Multi-Theoretical Perspective of Corporate Environmental Reporting: A Literature Review

Review of Integrative Business & Economics Research

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ABSTRACT

The purpose of this paper is to analyze the different theoretical perspectives used in the study of Corporate Environmental Reporting (CER) so as to present the areas of overlap that would support the case for a multi-theoretical approach. It responds to researcher's quest to find a theoretical framework that can be used to adequately explain and predict CER behaviour so as to establish ways in which CER can attain high quality. This paper employs a critical analysis of literature. Early years of CER studies tended to herd around specific theories, but recent times have seen advocacies for a multi-theoretical approach. The paper argues that researchers need to carefully reflect on the theoretical motivation and methodologies they use to make claims about CER behaviour especially where such claims aim at improving the practice of CER, making a contribution to policy making, and contributing to the good of the wider society.

Key Words: Shareholder theory, Legitimacy Theory, Institutional Theory, Shareholder Theory, Multi theoretical lenses

1.1 Introduction

The quality of CER has varied on temporal, spatial and sector bases (Gray, Kouhy & Lavers, 1995a; Belal, 2000; Morhardt, 2009; Yusoff & Lehman, 2008). This variation has attracted research into the motivations behind the practice (Gray, Owen, & Adams, 2010). Researchers have advocated for the development of a theory of the firm that would most accurately explain and predict corporate environmental reporting behaviour (Brown & Fraser, 2006; Gray, Javad, Power & Singlair, 2001). Despite the elaborate studies of CER, and the associated social interest, research is yet to provide a comprehensive theoretical framework that would adequately identify the factors influencing CER behaviour. Unfortunately, studies have approached CER using different theoretical frameworks and consequently different methodological constructs (Brown & Fraser, 2006; Gray *et al.*, 1995a), thus hindering development of a coherent literature (Cormier, Magnan & Velthoven, 2005; Gray *et al.*, 1995a).

CER is the practice of measuring, disclosing, and reporting to internal and external stakeholders the organizational environmental performance (FEE, 2000; GRI, 2006) so as to achieve the goal of sustainable development (GRI, 2006) and to enable such stakeholders assess their relationship with the reporting entity (FEE, 2000). Environmental information has been presented in various forms including: as a part of annual report (Gray *et al.*, 1995); on the company's website (Tagesson , Blank , Broberg & Collin, 2009); as a part of sustainability report (GRI, 2006); or as a standalone report (FEE, 2000). Environmental report has been presented as a self-reporting initiative (voluntary report) (Gray, Owen, & Adams, 1996); as solicited by stakeholders (Van Der Laan, 2004); but also as mandatory report to governmental agencies (Fallan & Fallan, 2009). CER has followed both a structured approach (based on environmental reporting frameworks such as GRI) and also unstructured approach (such as voluntary self-reporting).

The choice of an appropriate theory in studying CER is critical because theory is a mental state or a framework (Gray, *et al.*, 2010) that influences the way we perceive the meaning of CER, the determinants of CER, change over time and differences of CER across reporting environments. Although theory helps to "powerfully serve to channel attention, filter information, categorize experience, anchor interpretation, orient learning" (Gladwin, Newsburry, & Reiskin, 1997, p. 245) in CER, it is unlikely one will arrive at an exact theory. Such a pursuit is even illusory, but it is not worthless (Grey *et al*., 2010; Gladwin, Kennelly, & Krause, 1995). Philosophies of sciences provide a body of knowledge about theory formation and the qualities of a good theory (Burrell & Morgan, 1979; Morgan & Smircich, 1980), but that is not the aim of this paper.

This paper explores the various theoretical frameworks commonly used in studying CER behaviour. In so doing, the paper aims at proposing a framework that can be used to explain and predict CER reporting among corporations, among nations and over time. However, the paper does not seek to suggest the correct way of viewing and explaining CER, but rather, it develops one way of provoking the thoughts of those interested in CER behaviour so as to abet the reflective choice of theoretical frameworks. More importantly, it aims at challenging researchers to consider the implications of such frameworks on understanding CER as a social reality that we construct.

2.1 CER Theoretical Frameworks

To set the scene, the typology of social accounting theories by Deegan and Unnerman (2006) and Brown and Fraser (2006) is used to identify the theories commonly used to study CER. Social accounting theories include Stakeholder, Legitimacy and Institutional theories (Deegan & Unnerman, 2006) and Shareholder theory (Brown & Fraser, 2006). However, it is worth noting that "there is an almost infinite array of theories potentially available to social science research and social accounting in particular" (Gray *et al*., 2010, p. 3) so much so that Thompson (2007) identified thirty three groups of theories. Nevertheless, there has been a tendency to herd around some of the theories (Gray *et al*., 2010) particularly in social and environmental reporting (Brown & Fraser, 2006; Gray *et al*., 1995).

Theories explaining corporate behaviour have been related to either of three broad group of studies; Decision-usefulness studies (testing the extent of usefulness of CER to identified users, or testing the relationship between CER and share price), Economic Theory studies (which is related to decision-usefulness studies but emphasises on agency theory and positive accounting theory) and Social--political theory studies (including stakeholder, legitimacy and political economy perspectives) (Brown & Fraser, 2006; Gray *et al*., 1995a). Studies on CER have tended to be more oriented towards Social–political theories (Gray *et al*., 1995a) based on the argument that CER is primarily voluntary in nature (Gray *et al*., 1995a; Van Der Laan, 2004).

To identify the use of a specific theory in studying CER, an electronic word search on each of the theories identified and the terms CER was carried out in the most popular accounting journals and journal databases. Journal ranking is used as a basis of establishing the most popular journal in a given field. Since publishing in high ranking journals is coveted by academicians, researchers use journal ranking in making decisions about which journal to publish their research work (Bonner, Hesford, Van der Stede, & Young, 2006). The validity of journal rankings have been challenged (Guthrie, Parker, & Gray, 2000) and doubt cast on the theoretical validity of some attempts to generate universal journal rankings (Milne, 2001), particularly because there are difficulties associated with establishing an objective assessment of relative journal quality (Bonner *et al*., 2006; Brinn, Jones, & Pendlebury, 1996). Nevertheless, for the purpose of proceeding with this research, it was assumed that journal ranking may be used as a first step to identify the usage of a given phrase. An electronic word search was carried out in the top 27 accounting journals, as identified by Zeff (1996) and analysed in both Brinn *et al*. (1996) and Milne (2001), but also included in Cook, Raviv and Richardson (2010). The search was carried out using the Boolean search logic. The top accounting journals in which the search was carried out, and the corresponding number of articles in each journal, is presented in Appendix 1.

There is a possibility that top tier accounting journals may not publish environmental reporting (Deegan & Soltys, 2007). Since environmental reporting is a multidisciplinary phenomenon, it may be published in journals other than top accounting journals. To identify the possible journal articles featuring a given theory and the phrase "Corporate Environmental Reporting", a word search using Scirus search engine (Elsevier, 2011) and Google Scholar (Google, 2009) was carried out. The journals with highest number of frequencies, but which had 5 or more frequencies, are presented in Appendix 2. The most commonly used theory to explain CER is Legitimacy, followed by Stakeholder, then Institutional, and finally Shareholder/Economic theory in that order. The section below reviews the application of the four theories in explaining CER.

3.1 Shareholder Theory

Corporate executives have a duty of agency to shareholders to govern the corporation in a purposeful manner that requires goals (Friedman, 1970; Smith, 2003), but the goal of maximizing shareholder value is the only appropriate goal for managers in the modern corporation (Smith, 2003; Sundaram & Inkpen, 2004). Shareholder theory has been presented as the dominant theory in business management and education (Margolis & Walsh, 2003; Saint, 2005), as the dominant concept behind the vast majority of businesses in capitalist economies (Saint, 2005) and has "near religious status" in business management (Phillips, 2003). This dominance is supported by not only the social systems such as legal, financial and business education systems (Margolis & Walsh, 2003), but also the practicality of its observation and measurement (Sundaram & Inkpen, 2004).

Shareholder theory argues that any engagement in social activities is outside the theoretical scope of a corporation (Friedman, 1970; Jensen, 2001). Business organizations cannot have social responsibility because engaging in social responsibility activities outside shareholder wealth maximization is an exercise that in essence involves taxing people and deciding how that tax should be spent (Freidman, 1970), a task that can only be executed by governments and not corporations or individuals (Sternberg, 1997). Shareholder theory does not ignore society and the environment altogether, but rather, it advocates for shareholders' wealth maximization within the confines of the law (Friedman, 1970) and in a non-deceptive manner (Smith, 2003). However, Shareholder theory argues that corporations will engage in social responsibility activities insofar as those initiatives are in the best interest of shareholders (Sundaram & Inkpen, 2004). But shareholder payoff is the residue pay; therefore taking care of shareholders involves taking care of all other stakeholders (Sundaram & Inkpen, 2004).

Education is a strong social system that embeds beliefs in its recipients influencing their view of life (Gergen, 1999). Business education curricula have assumed that the primary, if not sole, purpose of the firm is to maximize shareholders wealth, consequently influencing the thinking of future managers (Margolis & Walsh, 2003; Saint, 2005). The legal system supports the shareholders primacy in corporate management and reporting. Shareholder primacy is recognized in many legal jurisdictions (Saint, 2005) and is accepted by most corporate legal scholars (Bainbridge, 2002). Securities markets give supremacy to the shareholder over other stakeholders and demand periodic corporate reporting to shareholders using accounting reporting standards that have been developed with the notion of shareholders primacy. Financial analysts follow the view of shareholder dominance (Jensen, 2001) particularly because of its use in strategic planning (Sundaram & Inkpen, 2004).

Governing corporations requires purposeful activity which in turn requires goals; the goal of maximizing shareholder value is the only appropriate goal for managers in the modern corporation (Sundaram & Inkpen, 2004). The consideration of other stakeholders is akin to having multiple objectives; yet the pursuit of multiple objectives is like having no objective at all, because one cannot possibly maximize in more than one dimension at the same time unless the dimensions are monotone transformations of one another (Jensen, 2001; Sundaram & Inkpen, 2004).

3.2 Empirical CER Studies Informed by Shareholder Theory

There are to two strands of CER research that follow the perspective of Shareholder theory. The first focuses on the relationship between a firm's financial performance and CER, while the second focuses on shareholders/investors demand for CER. While Shareholder theory predicts that social responsibility is negatively related to the firm's competitive position (Friedman, 1970) and that socially responsible behaviour may conflict with value maximization (Jensen, 2001), extant literature has conflicting results (Orlitzky, Schmidt & Rynes, 2003). Some studies have found no such relationship, others have found a positive relationship (Stanwick & Stanwick, 1998; Clarkson, Li, Richardson, & Vasvari, 2008), others especially those approaching such studies using social-political theoretical lenses (Clarkson *et al*., 2008) have found a negative relationship (Patten, 2002), and yet others found a curvilinear relationship (Ullman, 1985; Stanwick & Stanwick, 2000).

Such inconsistencies suggest that the economic justification for corporate environmental reporting is unsubstantiated (Epstein & Freedman, 2004) or may be due, in part, to the different methods used to operationalize both environmental and financial measures (Stanwick & Stanwick, 2000). But these studies may have weaknesses in their causality assumptions because some of them treated corporate social performance as an independent variable while others treated it as a dependent variable (Margolis & Walsh, 2001; Scholtens & Zhou, 2008).

Related to the financial performance and CER relationship studies are studies on the relationship between corporate social performance (CSP) and corporate financial performance (CFP). While some of these studies have found uncertainty regarding both the sign and the direction of causality within the relationship (Ullman, 1985; Orlitzky *et al*., 2003), others have suggested that the quest for a general relationship is a futility (Margolis & Walsh, 2003) but others have found it in both management practice and literature (Brammer & Millington, 2008). These seemingly conflicting findings may be explained by the vast diversity of methods of study used (Brammer & Millington, 2008). Problems have been identified related to underdevelopment of conceptual determinants of CSP, and the theoretical foundations of the CSP performance relationship (Ullman, 1985; Margolis & Walsh, 2003). There is no consensus on the broad range of measures of financial performance employed and also failure by most studies to discern between risk adjusted and unadjusted financial performance (Margolis & Walsh, 2003).

The second group of researchers has pursued the question on whether shareholders find corporate environmental management and reporting necessary. Shareholders find it more important to stop pollution and improve product safety than pay dividends (Epstein & Freedman, 1994). There is relevance of environmental issues in investment decisions ranging from the effect on the bottom-lines through the introduction of carbon taxes, carbon trading and other market mechanisms (Macleay, 1999), to growing relevance in the investment and financial sectors (Schaltegger & Figge, 1998), so much so that investment professionals factor environmental performance into the investment decision making process (Fayers, Cocklin, & Holme, 2000) because shareholders demand such information (Epstein & Freedman, 1994).

How would the pursuit of shareholder value maximization reconcile with the legitimate and moral rights of other stakeholders such as employees, suppliers, customers, government etc? Shareholder theory argues that since shareholders' payoff is the residue pay, then taking care of shareholders involves taking care of all other stakeholders (Sundaram & Inkpen, 2004). However, Shareholder theorists are quick to note that at some level, social problems are the responsibilities of government and not the business and its executives (Friedman, 1970; Sundaram & Inkpen, 2004), particularly because the business and its executives are not equipped to deal with social problems (Freidman, 1970). The weak position of the Shareholder theory is amplified by the existence of legislative laws and judicial response that suggest that the duties to stockholders are just but one of the considerations in corporate governance (Key, 1999). Responding to this conceptual limitation has led to the use of social–political theories such as Legitimacy and Stakeholder theories.

4.1 Stakeholder Theory

Stakeholder theory argues that managers have a moral obligation to consider and appropriately balance the interests of all stakeholders (Freeman, 1984). While Shareholder theory is dominant in business education and management (Margolis & Walsh, 2003; Saint, 2005), Stakeholder theory is the dominant paradigm of corporate social responsibility (McWilliams & Siegel, 2001; Saint, 2005). The main question is; why would one accept Stakeholder theory as the lens that explains and predicts CER? The typology of Donaldson and Preston (1995) of Descriptive, Instrumental, Normative, and Managerial Thesis offers a framework for exploring those questions which focus the literature on Stakeholder theory and social concern.

Descriptive stakeholder research seeks to describe the corporation in relation to its environment "…as a constellation of cooperative and competitive interests possessing intrinsic value" (Donaldson & Preston, 1995, p. 66). The purpose is to describe how managers confronted by stakeholder conflicts manage and represent their interests. It seeks to describe corporate behaviour and sometimes relate it to specific corporate characteristics.

Descriptive stakeholder view is empirical in nature and can describe the nature of corporate environmental reporting behaviour.

Donaldson and Preston (1995) argued that Instrumental stakeholder theory assesses the extent to which managing stakeholders is conducive to the achievement of commonly asserted organizational goals. Instrumental stakeholder framework establishes whether there is a relationship between the practice of corporate environmental reporting and the achievement of various corporate performance goals or with corporate characteristics (Donaldson & Preston, 1995; Key, 1999). Instrumental stakeholder theory is the most promising candidate for the theoretical development and the link of Stakeholder theory to broader areas of management scholarship (Freeman, 1999; Jones, Wicks, & Freeman, 2002; Key, 1999). Indeed, Instrumental stakeholder theory dominates academic orientation to stakeholder research (Margolis & Walsh, 2003; Orlitzky *et al*., 2003) because it offers a predictive and feedback value, two important measures of a good theory (Key, 1999). However, the instrumental aspect alone offers an incomplete and weak form of Stakeholder theory that precipitates into a mere variant of the shareholder value model (Saint, 2005).

The Normative stakeholder theory perspective is the "fundamental basis" of stakeholder theory (Donaldson & Preston, 1995, p. 68). It holds that all stakeholders have intrinsic value and no stakeholder has a priority of interests over other stakeholders (Donaldson & Preston, 1995) and that there is no reason to treat shareholders in a special way compared to other stakeholders (Boatright, 1994). Donaldson and Preston (1995) argued that this distinctive normative core helps to give shape and substance to the instrumental and descriptive strands. The normative approach views the corporate-stakeholder interplay to be one of responsibility and accountability (Gray *et al*., 1996; Gray *et al*., 2010), where the organization owes a duty of accountability to all stakeholders (Gray *et al*., 2010) but it offers little descriptive or explanatory power to CER (Gray *et al*., 2010).

In the Managerial thesis, Donaldson and Preston (1995) argue that Stakeholder theory is a basis of managing the stakeholder's interests and not just describing the situations or predicting causality. Thus, a firm practicing environmental accounting and reporting, including the consideration of environmental matters in the strategy, for instance, is executing a managerial approach of the Stakeholder theory perspective. However, Donaldson and Preston (1995) did not develop the managerial thesis fully yet we need to see Stakeholder theory as managerial, in the sense that managerial issues are intimately connected with the practice of business of value creation and trade (Freeman, 2001).

Donaldson and Preston (1995) typology has faced strong opposition, particularly claiming the danger of creating the "separation thesis" (Freeman, 1994, 1999). A more normatively and instrumentally sound convergent Stakeholder theory has been proposed (Jones, Wicks, & Freeman, 2002) but has been refuted (Freeman, 1999; Trevino & Weaver, 1999) especially because it is premised on the separation thesis (Freeman, 1999) instead of encouraging more theories that are divergent. Stakeholder theory should be viewed as a research tradition (Trevino & Weaver, 1999) and as a 'genre of research' (Freeman, 1999, 2001).

4.2 Empirical CER Studies Informed by Stakeholder Theory

Ullman (1985) suggested a three-dimensional model that can explain the relationship between social reporting and social/economic performance, stakeholder power, strategic posture, and economic performance. Studying US firms, Ullman (1985) concluded that there does not appear to be a single reason why firms choose to disclose social information. Following the work of Ullman (1985), other environmental reporting researchers have approached their studies using a Stakeholder theory lens but have arrived at conflicting findings. While some find evidence that company management had tried to satisfy the environmental information needs of stakeholders (Elijido-Ten, 2004; McMurtrie, 2005), others find no significant evidence on stakeholder management or pressure on environmental reporting other than that of foreign parent companies (Moneva & Llena, 2000). While Ullman (1985) argued that stakeholder and economic power influence social reporting, Elijido-Ten (2004) and Brammer and Pavelin (2008) could not confirm such argument. Whereas most of the researchers reviewed have used the Instrumental stakeholder research perspective, at least McMurtrie (2005) has used a Managerial stakeholder approach.

Most of the Stakeholder theory oriented research studies support the shareholders point of view as well. These findings are to be expected because the Instrumental stakeholder thesis, commonly applied by these researches, has tendency to support Shareholder theory perspective (Saint, 2005), particularly because of trying to link social and environmental reporting to firm performance (Saint, 2005; Ullman 1985, Elijido-Ten 2004), and also because shareholders are part of the stakeholders (Freeman, 1994).

There is a danger in using Instrumental stakeholder because it may suggest that balancing stakeholder interests through environmental reporting may have a negative or no effect on financial performance (Brammer & Pavelin, 2008), which is a contradiction because it means other stakeholders' interests are maximized at the expense of shareholders interest, a conflict implied in Jensen (2001).

5.1 Legitimacy Theory

Legitimacy theory posits that organizations are expected to act in a socially acceptable manner so as to access resources, gain approval of their goals and place in the society, and guarantee continued existence (Guthrie & Parker, 1989). Organisational legitimacy occurs when an entity's value system becomes congruent with the value system of the larger social system (Lindbolm, 1984), thus enhancing both resource supply assurance and the credibility of organizational activities (Suchman, 1995). Organization legitimacy is the general perception or assumption that "the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574) because society provides an organization with its legal standing and attributes the authority to own and use natural resources and hire employees (Matthews, 1993). Organization legitimacy is a result of the process of legitimation taken by that organization (Lindbolm, 1984), and the actions affecting relevant norms and values taken by other groups and organizations (Dowling & Pfeffer, 1975). A change in social norms and values may result from either the legitimacy seeking actions of a focal organization, or from competition between the focal organization and other organizations.

Organizations seek legitimacy through either substantive management, which involves real, material change in organizational managerial practice, or symbolic management with a choice of ways that will make the organization appear consistent with social values and expectations (Ashforth & Gibbs, 1990). The choice of approach depends on whether the organization seeks to extend, maintain, or defend its legitimacy (Ashforth & Gibbs, 1990; Suchman, 1995). Symbolic management is common when an organization is extending legitimacy but more when defending legitimacy (Ashforth & Gibbs, 1990). Existing legitimacy of an organization is threatened, questioned or challenged such as when the organization's adverse effects on the environment are apparent (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1975). The intensity of legitimating depends on factors such as the need for speed of response, the availability of resources, management response flexibility, the constituents challenge, organization stigmatization, the ripple effect to other constituents, time to plan and extent to which legitimacy was taken for granted (Ashforth & Gibbs, 1990).

Symbolic management involves espousing socially acceptable goals (Ashforth & Gibbs, 1990) such as adapting their output, goals, and methods of operation to conform to prevailing legitimacy expectations (Dowling & Pfeffer, 1975); denial and concealment; redefining means and ends (Ashforth & Gibbs, 1990) including an attempt to alter the definition of social legitimacy to conform to its practices, output, and values (Dowling & Pfeffer, 1975); offering an account; offering apologies (ceremonial conformity) (Ashforth & Gibbs, 1990) and attempts to be associated with symbols, values, or institutions which are viewed as legitimate (Dowling & Pfeffer, 1975). Extending or defending legitimacy is more problematic for organizations that are highly associated with resources and thus dependent on external others (Ashforth & Gibbs, 1990) but the level of legitimation depends on whether the organization simply wants some audience to leave it alone (passive acquiescence) or protracted audience intervention (active support) (DiMaggio, 1988).

Legitimacy studies can be classified into two approaches (Suchman, 1995); strategic legitimacy (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1975) and institutional legitimacy (Meyer & Rowan, 1991; DiMaggio & Powell, 1990). Strategic legitimacy takes a managerial perspective in which emphasis is put on how organizations instrumentally manipulate (substantive management) and deploy evocative symbols (symbolic management) in order to gain societal acceptance (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1977;

Suchman, 1995). Institutional legitimacy emphasizes how structural dynamics generate cultural pressures that organizations have no choice but to follow (Meyer & Rowan, 1991; DiMaggio & Powell, 1990; Suchman, 1995). Strategic and institutional legitimacy provide a multiplicity of legitimacy dynamics that create considerable latitude for managers to manoeuvre strategically within their cultural environments (Ashforth & Gibbs, 1990; Oliver, 1991; Suchman, 1995), more so because no organization can completely satisfy all its constituents, and no manager can completely divorce their own belief system that makes the organization plausible to him or her (Suchman, 1995). Managers use a wide range of techniques to legitimize, choose which audience to satisfy and what communication strategy to use (Ashforth & Gibbs, 1990; Suchman, 1995).

5.2 Empirical CER Studies Informed by Legitimacy Theory

Legitimacy theory is the most cited theory in the study of corporate social and environmental reporting (Campbell, 2003). Several studies have sought to 'test for' legitimacy theory as a motivation for corporate reporting but have had varied findings (Wilmshurst & Frost, 2000; O'Donovan, 2002). Such studies have followed Lindblom (1984) legitimacy argument and therefore have the objective of testing whether companies use environmental reporting to help close legitimacy 'gaps'. In so doing, the studies have sought to find the relationship between Corporate Environmental Reporting (CER) and identified determinants (Guthrie & Parker, 1989; Deegan & Gordon, 1996; Deegan & Rankin, 1996; Brown & Deegan, 1998; Wilmshurst & Frost, 2000; Campbell, 2003, Degaan *et al.*, 2002). Some of these studies have concluded that CER is motivated by industrial sensitivity (Deegan, 1996; Deegan & Gordon, 1996), prosecution (Deegan & Rankin, 1996), media attention (Brown & Deegan, 1998), perceived public policy pressure resulting in time and event specific environmental reporting (Deegan *et al.*, 2000), and firm size (Deegan & Gordon, 1996).

Some studies have challenged the sufficiency of Legitimacy theory as a lens to explain corporate environmental reporting (Campbell, 2003). Others have questioned the ability to directly measure legitimacy, much as one can describe a firm as being legitimate, and conceive 'amounts' of legitimacy (Hybels, 1995). Hearit (1995) argues that, as an alternative, rather than trying to subjectively measure a firm's legitimacy directly, it can instead be inferred from the fact that being legitimate "enables organizations to attract resources necessary for survival " (p. 2).

6.1 Institutional Theory

Institutions are social structures that have attained a high degree of resilience (Scott, 1995, 2001, 2004) and also rules – the predetermined patterns of conduct that are generally accepted by individuals in a society (Scott, 2004). Environmental institutions include internal structures and rules such as the organization's environmental policy and management, and formal external rules such as environmental legislations and regulations (DiMaggio & Powell, 1990; Suchman, 1995). Therefore, Institutional theory offers a possible lens for studying corporate environmental reporting behaviour. Institutional theory involves an examination of how some of the organization's social structures including schemas, rules, norms, and routines, become established as authoritative guidelines for organization behaviour (Scott, 2004). Corporate environmental reporting may develop as a myth incorporated in the organization structure on the notion that by so doing, the organization will gain legitimacy, resources, stability and enhance its survival prospects (Meyer & Rowan, 1977; DiMaggio & Powell, 1990; Suchman, 1995).

Organization structure is a reflection of the phenomena in the environment that tends to make it become isomorphic, partly because of technical and exchange interdependencies, and also by socially constructed realities (Meyer & Rowan, 1977). Isomorphism explains the factors underlying the tendency of organizations to become more homogeneous in structures despite different operating technologies (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). Three forces compel organizations towards isomorphism; normative, coercive, and mimetic (DiMaggio & Powell, 1983).

Coercive isomorphism results from formal and in-formal pressures such as force, persuasion, or invitations exerted on a focal organization by organizations and constituent groups to which it depends, and also by cultural expectations of its society (DiMaggio & Powell, 1983). For instance, organizations may adopt new pollution control technologies to conform to environmental regulations. Legal and technical requirements such as annual reports and environmental audit requirements influence organizations' CER behaviour.

Mimetic isomorphism is the tendency for an organization to imitate another organization's behaviour believing that such imitation is legitimate and beneficial (DiMaggio & Powell, 1983). Corporate environmental reporting may become increasingly homogeneous within given domains and become organized around rituals of conformity to wider institutions such as dominant firms or foreign parent companies. DiMaggio and Powell (1983) argued that the wider the stakeholders served by an organization, "the stronger the pressure felt by the organization to provide the programs and services offered by other organizations … and thus … encourage mimetic isomorphism" (p. 152).

Normative isomorphism results from an organization's conformity to a world view in which change occurs as a result of the development and communication of such a world view by peers, and also through common socialization (DiMaggio & Powell, 1983). Normative influence stems primarily from ties established in social networks as well as common background experiences such as education from universities or professional bodies with similar ideals, goals, and programs (DiMaggio & Powell, 1983; Mizruchi & Fein, 1999). CER may develop as a cognitive base produced by universities and professional training institutions that have developed it as a norm among professional managers and their staff. Such professionals and managers possess similar orientation and disposition that may override other forces that might otherwise shape CER.

There are considerable variations in the types of concepts and arguments used in Institutional theory so much so that the theory must be approached from the view that there are "not one but several variants" (Scott, 1987, p. 511). Scott extended literature to include three other views; (i) Imprinting organization structure (i.e. acquired at the time of their founding), (ii) Incorporation of organizational structure (i.e. adaptive, largely unplanned, historically dependent process), and (iii) Institutionally defined beliefs rather than on organizational structures (i.e. through a consensus building process). Whatever the institutional pressures, the corporate behaviour will depend on the management's strategic response to such pressures.

Institutional theory discussed so far explains how organizations choose behaviour such as CER through isomorphism (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) and structural conformity pressures (Scott, 1987). However, they do not explain how some organizations may choose not to take such behaviour and have ignored the role of active agency and resistance in organization-environment relations (Oliver, 1991). Institutional theory offers several unique insights into organization-environment relations and the ways in which organizations react to institutional processes, and demonstrates how non-choice behaviours can occur and persist through the exercise of habit, convention, convenience, or social obligation, in the absence of any ostensible indication that these behaviours serve the organization's own interests or contribute to organizational efficiency or control (Oliver, 1991). In response to pressures toward conformity with the institutional environment, organizations may take five strategies which may vary in active agency from passivity to increasing active resistance; acquiescence, compromise, avoidance, defiance, and manipulation (Oliver, 1991). While Acquiescence (which includes habit, imitation, and compliance) is a strategy of passive adoption of CER through a "taken – for – granted" habit, mimicry and compliance with the law, Resistance, Compromise, Avoidance, Defiance and Manipulation are all strategies that explain lack of, and resistance to corporate behaviour such as CER.

6.2 Empirical CER Studies Informed by Institutional Theory

Several studies have approached the phenomenon of CER (and as a part of sustainability reporting) using an institutional theoretical lens. These studies have examined the influence of mimetic isomorphism (Aerts *et al*., 2006; Amran & Haniffa, 2010), coercive isomorphism (Aerts *et al*., 2006; Bebbington *et al*., 2008; Amran & Haniffa, 2010), normative isomorphism (Bebbington *et al*., 2008; Amran & Haniffa, 2010) and cognitive influences (Bebbington *et al*., 2008) to corporate environmental or sustainability reporting. Others have sought to combine both institutional and agency theory to find a link between executive compensation and CER (Berrone & Gomez-Mejia, 2009). Evidence has been found for all the institutional influences sought, Mimetic, Coercive and Normative isomorphism (Aerts *et al*., 2006; Bebbington *et al*, 2008; Amran & Haniffa, 2010) but it is more of a public relations strategy (Amran & Haniffa, 2010), as a rhetoric to appear accommodating rather than resisting institutional pressures (Bebbington *et al*, 2008).

Mimetic isomorphism explaining CER has been found in terms of reference group (Aerts *et al*., 2006), reinforcement by industry concentration (Aerts *et al*., 2006; Amran & Haniffa, 2010), media exposure (Aerts *et al*., 2006; Islam, 2009), and also prior year practices (Aerts *et al*., 2006). However, there is negative relation between CER and foreign ownership and activities (Amran & Haniffa, 2010). Negative media legitimacy has been found to be a driver of environmental press releases but not of annual report environmental disclosures (Aerts & Cormier, 2009).

Coercive isomorphism motivating CER have been found in resource dependency (Aerts *et al*., 2006), regulation (Liu & Anbumozhi, 2008; Rowe, Guthrie, & Paton, 2009), and business case (Bebbington *et al*, 2008; Islam, 2009) such as government contracts (Amran & Haniffa, 2010). However, there is more influence in the business case than regulation (Bebbington *et al*, 2008). Other evidence is found in terms of corporate size, (Amran & Haniffa, 2010) and multinational companies buying a focal company's products (Islam, 2009). Although there is evidence relating CER with government shareholding (Amran & Haniffa, 2010), Rowe *et al*. (2009) found that CER is undertaken for the government as a regulatory entity, and not necessarily for the shareholders and other stakeholders. Executive pay is related to CER reporting in polluting industries (Berrone & Gomez-Mejia, 2009).

Evidence has been found relating normative pressures to CER (Bebbington *et al*, 2008), including managerial approaches such CER concern in goals and missions and sustainability reporting awards (Amran & Haniffa, 2010). While weak evidence has been found relating CER to prior managerial experience in multinational companies (Amran & Haniffa, 2010), CER has been inhibited by a conservative attitude towards reporting (Bouten, 2011). CER has been discouraged by the informal institutional cultural norms (Rowe *et al*., 2009).

7.1 Multi - Theoretical Approach

Although the four theoretical approaches discussed have been presented as different and competing, they have many conceptual overlaps. As a result, several CER researchers have advocated for a theoretical lens that encompasses various perspectives (Gray *et al*., 1990; Cormier *et al*., 2005; Islam & Deegan, 2008; Martin & Hadley, 2008). Environmental reporting is so multi-faceted that no single theoretical approach can individually unravel it in its totality.

While all the four theories argue that there are 'external pressures' that affect the organization, the manner in which such 'external pressures' are identified, managed or satisfied varies from one theory to the other. Shareholder theory identifies shareholders as the primary stakeholders and that satisfying them involves pursuit of wealth maximization (Freidman, 1970; Jensen, 2001). The theory also acknowledges the need to consider other stakeholders to ensure sustainability (Caroll, 1979; Smith, 2003). Stakeholder theory identifies the external pressures as the stakeholders affected by, or affecting the organization (Freeman, 1984) but only if they have power, legitimacy, urgency and salience over the organization (Mitchell *et al*., 1997), and also that some stakeholders are primary while others are secondary (Caroll, 1979). Shareholder and Stakeholder theories are therefore very close but Shareholder theory views stakeholders (other than shareholders) as a means towards an end, while Stakeholder theory views them as an end in themselves. Legitimacy theory views external pressures as the 'relevant public.' There is an obvious overlap between 'stakeholders' of Stakeholder theory and 'relevant public' of Legitimacy theory such that the two theories "need not be seen as competitors for explanation but as sources of interpretation of different factors at different levels of resolution" (Grey *et al*., 1995a, p. 67). Institutional theory identifies 'external pressures' as the institutional pressures of conformity (DiMaggio & Powell, 1983; Scott, 1991).

The four theories argue that the 'external pressures' affect the organization, but each theory approaches the effects in different ways. Shareholder theory argues that equity providers demand a return on capital to compensate for the risk involved (Friedman, 1970; Smith, 2003; Sundaram & Inkpen, 2004). Stakeholder theory argues that 'external pressures' affect organizations through stakeholders' demands on the organization (Frooman, 1999; Phillips, 2003). Legitimacy theory argues that 'external pressures' affect organizations through provision of resources and social acceptance (Guthrie & Parker, 1989; Matthews, 1993). Institutional theory argues that 'external pressures' affect organizations through the influence of institutional environment and not necessarily by the need for efficiency (Meyer & Rowan, 1977; DiMaggio & Powell, 1983).

Management cannot afford to ignore the 'external pressures', but the suggested response to these pressures varies among the theories. Organizations will pursue legitimate and socially acceptable wealth maximization according to Shareholder theory (Friedman, 1970; Smith, 2003). They will pursue management and balance of multiple stakeholders' interests according to Stakeholder theory (Freeman, 1984; Frooman, 1999; Phillips, 2003). Legitimacy theory argues that organizations respond to 'external pressures' through strategies of reducing the legitimacy gap, changing perception, deflecting attention and altering expectation (Dowling & Pfeffer, 1975; Lindblom, 1984). Institutional theory argues that organizations respond to external pressures through mechanisms of isomorphism (DiMaggio & Powell, 1983), and strategies of acquiescence, compromise, avoidance, defiance, and manipulation (Oliver, 1991).

The different aspects of the various theories make it necessary to consider each of them in analyzing corporate environmental behaviour but their similarity invites one to consider them jointly. Ullman's model considers all stakeholders including shareholders and other external pressures. The joint consideration of Stakeholder, Legitimacy and Institutional theories "provides a richer basis for understanding and explaining reporting behaviour than would be possible from considering one of the theories alone" (Islam & Deegan, 2008; p. 356) because none of the conceptual frameworks is individually able to explain the drivers of corporate social and environmental reporting (Gray, *et al*., 1995). While Legitimacy theory is suitable in explaining voluntary CER, Stakeholder theory would be best in explaining mandatory and solicited CER (Van Der Laan, 2004).

An analysis of the variables used in testing the various theories in CER reveals a possibility of overlap. For instance, while industry- and country-specific effects can be explained by Legitimacy and Institutional theories, they can also be related to different levels of information usefulness across industries and countries, or to explicit contractual requirements, thus suggesting a Shareholder perspective, economic model or its variant agency theory. The influence of firm size on environmental disclosure is considered the outcome of legitimization, contractual or information usefulness process. Larger firms are more visible targets, face potentially higher political costs, and have more investors and other financial stakeholders looking for information. Thus, size is a variable considered in all theoretical frameworks. A firm's profitability has been considered in several studies using different theoretical lenses. The relation between profitability and environmental disclosure is consistent with Legitimacy theory because more profitable firms need to be seen as environmentally responsive. It is also consistent with the argument that profitable firms can afford the cost of environmental disclosure, and that transparent firms are rewarded through transparency-induced higher stock market valuation (Blacconiere & Patten, 1994).

8.1 Conclusion

This paper argues that, in determining how much and what quality of its environmental reporting, a corporate organization is subjected to four levels of pressures that influence its CER. Prior attempts have been made to justify the use of a multi-theoretical approach but none has incorporated the four theoretical perspectives.

In the first and most immediate level is the shareholder group to whom the management has legal and fiduciary responsibility to maximize wealth. This responsibility is manifested through the legal system such as the Companies Act and the Securities Exchange rules, and through financial and education systems that proclaim the primacy of shareholder wealth maximization. Corporate environmental reporting is useful to shareholders if it increases the return on shareholders' investment or reduces corporate risk. However, in choosing the information to disclose to shareholders, the managers strike a balance between the competing forces of value relevance and cost of reporting, including the potential harm that may result from the use of the disclosed information by third parties.

On the second level is the consideration of the wide range of other stakeholders whose interests develop as a result of the organization's interaction with the society in which such an organization evolves. Such stakeholders include debt holders, suppliers, employees, customers, governments and the wider community. Each of these stakeholder groups exerts pressure to the organization in their unique way. Although the relative pressure from each of the stakeholders can be inferred from the importance of the resources provided by each (including markets and legitimacy), the response of the organization to this pressure will depend on the power, urgency, legitimacy and salience perceived by the managers. The purpose of environmental reporting then is to balance the interests of the environmental stakeholders of the organization.

On the third level is the need to bridge legitimacy gaps occasioned by the organization's acts and omissions, particularly if there is need to extend, maintain or defend legitimacy. Corporate environmental reporting will be used to close legitimacy gaps resulting from an organization's failure to perform to the expectations of the 'relevant public'. A legitimacy gap would be most apparent if the organization operates in an environmentally sensitive sector, has high media exposure, past prosecution on violation of environmental laws, if it is a large organization and has public pressure. The main objective of environmental reporting in this context is to manage and influence the public's impression of a firm's environmental performance.

Lastly, in the fourth level is the organization's institutional context that managers must consider in determining the quality of corporate environmental reporting. The institutional context may include: 1) The corporate environmental reporting practices of firms in the same industry or the foreign affiliated company (Imitation, i.e. Mimetic isomorphism); 2) The influence of the big auditing firms, consultancy service providers, professional background of its managers and decision makers (Normative isomorphism); and 3) The laws governing corporate environmental reporting (institutions; Coercive isomorphism). The institutional context would prompt managers to take strategic responses to institutional environmental pressures that would lead to no reporting through strategies of resistance, acquiescence, compromise, avoidance and manipulation.

These four levels of pressures dovetail to determine CER behaviour. They are so interwoven that none of them can individually explain CER in its totality but together, they would explain and predict a reasonable amount of the behaviour. It is plausible to agree with the arguments forwarded by Cormier *et al*., (2005) and Martin and Hadley (2008) that the understanding of the driver of corporate environmental disclosure is enhanced by looking at the subject through a multi–theoretical perspective. Such a wide conceptual lens would permit a reconciliation of various empirical findings that appear inconsistent or disjointed, and reasonably explain and help to predict CER.

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Appendix 1: Frequency of Articles Featuring the Phrase "Corporate Environmental Reporting" and Identified Theories in Top Accounting Journals as at 30th December 2010

	Journal	Number of Articles			
		Legitimacy theory	Stakeholder theory	Institutional theory	Share - holder theory
1	Accounting, Auditing & Accountability Journal (AAAJ)	21	9	5	1
2	Accounting Horizons	2	1	0	1
3	Accounting Review	0	0	0	0
4	Journal of Accounting Research	1	0	0	0
5	Abacus	1	2	0	0
6	European Accounting Review	4	3	1	0
7	Accounting and Business Research	2	0	0	0
8	Journal of Accounting, Auditing and Finance	1	0	0	0
9	Contemporarily Accounting Research	0	0	0	0
10	Journal of Accounting and Public Policy	1	1	1	0
11	Accounting, Organizations and Society	6	6	2	0
12	Journal of Business Finance and Accounting	4	1	0	0
13	Accounting and Finance	1	0	0	0
14	Accounting Historians Journal	0	0	0	0
15	Auditing: A Journal of Practice & Theory	5	0	6	0
16	Advances in Public Interest Accounting	0	0	0	0
17	British Accounting Review	6	2	1	0
18	Behavioural Research in Accounting	0	0	0	0
19	Critical Perspectives on Accounting	4	1	2	0
20	The European Accounting Review	4	1	1	0
21	Financial Accountability & Management	1	0	0	0
22	Journal of Accounting & Economics	0	0	0	0
23	Journal of Accounting Literature	0	0	0	0
24	Journal of Cost Management	0	0	0	0
25	Journal of Management Accounting Research	0	0	0	0
26	Management Accounting Research	0	0	0	0
27	Pacific Accounting Review	1	1	0	0

Appendix 2: Frequency of Articles Featuring the Phrase "Corporate Environmental Reporting" and Identified Theories in Journals Other than Top Accounting Journals

	Journal	Number of Articles			
		Legitimacy theory	Stakeholder theory	Institutional theory	Share -holder theory
2	Corporate Social Responsibility and Environmental Management Journal.	15	13	7	0
3	Accounting Forum	14	6	3	1
4	Journal of cleaner Production	6	7	3	0
5	Australian Accounting review	5	2	2	0
6	Social Responsibility Journal	6	2	2	0
7	Journal of business Ethics	5	6	5	0
8	Malaysian Accounting review	7	5	2	0
9	Journal of accounting and Organisation Change	8	5	0	0