout the region. However, over the last few decades the age of the site has meant increasing sums of money need to be spent on maintenance and upgrades to keep pace with increasing competition in the market. This has prompted a feasibility study to assess the future possibilities for the company. This would be one of the most important strategic decisions for the company as this study would determine its future in New Zealand. Hundreds of jobs and millions of dollars in revenue would potentially be affected. Over a dozen potential expansion options were considered.

After more than 12 months of assessment, it was determined that Operating Site Delta was the preferred option for the expansion of the company's operating base. The land required for the site had already been purchased. During this time extensive feasibility tests were conducted and resource consents approved. However, no construction of a new site began because of market uncertainties such as the Global Financial Crisis and doubts about the demand in New Zealand. The lack of progress of this initiative over the last decades meant that a new project team had to be gathered under the leadership of a Capital Projects Manager and a Delta Site Project leader. This project team began the extensive consultation process required under the Resource Management Act (1991). Because of the size of the project, the proposal was deemed necessary to be 'publicly notified.' This required a considerable financial and time investment by the company to compile and disseminate a vast amount of

information about the potential social, environmental and economic impacts of the new proposal at Delta to any interested stakeholders. Areas such as landscaping, ecology, air emissions, noise levels, water discharges, transport and social and cultural impacts were assessed. These were then reported on through a series of “Information Sheets,” newspaper announcements and stakeholder meetings together with public airings of various opinions at Environment Court meetings. Thousands of submissions were received from interested stakeholders, both for the proposed site, and others which raised concern over some or all aspects around the potential operations.

The Environment Court meetings were finally convened in late 20XX and the final decision to grant consents received in February of 20XX+1. However, the company stated that “[w]hile [name of company] is not opposed to conditions in principle, we want to ensure that the conditions associated with the consents are reasonable and workable and are based on the effects that technical experts have identified would result from the construction and operation of the proposed [site]²⁸.” The company appealed some of the consent conditions through the Environment Court. This created much debate with a variety of submissions and counter submissions from various technical experts from both sides of the argument. Eventually, consensus was reached by the Environment Court Judge and the three independent commissioners. A ruling was granted in 20XX+2, more than two years after first applying for permission allowing the company resource consent for the site under a range of conditions. These consents are subject to review and re-approval at various times in the future, so the company has to monitor compliance and is held accountable for the consents by the local body council.

²⁸ This word has been replaced to maintain anonymity of the case company.

5.4 Summary and Conclusions

The broader global and New Zealand contexts feature strongly in the impetus the organisation has had in integrating Health and Safety, and more recently, environmental initiatives as part of its mode of operations. A NZ based subsidiary of a large multinational company is detailed in this chapter with particular emphasis placed on three illustrative case sites that will become the central feature of Chapter 7 - Discussion and Analysis which is provided later in the thesis. The next chapter will provide a descriptive explanation of some of the key factors and processes that make up the company and its stance towards Health and Safety and environmental issues.

CHAPTER SIX

FINDINGS

6.1 Overview

This chapter will unpack findings concerning the first research question: *“How is sustainability understood and integrated into a company’s internal processes such as strategy-setting, management control and external reporting? And, how and to what extent are these internal processes connected to each other?”* The chapter will provide a mainly descriptive account of the internal processes in the case company. Where possible, findings will be linked to the relatively scarce existing literature in this area. Legitimacy theory will be briefly introduced to discuss annual reporting practices and other legitimating behaviours in managing stakeholders. However, the bulk of the theoretical analysis will feature in Chapter 7 – Discussion and Analysis.

6.2 Strategy

A Strategic Plan is prepared on demand when deemed necessary to provide strategic guidance for issues over the short to mid-term future. The Chief Financial Officer (CFO) heads the strategic planning process, similar to the case of Capital Water in ACCA (2008). Utilising help from the Strategic Accountant, the CFO develops the plan which includes a number of strategic long-term issues such as new acquisitions and growth opportunities, together with factors focusing on the New Zealand competitive environment.

The audience for the Strategic Plan is primarily internal, with copies being sent to the Board of Directors, Executive Committee, and Regional Managers at the Group Headquarters. The document provides a useful reference tool for senior management in New Zealand, but the Group Company does not directly hold anyone accountable for achieving these strategic objectives in line with “meeting international benchmarks through national leadership” philosophy. The Strategic Accountant commented that “[w]e’ll provide standards for you to meet in certain areas, but it’s up to you to make decisions locally and be basically independent but meeting the standards.” Because of the global recession, the Group has had a more “hands on” approach in dealing with NZ and some of its other subsidiaries. But the management team expects this to ease off as the company recovers and returns to a more healthy financial position.

The sustainability strategy is mainly formed during an Annual Environmental Seminar. This is a two day event that connects every employee involved in an Environmental or Health and Safety (at times abbreviated to H & S from here on) function in the company. Vision building is considered to be participative, similar to the case of Capital Water in ACCA (2008). The strategy-setting framework is initiated in a top-down fashion with a NZ Board Member and other senior employees outlining the role of the Environmental/Health and Safety function to “make our managers aware of the risks” so that the Board of Directors do not get any surprises. However, KPIs or information from the EMS were not considered when forming vision statements. Statements were mainly created from the employees’ understanding of salient issues in their Business Units and processes. This corroborates findings from Adams and Frost (2008) who suggested that KPIs were not strongly integrated into strategic management processes. Furthermore, CIMA (2011b) found that on the whole, sustainability

systems are currently unable to significantly reshape strategy; however, this was beginning to change over time.

The key vision statement to arise from the Annual Environmental Meeting was that compliance is almost taken for granted at the company, but this should not be the case. The meeting decided that the key focus for the upcoming year should be to maintain their “licence to operate.” Compliance is especially important because the company recently received an environmental infringement that tarnished its previously perfect record. The impetus for organisations to maintain consent to operate resonates with other studies where organisations consider sustainability synonymous with business survival (Albelda, 2011; ACCA, 2008).

Environmental priorities were defined as the following for the 2010/2011 period:

1. Absolute commitment to sustainability, biodiversity and the environment
2. Social engagement is an SD (sustainable development) priority
3. “We have a high value reputation that we need to sustain.”

6.2.1 KPI setting process

At the beginning of every year, the management team sets an operational roadmap which includes:

- ➔ A functional plan
- ➔ Risk identification and strategies to mitigate concerns
- ➔ Strategic issues concerning operations

KPIs are set internationally by Headquarters on issues which may concern all operating units such as GHG emissions and workplace safety. Additional KPIs are developed nationally to

support the unique culture and operating environment of each country such as the number of environmental infringements received after breaching RMA 1991 consent conditions. This correlates with findings from a multinational organisation that Adams and Frost (2008) investigated. Functional plans in the case company reflect material in the monthly report. It follows an ‘ideal planning system’ akin to the way Management Control is taught in textbooks (Eldenbug et al., 2011). A brief diagrammatic description is presented below.

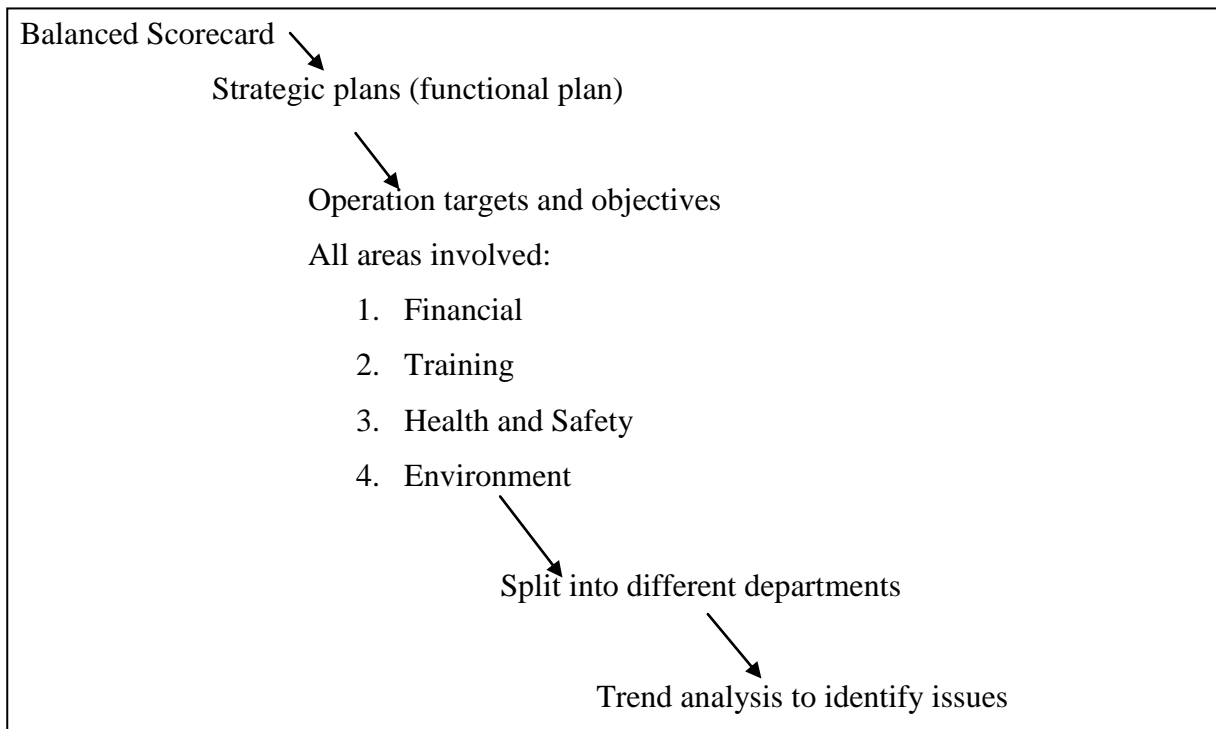


Figure 6.2: KPI setting process

6.2.2 Important performance factors

The company ethos is “Meeting international benchmarks through national leadership” and this resonates through the relatively decentralised decision making that is encouraged within the company. However, this also lends itself to more complex reporting and accountability systems, particularly ones of a financial nature. This is because Headquarters still wants to keep tight control over financial stability and performance. Limited capital available for subsidiaries within each country means Headquarters has to make trade-offs based on a pay-

off matrix about which investment will lead to the greatest Return on Investment (ROI), Earnings Before Interest Tax Depreciation and Amortisation (EBITDA), or the greatest strategic and competitive advantage within a region. However, an employee in a strategic position noted that financial concerns were most pressing when analysing business performance as a whole. The interviewee noted the competitive tender process for each subsidiary to put forward their expansion and operation plans which must then be approved by Headquarters. Underperformance in any KPI is taken seriously, especially if it is a financial KPI or an issue that could have a strong reputational impact on the firm. All managers agree that financial performance is critical to the survival of the division or subsidiary. Consistent with prior research, most emphasis is placed on ensuring a base line level of financial achievement although the case company uses a multi-perspective measurement system (Ittner et al., 2003).

6.3 Management Control Systems/Environmental Management Systems

The company is large and uses a number of different Management Control Systems (MCS) to monitor and control different aspects of the company's operations. Some of the control systems are driven by internal forces (internal reporting requirements and strategic decision making required by the Group Company) and others seem to be moulded by external pressure, such as the New Zealand Emissions Trading Scheme and increasing global convergence to ISO14001 certification (Lämsiluoto and Järvenpää, 2008). The key "financial" control systems sit under a standard management framework used by most large companies and well expounded in theory (see for example, Eldenburg et al., 2011; Anthony and Govindarajan, 2008). Under this category tools like the Financial Plan (Master budget), Master Plans and Functional Plans are used. The company has reintroduced a version of the Balanced Scorecard to track and measure key performance indicators because of the

tightened financial conditions (see for example, Kaplan and Norton, 1996, 2001; Eljido-Ten and Tjan, 2011).

Table 6.1 on the following page summarises some of the key MCS/EMS in the case company. Financial objectives are managed and reported on in management reports throughout the year. There are monthly and quarterly management reports that are sent to the Headquarters and these help the New Zealand subsidiary focus on goals and identify any issues which may impair its ability to achieve these goals. The Financial Plan provides a five year plan outlining key milestones for the company, and this is incorporated within the Balanced Scorecard, similar to Capital Water in ACCA (2008). The Balanced Scorecard is broken down into five categories consisting of financial, marketing, sustainability, human resources and cost management sections (there is some contention over what constitutes a Balanced Scorecard - see for example, Ax and Bjørnenak, 2005 but interviewees are firm in their view that the company has adopted one). Within each of these segments, a series of targets are set, some are specific to divisions, and others span the breadth of the company. As some of the objectives are set across the region rather than specific to a subsidiary, this results in some indicators being vague and each entity does not entirely understand its 'ownership' of that indicator. This is similar to findings from Umashev and Willet (2008) who found difficulties in cascading the Balanced Scorecard measures to lower levels of the firm. Most of these targets are measured and reported on in the monthly report to management. The Balanced Scorecard feeds into the company's functional planning process where each division creates its own functional plan and sets its own objectives. As Health and Safety as well as Environmental factors have become increasingly important, KPIs around these have been merged into existing reporting practices or evolved into their own distinct controls like the comprehensive and rigorous Environmental Management System which

involves a number of subsystems such as the Issue Reporting System (IRS), Business Risk Identification Scheme, and Emissions Reporting System. The EMS is ISO 14001 compliant and encompasses a number of elements such as environmental training, measurement of consent conditions, and responses to environmental incidents. The EMS has been improved over a number of years; its most current iteration involves a completely online system that can be accessed on the company intranet. This system allows employees to check environmental vision statements, indicators and particular issues pertaining to each operating site.

Table 6.1 Control and Reporting Systems

Financial Planning	5 year high level financial plan
General Management Report	Monthly report on financial and non-financial indicators
Environmental Management System	Required for ISO14001 accreditation
Issue Reporting System	Where all incidents, near hits, injuries etc are recorded - further analysis is done on these where the risk category requires it (risk identifier model)
Quality Management System	Required as part of ISO9001 accreditation
Business risk identification scheme	Risk identification, quantification & analysis per division and function Internal Audit: Audit on systems in place undertaken by an internal auditor.
Functional Plans	Up to five year operational plan for each division and function Strategic Plan: Long-term strategic plan for business
Budget	One year detailed financial plan
Site plans	Detailed plan for specific operating sites
Emissions Reporting System	Measures emissions at sites.
Balanced Scorecard	Modified version of 'conventional' scorecard with a number of perspectives around financial performance, cost management and sustainability.
Internal audit system	Comprehensive safety, environment and quality audits conducted regularly at most/all sites
External audit	External consultant conducts audits

While the Management Control Systems and EMS have a key role in providing information to management about KPIs, they are seen as self-sustaining mechanisms where strategy has a more overarching role to play:

“but in the main there is a clear link - strategy and the link between control and management, particularly the way that [the CEO] runs strategy, he doesn’t see strategy as being an extension of management control, he sees strategy as being dealing with future issues and the management control and performance will take care of itself if you don’t make the strategic decisions that go outside of those standards – you know those targets.” (Strategic Accountant).

6.4 Relationship between MCS/EMS and performance factors

6.4.1 Integration of MCS/EMS and performance factors

The Financial Team in the company is responsible for collating and managing all information flows among the subsidiary and higher units throughout the region and to Headquarters. This creates a further degree of integration between conventional MCS and EMS because the data is drawn together centrally, similar to findings from CIMA (2011b). One of the primary concerns for the department is to prepare and disseminate accurate and timely financial information to superiors so that financial performance can be mapped according to targets. The Financial Team also collates information about H & S performance and environmental performance from the specialists (“indirect reports”) within the company. This information is compiled together with the financial information and sent to various managers and committees within the broader company accountability structure. The specialists also provide more detailed and specific reports to specialist superiors within the company. This ensures that more specific objectives can be tracked and remedial action taken accordingly. The

plethora of performance management systems enables each KPI to be broken down into smaller sub-components to allow data mining and proactive analysis to take place.

Riccaboni and Leone (2010) highlight the importance of integrating sustainability strategies with conventional planning and control systems in order to successfully implement plans. The present case company seems to be following this practice by adapting the Balanced Scorecard to drive measurement in sustainability related issues. Most weekly, monthly, and yearly reports have a significant portion dedicated to reporting on environmental and H & S KPIs. Furthermore, the company encourages direct communication between line managers and superiors in different regions so that key incidents are raised as soon as they happen.

When an incident occurs, be it regarding a matter of Health and Safety or the Environment, it is logged in the Incident Reporting System (IRS). The IRS allows the incident to be tracked, responsibility assigned, and subsequent action to be followed up. The incident is logged by one person but responsibility may be placed with any employee depending on the severity of the incident according to the “risk identifier”, a sheet available at most company sites that explains the risks unique to that particular location. Generally, if the risk is severe and it is a major incident, then the incident will be under the control of more senior management. If the event is localised and relatively minor, it is most likely handled by someone lower down the organisational hierarchy.

The personality and worldviews of the direct line authority manager have a considerable role to play in the way the environment, H & S, and action are viewed. It is notable that some managers are very proactive and receptive to the idea of integrating environmental issues where necessary and the funding is available. A number of interviewees have commented that these proactive managers have a strong reputation with employees from all levels. Other

managers are far more reluctant to take up the sustainability agenda, and indeed seem to be sceptical of the advice that their environmental employees offer them, choosing instead to rely on their own skills to make decisions. Usually, this means that financial considerations are emphasised in decision making. This mentality is particularly visible at Operating Site Alpha where some issues have been de-prioritised for a number of years. Chapter 7 - Discussion and Analysis will contain a more in-depth discussion of the issues at Operating Site Alpha. One such issue, for example, relates to a potential unauthorised²⁹ discharge at a company site which may constitute a consent breach. An infringement would result in a large fine for the company and be the first serious incident at that particular site. Although the issue has been going on for a number of years, there has been little progress in solving the issue at the time of the research. This is partly attributable to the ‘poor leadership’ of a former line manager at the site.

6.4.2 Embedding of H & S and environmental measures

Overall, there is general agreement that environmental issues have not been fully integrated into the company’s mode of operations to the same extent as H & S initiatives:

“when you get down to the nitty gritty and actually do some work with some of the people they really haven’t – it’s not embedded... But I think that it’s starting now to get a little bit more into the culture than what it was before - yeah, I think we’re further down the track than some other companies.” (Project Coordinator).

The company has a strong policy of ensuring workplace safety is followed and this has permeated through the firm. Every employee is given a thorough safety induction at every site to ensure they are aware of hazards and procedures in the event of any incidents.

²⁹ There is some contention about the nature of the issue and it will be discussed later in Chapter 7.

Environmental concerns are consistent at upper management level but have not flowed through all facets of the organisation:

“the Managers that report to Executives they pretty much know what these indicators are and what they represent and they know the targets that they have to be meeting and what their role is in meeting them. Beneath that senior management team it starts to get a bit greyer and we have had issues with that tier of management not really understanding what some of the KPIs are and what they can do to help those KPIs”
(Strategic Accountant).

In particular, and in line with Umashev and Willet (2008), some employees lower down the organisational hierarchy do not understand the significance of managing environmental issues or the risks related to them. At the moment there is some difficulty with conveying the importance of environmental issues because of the technical knowledge that surrounds them:

“In some areas I don’t think anybody knows what it means... because...I’m talking about front line workers you know people that are working on factory floors – the drivers, they only know the things that are meaningful for them and unless you make – if you can fit those things into maybe personal targets and things that they have to achieve and even then they are not sure why they are doing it, they just know that they need to do it.”
(Project Coordinator)

This lack of understanding, as Ittner et al. (2003) suggest, may be the reason that financial priorities are always considered first at the moment. Continual training and education relating to systems and processes appear to be how the company management thinks that the environment will eventually be integrated into operations. There are some tensions between the priority setting enabled by the conventional management systems and environmental

management systems. Conventional systems provide a considerable amount of financial information through reporting lines, especially to those with direct authority. The environmental systems are mainly overseen by indirect reports that are accountable to managers with line authority. As explained earlier, environmental employees agreed that their purpose was mainly to inform decision-makers of risks. They did not have any control over what action was taken and this has caused some frustration among some environmental employees:

“You can communicate with them as many times as you like, but ultimately if that person won’t do something, you can’t force them and the thing about a role like mine is I actually have no management control over somebody.” (Environmental Employee 2).

Sometimes this meant that initiatives which ‘needed’³⁰ to be actioned were deferred or delayed. Conventional systems emphasised costing and some more rigid budgeting methods where once figures had been decided for the next year, they were not able to be changed. An employee involved in the budgeting process explained that budgeting systems in the company were well established. Most projects need to have a thorough financial case to back the investment with a range of calculations like Net Present Values, Internal Rates of Return, Cost Savings and Cash Flows. Most employees agreed that “the company simply won’t - that’s my impression, doesn’t turn down projects that are related to Health and Safety. With [the] environment it’s probably just a lot slower on the priority than Health and Safety” (Budget Coordinator³¹). However, there have been some difficulties in implementing some important initiatives because of budgeting issues, or concerns over the Global Financial Crisis and subsequent recession.

³⁰ At times employees disagreed about the relative importance of projects.

³¹ The name of this role has been changed to maintain the anonymity of the respondent.

Indeed, environmental issues which some employees see as proactive (but still very important in managing community concerns and consent issues) have been delayed for years because of budget prioritisation and because environmental advisors do not have a direct voice in making decisions:

“So I spoke to the Manager of that bit of the division and said to him, “This is what we need to do - a rough guesstimate has been \$[X]0,000 in order to do some of this remedial work. Can we put that in the plan”? And he sort of went, “Well no, we’ve already budgeted for this year and we’ve already budgeted for next year” (Environmental Employee 2).

There is an unwritten threshold where if the expense is under \$5000 then the activity will usually be approved but any amount over that needs full Capital Expenditure (CapEx) procedure:

“I mean we have Health and Safety [CapEx’s] that have been declined this year for stuff that really is a necessity to be done. I mean nobody’s life is in danger don’t get me wrong, but they are things that we really do need to do to improve the safety of our business and they’ve been declined because we just don’t have the money for it – it’s not easy” (Environmental Employee 2).

Furthermore, Health and Safety initiatives are prioritised highly because:

“I’ll be frank you know Health and Safety can also incur severe costs to a company if not done properly and I think from a cost effective point of view it also justifies, you know, in a sense you know, spending money to protect your people and to improve your safety it ultimately will pay off” (Environmental Employee 2).

6.5 Performance compensation and accountability

The Executive Committee is measured according to a series of KPIs that are set down through the Balanced Scorecard. They have a series of different sections in their version of the Balanced Scorecard that need to be met including financial, marketing, sustainability, human resources and cost management objectives. Each country has a profit target that it has to reach “for example, there’s a profit indicator and that applies to every company in there. So you know here’s the percentage you need to achieve – end of story and that applies to every company” (Strategic Accountant).

Only the Executive Committee has a variable performance based incentive according to how well targets are achieved. Lower levels of management and employees are offered fixed incentives schemes based on their role and responsibility within the company itself. For the most part, while there are extensive tracking and reporting systems, employees are held accountable for their goals either through their intrinsic duty to achieve those targets, or by the questioning and querying that may come down from senior levels of management. An example was provided from the Strategic Accountant, where a number of Business Analysts:

“measure everything for him [CFO]; tell him what’s going wrong; what’s going right and then the Executives get together and [name of CFO] then takes all the results from the divisions and [name of CEO] then holds the General Managers accountable for their performance, so it’s fairly conventional” (Strategic Accountant).

The company culture is such that almost every employee interviewed has a great sense of pride in what they do. This helps to align their interests with the greater interests of the company in achieving specific targets.

6.6 Annual reporting/stakeholder communication

The company utilises a number of different media to update and communicate with its stakeholders. These include a ‘customer newsletter’ which is sent out to major clients, a ‘staff newsletter’, media releases which are held on the company website; and ‘Stakeholder Engagement Meetings’. Stakeholder meetings are generally focused on issues related to close neighbours or local council authorities. They involve employees from within the particular area and senior management working together to answer questions and discuss issues with stakeholders. However, most meetings are not well attended by the public, although they are advertised. Total attendance at the meeting the researcher attended, including company employees, consisted of only nine individuals.

The external annual report is not produced because of any legal requirements or Headquarter directives. When asked about the motivation for reporting, the External Relations Manager suggested that:

“I don’t think you can afford to be blasé about the way that you operate in an industry such as ours. You’ve got to show that you’re aware of the expectations of the community you know of Government and whatever else to operate responsibly.”

Furthermore, communicating the company’s activities was an important part of illustrating that responsibility, “[s]o I think really it has a great impact on how proactive you’ve got to be and it’s not just doing it quietly, you’ve actually got to let people know that you’re doing it as well.” Prior literature has also alluded to the incentive for organisations to be proactive in managing their images (Milne and Patten, 2002; Deegan et al., 2002; Islam and Deegan, 2008).

The internal reporting and control processes are closely tied together:

“[m]anagement control and the management reporting obviously are very closely linked, not perfectly linked, because sometimes we want to report things or measure things that [Headquarters] don’t or we want to report them in a different - or etc, etc, etc, but in the main, very closely linked” (Strategic Accountant).

However, in contrast, the information from the EMS is included in annual reporting much more indirectly. The External Relations Manager writes the general sections about the organisation and board structure. An external Public Relations agency is charged with collecting the information from interviews with key managers and obtaining figures from experts in the organisation such as staffing figures and environmental targets etc. The interviews are conducted throughout the production process and the key managers ensure that all relevant and necessary information is provided to the agency. It is the External Relations Manager’s job to collate and review that information to ensure its accuracy. Once any corrections are made by the agency, a final draft will go back to the managers for final confirmation and sign off (Adams, 2002).

The NZ subsidiary (the case company) prescribes what is included in the report. This has evolved over a period of time and changes only slightly every year. The External Relations Manager believes that the annual report is almost a substitute for a “profile document” so it gives readers “an overview of how the business is going, but also to reflect what we’re doing as a responsible organisation” (External Relations Manager).

This view is mirrored by the NZ CEO, who stated “we think we do things well and we like to let others know that we’re doing that”. He commented that the process of preparing an annual report allowed the company to reflect on the year and initiate some discussion around what has happened. The CEO noted the pride of the employees in working for the company and

the annual report was a way of informing them about who they are working for. He concluded saying:

“it’s an annual central focus for the company, but it’s also quite a good record if you were to go back and review this company over the years. The things you would go to would be the [annual report] and minutes of meetings because a lot of the people would not be around to talk to” (CEO).

Environment Manager 2 agreed that the annual report contains very little sustainability information compared to what is reported internally:

“[it’s] really very limited information compared to the detailed information that goes overseas and gets reported you know just within [company name]...what’s reported externally at the moment is very limited.”

Employees within the Financial Section of the company took a much more cynical view of the report and its purpose. The CFO commented:

“It is not a typical company annual report by any means. So this has got a specific target audience and I think we meet this target audience’s requirements quite well from a Banker or Financial Analyst point of view.”

A Financial Team member was even more forthright when he said “the annual review is a very...it’s a public relations exercise rather than...an annual report for a listed company, it’s a promotional document” (Financial Team member).

6.7 Relationship between internal systems and external reporting

Consistent with the views of the Financial Team member, a review of several years of reporting reveals that the reporting is becoming much more minimal and rudimentary. One of the latest reports contains less environmental content compared to previous years.

Much of the information contained in the report itself is aggregated and condensed. Some of the H & S and environmental sections are concerned with specific cases rather than providing detailed quantitative data on the performance of the company or individual divisions in these areas. Some managers suggest that there is some negative information in the report and therefore it provides a complete and unbiased view of the company. However, in interviews with some environmental employees it does appear that some information is ‘edited out’ in the process of publication. When pressed about why this information was not included in the report it became readily visible that this was the cause of some tension among certain employees. Part of this tension is caused by confidentiality issues which resonate with some of the barriers to reporting highlighted in “Plastic Solutions” (ACCA, 2008).

While some employees want to move towards a more comprehensive reporting scheme like the one used by another subsidiary, there is internal tension to remain the same and evolve the current framework. Some environmental employees want to see a greater accountability role to the annual report whereas others within the organisation see the report more as a communication tool. The diverging views between environmental employees and other functions strongly correlate with the findings from Adams (2002) in her survey of seven British and German companies. The case company’s annual report is somewhat decoupled, and does not have direct contact with management control or environmental management systems (Adams, 2002; Adams and McNicholas, 2007; Adams and Frost, 2008; Durden, 2008). This disconnection between the internal and external face of an organisation is alluded

to in Adams' (2004) explanation of a 'reporting-performance gap'. According to Adams (2004), her study of a large multinational company found that the accountability 'needs' of stakeholders could not be satisfied because of the 'lack of completeness' of external reporting.

In the context of the case company, the 'reporting-performance' gap may exist because, as explained earlier, the annual report did not satisfy the particular information needs of any one stakeholder group. The audience of the annual review seems very broad and eclectic with a mailing list of more than 800 entities including the general community, government departments, Members of Parliament, regulators, NGOs as well as bankers and financial analysts. In the words of the External Relations Manager, the report was a substitute for a general information document about the company. Because of this, some employees considered that it should continue to present information in an abbreviated and general fashion. Perhaps this is because of a view shared by Environment Manager 1 that:

"it's just a document that summarises all these other things that have been going on... So the annual report is, I suspect, of zero interest to most members of the community for instance, because they will either know what's going on or they won't care what's going on." (Environmental Manager 1).

More specialised information requirements by more narrow sections of stakeholders could be addressed with targeted newsletters and information releases. Indeed, the case company has a suite of different communication media including: 1) 'Customer Updates' which are aimed at providing commercial information about new products and developments to key customers; 2) 'Staff Newsletters' which provide internal information to employees within the company; 3) 'Information Sheets'/public consultation documents which provide information to

communities about company operations and plans and; 4) 'Media Releases' which provide information to a wider band of interested parties regarding publicly visible issues.

Interestingly, however, the EMS plays a large role in dealing with stakeholder issues on some operational sites and perhaps even more so than the very general information that is reported in the annual report. At Stakeholder Engagement Meetings, some close neighbours generally complain that there are issues like excessive noise. At times like these the company produces detailed records from its IRS and environmental measurements which serve to mitigate or refute some negative stakeholder claims. In this sense, the EMS provides a way for the company to lessen and legitimate its activities in a direct sense. Reporting through the annual report may be an indirect way to maintain, or create the perception of maintaining legitimacy because it caters for a wide array of stakeholders. While there have been many calls for using social and environmental reporting as an accountability mechanism, the loose coupling of the reporting process to the wealth of information available in the internal mechanisms suggests more of a public relations role (Chan and Milne, 1999; Deegan et al., 2002; O'Donovan, 2002; Gray, 2001; Spence, 2007).

6.8 Summary and conclusions

This chapter presented some descriptive findings which addressed the first research question for the study: *How is sustainability understood and integrated into a company's internal processes such as strategy-setting, management control and external reporting? And, how and to what extent are these internal processes connected to each other?* Findings on the first research question about internal sustainability systems at the company suggest that environmental sustainability is well integrated into the senior management's vision for the company, but this has not fully cascaded down to lower levels of the firm in the same way as

Health and Safety initiatives. Management Controls and EMS are well integrated; however, some tensions exist because financial concerns and risk management feature highly in decision-making. External reporting is only loosely connected to internal systems, suggesting that there may be a legitimacy motive to annual reporting. This appears to be because of the diverging perspectives on the purpose, and the future development, of the external reporting process. The next chapter will provide further insight into the disconnection between internal behaviours and external reporting by presenting a range of scenarios in the case company. These scenarios provide the context for theoretically grounded discussion to explain company response behaviour to environmental incidents by relating legitimacy, reputation, stakeholder, and resource dependence theories.

CHAPTER SEVEN

DISCUSSION AND ANALYSIS

7.1 Overview

This section is divided into two key sections. The first section will explore the use and meaning of the terms ‘reputation’, ‘licence to operate’ and ‘legitimacy’ as expressed through company interviews and available documentary evidence to discuss the second major research question, “*Why is managing ‘sustainability’ issues important for the case company?*” It is argued that “licence to operate” is synonymous with the legitimacy of the organisation in a sustainability sense. Reputation on the other hand, is an intangible asset that must be managed properly in order to defend legitimacy threats. If a company has enough reputational capital, then it will be able to alleviate some stakeholder pressure and negotiate with affected stakeholders directly if an incident occurs. This mitigates the potential for widespread harm to the company and its operations because problems can be managed ‘internally,’ thereby maintaining organisational legitimacy. The second section explores the concepts of reputation and legitimacy through a number of short-term decision contexts and a long-term strategic decision about the future of the subsidiary to answer the final major research question, “*How and why do reputation management and legitimacy feature in the case company’s responses to environmental incidents?*”

7.2 Perceptions of sustainability and strategic outlook

Employees involved in the environmental section of the firm used the word ‘reputation’ 20 times throughout transcripts in describing their definition of sustainability compared to absolutely no occurrences of the word in the rhetoric of financial or sales employees when asked the same question. Indeed, analysis of the commentary from the financial team reveals that they have a very resource efficiency based view of sustainability, generally acknowledging the inherently unsustainable nature of their operations in terms of extracting natural resources, but stating: “what we can do is be more sustainable than we are, we just use less irreplaceable resources than we are currently using – that would be my take on it” (Strategic Accountant). What is inherently clear from top management is that sustainability means the financial viability of the company. Profit driven motives are not hidden and there is a sense that business ultimately means making a financial return:

“Basically what it boils down to is doing the right thing and having a good profitable business and absolutely unashamedly we’re here to make money, but we’re also here to have a business that’s still operating profitably in 50 years time” (Environmental Manager 2).

This reflects findings from O’Dwyer (2003) that suggest managers interpret ‘good corporate citizenship’ against a backdrop of shareholder value maximisation. One member of the sales team, providing part of the external face of the company and interacting with customers, had a very different perspective on sustainability stating that “[s]ustainability has become a fashion – has social cachet with customers. Business is amoral (neither immoral nor moral). Sustainability is more skewed to moral [sic]” suggesting an idealistic turn to justify the company’s movement towards this agenda.

Employees further down the firm's hierarchy have similar views and a real self consciousness about the company's image, even though it is not articulated in necessarily the same way. One employee, who operated a small distribution centre very close to a residential locality, acknowledged that the 'product is not ideal to maintain [a good] corporate image.' This idea of an image, the external façade of the company, was a particularly important symbol in the employee's discourse. He mentioned the word a number of times in conversation and recounted an environmental incident³² where a spill had covered surrounding houses with a discharge, and while this was not necessarily the fault of the company (a contractor was to blame), the negative media attention and public anger had forced actions to "save our image." During the weeks following the spill, company staff implemented a number of initiatives, including voluntarily helping with the cleanup to win back community rapport. Even to the present day, this employee suggested that the site was a "hotspot" and that the last thing they needed was another spill which would damage, perhaps long-term, the company's image, but more importantly, its licence to operate (Deegan et al., 2000; 2002; Patten, 1992; Milne and Patten, 2002).

While reputation and image are relatively common motifs within participants' rhetoric, this 'catchphrase' that was consistently used by interviewees at a range of different sites, and particularly at management level, was the notion of a 'licence to operate.' These exact words were mentioned by a number of senior level managers when describing the strategic importance of taking on the concept of sustainability and operationalising it throughout the business. One illustrative quote from a senior manager who had been involved in a number of roles at the company is as follows:

³² This incident will be referred to as Short-term issue 3 at Operating Site Delta later in this chapter.

“Improved reputation, improved trust with business partners and with the communities that you’re working right beside, gives you the licence to operate. And by that I mean if you’re in a [description of environmentally intensive operating site] and you have a community that trusts you as an organisation - trusts you to do the right thing if there are problems and not walk all over them, and sometimes in some of our businesses we require our neighbours to sign off on consents, change of hours – things like that and that is what I mean by they enable sometimes our licence to operate and make changes. So it’s really important that we have those good relationships and have a good reputation, so that if things turn pear shaped we’ve already got that in the bank, so to speak our trust reputation is in the bank.” (Capital Projects Co-ordinator).

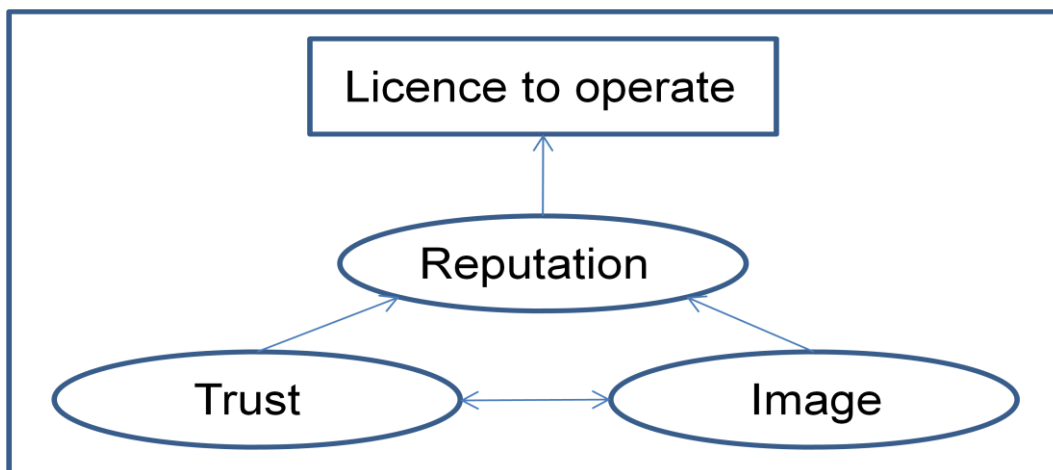


Figure 7.1: Relationship between reputation and licence to operate

This interviewee conveys several illuminating outcomes of ‘being a sustainable business or trying to move towards this idea of sustainability’ for the company conceptualised in Figure 7.1 above. The first encompasses the idea that reputation, and consequently, improved trust, lead to gaining a ‘licence to operate’ from important stakeholders including the communities in which the company is operating. This was specifically mentioned in the form of attaining access to resources such as consents which may be unavailable to less legitimate firms

(Pfeffer and Salancik, 1978). Further to this, is the notion of stakeholder salience; where ‘good relationships’ need to be built with the most important stakeholders in order to maintain and build the company’s ‘licence to operate’ (Mitchell et al., 1997). Finally, we see ‘reputation’ characterised as a resource which can be “banked” and used as needed to mitigate negative events (Pfeffer and Salancik, 1978). This is especially visible when the interviewee later describes the consequences of not having trust and reputation as:

“...the outcome when we make a mistake I think would be completely different; we would have bad press; we would have people going to the media instead of coming to us and complaining” (Capital Projects Co-ordinator).

In this sense, it is almost as if the interviewee is suggesting that a good reputation helps encourage stakeholders to engage directly with the company rather than through a third party, such as the media. Perhaps this is because there is sufficient belief on the part of the stakeholder that the company is trustworthy and ‘honest’ enough to deal with their concerns forthrightly, without needing to be subjected to external public pressure to do so. Strong trust, although perhaps a standalone concept itself, leads to good reputation. The self-consciousness of employees suggests that image also builds or maintains reputation, and indeed may influence the trust that a stakeholder has in a company.

Frooman (1999) asserts that it is not only important to look at the attributes of an entity and its stakeholder, but also the attributes of the relationship between them. This relationship is depicted in Figure 7.2 on the next page. The company and a stakeholder may each have a varying degree of influence over each other, but prior work suggests that the relationship may be just as important as the characteristics of the “actors” in the final outcome that is delivered. Figure 7.2 depicts a larger arrow from the company to a stakeholder when the

company has a good reputation with that stakeholder. This signifies that the company has more power over the other entity. Reputation is considered a ‘bankable asset’ formed from the image of the company and the trust it has with its stakeholders. Having a good reputation with stakeholders enables the company to reduce external stakeholder power to the company in a covert and coercive manner. Reputation allows the company to negotiate directly with a stakeholder group because of prior good behaviour and the suggestion that the company will continue with its good track record. This has important implications for the discussion of the short-term and long-term issues presented later in this chapter.

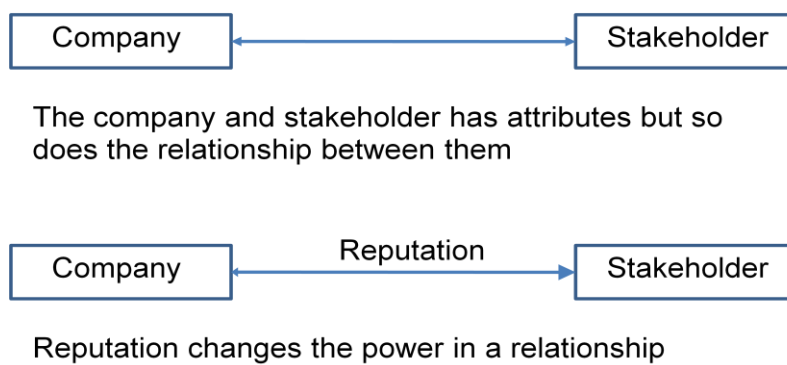


Figure 7.2: Conceptual relationship between a company and a stakeholder

Extending the concept of maintaining operational validity, the CEO proposes that sustainability is a necessity for the business because of its high visibility:

“So I think more and more this view of a licence to operate comes to the fore and without doubt it’s more important when you’ve got a company that is within New Zealand which is a national based company – I mean we’re from one from end of the country to the other. When you’re using [resources] and whilst we are not a huge company by employee standards we do affect lots of communities positively I hope.” (CEO).

There is a suggestion that media and public attention is an increasing concern:

“So I think now there is increased scrutiny on companies and that just needs to be kept in balance that scrutiny, because obviously most companies I hope are adding some value somewhere in the chain.” (CEO).

The appearance of the exact ‘catchphrase’ “licence to operate” from a variety of different employees seems to suggest an institutionalisation of the concept.

Perhaps it is this ingrained self consciousness about the industry in which the company operates that motivates concern for operational viability. It seems to be even more heightened because of another interesting characteristic; the company’s perceived ‘large size’ and foreign ownership which may be seen as alienating or fuelling negative reactions from some stakeholders. This is best illustrated by the example an Operations Manager gave when he highlighted the fact that the external environment was far more demanding for the company than for its smaller competitors. The example that was used entailed a hypothetical purchase of a competitor’s facilities in a locality in the North Island. The Manager indicated that if the facility was acquired, the company would have to invest a further \$100,000 to \$150,000 in trying to ensure that the facility met internal and regulatory standards. He described the facility as it stood now as a “messy” and ill organised facility. But the community in which it was located considered them the “local boys” and was much more tolerant of their behaviour. If a large multinational took over, then they would be viewed from a much stricter and more critical stance. It was mentioned a number of times in different interviews that increased Health and Safety and Environmental standards have led to costs being as much as 10 to 15 percent higher for the company than its competitors. But these costs seemed to be necessary in order to retain its corporate image. While the firm is very conscious of costs, they are looking to differentiate their product range and brand.

Because of these issues, there is a sense that undertaking ‘sustainability’ (however, broadly or narrowly it is defined) is a mechanism that encourages stakeholder *engagement*, and while corporate rhetoric seems to support this ideal, the overarching sentiment from most employees seems to suggest it is part of a stakeholder *management* and PR exercise. This will become increasingly apparent in the analysis of reporting and communication behaviour stemming from the decision making case examples explained later in the thesis.

What also becomes clear from interviewees is the perception that ‘sustainability’ is nothing new. It is not necessarily a radical or evolutionary way of interpreting and transforming business, but a pre-existing rational corporate agenda to be profitable and dressed up in new clothes:

“I mean if you’re crapping a lot of the landscape on a routine basis you ain’t going to have a business in 50 years because you won’t be alive to have a business in 50 years. So whatever your personal ideology is it’s just common sense to run the business in a responsible manner” (Environmental Manager 2).

This view is further captured in the words of the CEO who argues:

“I think the first part of my definition I used was around doing more with less; it’s nothing new to people who have been working in private organisations. That’s where I see the capitalist model and sustainability have intercepted for a long, long time and I don’t think that everyone gets that.”

While there is a degree of cynicism and a matter of fact rational motivation to sustainability put forward, some of what is said is aspirational, perhaps reflective of individual concern as articulated by Bansal and Roth (2000). Individual concern refers to an organisation’s leadership attitudes and vision. The company has been through a process of ingraining Health

and Safety into its employees' minds and now it is very much embedded into organisational culture. This same attention is now being directed towards bringing environmental concerns to the same level of importance. The Senior Human Resources Manager intimated that this process had meant that some people within the organisation had left (either voluntarily or otherwise) and people who had personal values which aligned to the company's emphasis on Health and Safety and its environmental agenda were hired. Again, the CEO is cited who claims the company has matured, after decades of 'doing more with less,' to a sufficient stage where "[t]he issue that has come more into focus in recent times is the legacy of your actions – the longer term legacy and keeping those in balance".

These viewpoints form an important backbone to further discussion around the strategy setting, development and use of EMS, decision making processes and external communications activities that the firm undertakes. These aspects of the company will be discussed in the following sections.

7.2.1 Institutional isomorphism

The industry in which the company operates is environmentally sensitive and it seems as if other competitors are just as aware of the implications of this industry and are taking steps to manage them. There is a touch of cynicism about sustainability, even from an environmental employee who raised the idea of institutional isomorphism where companies in an industry start to exhibit the same behaviour or tendencies (DiMaggio and Powell, 1991):

"I often wonder at times if it's just a front you know to make the company look good. I mean every other company's the same; you look at our competitor like [name of competitor] and you look on their internet pages and you know it's all, "We're doing this, that and other – it's wonderful for the environment..." (Environmental Advisor 1).

The interviewee points out further that:

“from what they say they do to what they actually do, to me there’s like a huge gap there and yeah, I hate saying it, but I can’t help think that its just some sort of front that just makes the company look good to be honest” (Environmental Advisor 1).

These perceptions are very much in line with findings from Deephouse (1996) who suggests organisational isomorphism increases organisational legitimacy. Bansal and Roth (2000) suggest that field members in “dirty industries” band together in either formal or informal arrangements to provide a united front to defend against regulatory threat. The company is involved in an industry oversight body which deals with standard setting and acts as a forum for working together on issues like the NZ Emissions Trading Scheme, suggesting the possibility for ‘high field cohesion’ and therefore, greater institutional isomorphism.

7.3 The role of reputation in the short-term decision contexts

7.3.1 Short-term issue 1: water overflow on company land

Operating site Alpha has had an ongoing issue with a technical fault flooding a naturally bio-diverse area on company land with silt and other sediment. Employees involved agree that there is an issue but the severity of the problem is disputed. Excessive rain fall during some periods overloads some piping and potentially causes an “unauthorised discharge” according to Alpha’s local council permit conditions. One employee suggested that if local council, “came back on site today and saw that, they could either whack us with a huge fine or worse case scenario, tell us to stop operating and the fact that [even after] all these incidents [were logged], it just doesn’t seem like its escalating enough³³,” especially since this would be the

³³ Some parts of this quote have been edited to ensure the anonymity of the respondent. The interview tape was carefully scrutinised and words chosen carefully to maintain the essence of what the respondent was stating.

first time the operating site had been penalised. One of the line managers, however, was adamant that “[t]he discharge was not a consent issue,” but did admit that ‘if we don’t find a solution we may have to close the facility during heavy rain.’ Ultimately, the voice of another environmental employee articulates an underlying concern, “[w]e’re not in danger of being shutdown [sic] by Council, but the more often that [name of employee] has to ring them and say, “[w]e’ve exceeded this or we’ve exceeded that”, the more they are likely to start looking into what we are doing about it”. Raising the scrutiny of regulators is the last outcome the company wants and a line manager agreed that they had to work with council and, “be proactive with them before they catch you out”.

Several employees noted that the water discharge problem had been going on for years and that managers with authority were very slow and reluctant to make any changes. There are many issues surrounding this problem and the delay in getting it resolved, including: 1) Capital expenditure procedures and limits set too low, 2) the logistics of finding the problem and determining an appropriate way to fix it, 3) conflicting opinions about the severity of the problem and its impact on consent (understanding risk), 4) communication problems through the lines of authority and leadership, 5) stakeholder salience (there is no direct stakeholder affected) and 6) perhaps most importantly, the issue is not very externally visible as it occurs on company land.

Figure 7.3 on the following page conceptualises short-term issue 1. The rectangle is the company. The star is the “issue” and it is contained within the company. The closer the external stakeholders are to the company, the more they have an interest in the “issue.”

In short-term issue 1 the water overflow problem is considered an important issue because, if noticed by local council inspectors, it could lead to an infringement notice or an order to stop operating at the site. However, the key hindrance to action in this scenario is that the problem

occurs well within company controlled land so that it is invisible to most other external stakeholders. The problem then can be managed internally at the discretion of employees as little urgency to resolve it arises from external pressures (Bansal and Roth, 2000; Mitchell et al., 1997). In this issue, the local council is the most salient outside stakeholder, and while they perform spot inspections, most reporting about adherence to permit conditions comes from internal employees.

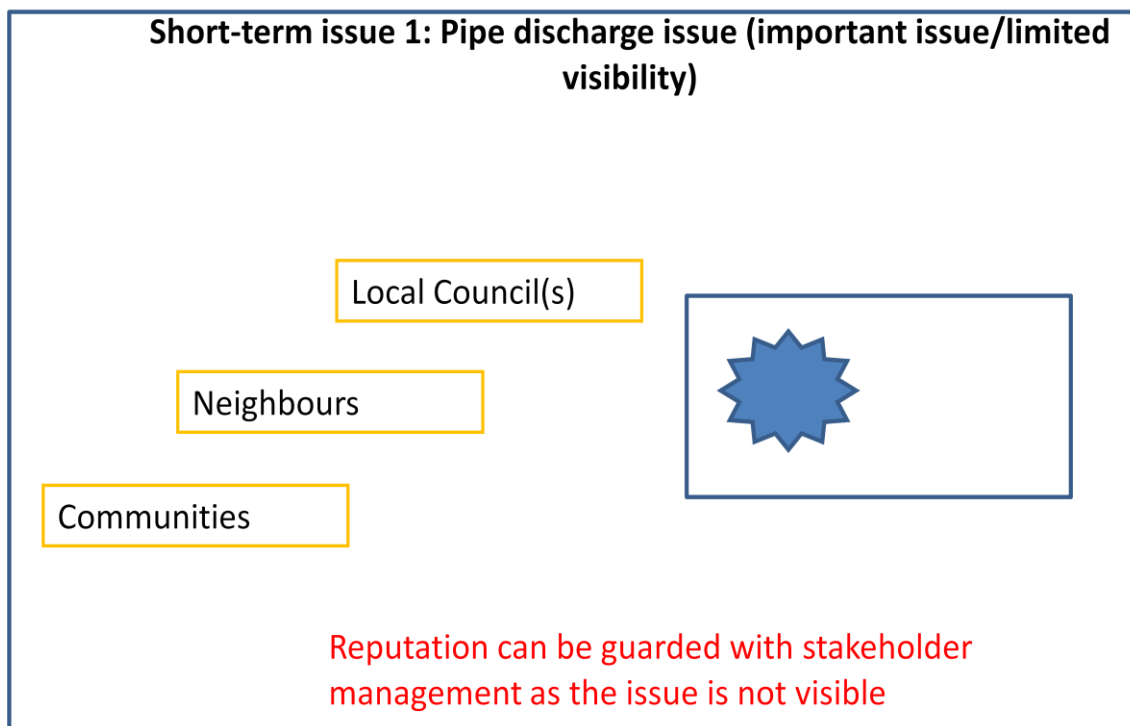


Figure 7.3: Depiction of short-term issue 1

Figure 7.3 is a visual depiction of the issue. The company is represented by the large blue rectangle and the other stakeholders by the smaller yellow rectangles. The “incident” is depicted by the blue star, and in this case, the issue is not visible because it is contained well within the physical boundary of the Alpha site. The closer the other stakeholders are to the company, the greater their proximity to the issue. The local council is the ‘closest’ stakeholder to the issue as they are most likely to detect it through a site inspection.

As outlined above, the company has already established a good reputation with the local council through building close relationships among key personnel within the authority (Fombrun and Van Riel, 1997; Frooman, 1999; Donaldson and Preston, 1995; Harrison and St. John, 1994). The company is able to avoid immediate action because no “direct stakeholder” is involved (Madsen and Uhoi, 2001; Agle et al., 1999). Furthermore, the local council has fewer network interdependencies than some other constituents and is unlikely to divulge information to media and escalate the situation. The local council is the authority that represents the ‘public’s interest’ and has direct power to enforce over the company. In this sense, the local council confers ‘legal legitimacy’ on behalf of other stakeholder concerns. If other stakeholders, such as close neighbours are involved, then there is a greater propensity for these stakeholders to bring visibility and attention to the situation because they generally have no direct power in censoring the activities of the company.

In this particular scenario, action can be delayed as the limited visibility of the issue and high reputation of the company with the local council enable them to mitigate potential “prying eyes” and investigation. A staff member has “been extremely good and diligent in liaising with them [local councils] about the whole thing and about letting them know where we are at any given time with it” (Environmental Advisor 1). Essentially, this has kept the problem in-house rather than inviting external scrutiny.

Numerous incidents had been logged in the Issue Reporting System, and at one stage, it was claimed one was logged almost every day. When an incident occurs, be it regarding a matter of Health and Safety or the Environment, it is logged in the Issue Reporting System. This system allows the incident to be tracked, responsibility assigned, and the action that subsequently follows to be documented and followed up. Although an incident is logged by one person, responsibility may be placed on any employee depending on the severity of the

incident according to the ‘risk identifier’³⁴. Generally, if the risk is severe and it is a major incident, then the incident will be under the control of more senior management. If the event is localised and relatively minor, it is most likely to be handled by someone lower down the chain. However, while the internal reporting mechanism has been widely used to little effect, there is no mention of this incident in the external annual report of the company. External reporting serves no important reputation benefits, but rather could prove negative by ‘disturbing the hornets’ nest’. The issue is not externally visible and there is little scrutiny on the issue. While discharging accountability is promoted as a primary function of triple bottom line reporting (NZBCSD, 2002; GRI, 2006), the ‘silence’ in the report reflects a more PR orientation where negative issues are minimised and the positive are emphasised (Chan and Milne, 1999; Deegan et al., 2002). Over the years when this issue was ongoing, the environmental disclosures do not mention any negative issues with operating site Alpha. Indeed, this fits in well with O’Donovan’s (2002) framework which suggests that companies will avoid reporting issues in the annual report if they do not have a strong incentive to maintain/repair legitimacy and suggests the same is true for reputation.

The research develops ideas from resource dependence theory about interconnectedness and stakeholder theory’s position that different groups are affected by an organisation in different ways to develop the following “stakeholder web” diagram shown in Figure 7.4 on the next page (see for example, Pfeffer and Salancik, 1978; Hillman et al., 2009; Harrison and St. John, 1996; Mitchell et al., 1997; Mitchell and Agle, 1997; Madsen and Ulhoi, 2001). It is not a holistic picture of stakeholder interactions, but a snapshot of which stakeholders’ nodes are “activated” during an externally visible company incident. The diagram also takes into

³⁴ This is a sheet available at most operating sites and explains the risks unique to that particular location, the likelihood of them occurring and the severity of consequences should they eventuate.

account how interrelationships between stakeholders may lead to “indirect activations.” This will be shown in the case of short-term issue 3 where the news media reporting activates a range of stakeholder groups that were not impacted by the incident.

However, in the case of short-term issue 1, no nodes were activated because the issue was not externally visible and the stakeholder that could be impacted, the local council (through its duty to monitor consent obligations), was being “managed” by the company through its strong relationship and reputation with them (Hillman and Keim, 2001; Donaldson and Preston, 1995; Clarkson, 1995; Post et al., 2002).

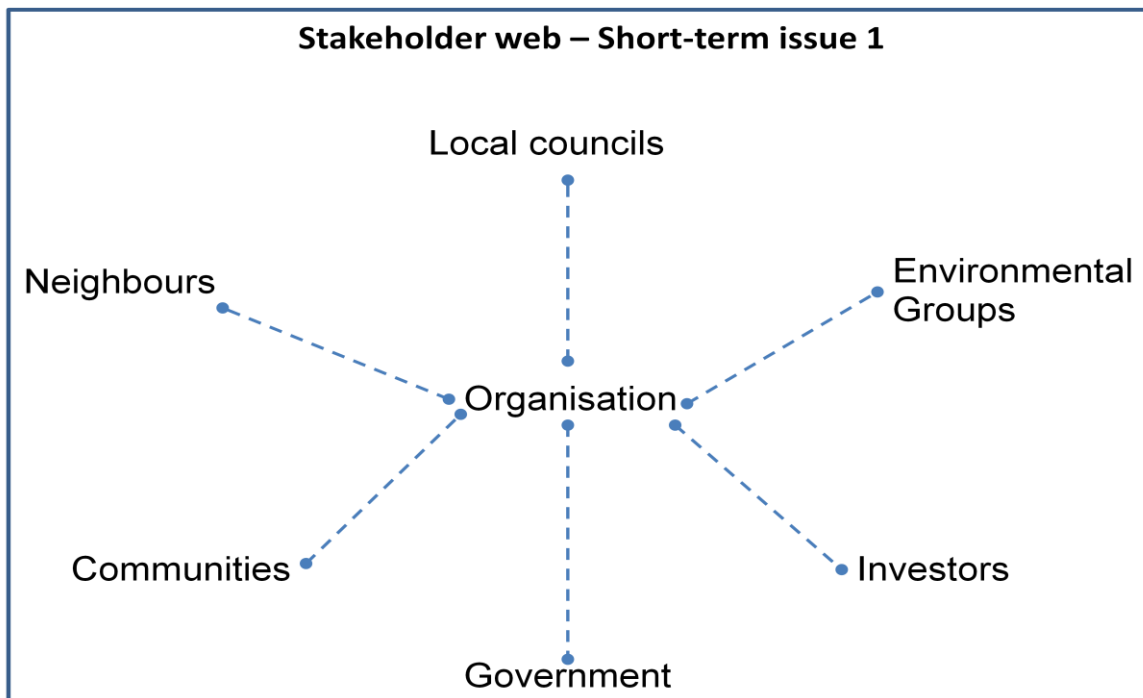


Figure 7.4: Stakeholder web diagram for short-term issue 1

7.3.2 Short-term issue 2: water nearly flooding a neighbour’s land

The next issue again concerns Operating Site Alpha. An employee noted that when an incident occurred, which meant a neighbour’s land was nearly flooded because of excess water, action was taken immediately to resolve the problem:

“there was another pond that came that close to overflowing – didn’t endanger a [naturally bio-diverse area], it endangered a neighbour’s property - they complained about it. All of a sudden we’ve got this brand new bung in place and its all fixed and I think that that was very much a case of keeping the neighbour happy, so that they did not – and that’s you know rightly or wrongly that was what happened, we did not want to upset the neighbour anymore than we already had done by effectively threatening to flood her land” (Environmental Advisor 1).

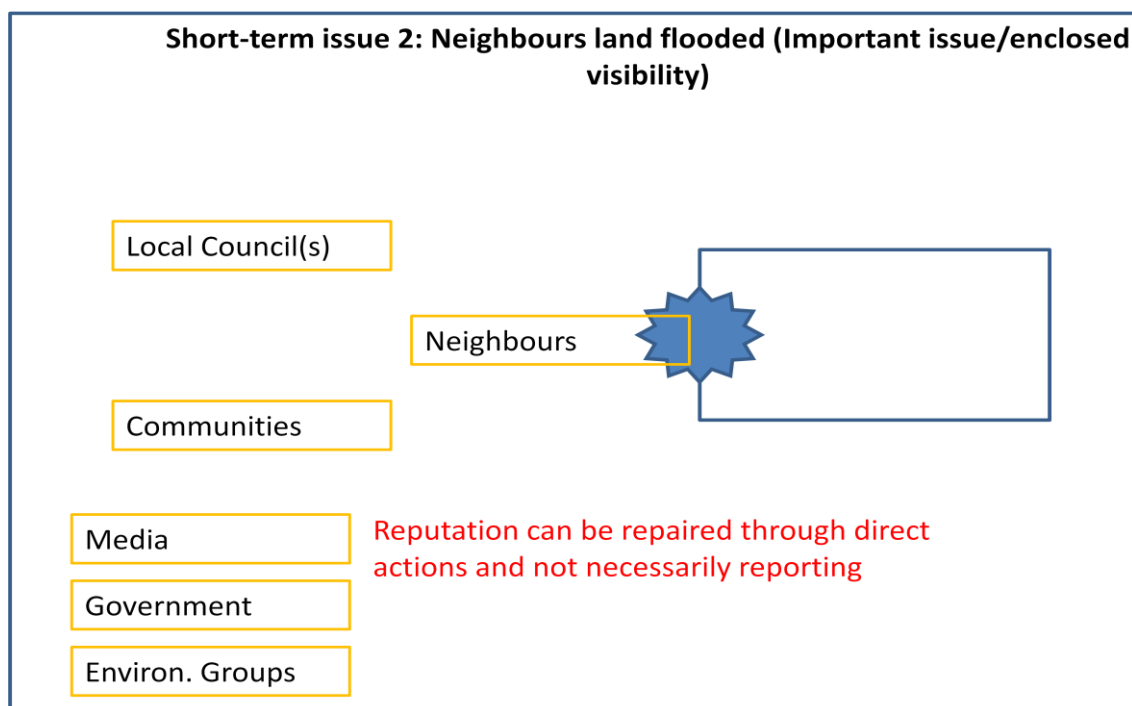


Figure 7.5: Depiction of short-term issue 2

In this case, the ‘threat’ to a neighbour’s property and the immediate possible consequences affecting the firm’s licence to operate were extreme. Figure 7.5 shows that the incident occurs on the boundary of the Alpha site. The incident is directly visible to its neighbours and ‘activates’ their node on the stakeholder web shown in bold on Figure 7.6 on page 122. The urgency of the need from a powerful and legitimate stakeholder necessitated immediate action from the company, regardless of cost (Mitchell and Agle, 1997; Mitchell et al., 1997).

Unlike most other ‘business decisions,’ there was no prioritisation of decision variables or a detailed cost/benefit analysis. The neighbour had a strong voice when it came time for renewal of operating permits. The benefits of not damaging the company’s reputation any further with this external stakeholder outweighed any monetary cost. In this scenario, the potential issue was very visible and the company had to demonstrate a greater investment through repeated “good dealings” with the neighbour to maintain its relationship and reputation (Barney and Hansen, 1994; Ring and Van de Ven, 1992, 1994; Hillman and Keim, 2001). The threat of infringing her property rights and causing long lasting damage to their relationship which could damage organisational legitimacy were too great. This fits in well with Bansal and Roth’s (2000) definition of ‘salient issues’ where the company can easily understand the impacts of an environmental situation and quantify its costs.

This mentality reflects the company’s propensity to “[r]eprioritise projects based on risks. Risk mitigation should be number one and costs shouldn’t come into it” (Environmental Employee 3) (Bebbington et al, 2008a, 2008b; Power, 2004).

The case company is prone to attack from stakeholders living in close proximity to the main operating facilities. The neighbour living next to the operating site is a direct stakeholder with an important voice, particularly emphasised because of the company’s dependence on retaining consents from local councils. The case company is a very visible target in the communities it operates in. Often, it is one of the biggest, if not the number one, employer within a particular locality. Any incident may have wide ranging repercussions for the company. Any issue that seems to affect any of its close stakeholders is acted upon very quickly, especially because of the network interdependencies that exist between different groups (Pfeffer and Salancik, 1978; Mitchell et al., 1997; Donaldson and Preston, 1995). Neighbours have the ability to involve the media, local authorities, or community action

against the company. A prior good reputation with the neighbours slows them from escalating the issue by giving the company a chance to rectify the problem (Bebbington, 2008a; Hillman and Keim, 2001 citing Barney and Hansen, 1994, and Ring and Van de Ven, 1992, 1994). Therefore, the company takes immediate action to “deactivate” the neighbour’s node before other stakeholder nodes are activated. Action is direct, visible and swift to maintain reputation and reduce further damage.

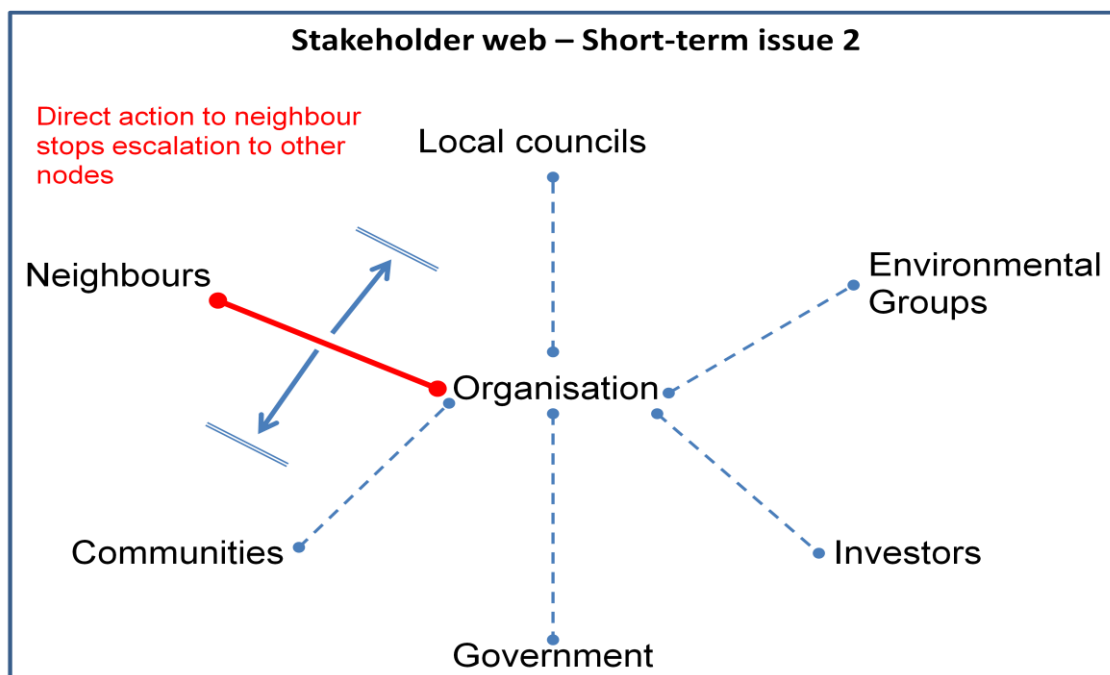


Figure 7.6: Stakeholder web diagram for short-term issue 2

It is interesting to note, however, that annual review reporting did not feature any item about this incident at all. Again, while there is a greater commitment to action by the company, they again considered the purpose of the behaviour to be around damage “containment.” It was not seen necessary to report on the incident to other stakeholders which may incite reputation and legitimacy threats which were simmering and just needed a catalyst to materialise as a stronger problem. This aligns with recent work by Higgins et al., (2011) which shows that most firms do not use external reporting to respond to criticism. There are contested views about the nature of the annual report, but one financial employee commented “the annual

review is a very – it’s a public relations exercise rather than a – it’s not like a – you would have an annual report for a listed company, it’s a promotional document.” The company prefers to manage issues internally wherever possible. It appears that external reporting is not deemed necessary unless it had a larger issue which was visible to a more dispersed range of stakeholders. This scenario is illustrated below.

7.3.3 Short-term issue 3: discharge over community

This issue concerns another operating site which is near a residential settlement (Beta). The facility manager mentioned the word reputation a number of times in conversation and recounted an environmental incident where a spill had caked surrounding houses with a discharge, and while this was not necessarily the fault of the company (a contractor was to blame), the negative media attention and public anger had forced actions to “save our image.” In the weeks following the spill, company staff implemented a number of initiatives, including voluntary help with the cleanup to win back community rapport. Even to the present day, they are suggesting that the site is a “hotspot” and that the last thing they need is another spill which would damage, perhaps long-term, the company’s image and reputation, but more importantly, its licence to operate (Deegan et al., 2000, 2002; Patten, 1992; Milne and Patten, 2002).

It was a major incident for the company because of its public visibility, accentuated by the large area and number of households and businesses it affected. The media was involved very early and reported the incident across the nation. The gravity of the spill meant that just immediate remedial action which may appease the affected stakeholders involved and repair reputational effects could no longer suffice. Now the business had to undertake a considered and pervasive image management exercise across a number of communication pathways to

lessen reputational damage and potential threats to its licence to operate from the local council (O'Donovan, 2002). Not only did the company react with direct action, but it also reported on it in the annual report:

“we have had a crisis at [Beta] where a lot of dust went all over [the Beta community] and that was reflected in our annual [report] and we talked about what we did about it just in terms of a crisis, the thing that we have set up” (External Relations Manager)³⁵.

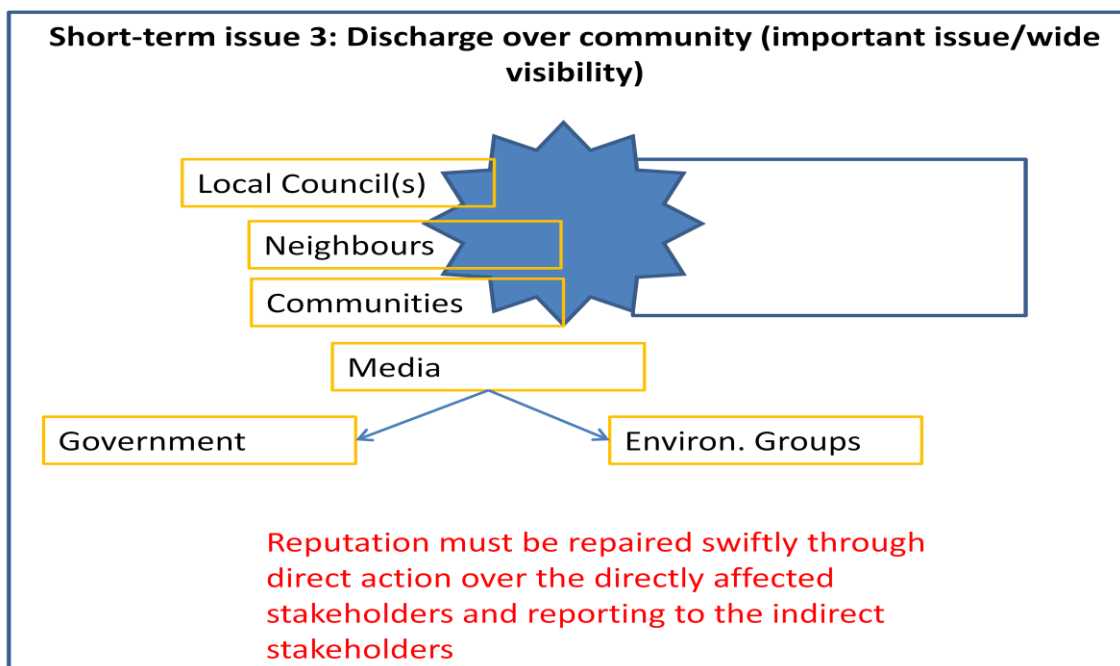


Figure 7.7: Depiction of short-term issue 3

Since this incident the company has put in place a crisis response scheme to respond to the situation, learn from it and “A) report on it and B) put something in place so it doesn’t happen again” (External Relations Manager). This issue is characterised by high visibility, involvement of sensitive stakeholders with a high interconnectedness to other stakeholder groups, and a high degree of power (Mitchell et al., 1997; Mitchell and Agle, 1999). Media

³⁵ This quote was edited to ensure the anonymity of the case study site. The transcript was carefully read and listened to ensure that the meaning of the quotation did not change from what the respondent stated.

attention exacerbates the ‘reputation damage’ and activates “indirect” stakeholder nodes. The indirect activations are shown on Figure 7.8 as the black bold lines (page 126). The red bold lines illustrate the directly affected neighbours in close proximity to the Delta site. The company launched a suite of reputation management mechanisms involving direct action and image reparation through employee involvement in the community and through external media and annual report communications. This disseminated the extent of the company’s remedial activity to larger and more public audience. This is exemplified by the statement from the External Relations Manager that, “our parent company [has] become very aware of, you know, one bad incident has a very wide impact and you’re always working to get the positives out there rather than staying quiet and then trying to defend yourself when something goes wrong.” The company had built up reputational capital from its more immediate stakeholders and conveyed a sense of legitimacy (its ability to fulfil its economic and social purpose) to a wider circle of stakeholders through its triple bottom line annual reporting (Clarkson, 1995; Bebbington et al., 2008a).

The annual report is a way to capture and disseminate the positive stories about the company to a wide audience. For the most part, the CEO noted that “not everything we report is positive and so there’s always room for improvement...” and further “we think we do things well and we like to let others know that we’re doing that... It’s a document that goes to a wide base of our stakeholders”. Without question, most of the disclosure is around positive image-creating activities that the company has undertaken. Only on an occasion where there is a widely acknowledged negative event has there been more specific disclosure in the annual report about the nature and remedial action around the problem. This provides evidence for perspectives from Chan and Milne (1999), Milne and Patten (2002) and O’Donovan (2002) about the positive and legitimating nature of external disclosure. Indeed,

recent evidence from the paper of Higgins et al., (2011) indicates that only 39% of firms agree that social and environmental reporting is critical to the organisation’s survival, but finds that “[r]eporting is seen primarily as a communications mechanism...and there are reputational implications if the company did not report.” (p. 18).

Annual report disclosures confirm O’Donovan’s (2002) schema and suggest that if a significant incident occurs and there is a legitimacy/reputation reparation motive, the company is likely to alter perceptions about the event or conform to public expectations.

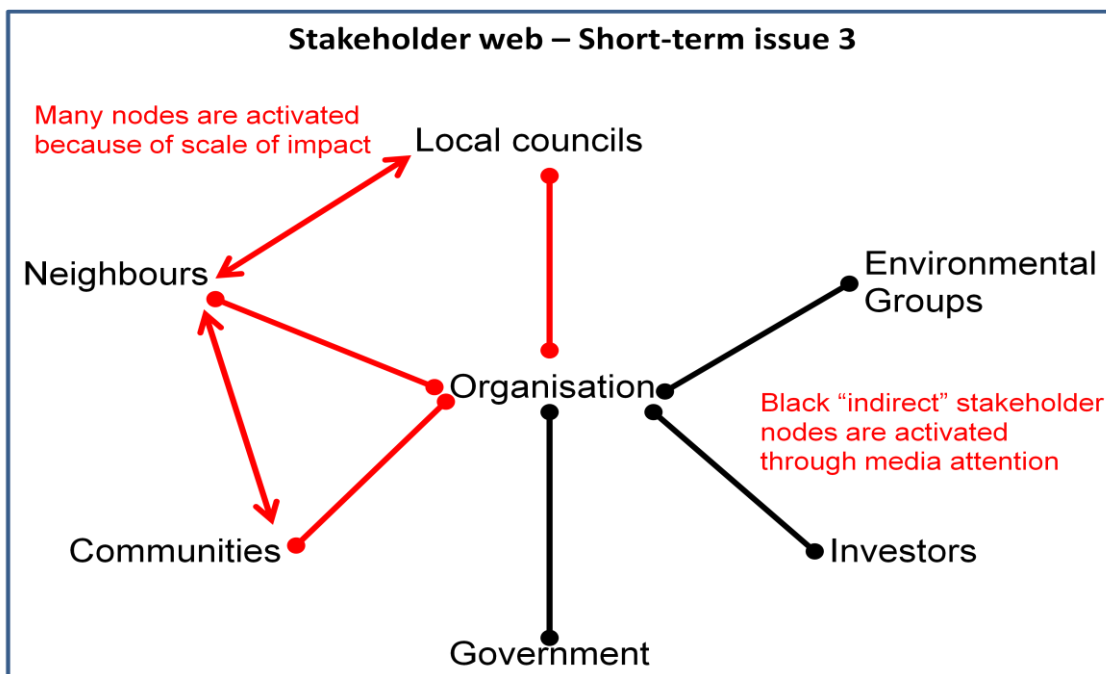


Figure 7.8: Stakeholder web diagram for short-term issue 3

7.4 The role of legitimacy in the long-term strategic decision

Delta was a major operational site close to a township. It had become well integrated into the community. However, the facility’s useable life was coming to an end, necessitating an evaluation of options for the future operating capacity of the company. After considerable forecasting of future profitability, the company announced several possibilities for its continued operations and embarked on an extensive process of regulatory approval and

community consultation. The decision was very important for the company and directly affected the nature of its operations and impact on communities. The following will outline key aspects about the strategic decision to procure a new operational site at another community. Similar to the short-term issues discussed above, the necessity to maintain the licence to operate and reputation of the company affects the alternative selection and decision making process.

7.4.1 Reasons for the project

The company is image conscious, given the environmentally sensitive nature of its operations and the “growing green voice” and concern from the political arena over climate change. Therefore, current operations need to be considered in relation to the image it wants to convey:

“[s]o for us - I mean we have a very old facility in [name of site]; it’s [decades old] and like all technology at that age it’s very inefficient compared to what you could build today. So I mean part of a vision is well, you know are we going to be operating that facility in 20 years time?” (Environmental Manager 2).

It was noted that another competitor had recently upgraded one of its own operating sites and had a superior array of capabilities. The pressure to keep pace with competition extended further than just to reach production and distribution parity, but to also protect their external perception: “...it would be embarrassing if we were [operating the existing facility for the next 20 years]...it’s a bit of, you know, it’s an old crappy looking facility; it doesn’t look real sexy...” (Environmental Manager 2). They did not want to be seen as the company operating archaic technology and “belching out emissions” (Line Manager 7).

In this vein, senior management recognise:

“for us climate change is a risk to the business...our Board expects us to manage [it] responsibly just as we are expected to manage currency risk. So the Board’s expectation is that this is an issue - it’s an issue that in the future could affect the freedom with which we operate our business and therefore we need to mitigate that risk in some way. We need to manage it and try and minimise our impact, so our licence to operate is not affected in the future” (Environmental Manager 2).

In terms of climate change risks, the introduction of the New Zealand Emissions Trading Scheme has been of great concern to the company. There has been a significant interplay in both media, public and political forums about the consequences of such a scheme on the commercial viability of some firms. Indeed, the company understands that in its current form, the scheme will lead to significant increases in production costs across the industry. This may have driven some large investment in competitors, and this bid to increase efficiency and reduce emissions also seems to be propelling a new look at the strategic options for the foreign affiliate. Furthermore, demand for product is projected to grow leading to production bottlenecks at the current site, but also increasing emissions costs, and consequently, lower profit margins. The project controller reiterated the decision about the future of the business as fundamentally it came down to the company’s “ability to operate - a licence to operate. It’s quite simple really you’ve got to be able to operate a profitable business over at least 50 years and your [resources] have got to be good”. Production related issues affecting the ability to make an adequate margin on sales were the primary issues that needed to be addressed (Project Co-ordinator).

7.4.2 Framework for decision making

The company's long-term strategic plan based on a Balanced Scorecard system provides direction in terms of the important criteria in evaluating and making decisions. A finance team member explained: "You've got to make sure that whatever you're proposing in your strategy has sufficient profitability and cash flow and all the other basic requirements of the road map. If it's missing one of those elements then you know that you've got some work to do. So it does provide a framework for you to make strategic decisions" (Strategic Accountant). Notably, he suggested that the strategic plan ensured that the company stayed away from unprofitable investments even if they were strategic in maintaining a mitigating competitive threat: "Well, that's great, but what's the return on the investment and can we justify that given that yes, its got that strategic purpose but isn't sufficiently profitable" (Strategic Accountant). Other companies were reported as not having such an "objective" system of evaluation, and were known to have purchased underperforming assets to protect their industry position.

As the potential investment in the project reaches into the hundreds of millions of dollars, the final decision is made by Head Office. The NZ subsidiary has to undertake a massive information gathering and consent exercise before presenting their proposal to the Executive Committee at the foreign affiliate's home country. A review of the company's website indicates that the decision of the Executive Committee could be affected by 1) the integrity of information provided by the NZ subsidiary, 2) comparison of the NZ project with other potential investments in other subsidiaries, 3) the necessary capital being available and 4) the regulatory and socio-economic environment within NZ. The Executive Committee's decision is finally approved by the Board of Directors before work can take place.

Building a business case for the project is a significant exercise in collecting, verifying and making sense of data from a range of sources. These have to be painstakingly pieced together and prioritised, and a cogent narrative written.

7.4.3 Information gathering process

The possibility of expanding production capabilities was considered as early as a few decades ago but an unfavourable economic climate hindered any implementation of these plans. However, the need to consider expansion in recent years has led to a range of feasibility studies in order to understand possible options. Initially, there were approximately 18 alternatives and these were ranked from most preferred to least preferred. As more and more work around the quality of the product, consent requirements, distribution systems, infrastructure and access to a workforce was conducted on each option, the rankings of each project changed. Finally, several years ago, the company made public its four most preferred options.

Updated project evaluations were produced for each site and included impact reports related to the environment, technical operations and community. These involved assessments including areas such as the landscape, ecology, transport, noise, air emissions, water, social impacts and cultural impacts. These findings were important in gaining a holistic sense of the operations at each of the sites, but the financial business case took a significant amount of time as costs had to be precisely estimated and rates of return projected. The ‘most preferred’ option received the most attention to detail as the other options were slowly dismissed.

“So yeah, I guess that took the longest and the business case getting all of that together is taking a wee bit of time too. But it’s pretty important that it’s right and the main part of that is getting the costings as accurate as we can and to do that we’ve had to include

all sorts of aspects like our civil costs, our main equipment supplier costs” (Project Co-ordinator).

As part of understanding these costs, the ETS has proved to be a crucial factor in determining production costs and ultimately, a new facility’s operating margins. The ETS, while not directly helping in managing sustainability issues in the localised community, contributes to New Zealand’s commitment to the Kyoto Protocol through reducing carbon emissions. Its purpose is to help companies internalise some of the costs of their externalities, thereby incentivising better management of its production processes and consequently, the environment in which it operates. The costs of the ETS have been extensively modelled and incorporated into decision making at the company:

“It actually had a critical role. We wouldn’t have been able to complete the business case until we had certainty around the policy – the New Zealand ETS policy - because for the cost of that we had to figure out whether it was worthwhile remaining in New Zealand” (Project Co-ordinator).

As much of the proposal’s costs were quantified as possible,

“...right down to kilograms you know we’ve factored absolutely every single environmental consideration emission, energy use – everything and that was done for not only just for the business case because we’ve got to get it signed off by the environmental people in [Head Office] as well. That’s also part of the conditions of consent – air discharge. You’ve got to have nailed all those things and you’ve got to have confidence – our Head Office has got to have confidence that the numbers that are in there are accurate. Because when you build the facility it’s all monitored and a lot of it is continual monitoring and a lot of it is independently verified. So you would never build

a facility that when you said your [name of emission] were going to be at a certain rate or your [name of emission] and then you built the facility and they were outside your conditions of consent with the potential be closed down. I mean nobody would ever build a facility with that risk, so they've got to be really sure that all of those things are absolutely correct. So all that work is done and we know every single emission, every single effect on the environment that will take place” (Project Co-ordinator)

Indeed, without fully accounting for the company's impact on carbon emissions the project may well have been deemed too uncertain and rates of return considered too vulnerable. The tender process alone for equipment consisted of thousands of pages of documentation sent to and from each of the five suppliers across the globe. Most information was collected outside of existing management control and EMS. Collating information for specifications and determining the costs of each component were massive undertakings that relied on expertise within the firm, where possible, and from externally contracted experts.

If this were the case, the proposal may never have received any traction especially in the light of potentially higher returning projects in other countries in the affiliates' network. The significant nature of the investment has wide ranging impacts on both the future of the subsidiary, the foreign affiliates' operations in the region, and moreover, the economic and competitive landscape of the industry in New Zealand.

This scale of effect, together with the rigorous approval process the Resource Management Act 1991 demands, have led to an extensive consultation process that has involved experts from many fields of expertise, various interest groups, and the general public.

Ultimately, one of the most crucial points about the decision was “the costing and the net present values and everything are all worked out, so that you look at a long-term – we have a

long-term view of that and what's going to continually add value and ensure that we remain in business over a long period of time" (Project Coordinator). This means that *all* factors which could affect the operations of the company are considered, and to the best degree possible, quantified. Therefore, it provides a much more rigorous framework for assessing the opportunities and risks involved in the venture. The interviewee continues "[i]t's an expected part of the project - a capital project of this size that's what you do... There's no all of a sudden [sic] someone had a good idea that was to be done from the first day of the project." This can be viewed in light of the short-term decision where much more emphasis is placed on 'ideas', and knowledge that is available to some (such as the environmental team) may not be dispersed during the process of making the decision. This means that some short-term decisions are potentially made without all relevant information and could, therefore, possess higher risk.

This completes the important aspects of the business case which are considered by the Executive Committee and Board in NZ before being sent for a final decision by the Executive Committee at the foreign affiliate.

7.4.4 Maintaining legitimacy through actions

The preceding discussion has highlighted the necessity for management to factor in risks, particularly from "environmental concerns" like the Emissions Trading Scheme and other governmental policy. Over the past decades, and accelerated by the Climate Change debates and draft protocols first established at Kyoto, environmental concerns have become increasingly accepted by more of the general public as a fact rather than just a discussion point for radical environmental groups. This has presented a shift in the norms and customs of society and implies that the company must either adapt to its new 'social contract' or face

threats to its legitimacy. The company faces a new decision in terms of the way it wants to position itself in the new social field. The Group Company's key options are to withdraw from New Zealand and shift operations to another country where norms and customs are still in line with the company's prior "business as usual" operations. Or its alternative is to change to a new mode of operations which takes on a more "sustainable" vision and fits into the changed norms and customs.

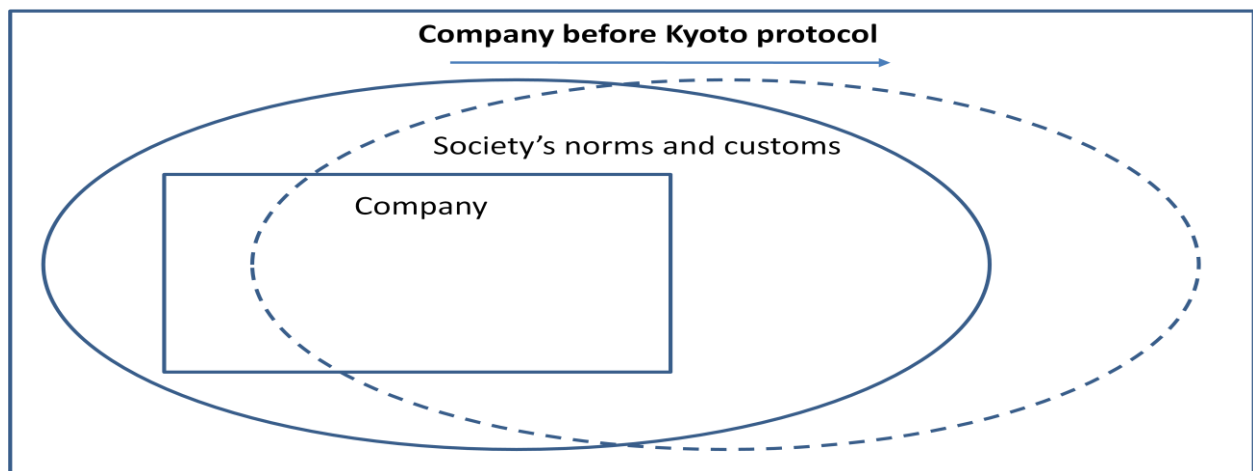


Figure 7.9: Position of the company relative to changing social norms

Figure 7.9 illustrates an aggregation of societal norms and customs. Before the Kyoto Protocol and similar 'catalytic' events, the company functioned well within society's expectations. The growing body of research about anthropogenic climate change and mainstreaming of environmental concern has shifted societal expectations so that at least part of the company falls outside those bounds shown by the dashed ellipse. While there has been some reference to relevant publics, most academic papers have only looked at society's expectations as a whole. It can be suggested that society's norms and customs are made up of a diverse range of stakeholder beliefs and expectations which converge under the strongest and most powerful stakeholder's norms. Figure 7.10 on the next page is an attempt at mapping the different stakeholder expectations that a company must try to fulfil. The larger

the circle, the greater the power a stakeholder group has over the company. The company will generally try to fit within the expectations of its most powerful stakeholder (the International Board who is its shareholder and can divest itself of the subsidiary), who can incorporate most concerns of salient parties (such as local councils), and work around the most important expectations of its other stakeholders (such as the community). How the company decides to match the sometimes converging and sometimes divergent expectations of these groups will determine its operational future. Importantly, the company needs to consider the risk involved in the salience of stakeholders changing, and moving in and out of its mode of operations.

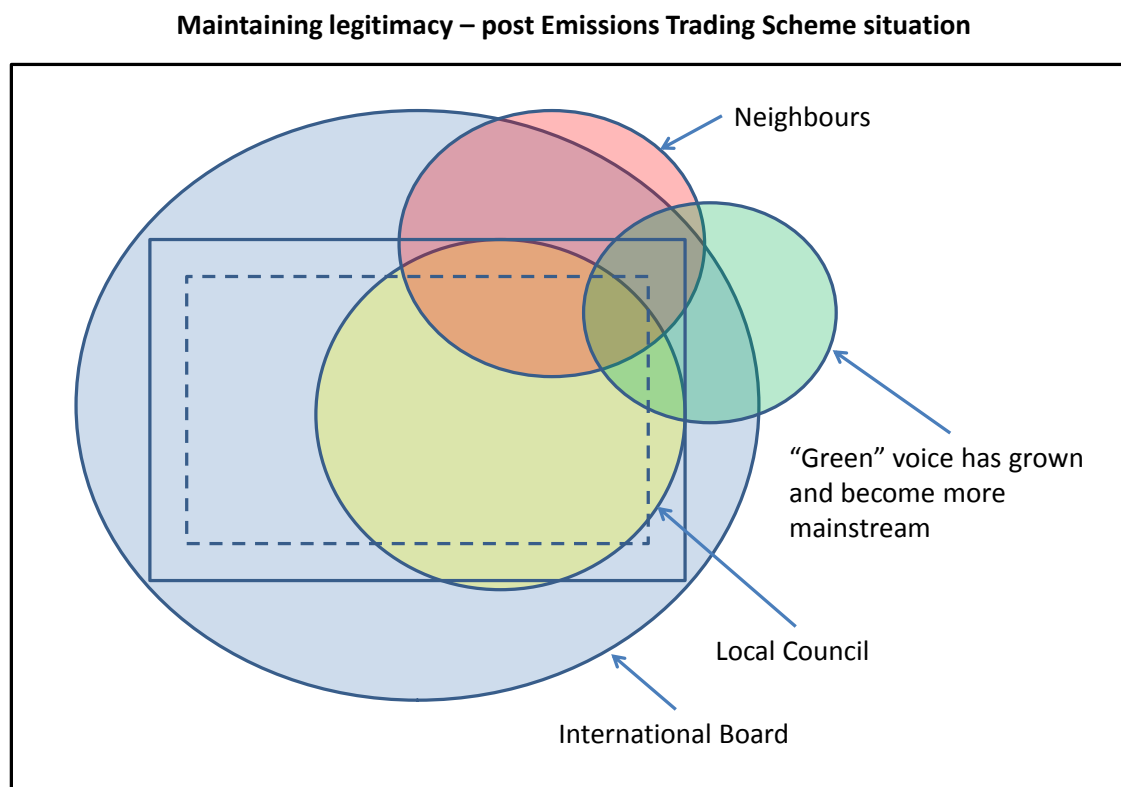


Figure 7.10: Conforming to diverse stakeholder expectations

The outcome of the long-term decision will change the way the company operates in New Zealand. A considerable amount of money, time and other resources have gone into developing the proposal for the International Board, but also into preparing the New Zealand

community where the new site may be based. Potentially, widespread effects result from a new operational facility in the community including the creation of direct jobs and indirect ones through the contractors and other businesses that will have new work. A site here will also mean some upgrades to the infrastructure and increased economic prosperity for the local council. The immediate neighbours of the site will have to deal with externalities like emissions and noise. Debate over the environmental impacts of the site has been drawn out through the Environment Court and the Resource Management Act 1991 has also meant extensive stakeholder engagement is necessary. This suggests that most nodes with salient stakeholders have been activated. Direct action has a limited place in this setting where there are no “direct” stakeholders because the issue is so wide and encompassing. Furthermore, as the company does not have a site in this community, it cannot fortify itself with a previous track record of a good reputation. Instead, it must build legitimacy through a suite of communication tools.

7.4.5 Reputation through communication

The company has a number of different media to update and communicate with stakeholders. These include a customer newsletter which is available at most Sales Offices and sent out to major clients; a staff newsletter with news from across New Zealand; media releases which are held on the subsidiary’s website; stakeholder engagement meetings; and importantly, a quasi triple bottom line report which is produced each year.

In general, the long-term strategic decision about the future of the company’s operations has attracted a lot of media and public attention. A decision of this scale has far reaching impacts for the company, the local communities in which it operates, and the jobs that are at stake. Because of the very specialised nature of the project, requiring careful communication with

various stakeholder groups at the most preferred option site, the annual triple bottom line report has only provided general information about the company. Indeed, the audience for the document is eclectic, with a mailing list reaching over 800 recipients including Members of Parliament, customers, employees and communities in which the company operates.

Again, attention is drawn to the visibility of the company “because you might say we’re a big dirty industry and so we have to show that we’re very conscious of the way that we operate and we try to do it in the best way possible. It really becomes our licence to operate” and communications in the triple bottom line report are “about building up a track record of positive things knowing that there are also a lot of negatives out there and people have only got to do a web search” (External Relations Manager). So in this sense, the report is used as a reputational buffer, providing positive disclosures to potentially mitigate the damage of negative shocks and this strategy may serve a very real and useful purpose (see Chan and Milne, 1999). Indeed, this aligns well with recent findings from Higgins et al., (2011) who conducted a large survey of Australian companies’ reporting practices and reported that 88 percent of companies expected external reporting to improve or manage their reputations. Indeed, they found that 93 percent of ‘visible firms’ expected external reporting to signal commitment to social/environmental matters compared to 73 percent in less visible firms. The visibility and potential for legitimacy threats from the external environment thereby seem to be a key motivator.

The communications about the long-term decision were far more catered and specific to the information needs of the stakeholders affected. Much of the disclosure, however, was necessary as part of receiving regulatory consent, and it is hard to say to what extent the company would have been forthcoming if this were not the case. The regulatory process ensured that there was adequate dialogue between the company and its stakeholders, and that

there were public forums in place to air any concerns. Indeed, the company was proactive in running special information evenings to ensure dispersal and engagement with the community to win rapport and allay any concerns. Information sheets were produced at regular intervals and a holistic range of topics about consent and operational issues.

O'Donovan (2002) and Benoit's (1995) image restoration framework provides some useful avenues for building a model of behavioural and reporting outcomes from negative social/environmental incidents. Table 7.1 summarises response strategies for the company in the short-term and long-term scenarios. The objectives of the company's response behaviour are included together with the following three characteristics which are used to describe each scenario: 1) visibility, 2) salience, and 3) interconnectedness. The response schema is in line with those presented in O'Donovan (2002), Benoit (1995) and Bebbington et al., (2008a).

Table 7.1: Company response matrix to environmental incidents

	Objectives	Visibility of incident	Stakeholder salience	Inter-connectedness	Response
Short term 1	Maintain reputation	Low	High	Low	Avoidance behaviour/No reporting
Short term 2	Repair reputation	Medium	High	High	Direct and immediate action/No reporting
Short term 3	Repair reputation	High	High	High	Direct and immediate action/Substantial reporting
Long term	Gain reputation/legitimacy	High	High	High	Substantial reporting/stakeholder engagement/management

7.5 Summary and conclusions

This chapter discussed three short-term decision making contexts and a long-term strategic decision in the company. The role of reputation management and legitimacy was explored through the introduction of a 'stakeholder web' model which highlighted the company's behaviour when facing different contextual variables such as 1) the visibility of the incident

or issue, 2) stakeholder salience (priority and whether they were directly or indirectly affected by the incident at the company), and 3) stakeholder network dependencies and interconnectedness. The company prefers direct action to contain problems where possible, and external reporting only features in some scenarios. Findings suggest that reputation and legitimacy must be understood in terms of *behaviours* (processes) as well as external reporting outcomes. The next chapter will summarise findings and draw conclusions for the study.

CHAPTER EIGHT

CONCLUSIONS

8.1 Overview

This chapter presents the conclusions of the thesis. The purpose of the research will be reiterated followed by the main findings related to each of the three research questions of the study. Finally, the contributions of the thesis will be summarised and the chapter will end with suggestions for future research.

8.2 Summary

The purpose of this thesis was to understand how sustainability is understood and incorporated into organisational processes and decision making. Chapter 2 – Literature review summarised a diverse body of work in Social and Environmental Accounting and Management research. This chapter illustrated how research on internal sustainability systems was rare (see, for example, Adams, 2002; Parker, 2011a), especially because of the intensive qualitative methods that are necessary to gain the depth of insight needed to advance the field (Adams and Larrinaga-Gonzales, 2007). Furthermore, Social and Environmental Accounting has mainly focused on external reporting behaviour of firms. Legitimacy theory has been a particularly dominant paradigm in explaining the motivations and outcomes of disclosure, however, academics have voiced the need to “put ‘flesh’ on the ‘bones’ of legitimacy theory explanations” (Bebbington et al., 2008a). Drawing on studies

from Management and related fields, Chapter 2 maps the current theorisation on reputation, resource dependence and stakeholder theory. Insights from these theories, together with gaps in knowledge regarding internal company practice and behaviour, led to the derivation of the research questions for the present study in Chapter 3 – Research questions. The methodology for the current research was explained in Chapter 4 – Research methodology. A comprehensive case study of a wholly-owned subsidiary of a large multinational company was conducted. Data collection was extensive. It included approximately 26 interviews with key staff from a range of functions, nearly a dozen site visits, attendance at company meetings and confidential internal documents. The volume of data collected enabled an in-depth exploration of the company’s operating context and its organisational systems. Analysis was based on the research questions of the study and broken into several stages. Descriptive findings from this analysis were presented in Chapter 6 – Findings, which addressed the first research question on internal sustainability systems and external reporting. Chapter 7 – Discussion and Analysis concerned the remaining two research questions and presented a theoretical analysis of the strategic importance of managing reputation and maintaining legitimacy. Key conclusions from the Findings as well as the Discussion and Analysis chapter are summarised in the following sections under each research question.

8.3 Conclusions

RQ 1: How is ‘sustainability’ integrated into the case company’s internal processes such as strategy-setting, management control and external reporting? How and to what extent are these internal processes connected to each other?

The company considers sustainability to be a strategic issue. Sustainability strategy was formulated by senior management together with other H & S and environmental staff from the different business units at a two day environmental seminar. The vision statements arising from the seminar included: 1) focusing on biodiversity and the environment, 2) social engagement as a sustainability priority and 3) the understanding that the company had a 'high value' reputation that needed to be maintained. These vision statements are filtered down through the organisation with the aid of conventional MCS and the company's EMS.

Overall, MCS and EMS are relatively well integrated with the financial team acting as a central point in collating information. Prior research has found this to be an effective method for implementing sustainability strategies (Riccaboni and Leone, 2010). Currently, internal reporting and control systems are rigorous and frequent. Most employees communicate frequently with their line managers on the KPIs which are delegated to them, primarily via the Balanced Scorecard. The EMS has been developing over a number of years and contains a number of elements such as the Issue Reporting System for tracking H & S and environmental incidents, and the Emissions Reporting System for tracking GHG emissions output. Although environmental management systems are becoming better integrated into the company mode of operations, managers agree that there is some way yet before they are integrated or institutionalised as well as Health and Safety systems (CIMA, 2011).

A great many employees take pride in working for the case company because of its focus on employee welfare and very rigorous H & S systems which have been implemented internationally. H & S systems have been embedded deeply into company culture and ways of conduct (Albelda-Pérez et al., 2007). Most employees agree financial considerations are paramount for the company's current and future success and survival. The newer environmental systems may be harder for employees to understand in terms of their daily

tasks until more training is able to cascade this understanding down (Umashev and Willet, 2008). This may be why it seems as if financial considerations have a high weighting in decision making (Ittner et al., 2003).

Current budgeting and financial planning systems make it more difficult for environmental employees to implement certain initiatives they want, such as proactive reparation of bio diverse areas, because a business case generally needs to be prepared. This has caused frustration among some environmental employees who are seen as ‘risk advisors’ to those in authority, and do not have a budget of their own. Line managers also felt their ‘hands were tied’ since this year’s budget has already been set and the capital expenditure threshold was relatively low. A certain amount of tension has been created between the priority setting emphasised by the EMS compared to conventional MCS. However, some senior managers have argued that no ‘crucial’ environmental initiatives were postponed or not implemented because of strictly financial concerns.

There is some decoupling between the internal systems and the external reporting function of the company (see, for example, Durden, 2008). External stakeholder communication is carefully managed by an External Relations Manager. Detailed information is used from MCS/EMS where needed to defend or justify certain actions by the company. In this sense, environmental management systems serve a more direct role in mitigating negative stakeholder claims and legitimating the company’s operations than does external reporting.

‘There is no free lunch’ as one manager suggested. Stakeholder management is inextricably an integral part of the company’s processes although “stakeholder engagement” is purported to be a primary driver. Initially, when the company first started to report on triple bottom line performance, it claimed that its goal was to provide a comprehensive report of the company’s sustainable impact (Elkington, 1998). However, reporting has remained relatively constant

over the last few years, with some areas providing less information than in prior years. This may be because of the commercial sensitivity of reporting too much, and the way that the annual reporting system is only loosely coupled with the rigorous and thorough internal reporting systems, alluding to a performance-reporting gap (Adams, 2004). An external public relations firm interviews most senior managers and compiles milestones and achievements before handing them to the External Relations Manager and CEO for final approval. The annual report has less of an accountability role than a communication one. While some environmental employees would like to see the annual report improved and extended, there is a certain amount of friction from other parts of the company who resist attempts to change. Ultimately, evidence from senior management and financial employees suggests a legitimacy motive in preparing the report (Deegan, 2002; O'Donovan, 2002; Milne and Patten, 2002).

RQ 2: Why is managing sustainability issues important for the case company?

Legitimacy theory states that organisations aim to conform to the norms and customs of the communities in which they operate (Brown and Deegan, 1998; Deegan et al., 2002). Accounting literature on sustainability has argued that in order to gain legitimacy, an organisation must actively portray its compliance, or at the very least, create the perception of doing so (Deegan, 2002). Most prior work has focused on the external reporting behaviour of organisations (Tregidga et al., 2007). Reputation Risk Management is purported to be a refinement and extension of legitimacy theory, but has been the subject of much debate (Bebbington et al., 2008a, 2008b; Unerman, 2008; Adams, 2008). Again, while Reputation Risk Management seeks to offer alternative perspectives on Corporate Social Responsibility, this is limited to external reporting. Consequently, current literature on these theories

explores only a narrow vein of the suite of legitimation and reputation management activities which take place in companies. The last decade has sparked some work on internal sustainability practices which underlie external reporting functions, but much of this is limited to insightful and important, yet descriptive case study work (Adams, 2002; Adams and Larrinaga-Gonzales, 2007; Adams and McNicholas, 2007; Adams and Frost, 2008). For the most part, the internal mechanisms and company *behaviours* which explain how organisations continuously attempt to function within the accepted norms and customs of the communities they function within have been underexplored (Brown and Deegan, 1998). Chapter 7 – Discussion and Analysis explained the difference between legitimacy, as a condition necessary for an organisation to operate, and reputation as a resource which can be strategically managed to gain legitimacy.

Some employees describe reputation as an asset which can be managed to create trust and goodwill between groups of stakeholders (Barney and Hansen, 1994; Deephouse and Suchman, 2008; Frooman, 1999). The company is very dependent on the local council and neighbours living in close proximity to operating facilities to provide it with a “licence to operate.” In this sense, if the company falls outside the “norms and behaviours” expected by its “relevant public” it may face legitimacy threats, with the penalties resulting in infringement notices, fines or closure. Environmental incidents have occurred in the past and have continued to occur, even with careful management, comprehensive training programs and an evolving EMS. The reputation and image consequences are generally severe. One strategic interest in conducting this activity is to ensure that company has a good reputation and avoids situations where after a negative incident “we would have people going to the media instead of coming to us and complaining” (Capital Projects Co-ordinator). These perceptions lead on to the answer to Research Question 3 presented next.

RQ 3: How and why do reputation management and legitimacy feature in the case company's responses to environmental incidents?

Gaining and maintaining reputation then allows greater defensibility against legitimacy threats. Borrowing ideas of interconnectedness from resource-dependence theory, and the concept of stakeholder salience from stakeholder theory, a 'stakeholder web' is constructed to illustrate the urgency of a situation and likely responses by the company to mitigate reputation damage (see, for example, Pfeffer and Salancik, 1978; Hillman et al., 2009; Donaldson and Preston, 1995; Mitchell et al., 1997). In a short-term sense, when an incident threatened the neighbours, action was taken immediately to resolve the problem regardless of the cost (short-term issue 2). This is because of the high salience and interconnectedness of the neighbours as stakeholders. Because neighbours do not have direct power to censor the company, they may feel driven to escalate the situation to involve other more powerful stakeholders (such as the local council) and pressure the company to conform to their expectations.

However, with some other initiatives such as short-term issue 1 concerning a discharge overflowing and affecting bio-diverse sites, action had been postponed for years. This problem is contained on company land and not externally visible. The local council has been "managed" to limit their scrutiny of the company (Frooman, 1999). There is a difference in the urgency of action depending on the salience of the stakeholders affected and the visibility of the issue (Mitchell et al., 1997). The local council is a salient stakeholder that has the ability to revoke the company's licence to operate (Agle et al., 1999). However, the company has built a good reputation with the council inspectors and is able to 'manage' them so that the issue could be 'handled' internally. Only in the case of a publicly visible incident (short-term issue 3), with high stakeholder salience and great interconnectedness between

stakeholders, did the company produce direct action to remedy the situation and also launched a suite of communications to promote the ‘good things’ it was doing. The company tailor made action towards satisfying directly affected stakeholders and repairing its reputation. External reporting and press releases were produced to mitigate damage to the reputation from ‘indirect stakeholders’ who were informed through national media coverage (Madsen and Ulhoi, 2001).

While the short-term issues are mainly around reducing reputation damage so that the licence to operate for the company can be retained, the long-term strategic decision involved more concern with the overarching legitimacy of the company. To mitigate the legitimacy threats that may arise, the company tries to build “good relationships” with salient stakeholders (Mitchell et al., 1997; Frooman, 1999). However, the growing “green” voice has led to a shift in societal norms and perceptions, bringing into question the legitimacy of the company’s current operations. The Emissions Trading Scheme has added significant projected costs to the company and raised doubts over long-term profitability. The company has a strategic decision to make about whether to ‘conform’ to new societal expectations in NZ or to withdraw from the market completely and pursue opportunities in regions which are friendlier to the current mode of operations. The most pressing concern for the NZ division was in building trust and reputation between stakeholders from scratch. The company had to build reputation and legitimacy at the same time in order to secure the consents and community buy in for the new operating site. This was done using a range of communication tools ranging from the annual report and tailored information released through the press, or targeted mail outs where specific community concerns could be addressed. The company held community consultation meetings to raise its profile and settle concerns from

stakeholders. Indeed, this was the preferred mode for delivering information about the strategic investment decision that was about to be made.

In summary, short-term issues concerning reputation are about boundary management. The company has to manage a diverse set of expectations from many stakeholder groups. It has to strategically manage these expectations and choose suitable responses which mitigate potential reputational damage and risks to resources or growth. In the long-term scenario, the company faces a legitimacy threat. This is a large scale event which is representative of a significant shift in societal expectations. The Group Company is faced with the choice to withdraw from New Zealand or adapt to the changing socio-political environment. It has to launch legitimacy building activities through communication tools which reach a large audience, rather than just direct targeted action to satisfy a small group of stakeholders as in the short-term issue scenarios.

Overall, this research has provided an in-depth examination of how sustainability is understood and operationalised through company processes such as strategy setting, management control and environmental management systems, and external reporting practices. Furthermore, this study provides some perspective on how a number of theoretical perspectives can be linked together to explore some of the decision making behaviour undertaken by a private company operating in an environmentally sensitive industry. Ultimately, this research introduces a framework for understanding the complexity of firm behaviour in terms of *actions* and not just external reporting *outcomes*. Contributions from this add to the extant literature in social and environmental accounting where legitimacy theory has emerged as the dominant theoretical perspective. Some avenues for further research are discussed in the following section.

8.4 Further research

Burritt and Schaltegger (2010) provide a review of sustainability accounting literature and argue that “the development of sustainability accounting and reporting should be orientated more towards improving management decision making” (p. 829). There are two main avenues for further research. The first concerns further research into internal company systems and their connection (or disconnection) with external reporting. It has been discussed that there is some decoupling between the external annual report in this case company and the extensive MCS and EMS which provide more detailed information to management. Some key questions to investigate are whether this practice is common in other firms in environmentally sensitive industries, why companies implement such intricate internal reporting systems, and what are some of the barriers to disclosing more of this information externally. Normative work may be needed to help bridge these gaps, particularly as discharging ‘accountability’ is purported to be one of the main reasons to report; however, this does not appear to be the case in practice (see, for example, Adams, 2004). The KPMG (2011) international CSR survey and the KPMG NZ (2008) sustainability survey reveal that external reporting in New Zealand is low compared to world standards. Moreover, most companies are still unsure about the exact definition of sustainability and its implications for business (KPMG NZ, 2008). Adams (2002) argued that research to date has focused on the external façade of a company and there is still a need for more work in understanding the internal contextual factors and processes which underlie that external façade. This provides impetus for social and environmental accounting to expand its current scope and explore new territories that may reveal practical contributions for how organisations may ‘operationalise’ sustainability. Ultimately, more work on internal sustainability systems will prove fruitful in guiding current practice.

The second major avenue for further research may rest in using further case study and mixed methodology to research the internal behaviour of organisations around managing reputation. The current research study proposed a framework for connecting reputation, legitimacy theory, stakeholder theory and resource dependence theory. This model can be used to study company actions and behaviours in other organisational, industry or country settings. For example, how do companies manage risks from changes in public perception and legitimacy? How do companies gain/maintain/defend reputation in a broader series of contexts? How does the industry, socio-political or cultural setting in which the company operates effect its response behaviour? Milne and Patten (2002), for example, highlight the way the nature of the industry may have a considerable effect on attitudes and reporting around CSR. As such, are there any more intricate aspects to how reputation is built, managed and repaired?

Future studies can investigate a broader spectrum of environmental or Health and Safety issues. For example, do reputation management responses change depending on not only the “incident” but also on the nature and relationships between stakeholders? Moreover, there is much room for understanding the impact of stakeholders on company decision making. For example, how and why do stakeholders change in their level of salience and what implications does the interconnectedness of stakeholders have in coercing firm behaviour? These are but some of the many questions that may flow from a more refined and investigative theoretical approach to understanding sustainability in business. It is important that future research gains a more coherent understanding of company *behaviours* rather than just reporting *outcomes*.

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APPENDIX A

Lessons from conventional management accounting research

1. *Strategy*

In the 1980s, strategy became increasingly important with confidence crises in America (Dent, 1990). The concept of strategy has been a widely researched topic over the last few decades because of its considerable importance in the understanding and conceptualisation of business operations. Many academics have taken a pluralistic view of strategy especially since different disciplines and stances on the concept have led to the development of a varied array of schools, each focusing on a particular aspect of the strategy creation/implementation process (Mintzberg et al., 2009). However, it is still very much an evolving subject with a number of different typologies being put forward to describe organisational planning and responses to environmental and competitive forces (Whittington, 2001; Chenhall, 2003; Nixon, 2006). Chandler (1962) and Miles and Snow (1978) provided insights into the way that the strategic positions of firms affected organisational designs. While this research was primarily limited to describing the influence of strategic positions on the structure of the firms, later studies were centred on critically evaluating different strategic alternatives and how these could be used to increase organisation effectiveness and long-term survival.

A considerable normative literature was published during this period that presented various analytical frameworks to evaluate the viability of alternative strategic positions (see for example, Hofer and Schendel, 1978; Porter, 1980, 1985). These frameworks were seen as advances in the field that started to address questions around the ‘best’ strategy for a particular company, but more recently, there is a movement away from this mindset and an acceptance that “[e]ven when the general and more immediate environments of organisations

are similar, the business strategies, organisational configurations and processes that work for each may be quite different (Miles and Snow, 2003, as cited in Nixon, 2006). Therefore, it is important to give attention to the unique operating environment. The economic and socio-political situation is important, but more so, is the individual response of that company to the contingent factors affecting its operations.

2. Definition of strategy for this research study

The concept of strategy is thought of as an elusive one where there is no standard definition. However, the definition of strategy has become increasingly narrowed as researchers continue to refine their studies of strategy and organisational factors such as the competitive position and productivity of workers. Chandler (1962) defines it as “...the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying our [sic] these goals” (Chandler, 1962 p. 13). Wright (1992) produces a similar philosophy in defining strategy as “top management’s plans to attain outcomes consistent with the organization’s mission and goals” (p. 3). These definitions cover a number of different elements that mainly encompass the notion of “Corporate Strategy” (Anthony and Govindarajan, 2005). Corporate strategy involves two aspects: 1) strategic intent consisting of an organisation’s vision and mission and 2) patterns in resource allocation such as geographical expansion, mergers and acquisitions, divestment and diversification which describe how the company invests its capital in order to achieve its vision and mission.

Indeed, 10 prominent schools of thought have emerged, each describing an aspect of the “strategy” process (Mintzberg et al., 2009). This research project is not explicitly setting out to test or explore “conventional” schema for describing strategy. As such, it is appropriate to

discuss organisational strategy in a holistic sense, incorporating a simplified model to help elucidate the key objectives of the company and how it sets about achieving these objectives. Mintzberg's (1978; 2009) framework on the distinctions between intended, deliberate and emergent strategies will be useful for this purpose.

While the different strategic positions a company may adopt have been discussed, Mintzberg's (1978) raised a vital difference between the intended and realised strategies of firms. Companies have many mechanisms for implementing strategies, however, these processes may not actually result in the initial roadmaps being realised. Mintzberg (1978) claims that the definition of strategy by Chandler (1962) is incomplete, and should not be used by researchers. Intended strategy is the strategy which has been explicitly stated, purposefully crafted, and made in advance of specific environmental influences. Realised strategy is described as "a pattern in a stream of decisions" (Mintzberg, 1978 p. 935). This distinction has important consequences for further research into the interrelationships between strategy and organisational factors. It implies that strategy is not just fixed and immovable but reacts constantly with the environment to produce results that are different from what is originally envisaged. Certain plans which are initially conjured up do not necessarily translate into tangible action. But intriguingly, upon reflection a pattern may be realized which was not expressly intended, as shown in Figure 6 on the next page. Such plans are called 'emergent strategy.' It also indicates that while management uses different mechanisms to enact its strategies, these devices may also create as much new direction, as they do reinforce management's current vision for the firm. Figure 6 below summarises the essential concepts of Mintzberg's perception of 'strategy.'

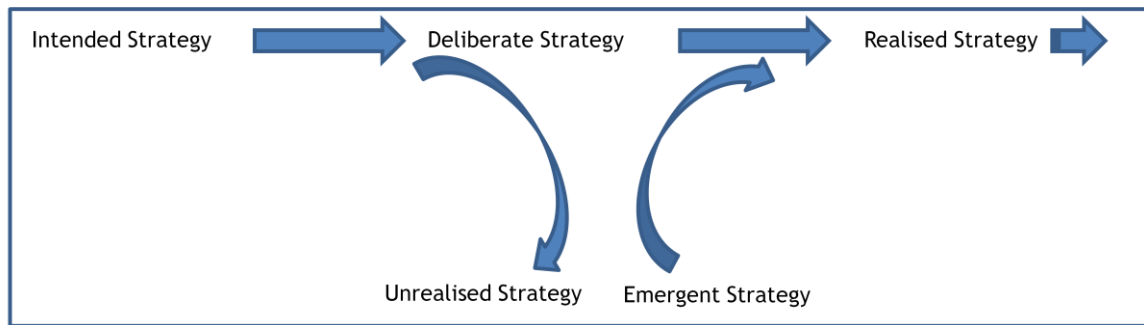


Figure 2.3: Intended and Realised strategy adapted from Mintzberg et al. (2009) p. 5.

Mintzberg’s (1978; 2009) model provides an efficient way to encapsulate an organisation’s strategy setting process, but more emphasis will be placed on understanding of the “intended” and “deliberate” strategies, as the focus of this study is on exploring how sustainability initiatives are deliberately integrated into an organisation’s ethos and way of being. Laughlin (1991) presented a series of scenarios about how an organisation would react to an “environmental kick” or boundary penetrating disturbance to an entity. The following diagram (Figure 2.4) explains how Laughlin (1991) conceptualises an organisation. In understanding “intended strategy,” this study will mainly try to understand the “interpretive schemes” via the beliefs, values and norms of the company and its mission and purpose.

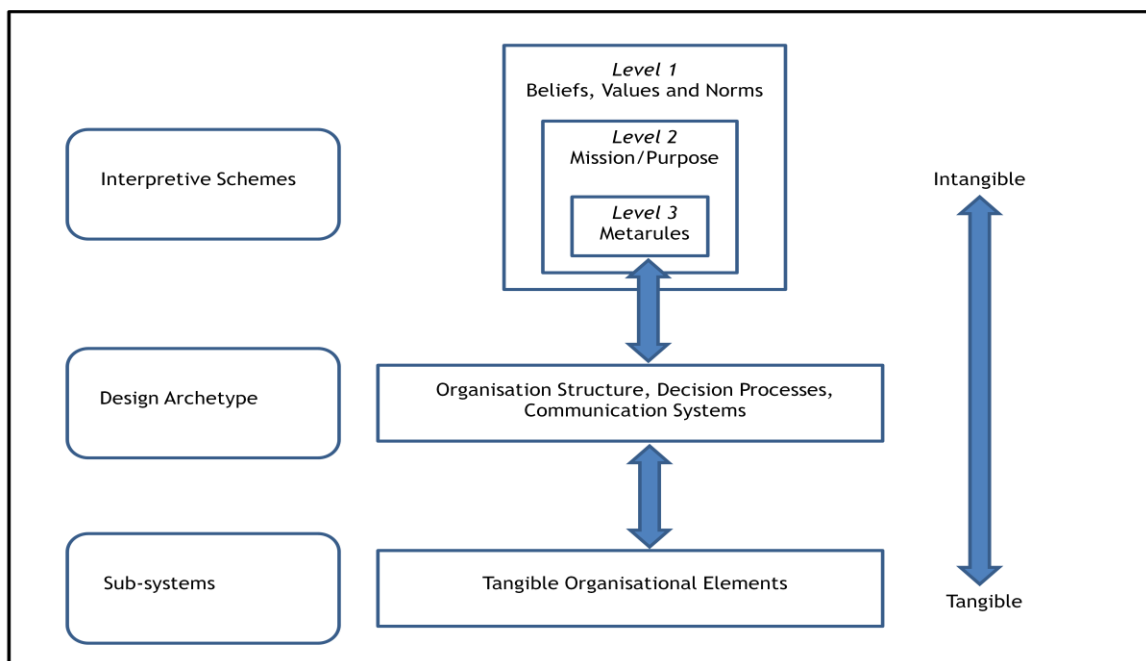


Figure 2.4: Adapted from Laughlin's (1991) model of organisations p.

This process of understanding emergent strategies provides important insights into prevailing sustainability research. Perspectives from Laughlin's (1991) model will also support an understanding of the 'contingency framework' harnessed in the Findings Chapter (Chapter 6).

3. Conventional research into strategy and management control

Langfield-Smith (1997) suggests that "the role of Management Control Systems in the formation and implementation of strategy is becoming of greater interest in both academic and professional management journals" (p. 209). Management control systems (MCS) unify distinct business units which may share only partially overlapping objectives and channel the energies of these units into achieving firm-wide goals (Ouchi, 1979, and Flamholtz, 1983, cited in Langfield-Smith, 1997). MCS are used both diagnostically and interactively to guide companies to their intended strategies. However, a MCS that is designed to cultivate and nurture a particular intended strategy may not be effective if the strategy is not realised in its original form. Miles and Snow (1978) considered that different strategic positions would be supported by different organisational structures and control system designs. "[T]here is a case for exploring relationships between organisations' strategies and their control systems, recognising strategic posture as an important variable in the contingency framework (Dent, 1986; Govindarajan and Gupta, 1985; Govindarajan, 1988; and Simons, 1987 all cited in Dent, 1990). The relationship between strategy formulation and MCS design, therefore, has considerable implications for an organisation's effectiveness in implementing set strategic objectives.

Some previous studies have considered that there is only a one sided relationship between strategy and MCS (Den Hertog, 1978 and Markus and Pfefer, 1983). These studies have implicitly assumed that organisational strategy and circumstances dictated the necessity and

the nature of the control systems that were to be implemented. Den Hertog (1978) examined the tension between strategies that aimed to change the organisational structure, and strategies to develop new information control systems in manufacturing firms. The study found that control systems can be used to “reinforce approaches such as decentralization, participation in decision-making and work structuring” which are driven by power held by certain entities or units within the firm (Den Hertog, 1978 p. 29). Markus and Pfeffer (1983) investigated the increasing complexity of accounting and control systems and the resistance that they faced from within the organisation. Again, management control systems were assumed to be derived from strategy and had no impact on affecting it. Rather, the stance the researchers took was that organisational culture and power within the organisation form the main barriers to the successful implementation. No consideration was given to the possibility of a reciprocal relationship between MCS, organisational culture, and the strategic position of the company.

Hopwood (1987) argued that strategies implemented with one purpose in mind can often lead to other unintended strategies. He cites a number of previous studies concluding that researchers were “content to see accounting change as a process of technical elaboration and, invariably, improvement” (Hopwood, 1987 p. 208). Specifically, Hopwood (1987) discusses the role of accounting and how it shapes, and is shaped by the environment and organisation it operates in. The article explores the nature of accounting as a social construction and proposes that accounting is intertwined with internal organisation forces and management regime. It is the start of considering that accounting may in turn have an impact on the organisation itself. Dent (1990) continues this line of thought adding that “control systems open up possibilities for abstracting from extant frames of reference for organizational action, creating new images of the organization and its relationship with its environment” (Dent,

1990 p. 20). Langfield-Smith (1997) consolidated these perspectives and indicated that MCSs and strategy are interdependent concepts.

A number of research papers have investigated the implementation of Management Control Systems during periods of strategic change (see, for example, Kober et al., 2007). Kober et al. (2007) explored how Management Control Systems were used to create organisational change and how they evolve to match changes in strategy. This explicitly introduces the concept of a two way relationship between management control systems and not just the single sided interpretation of earlier papers such as those of Archer and Otley (1991). In these studies, only the effects of intended strategies could be investigated because control systems were only investigated at the time of strategic change. Kober et al. (2007) set out to explain the interrelationship between MCS and strategy. Two research questions are developed where one concerns the interactive use of MCS to initiate a change in strategy and the other concerns the adaptation of MCS tools to match a change in strategy. The first question involves the intended strategies of the firm, and the second, the emergent strategies that arise as intended strategies are implemented. A longitudinal case study of the organisation's MCS before, during and after the change in strategic position was undertaken to allow a comprehensive analysis of the underlying intended, realised and emergent strategies. The results of the study indicate that "MCS mechanisms used in an interactive manner help to facilitate a change in strategy and, when a change in strategy occurs, the MCS mechanisms change to match" (Kober et. al, 2007 p. 427). However, Berry et al., (2009) suggest that even now, few studies have taken an integrative approach to understanding strategy and MCS linkages.

The Balanced Scorecard is a well used Management Control System which uses a number of perspectives to interlink strategy to organisational operations and performance measurement

and evaluation (see, for example, Kaplan and Norton, 1996, 2001; Berry et al., 2009). It has been suggested as one way that organisations can integrate sustainability issues into their conventional control systems (Eldenburg et al., 2011). While being a popular trend in performance management, a number of studies have found implementation issues or impediments in the organisation which reduced the scorecard's effectiveness and changed its original intended use. Ittner et al., (2003) found that the scorecard measures were used subjectively, diluting the objectivity of performance evaluation and placing greater emphasis on financial measures (see also, Berry et al., 2009). Malina and Selto (2001) found some inter-linkages between management control, incentivisation and strategic alignment. However, they echoed Ittner et al.'s (2003) results that subjectivity, top-down communication, and ineffective evaluation were impediments to scorecard success. Umashev and Willet (2008) discuss the issues with cascading the scorecard to all levels of the firm, and from their literature review highlight aspects important to successful scorecard implementation including 1) leadership, 2) incentive schemes, 3) training, 4) delegation of authority and 5) insufficient attention to unique contextual requirements. Sundin et al., (2009) explored the role of the Balanced Scorecard in dealing with multiple and competing objectives. They concluded that the Balanced Scorecard has the potential to help managers in making decisions with diverse objectives.

“...[I]n empirical research the importance of the distinction between intended and realised strategies is rarely acknowledged, and only in case studies are the process of strategy development and change considered.” (Langfield-Smith, 1997 p. 210). Hopwood (1987), cited in Ahrens and Dent (1998), referred to the “rich insight” that can be drawn from studying an organisation in its operating context. There has been greater emphasis over recent years on undertaking more qualitative in-depth studies to explore and understand the

processes behind strategy and management control development. While there have been considerable inroads into the field through the sheer diversity of approach taken, there are calls “to develop a cumulative body of performance management research, future research needs to examine the operation of overall performance management processes by using in-depth research method to understand the use, rather than the existence of performance management processes” (Stringer, 2004 p. 1).

4. Decision-making

This section briefly introduces some literature on decision-making research in management accounting. The purpose of this section is not to provide a comprehensive review, but an introduction to the issues and findings around previous ‘conventional’ research into variables, priority setting and human behaviour around decision making. Slagmulder (1997) used a field study to examine how management control systems help to align strategic investment decisions with the company’s strategy. Strategic Investment Decisions are intended to position an organisation so it may attain its long-term goals and reinforce market position or enhance future production capacity (Slagmulder, 1997, citing Marsh et al, 1988 and Butler et al, 1991). “A particular concern with regard to SIDs is to make sure that they support the strategic priorities being pursued and contribute to the realization of the company’s long-term goals.”

Furthermore, Slagmulder (1997) suggested that “most research on investment decision-making has concentrated on the techniques used for project selection and has largely ignored the broader managerial and organizational context in which these decision processes are embedded (Petty and Schott, 1981; Pike, 1983, 1988; Haka et al., 1985; Klammer et al., 1991)” (p. 104). The authors note the relative lack of research into the interrelationships

between management control systems and strategic alignment. They try to address this by conducting a rich field study to understand how management control systems for Strategic Investment Decisions are used to communicate information and co-ordinate activities. The authors explore the adaptation process of management control to achieve strategic alignment.

Carr et al. (2010) provide a “systematic conventional framework for explaining differences in SID [Strategic Investment Decision] making practices” (p. 168). The paper harnesses contingency theory to develop a model for analysing how companies may differ in their investment decision making behaviour according to contextual contingencies such as ‘market orientation’ and ‘performance in relation to shareholder expectations.’ Four categories for classifying companies are proposed including: 1) market creators, 2) value creators, 3) refocusers and 4) restructurers. The authors consolidated their framework using the following diagram:

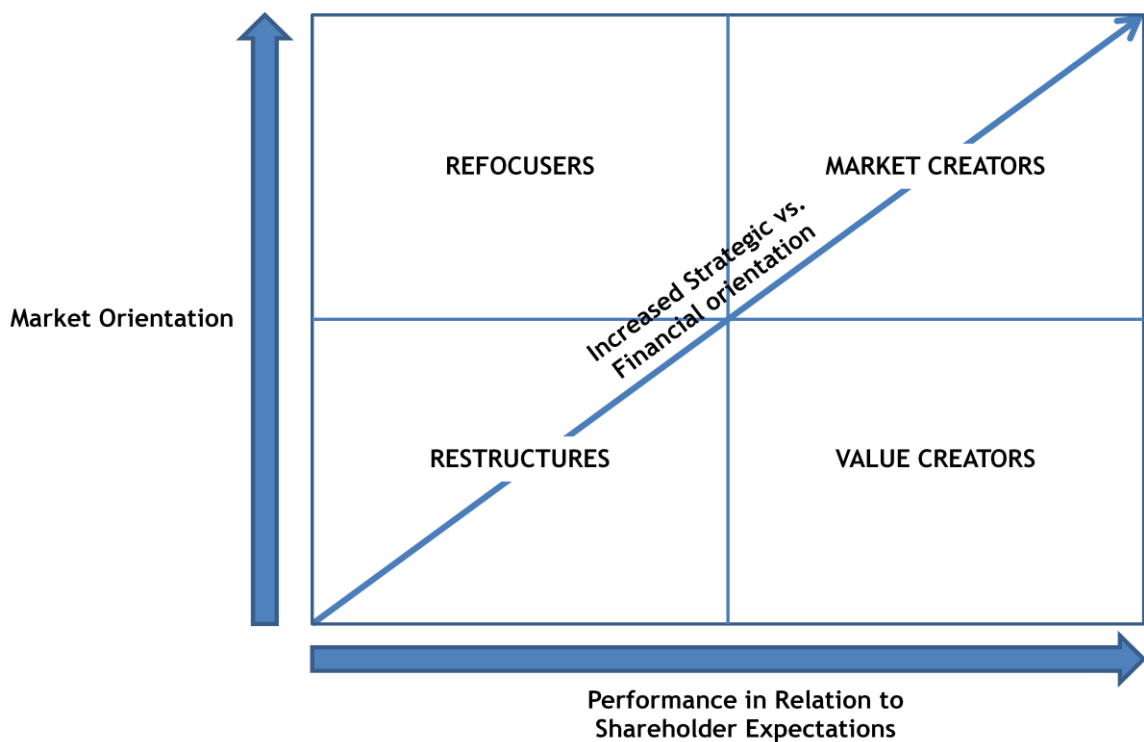


Figure 2.5: Contextual framework for strategic investment decision making adapted from Carr et al., (2010) p. 171.

Carr et al. (2010) also provide a broad based and comprehensive review of literature providing insight into key empirical findings about decision making and the use of management control. Firstly, companies which are not performing well financially tend to have stricter financial controls compared to companies which are performing well and have more latitude to make strategic decisions which do not necessarily emphasise financial rewards (Carr et al., 2010 citing Bibeault, 1981; Slatter, 1984; Van Cauwenbergh et al., 1996). Furthermore, if shareholders are perceived as having high salience or demand then financial targets would be much more rigorous (Carr et al., 2010). Finally, field study research indicates that there are cross-country and cultural differences in the way that Strategic Investment decisions are carried out (Carr et al., 2010). UK companies tend to emphasise financial outcomes in decision making compared to strategic ones. Japanese and German companies seem to focus on strategic outcomes more than financial ones, and U.S. firms are seen as balanced (Carr et al., 2010; Carr, 2005; Carr and Tomkins, 1996, 1998; Jones et al., 1993).

5 Summary and conclusion

What is clear is that there has been a considerable amount of conventional research into strategy and management control; however, the results of these studies are not as clear as the theory suggests. The main reasons for this are the variety of research methods and the dispersion in the level of factors that are observed and described.

In response to this there has been greater emphasis over recent years to undertake more qualitative in-depth studies to explore and understand the processes behind strategy and management control development. While there have been considerable inroads into the field through the sheer diversity of approaches taken, there are calls “to develop a cumulative body

of performance management research, future research needs to examine the operation of overall performance management processes by using in-depth research method to understand the use, rather than the existence of performance management processes” (Stringer, 2004 p. 1).

A number of recent studies have suggested the need for a more holistic approach towards examining performance management in its totality by examining the interconnections between various elements of the system such as objectives, strategies, budgets, measure targets, incentives, evaluation and information flows (Stringer, 2004). Moreover, Stringer (2004) suggests that in-depth research methods which involve spending time in the organisation (i.e., a longitudinal element), and in enough detail (e.g., talking to people across the organisation) are required to develop an understanding of the use, rather than the existence of performance management processes.

There has been a growing voice for using a broad based and holistic questioning system. Otley (1999, p. 365) has proposed a general framework around five questions:

- 1. What are the key objectives that are central to the organisation’s overall future success, and how does it go about evaluating its achievement for each of these objectives?*
- 2. What strategies and plans has the organisation adopted and what are the processes and activities that it has decided will be required for it to successfully implement these. How does it assess and measure the performance of these activities?*
- 3. What level of performance does the organisation need to achieve in each of the areas defined in the above two questions, and how does it go about setting appropriate performance targets for them?*

4. What rewards will managers (and other employees) gain by achieving these performance targets (or, conversely, what penalties will they suffer by failing to achieve them)?

5. What are the information flows (feedback and feed-forward loops) that are necessary to enable the organisation to learn from its experience, and to adapt its current behaviour in the light of that experience?

The questions above will provide some guidance to the present thesis, particularly in terms of how Chapter 6 – Findings is structured. However, some parts will not be elaborated in depth as this is not the purpose of the study. Greater emphasis will be placed on the interactions disconnections between strategy, environmental management systems and external reporting.

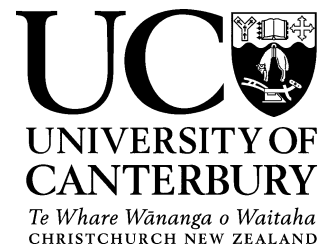
APPENDIX B

Semi-structured interview questions (an example of the general questions that were asked)

Please note that the following questions are only a guideline as the questions changed depending on who was interviewed and their role in the organisation. No interview covered all of these questions. However, each question was covered at least once, depending on the nature of the interviews, across the 26 respondents. As semi-structured interviews were used, the interview was allowed to flow freely with the interviewee covering most of the points on the interview guide without the need for direction questions to be asked.

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Interview Guide

Background

1. Please state your job title and describe your role in [name of organisation]?
2. How many years of experience do you have in your role at [name of organisation]?
3. What is the nature of your involvement in the annual reporting process?

Sustainability Strategy

1. What is your understanding of the concept of sustainability? What does it mean to you?
2. Why do you think it is important to be sustainable (strategically)? What motivated the senior management team to guide the firm towards implementing and achieving sustainability initiatives?
3. How has the [name of organisation] understanding of sustainability been communicated to you? How have you tried to communicate this idea of sustainability to other people in your firm?
4. What resources have you dedicated to ensuring that this vision of sustainability is possible? How do you ensure that these resources lead to their intended objective?
5. What is the purpose of external sustainability reporting for your firm?
6. Can you describe the decision making process on sustainability related issues for your company?
7. How are you held accountable for your performance? Are you held accountable for financial and environmental performance in the same way? If not, how is it different?
8. Can you please describe the way that the environment is managed at [name of organisation]?

9. How do you balance environmental performance with economic performance? What do you believe is most important for your operations?
10. How do you think social and cultural factors are addressed by [name of organisation]?

Management/Environmental Control Systems

1. Thinking about the financial and non-financial management control systems [names of some specific systems], how do you think these management control systems enable organisational strategy to be achieved?
2. What are the key environmental control systems that [name of organisation] uses? How do you think these are linked back to sustainability strategy?
3. How, if at all, do environmental systems and management control systems complement each other?
4. What do you believe are the key differences between how management control systems are used and how environmental management systems are used?
5. How do these control systems feed forward into the internal and external reporting processes? What information do they provide?
6. How, if at all, does the information gained through management control and environmental control systems feed back into the sustainability strategy development process?
7. How effective do you think the environmental management systems are at providing information for both internal and external reporting?
8. Would there be any improvements or suggestions you would have for improving the environmental systems in place?
9. Do you know how KPIs are developed? What do you think about the way that KPIs are developed and enforced?
10. What are your opinions about the way that [name of organisation] manages the environment? Is it proactive or reactive?
11. What do you think about the site specific EMS targets that you have? Do you know what they are for or why they are needed?
12. How do you think your employees react to the focus on the environment? Can you please compare their attitudes towards Health and Safety and economic performance?
13. Which stakeholders are most important to you and why? How do you try to engage with these stakeholders?

Sustainability reporting

1. Who is mainly responsible for preparing and distributing the annual report?
2. How do they gather the information required for the report?
3. Which information sources are most useful in preparing the reports?
4. How does preparing an external sustainability report help the organisation achieve its sustainability strategy?
5. In what way, if at all, does external reporting help to inform organisational sustainability strategy?
6. Do you think that the way [name of organisation] will conduct its external reporting will change in the future? And if so, how do you think it will change?

7. What purpose does external reporting serve for your company? The Annual Review is not required but it is produced anyway with some financial and social and environmental data. Why do you think this is?

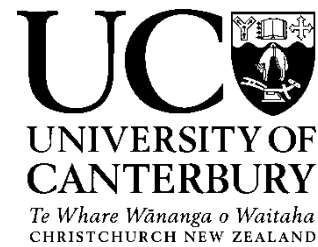
APPENDIX C

Human Ethics Approval

The following letter summarises the University of Canterbury Human Ethic Committee's decision to approve my study. This decision followed a detailed review of my planned research questions, methodologies, results and the way data would be analysed and reported. Anonymity and confidentiality were guaranteed to all participants.

Ref: HEC 2009/187
10 February 2010

Sanjaya Kuruppu
Department of Accounting and Information Systems
UNIVERSITY OF CANTERBURY



Dear Sanjaya

The Human Ethics Committee advises that your research proposal “An exploration of the interrelationships between strategy, management control systems and external sustainability reporting” has been considered and approved.

Please note that this approval is subject to the incorporation of the amendments you have provided in your email of 2 February 2010.

Best wishes for your project.

Yours sincerely

Dr Michael Grimshaw
Chair, Human Ethics Committee

APPENDIX D

Examples of field notes and observations

Presented below are the field notes that were later typed by the researcher after each interview or site visit. Notes shown below refer to tapes of a recorded interview which is why more observations than interviewee responses are noted. For the non-transcribed interviews, the interviewer took comprehensive notes during discussions to the greatest extent possible, and then supplemented these ‘within meeting’ notes with an ‘after meeting commentary’ documenting any further thoughts, perceptions or insights gained from the interview. The coloured boxes denote ‘personal thoughts/perceptions or materials received’ that the interviewer wrote down at the time. Words have been ‘blacked out’ in the notes to ensure the anonymity of the organisation and confidentiality of some comments which were made.

17/05/2010

Commentary and observations

Both [name of employee] and [name of employee] seemed to be in a good mood. [name of employee] took the lead in the meeting and was very open about his views about sustainability and what it meant for him. [name of employee] was more reserved and asked about the details of the project more.

Some interesting things that arose from the interview were that both of them wanted to improve the reporting at [name of organisation]. However, [name of employee] definition of sustainability is about long-term EBITDA performance. He sees sustainability as a way to ensure growth in the bottom line and used words like “we are not necessarily out there to save the world.” He later talked about how [name of organisation] wasn’t using its report as he thinks it should be. He talked about how the report could be used by marketing to increase relationships with customers and get more business → about improving EBITDA. [REDACTED]

[REDACTED] He wanted to consider adopting the style of report used by [name of organisation]. While they said that they didn’t have the resources to prepare something so comprehensive, it seems that they collect a lot of the important information to do so and this information is sent to the [country] head office and is combined into the global [name of organisation] report.

Interestingly he commented that managers won’t really listen to you if you don’t talk in numbers. They genuinely seem interested in understanding their processes and made sure that I was comfortable in giving them honest feedback. Perhaps this is a classic instance of the tension of balancing sustainability with the business case.

Materials Received:

I received hard copies of Annual Reports from 1996 till now.

Interview notes with [name of employee] – [role of employee]

[Name of employee] is responsible to [Name of employee] (manager in [name of region]). They catch up for an hour every Friday followed by more formal quarterly meetings.

They have an Annual report “Dialogue System” – the first one is after 6 months, the next in 12 months.

PD – Professional Development. This activity leads to the following targets being set:

1. Cost/Budget targets
2. HSE –[name of tool]
3. Delivery targets

He has a range of meetings ranging from formal to informal meetings.

[Name of tool] – There is a strong reporting culture for such incidents and this is part of the [name of system]. A brief account of what happened is included in the Incident report, together with who is responsible for the “account of the incident” and what action has come out of it. This way each incident could be tracked in terms of who was accountable and what action had been taken so far and what action would be taken in the future.

There was a [name of tool] of the likelihood and severity of certain “incidents.” The [name of tool] mapped likelihood with severity. Depending on the severity and likelihood of the event it would be communicated to different sections of the firm. [REDACTED]

[REDACTED] He saw the system as “not just reporting it for the sake of reporting it.” But it actually resulted in something.

HSE reporting was very stringent. They had regular safety tours which were mapped against a quota of how many needed to be done. The information on how many safety tours were done was shared on a board visible to all staff. This information was tracked and people are accountable if it is not done – tours not done appear in red. At [name of site], there are two safety tours per week and this is done by own staff and contractors. So there is a total of 96 per year.

[REDACTED]

[Name of audit] - this has audits for key standards. For example an electricity audit to ensure there are no electrical hazards.

Environmental compliance audit and quality assurance audits are done separately.

[REDACTED]

They are audited every year – once a year they are audited internally. Every two years they are audited externally.

“Audit for the sake of an audit” was his perception. There were 3 audits which he had to complete including: 1) Health and Safety, Quality Audit and Environmental Audit.

They have a once a month depot meeting – this is used as a place to discuss key KPIs. Sometimes he will send out an agenda for the meeting.

Look at operational performance graphs in these meetings

██████████

2. Regional
3. Look at incidents
4. Customer service issues – performance/faults

HSC – Health Safety Council – This comprises Senior Management and they review the process.

From time to time [name of employee] calls ad hoc meetings called “Toolbox” meetings. These are sub meetings and are informal and used to discuss specific issues/needs, such as a safety issue which needs to be raised with the workers.

Auditing helps to improve communication. [Name of employee] has a staff of four and delegates tasks to them.

He sets a budget for the year with [Name of employee] (his manager) and this is reviewed monthly.

Funding for [name of audit] comes from a different pool of money, not his own budget. Perhaps consider sustainability initiatives to be under the same category – especially for compliance issues.

KPIs include:

- 1) Budget
- 2) ██████████
- 3) Safety

The phone is a great tool. Weekly targets are set through this.

“To be honest, don’t hear about sustainability at all.” Snippets are gleaned from the newsletter. He said that sustainability is mainly the concern of the quarries.

He has worked for [name of company] for X years at [name of site]?

[Name of employee] described an even in [year] which made the news. [redacted]
[redacted] But at the end of the day it came down to actions which needed to be done to “save our image.”

[redacted]

He said that the area was still a hotspot and the last thing that they needed was another spill (which would most likely be through the air).

Incidents are investigated according to [name of tool]. Email [name of employee] about getting the matrix.

[redacted]

He says that the product is not ideal for maintaining a corporate image. But the employees need to be aware and conscious of their presentation – 1) uniform, 2) [redacted], 3) [redacted]
[redacted]

[Name of organisation] employees also have the chance to donate to CSR.

But he believes that HSE is sometimes overdone though the standards are easy to adhere to.

[redacted]

[redacted]

Paraphrased quote – “Don’t know what sustainability is about. I know that’s [name of employee’s] job title but little of that filters down here.”

APPENDIX E

Initial coding sheet

		STG	MCS	EMS	ER	REP	LEG	LTO	ST1	ST2	ST3	LT
1	CEO	✓	✓	✓	✓	✓	✓	✓				✓
2	CFO	✓	✓	✓	✓		✓	✓				
3	HR Manager	✓	✓	✓	✓							
4	Project Controller	✓	✓	✓	✓	✓	✓	✓				✓
5	External Relations	✓			✓	✓	✓	✓			✓	✓
6	Environmental Manager 1	✓			✓	✓	✓	✓				✓
7	Environmental Manager 2	✓	✓	✓	✓	✓	✓	✓	✓			✓
8	Environmental Manager 3	✓	✓	✓	✓							
9	Environmental Employee 1		✓	✓		✓	✓	✓				
10	Environmental Employee 2		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
11	Environmental Employee 3						✓	✓				✓
12	Environmental Employee 4		✓	✓		✓	✓	✓	✓			
13	Line Manager 1	✓	✓	✓	✓	✓	✓	✓				✓
14	Line Manager 2		✓	✓								
15	Line Manager 2 Assistant	✓	✓	✓	✓	✓						
16	Line Manager 3	✓				✓	✓	✓				✓
17	Line Manager 4	✓	✓	✓					✓			
18	Line Manager 5	✓	✓	✓	✓							
19	Line Manager 6											
20	Line Manager 7	✓	✓	✓	✓	✓	✓	✓				✓
21	Accountant	✓	✓	✓	✓		✓	✓				✓
22	Sales Manager 1	✓			✓	✓	✓	✓				✓
23	Sales Manager 2				✓		✓	✓				
24	Advisory Employee	✓	✓	✓								✓
25	Employee 1					✓	✓	✓				
26	Employee 2	✓	✓	✓	✓	✓	✓	✓			✓	✓

APPENDIX F

Initial coding of transcripts

These ‘rough codes’ presented on the following change were initially derived from prior literature and the research questions that were identified (Saldaña, 2009). The tape recordings were listened to carefully and transcripts read and re-read to ensure that any ‘new codes’ emerging from the data were also taken account of. While Saldaña (2009) explains that there is some contention about how much data should be coded, all of the interviewees’ statements were initially ‘coded.’ This constituted “Tier 1” of the analysis.

The following is a brief extract to demonstrate the initial coding that was conducted on the transcribed interviews. The interviews which were not tape recorded were also coded and this is shown in the following Appendix D.

Quotes

KPI tracking	Environmental Manager 2 (p. 1)	They provide to me the progress against the key performance indicators and the key performance indicators are incorporated into the environmental plan, so we have an annual environmental plan for each calendar year ---
Priorities of KPIs/environmental compliance	Environmental Manager 2 (p. 2)	Okay, so as every year we have maintenance and improvement of our environmental management system and [name of employee] did a major piece of work last year and is continuing this year on simplifying the environmental management system – making it more user friendly, so that’s the first one. The second one is avoiding environmental infringement notices and prosecutions and this year we’ve had one environment infringement notice which is disappointing for the company, so in the last two or three years we haven’t had any, which has been

		good
Lagging and leading indicators	Environmental Manager 2 (p. 2)	So we've met our KPIs, but this year we've had one. So those first two I would call 'lagging indicators' in that they are quite negative in that, you know, we are just maintaining compliance – we're doing what we need to do. Most of the other things in the environmental management plan I would say are more like leading indicators, where others include minimising waste, better energy efficiency, staff awareness and training.
Financial priorities/reputation	Environmental Manager 2 (p. 2)	Yeah, yeah we do, so the key people are the direct and indirect reports of mine. We have an environmental seminar and we talk about that. At the same time we also have a management forum with all the Managers and we talk more about key strategic issues, such as reducing carbon from our products and so that's where those ideas come from and the KPIs are set really – the leading indicator KPIs are set both on improving our environmental reputation if you like, but more so now, increasingly more so, actually adding value to the business, so where we can actually add some value to the business. So that's really where the priority rests where we can either minimise costs or increase sales through environmental and sustainable initiatives.
Definition of sustainability	Environmental Manager 2 (p. 2)	No, not necessarily. So I think about the longevity of a business and the evolution of a business as it trades

		<p>through time, it needs to consider community/environmental as well as financial aspects of its business and I think in New Zealand we also need to consider cultural aspects too and that's something – particularly in [name of location] we have done some work on partnering with local iwi, so that's another part of sustainability for me I think – that's probably my understanding. I typically – if someone was to say 'sustainability' to me I wouldn't think necessarily of human resource type functions, but I do know that that is other people's definition of sustainability, but for me that's not necessarily – that's not my role, so that's maybe why I don't think of it as ---</p>
Business case	Environmental Manager 2 (p. 3)	I think so and I think the justification for business continuing to maintain an emphasis on sustainability is as I said before for business reasons for the longevity of the business...

APPENDIX G

Example of the thematic ‘write-up’

The following extract highlights how different quotes from different interviewees were gathered under the various codes and themes. The interviewer questions were included to provide a context for answers. These enabled the write up of the case study description which would eventually be presented to the Board of the company as a “Case Report.”

LICENCE TO OPERATE

[Name of employee] (p.g. 34)

INT: Right, right, oh that’s great. Just before we go into the gist of the reporting process, I would just like to know your understanding – what you define as the concept of sustainability, like what does it mean to you?

RES: Oh I think it’s got many meanings to different people, but for me it just means overall not doing anything as a business that compromises the ability of someone else to kind of do things in the future and it encompasses things like CSR – encompasses things like environmental. It encompasses things like our ethics as a business and how we operate – all those kinds of things and the financial kind of side of thing. So obviously we’re sustainable from a financial perspective; we have to have our licence to operate particularly because of the kind of communities that we – you know the kind of work we do in our communities and we have to have our people on board with that. So that is where the whole kind of people aspect comes into it.

[Name of employee] (p.g. 51)

INT: Yes and in that sense how would you describe the decision making process to actually identify what were the procedures to follow and which things about the environment were most important to [name of company] to manage and which Health and Safety issues were the most important to manage like [name of vision]. Obviously as a company you value your workers’ safety as much as possible, so how did that come about, like I mean is it a champion? I mean could you ---

RES: I think it really comes from the top and it really is the decisions that they make and sometimes they take a long time before – it’s like the environmental policy, that took – there’s an updated version, but the version before that took almost a year to finalise and get right because people looked at all the implications and all the key things we said we would do and you know can we do it you know, is that too hard or should we do - so we went round and round and had all those discussions because we knew and they [the Committee] knew that if when they sign off on this and the Board knows when they sign off on the policy, that this is what we implement and so we need to have processes in place to implement that. So from the policy we start looking at ---

RES: As I said before that tends to be - I think the policy is really driven – the strategy, the business plans and setting objectives and for the Managers and the people managing their sites, there is some key environmental objectives that go back to the policy and then they have targets – measurable targets and they also have consents – conditions of consents which are non negotiable and we need to monitor those and...

Continued onwards...

APPENDIX H

Extract from report prepared and presented to case company

Brief description of work done

The researcher has conducted a comprehensive study of [name of organisation] Ltd through approximately 26 interviews with a range of staff from Executive members through to front line employees. The study has included a number of site visits to key [name of organisation] locations, observation of meetings including the [name of organisation] Environmental Seminar, and discussions with stakeholders at a [stakeholder engagement] meeting. The findings for the company are briefly reported together with some suggestions regarding the future of sustainability at [name of organisation]. The researcher is available to be contacted at any time regarding the research findings and its possible implications.

Employee perceptions of [name of organisation]

- One of the most resounding comments from a lot of the employees is the pride they have in working for [name of organisation]. Even employees with decades of experience recount how the work gets in your blood and you genuinely enjoy the atmosphere and the people around you. Newer employees commented on how they were always instructed to act with integrity and if something “wasn’t right,” they could always voice their concerns. Attitudes like this and initiatives like the [name of scheme] have helped create an empowered and quite passionate workforce, at least in the candidates that have been interviewed.
- All managers agree that sustainability ultimately means the financial viability of [name of organisation] units. They are adamant that business is business, and without financial returns it is hard to (and shouldn’t) continue. Sustainability plays a key role in ensuring the financial viability and “ticket to operate” for the firm. They have the sense that these come hand in hand and that “win-win” situations are very possible, and indeed, desirable to pursue (water reuse policies etc). Some sentiment exists that indicators and key initiatives are mainly set in a top down fashion particularly with the introduction of the [name of scheme].
- There is some tension between whether [name of organisation] decision making is proactive or reactive. In effect, it may not be either, but a rather diluted mix of the two which leads to the implementation of initiatives. This is understandable given the large size of the company and the diverse range of views held by the employees that run different business units. However, consolidated direction is possible as will be discussed in the “suggestions” section. Some standards seem to be driven by regulatory threat such as the [redacted] and the [name of organisation] with the Department of Labour regulations tightening. Internally, the firm seems much more proactive about innovating, which may be a consequence of

financial constraints (forcing employees to do more with less) and their intention to [strategy] the [name of organisation] brand and product.

- [redacted] A manager referred to the need to create a reputation buffer, through media like the Annual Report, which protected the company from potential negative events within the firm and also within the industry. It is most interesting that employees from all levels of the organisation, whether from top management right through to labouring positions, understand the importance of protecting and sustaining the company's image in order to ensure the "licence to operate." Constant attention is given to the way the company looks externally, and this self consciousness seems to stem from the heightened scrutiny that external stakeholders place on the organisation.

"An honest decent company."

Visibility of [name of organisation]

[Name of organisation] is prone to "attack" from stakeholders living in close proximity to the main facilities and operating facilities. The notion of stakeholder salience is particularly emphasised because of [name of organisation] dependence on retaining consents from Local [redacted]. The company is a very visible target in the communities it operates in. Any incident may have wide ranging repercussions for the company. Any issue that seems to affect its close stakeholders is actioned very quickly and very diligently. Several interviewees have mentioned the importance of "managing stakeholders" and keeping them on side. For example, an employee referred to the [name of site] [stakeholder engagement meetings] as a PR exercise which was just about keeping the neighbours happy. Another commented on the various "relationship building" activities they engaged in every year, including visiting customers and suppliers so they can better integrate operations. This extends even further into building close and mutually beneficial relationships with surrounding neighbours.

These examples illustrate the difference between reactive (managing stakeholders) and proactive (relationship building and creating dialogue) modes of engagement. What is also most interesting with regard to the influence of stakeholder salience is that even if the event or issue pertains to a potential consent breach, action from leaders is sometimes slow to arrive. If a "direct" stakeholder is affected the action taken is much more urgent and visible. This is good in that the most 'important' issues are addressed immediately, but what does it mean in terms of mitigating other potentially threatening risks?

"You get a scruffy company with a bad reputation; they don't hang around a lot."

Continued onwards...