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Addressing concerns about legitimacy: A case study of social responsibility reporting in the Australian banking industry

Abstract:
This paper investigates the relationship between social responsibility reporting and reputation at an industry rather than organisational level through a case study of the Australian banking industry. Since deregulation, the legitimacy of the social impact of the Australian banking industry has been questioned particularly through extensive media coverage. This case study investigates how the four major banks have responded to industry level legitimacy concerns through social responsibility reporting. Despite theoretical claims that organisations within an industry will respond to legitimacy concerns in a similar way, this paper shows that the banks in the study have responded in differing ways resulting in a disparity of approval rankings between organisations. Reputation rankings of the banks examined in this paper show varying levels of acceptance of individual organisations, despite ongoing media questioning about the legitimacy of the industry as a whole.

Keywords: Social responsibility, legitimacy, reputation, banking

Track: Ethics and social responsibility

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Purpose of research

Corporate social responsibility is an important organisational concern of the 21st century. As the private sector becomes more public, the media increasingly pay attention to and highlight discrepancies between organizational activity and social expectations (Argenti, 2003). Academics are also paying attention to how media coverage leads to organizational activity especially, in terms of social responsibility reporting (Deegan, 2002; Deegan, Rankin, & Tobin, 2002; O'Dwyer, 2002). Using legitimacy theory, these studies illustrate how social reporting signals that the organisation has responded to public concerns. One of the outcomes of this practice is the desire to improve the reputation of the organisation (Deegan et al., 2002). However considering legitimacy and reputation at the organisational level ignores important principles in organisational studies about the relationship between an organisation and its industry. The first is a central principle in organisational theory that legitimacy is gained through isomorphism or similarity with other organisations in the same population or industry (Deephouse, 1996; DiMaggio & Powell, 1983; Hannan & Freeman, 1989; Meyer & Rowan, 1992). The other principle is the impact of industry reputation (Ravasi & Fombrun, 2004) on the reputation of individual organisations (Fombrun, 2001; Ind, 1997; van Riel, 1995).

This paper considers corporate social responsibility at a population or industry level by exploring relationships between legitimacy, social responsibility reporting and reputation. It seeks to understand how populations of organisations address legitimacy concerns about their particular industry and how that is related to reputation. As such it investigates the important concept of the relationship between corporate social responsibility reporting and reputation at both organisational and industry levels to further understand how these levels of analysis inform and influence each other. This is done through a case study of the Australian banking industry which has faced considerable public disapproval since deregulation. This paper investigates industry and organisational level responses to legitimacy concerns through social responsibility reporting and the impact on reputation. The paper provides a short overview of the core concepts under investigation of legitimacy, social responsibility reporting and reputation. Methodology and research findings are then presented and implications and suggestions for future research are discussed.

Legitimacy

Legitimacy is defined as the perception of appropriateness that organisations meet expectations of the social system thereby showing worthiness to garner resources for survival and long term viability (Baum & Oliver, 1992; Meyer & Rowan, 1977, 1992; Suchman, 1995). Legitimacy can be cognitive where an organisation and its activities are ‘taken for granted’ as the usual way of doing things (Zucker, 1983). Legitimacy is also achieved by meeting accepted standards of activity (DiMaggio & Powell, 1983; Meyer & Scott, 1992). Studies that link the mass media and social responsibility reporting (Deegan, 2002; Deegan et al., 2002; Hooghiemstra, 2000; O'Dwyer, 2002) are based in the notion that media brings social pressure on organisations to respond and to demonstrate their legitimacy.

Another pertinent construct related to legitimacy is the notion of isomorphism and the similarity of organisations within a population to each other. When organisations in a population look alike in terms of structure, strategy or practices, this form becomes the accepted or legitimate way for the population or industry to conduct activities (Hannan & Freeman, 1989; Meyer & Rowan, 1992). Organisations become alike by adopting structures, strategies or practices of more successful or legitimate organisations (DiMaggio & Powell, 1983). Another way of becoming alike is by meeting the legitimacy expectations of influential stakeholders in the social system (Meyer, 1992).

As core constructs in organisation theory, isomorphism and legitimacy provide a central claim of how organisations can become legitimate by meeting organisational expectations about the appropriate ways to operate. These constructs also provide a framework for understanding how outsiders view the appropriateness or legitimacy of a number of organisations in the same industry or population. This provides links to the notion that industry reputation affects organisational reputation (Ravasi & Fombrun, 2004).

Corporate social responsibility reporting and reputation

With the social changes resulting from rising consumerism, increased awareness of environmental and ethical issues has moved the public focus from products, prices and service to one of a broader social responsibility of the entire organisation (Harrison, 1998). The dilemma of whether corporate social responsibility is primarily to shareholders (Friedman, 1991) or a broader stakeholder group (Donaldson & Preston, 1995) remains a central question for scholars of organisations and practitioners alike. The number of companies however reporting on their social and environmental achievements has been increasing over the years (Deegan, 2002; Deegan et al., 2002; Gray, Owen, & Adams, 1996) and social responsibility reporting has become an important aspect of business strategy (Hooghiemstra, 2000).

Corporate social responsibility has a strong link with corporate reputation. The corporate reputation literature originated in marketing's brand reputation literature and has spread to the strategy literature. Reputation has been defined as the accumulation of images of an organisation over time and across stakeholder groups (Fombrun, 1996, 2001; Fombrun & Shanley, 1990; Fombrun & van Riel, 1997; van Riel, 1997). Organisations with good reputations increase their ability to attract resources from the social environment (Fombrun & van Riel, 1997). Reputation also highlights status comparisons between organisations to determine their relative standing (Ruef & Scott, 1998).

Puente, Delgado and Mazagatos (2004) suggest that by achieving legitimacy or meeting social expectations with each of the organisation's stakeholder groups, an organisation can then move towards achieving reputation as a level of excellence. The notion of a sliding scale from positive affirmation (reputation) through to meeting minimum social requirements (legitimacy) has been suggested as a means to incorporate the perspectives (Zyglidopoulos, 2003). Deephouse and Carter (2004) called for further research into the differences and relationships between the concepts of legitimacy and reputation as they share central antecedents and consequences. What they share is the notion of organisational activity meeting expectations of appropriateness. Principles of isomorphism suggest that organisations will adopt similar responses to others in their industry to address legitimacy concerns because this is the best way to address similar problems. This study considers the legitimacy concerns raised in the media about the practices of an entire industry and explores the use of corporate social responsibility reporting by individual organisations within that group as a strategy to address legitimacy concerns and build reputation. The central research question guiding this study therefore is:

How are legitimacy, social responsibility reporting, and reputation related at a population level?

Background to Australian banking industry

In 1983 the Australian banking industry was deregulated to allow banks to become more competitive and flexible to meet consumer needs within a prudent regulatory framework. On one hand the banks have benefited financially with market capitalisation increasing from A$4.5billion in 1983 to more than A$200billion over 20 years and individual bank profits soaring. However the social impacts of the changes have led to widespread condemnation of the banking industry as a whole. Extensive job losses from downsizing, customer bankruptcy from incorrect banking advice as well as access to and affordability of financial products particularly in rural communities and to disadvantaged groups have consistently been raised in the media as social problems arising from deregulation.

Research method

As a case about corporate social responsibility response at an industry level, exploratory research was used to investigate how banks at both an individual and population level have addressed concerns about their legitimacy, social responsibility reporting of their actions, and reputation. Case study research was undertaken to investigate 1) adoption of social responsibility reporting and 2) reputation of the banks.

Specifically, the following research questions were addressed:

- How do banks report on their social responsibility activities?
- Is there a relationship between social responsibility reporting and reputation?

A comparative case study approach was adopted using a purposive sample of the four largest Australian banks – ANZ, Commonwealth, National Australia and Westpac - over a five year period from July 1999 to June 2004. Data collection involved accessing social reports of each of the organisations and information released by the industry body the Australian Banking Association. Evidence of social reporting was drawn from websites and print documents that included annual reports, social impact reports and policy statements issued by each of the banks. Reputation rankings were drawn from the Reputex index which ranks Australia's top 100 companies based on environmental, social, governance and employee dimensions. Data was analysed from a qualitative perspective guided by Miles and Huberman's approach to qualitative analysis.

Results

This section provides a discussion of the findings of this study related, social reporting to address legitimacy concerns of the social impact of banks and reputation.

Social responsibility reporting

Social reporting is a technique used by organisations to address legitimacy concerns raised in the mass media. Given that media has questioned the legitimacy of the banks' social responsibilities, this study then investigated the organisational level social reporting activities. Each organisation was assessed to determine what type of formal social responsibility reporting it carried out. Sources were: Annual report mentions of social responsibility (philanthropy, commitment to communities and employees); Social impact report; Social impact policy; Social responsibility discussion on website.

There is a change in reporting about social impact activities between the organisations as well as over the time period in this study as presented in Table 1. Initially, CSR reporting was related to discussions of sponsorship and philanthropy programs in annual reports. During this year the media reported a significant difference in opinion between the views of the Australian Banking Association who represented the interests of the industry of which these four organisations are the most powerful, and stakeholders influential in conferring legitimacy including the government. The banks said their obligation was to shareholders and social obligations were the domain of governments not private organisations. This viewpoint was widely condemned. In the following four years of this study, some banks began acknowledging their social responsibilities through the organisational mission and strategy. As shown in Table 1, the four organisations have made various changes in communicating their commitment to the community and to their social obligations. Westpac has been the most active in adopting such a stance and this has had a significant impact on their reputation ranking over the period of the study.

Table 1: CSR reporting activities of four major banks from 2000-2004

	ANZ	CBA	NAB	WPAC
1999-2000				
Annual report –				
-Mission/strategy	No	No	No	No
-Chairman/CEO address	No	No	Philanthropy	Philanthropy
-Other sections	Sponsorship/staff	No	Sponsorship/CSR	Sponsorship
Social impact report	No	No	No	No
Social impact policy	No	No	No	No
Website content	n/a	n/a	n/a	n/a
2000-2001				
Annual report –				
-Mission/strategy	No	No	No	CSR commitment
-Chairman/CEO address	Acknowledged issue	No	Need to rebuild reputation	Philanthropy
-Other sections	Sponsorship/	No	People/ community	Sponsorship
Social impact report	No	No	No	No
Social impact policy	No	No	No	No
Website content	n/a	n/a	n/a	n/a
2001-2002				
Annual report –				
-Mission/strategy	No	Staff/community	No	CSR commitment
-Chairman/CEO address	People & community	Staff & community	Staff/community	CSR
-Other sections	Community/staff	No	Communities	CSR
Social impact report	No	No	No	Yes
Social impact policy	No	No	No	Yes
Website content	n/a	n/a	n/a	n/a
2002-2003				
Annual report –				
-Mission/strategy	Sustainability	Ethical governance	No	CSR commitment
-Chairman/CEO address	People & community	No	CSR	CSR
-Other sections	Community/staff	No	St'kholder scorecard	CSR
Social impact report	No	No	No	Yes
Social impact policy	No	No	No	Yes
Website content	n/a	n/a	n/a	n/a
2003-2004				
Annual report –	Not yet released	Not yet released	Not yet released	Not yet released
-Mission/strategy				
-Chairman/CEO address				
-Other sections				
Social impact report	No			Yes
Social impact policy				Yes
Website content	Yes	Yes	Yes	Yes

Reputation outcomes

The reputation ranking for each of the four banks was determined over the study period 2000-2004. Overall the reputation of the banks has increased over the time period but show significant disparity in rankings from year to year and between the organisations in the study as shown in Table 2. One of the banks, Westpac, has held the number one position out of all Australian companies for three years running. In fact it is the only organisation in Australia that has achieved an AAA rating in the past three years. This is the organisation that has been public in its commitment to corporate social responsibility since 2000. As with variations in CSR activity of each organisation, there are also variations in the reputation ratings of each of the organisations in the study.

Table 2: Reputation ranking of Australian banks 2000-2004 against top 100 Australian organisations

	ANZ	CBA	NAB	WPAC
2000	46	70	69	35
2001	38	24	12	2
2002	10	26	29	1
2003	35	36	19	1
2004*	A	B+	AA	AAA

Source: Reputex Reputation Measure * Ratings provided at Nov 2004, rankings yet to be published

Discussion and implications of findings

The analysis of CSR reporting activities of the four banks studied in this paper and their reputation rankings show significant differences in the ways they have addressed legitimacy concerns raised about the industry throughout this time period. This has implications for the concepts investigated in this paper that by individual organisations in a population/industry adopting similar strategies, the legitimacy of all improves. It also seeks to address the claim in reputation studies that industry reputation impacts on organisational reputation.

The first point relates to media representations of legitimacy expectations and attempts over the time period. There has been a considerable change in the position of banks in regard to social responsibility over the time period. Individually, there were differences in the way banks chose to manage perceptions of legitimacy with their stakeholders using the strategy of corporate social responsibility reporting. Westpac has been active in taking a lead role in this type of reporting, with success measured in terms of its reputation ranking. Compared to the other banks, and even other organisations within Australia, it has resulted in a significant approval in its ranking. Principles of isomorphism suggest that over time organisations in a population come to resemble each other as a strategy to garner legitimacy. Copying practices of more successful or legitimate organisations is one of the key ways this occurs. In this case, it would appear that a consistent Number 1 ranking in reputation would indicate activities that are legitimate by the social system. However other banks in the population have not necessarily copied the release of social responsibility reports and commitment to social responsibility as would be suggested by this theoretical claim.

This has implications at a number of levels. The first is for principles of isomorphism in organisation theory. It appears that this principle is not at play in this situation. One reason could be the population's perception of more successful or legitimate organisation. This could reflect the esteem in which they hold the reputation ranking process or the activities of their counterpart. It also has implications for the notion that industry reputation impacts organisational reputation. Westpac has not only ranked higher than other banks, but is ranked higher than any other organisation in any industry for several years, despite the mixed rankings of its banking counterparts. This would suggest that individual organisations can have a higher reputation than their counterparts despite the reputation of the industry.

Another implication is for the use of social responsibility reporting as an accepted strategy to address legitimacy concerns. The majority of banks have not adopted CSR as a strategy to address concerns. This could reflect their perception of their power and influence in the social system as the financial success of these four organisations underpins the financial and monetary system in Australia. As such the message appears to be that this is how they see their contribution to the social wellbeing to the community. In addition, it may mean that since they perceive the legitimacy concerns to be at an industry level, they leave the industry association to produce information about the social contribution of the industry rather than needing to address these concerns at an individual level.

As such, these findings suggest that while the adoption of CSR reporting is linked to higher reputation indices, it is not necessarily adopted as a strategy by members of the entire industry to address questions of legitimacy. While the study was conducted over five years, this change may still occur and further studies could investigate this. Other types of isomorphism could explain this over time – the social expectation of CSR reporting as a necessary element of an organisation as more organizations across a range of industries report on their social impact; regulatory requirements to report on the social impact of organisational activity; or through professionalisation of organisational practice CSR becomes included as an integral part of an organisation's communication program for stakeholders.

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