# 6. Organizational legitimacy and legitimizing myths

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Over the last two decades many of the world's largest companies have been involved in scandals, misconduct and dubious ethics. Notorious examples are Enron 'cooking' its books, Apple sourcing from suppliers that exploit workers, excessive risk taking by financial services companies leading to the Global Financial Crisis (GFC), Volkswagen installing 'defeat devices' in its cars to cheat emission tests, the use of Facebook user data – without explicit user consent – in the 2016 Trump Presidential campaign and the Leave.EU campaign, and the working conditions at Amazon fulfilment centers – which exist in stark contrast with founder Jeff Bezos' status as one of the richest people in the world.

Due to the influence of neoliberalism there has been limited appetite among governments to correct corporate conduct or to intervene in markets. Neoliberalism advocates that a largely unregulated free market economy achieves the best outcomes for society, that the state should be assigned a small role, and that interventions to correct markets and to curb corporate prerogative are undesirable (Ostry, Loungani and Furceri, 2016). Neoliberalism promotes market mechanisms, self-regulation and business-friendly policies as solutions to collective concerns, and generally embodies the governing rationality of our times, spreading "the model of the market to all domains and activities" (Brown, 2015, p. 35). Rather than relying on interventions by public authorities, the dominant governing rationality is informed by the belief that the market is able to balance social, environmental, and financial interests.

Apart from companies such as Enron and Lehman Brothers going bankrupt, other companies that have been involved in ethical transgressions have survived – and have even thrived. While insolvency puts a halt to corporate misconduct, potential damage to the reputation of companies, or threats to their 'social license to operate', seems to have had a limited effect. There is therefore reason to believe that market forces are not adequate by themselves to correct corporate misbehavior: despite numerous ethical transgressions, the riches of Apple and Amazon are unparalleled, bonuses in the financial sector are back to pre-GFC levels, Volkswagen's share price and sales rebounded spectacularly, and 2.6 billion people remain active on Facebook.

This chapter explores the reliance on market forces to correct corporate actions that are not aligned with the common good. It examines to what extent legitimacy theory adequately explains the dynamics around organizational legitimacy, and it proposes an expansion of legitimacy theory to increase its explanatory power. Practically, the chapter contends that the risk of reputational damage does not comprise an effective strategy to change corporate behavior. The use of social dominance theory and legitimizing myths expands the explanatory power of (organizational) legitimacy as a theoretical construct. In explaining why antagonistic stakeholders continue to rely on market-based approaches, this research suggests that they have either bought into the hierarchy-enhancing myths, or they have not yet developed compelling hierarchy-attenuating myths to challenge the status quo.

The chapter is structured as follows. The first section discusses 'corporate purpose', a concept that rehashes the notion that companies should consider stakeholder concerns rather than merely shareholder returns. The virtues espoused by this concept are juxtaposed by discussing examples of corporate misconduct and ethical transgressions involving some of the world's largest companies. This raises the question why these companies continue to thrive, despite the notion that not adhering to community values threatens organizational legitimacy. The second section examines the theoretical perspectives associated with (organizational) legitimacy, arguing that this concept is applied across several disciplines and theories. The third section explains how organizational legitimacy is operationalized within stakeholder theory, while reviewing the notion of the 'the social license to operate', and explaining the different tactics that organizations use to gain, maintain and repair legitimacy. Finally, section four proposes an expansion of organizational legitimacy as a theoretical construct by incorporating views from social dominance theory – notably the concept of legitimizing myths. The proposition will be operationalized by discussing the ethical transgressions of Apple, and the tactics it applied to successfully preserve its legitimacy. The chapter concludes with the suggestion that the 'social license to operate' and 'corporate purpose' are legitimizing myths that uphold the idea that the market can balance social, environmental, and financial interests.

## ARE COMPANIES DRIVEN BY PROFIT OR BY PURPOSE?

In February 2019, former Enron CEO Jeffrey Skilling was released from custody after having spent over a decade behind bars. In 2006, Skilling was sentenced to 24 years in prison and fined US$45 million for securities fraud, conspiracy and other crimes. In 2013, the sentence was reduced to 14 years. Enron went bankrupt in 2001 after years of illicit deals and account-ing tricks that resulted in more than 5,000 job losses, eliminated over US$2 billion in pensions and rendered US$60 billion in Enron shares worthless (Stevens and Haag, 2019). The Enron scandal remains one of the largest corporate scandals of all time.

Just prior to Skilling's release, Larry Fink, CEO of Black Rock, the largest asset management company in the world (Fortune, 2020), called on business leaders to consider the purpose of their company. "Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them. Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked. Profits are essential if a company is to effectively serve all of its stakeholders over time – not only shareholders, but also employees, customers, and communities. When a company truly understands and expresses its purpose, it functions with the focus and strategic discipline that drive long-term profitability" (Fink, 2019).

The urging for business leaders to consider 'purpose' is remarkable because of Black Rock's size and because of Fink's argumentation: "Unnerved by fundamental economic changes and the failure of government to provide lasting solutions, society is increasingly looking to companies, both public and private, to address pressing social and economic issues. These issues range from protecting the environment to retirement to gender and racial inequality, among others. Fueled in part by social media, public pressures on corporations build faster and reach further than ever before. In addition to these pressures, companies must navigate the complex-

ities of a late-cycle financial environment – including increased volatility – which can create incentives to maximize short-term returns at the expense of long-term growth.” (Fink, 2019).

In underlining the importance of corporate purpose Larry Fink is, ostensibly, arguing for a shift away from shareholder capitalism towards ‘stakeholder capitalism’. In his letter, he argues that companies should no longer prioritize short-term profits or solely focus on maximizing shareholder returns. Rather, companies should aim to create value for all stakeholders, and – in true neoliberal fashion – he contends that companies need to do so because of the failure of public institutions to adequately address collective concerns expressed by the public. By promoting a narrative around corporate purpose, Larry Fink gives credence to the idea that companies are beholden to all of their stakeholders rather than merely to their shareholders.

As the following paragraphs show, the problem is that the empirical record contradicts the supposed shift from shareholder returns towards stakeholder concerns. Between Enron’s collapse and Fink’s call for CEOs to consider their companies’ purpose lies nearly twenty years of corporate scandals, misconduct and dubious ethics. For example, in 2006, Apple was shown to source from suppliers with a poor reputation concerning labor standards. It was alleged that workers were earning as little as US$50 a month, while working 15 hours a day. Events took turn for the worse in 2010 when a string of suicides occurred at Apple’s largest supplier. Fourteen Foxconn employees took their lives, with another four individuals attempting suicide and surviving badly injured (Clarke and Boersma, 2015). More recently, in 2017, Apple became embroiled in “Batterygate”. Consumers accused the company of forcing users to upgrade by deliberately slowing older devices after a software update. Apple CEO Tim Cook admitted that the update was designed to reduce the performance of older Apple devices (Robertson, 2020). Despite these occurrences, in 2018 Apple became the first trillion-dollar company (Davies, 2018).

In 2007, years of excessive risk taking in the financial services industry reached its peak and resulted in the largest global recession since the Great Depression, up until the recession caused by the Covid19 pandemic. Large financial companies such as Lehman Brothers went bankrupt, while other financial companies received massive bailouts using taxpayer money to avoid the collapse of the world economy. Among others, American International Group (AIG), received $US170 billion in emergency credit. In the fourth quarter of 2008 AIG reported a loss of US$62 billion (Ellis, 2009). Despite the bailout and the record loss, AIG paid out $US450 million in bonuses to employees in its financial products unit in 2009 (Pleven, 2009), prompting the US Senate to debate the introduction of legislation to recover these funds. These plans were abandoned after recipients agreed to pay back US$50 million (Walsh and Hulse, 2009).

Bonuses in the financial sector, widely regarded as creating perverse incentives leading to unethical behavior, surpassed pre-GFC levels when Jamie Dimon – CEO of JPMorgan Chase, another financial company engaged in excessive risk taking prior to the GFC, was given a $US 31 million bonus in 2019 (Davis and Melin, 2019). Jamie Dimon, like Larry Fink, has come out publicly to say that companies should consider the common good: “the [Covid-19] crisis must serve as a wake-up call and a call to action for business and government to think, act and invest for the common good and confront the structural obstacles that have inhibited inclusive economic growth for years”, he added that “[t]he last few months have laid bare the reality that, even before the pandemic hit, far too many people were living on the edge” (Noonan, 2020).

In 2015, Volkswagen was caught in the well-known emissions scandal, also known as ‘Emissionsgate’ or ‘Dieselgate’. The US Environmental Protection Agency announced that

it had reason to believe Volkswagen's cars were fitted with software that could detect test conditions, so-called 'defeat devices', that would detect when the cars were undergoing laboratory testing and turn on controls to reduce nitrogen emissions. The cars would then appear to comply with the agency's standards but were actually emitting up to 40 times the nitrogen dioxide limit when driving on the road. Volkswagen admitted to systematically cheating emissions tests, it recalled millions of cars and paid large fines (Rhodes, 2016). In 2017, Forbes posted: "Volkswagen Wows Investors with Latest Profit Report, And Strong Outlook". The company's earnings had risen by 15 percent in the third quarter of 2017 to €4.13 billion, com-pared with €3.75 billion in the same period of 2016 (Winton, 2017). Looking at these financial results, it is almost as if the emissions scandal never happened.

Facebook has been involved in numerous debates around privacy issues. In 2018, The Guardian and the New York Times reported that a company named Global Science Research had harvested data from millions of Facebook users in 2013 – without their explicit consent. This was made possible because a previous version of Facebook's privacy policy allowed apps to gather information about 87 million Facebook users even though only around 30,000 people had actually used their app. These details were later sold to Cambridge Analytica, who used it to create targeted ads to encourage users to vote for Donald Trump and Brexit (Badshah, 2018). The fallout of this scandal led to Mark Zuckerberg appearing in front of Congress in the US. Nevertheless, in 2020, Facebook had 2.6 billion active users (Clement, 2020).

Various business practices of Amazon have also been called into question. Most notably, US Senator Bernie Sanders raised concerns about the fact that many of Amazon's employees were dependent on food stamps. A 2018 report showed that one in three Amazon employees in Arizona relied on food stamps, while one in ten Amazons employees received them in Pennsylvania and Ohio (Brown, 2018). In 2018, Sanders introduced the 'Stop BEZOS' act, which would result in companies being taxed the total cost of any government aid that its employees would receive. Sanders stated that "[t]he taxpayers in this country should not be subsidizing a guy who's worth $150 billion, whose wealth is increasing by $260 million every single day" (Heater, 2018). In 2018, Amazon announced it would raise the minimum hourly wage for all US-based employees to $US15. To put this in contrast: Bezos makes around $US2,489 each second – more than twice what the median US worker makes in a week, and his net worth is greater than the combined gross domestic product of Iceland, Luxembourg, and Cyprus (Warren, 2019). In February 2020 Amazon reached a market capitalization of one trillion dollars (Vlastelica, 2020).

In these examples there is little evidence of companies genuinely being concerned with stakeholder interests. The same can be said when looking at behaviors of the private sector as a whole. In 2018, companies in the S&P 500 Index repurchased US$806 billion in shares (Lazonick, Sakinç and Hopkins, 2020). Companies use share buybacks to manipulate their share price to their own benefit. Repurchases inhibit the investment in productive capabilities to sustain the company in the long run and therefore come at the expense of employees, as well as continuing shareholders. Excessive dividend payouts similarly undercut reinvestment in productive capabilities. Both share buybacks and excessive dividend payouts make no contribution to the productive capacity of a company. Instead, they disrupt the growth dynamic that links productivity with worker compensation. The results are increased income inequity, employment instability, and anemic productivity (Lazonick and Shin, 2019).

These examples cast doubt on the idea that companies consider stakeholder concerns as seriously as they do shareholder concerns. Despite the widely publicized examples of miscon-

duct and injustice, we have not seen these companies being held to account by consumers or investors, nor has the 'social license to operate' of these companies come under serious threat. It is therefore necessary to critically analyze the core assumptions that underpin 'organizational legitimacy'. As we will see, organizational legitimacy is shaped within a wider belief system. The commonly accepted notion is that not adhering to these beliefs threatens organizational legitimacy. If that is indeed the case, how do we explain the scenarios described in the previous paragraphs? This research suggests that organizational legitimacy as a theoretical construct currently does not adequately explain these scenarios. As such, the time is right to rethink the ways in which companies can(not) be held to account.

## LEGITIMACY (AND) THEORY

Central to the idea of organizational legitimacy is that organizations need to consider pressures emanating from society, and deal with these factors accordingly, in order to retain legitimacy and continue their enterprise (Suchman, 1995). For companies, this means they should not only consider the dynamics of the market and the interests of shareholders, but they should also consider community concerns. This description signals a strong association of organizational legitimacy with stakeholder theory (Idowu *et al.*, 2013). Organizational legitimacy complements stakeholder theory by providing an abstract concept that provides a motivation for companies to engage with stakeholders. As a concept that can be bestowed and taken away, it provides corporate stakeholders with leverage in dealing with companies.

Legitimacy has several interpretations and is used in disciplines such as political science, philosophy, psychology, and sociology (Suddaby, Bitektine and Haack, 2017). Legitimacy as a scholarly concept has its origins in sociology. Max Weber's seminal work at the start of the twentieth century discusses legitimacy as a broad political and social concept, specifically related to power, and identifies 'traditional', 'charismatic' and 'rational-legal' legitimacy (Weber, 1978). Weber stressed that power is legitimate if it is perceived as such in the eyes of those over whom power is exerted. Apart from legitimacy in a socio-political sense, we also have to look at the genesis of organizational legitimacy. Legitimacy in a general sense is closely related to organizational legitimacy, in that "[s]ociety grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (Davis, 1973, p. 314). Dowling and Pfeffer argue that, for a company to persist, there must be "congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are apart" (1975, p. 122).

While legitimacy has many dimensions, definitions share a number of common characteristics. Suchman defines legitimacy as a "[…] generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Legitimacy has similarly been described as the attitude of people towards durable elements of society (Hybels, 1995), and as a "social construct based on cultural norms" (Nasi *et al.*, 1997, p. 300). These definitions show that legitimacy is not static, but that it is continuously shaped by changing social values and expectations on the part of individuals and groups, and how entities are expected to conform. It is argued that legitimacy is not simply something that an entity either does or does not possess (O'Donovan, 2000). When there is a rift between the broader value

system and the impact of corporate activities, a company's legitimacy can come under threat. Sethi coined the term 'legitimacy gap' (1975) to describe this rupture.

It is noted that "[l]egitimacy has emerged as a pivotal but often confusing construct in management theory" (Suddaby, Bitektine and Haack, 2017, p. 1). Perhaps even more so than in the various definitions of (organizational) legitimacy, the confusing nature of this concept is apparent in the different taxonomies that are used to classify legitimacy according epistemological and ontological factors. Suddaby and co-authors identify three ways in which researchers understand legitimacy: "legitimacy as a property", which regards legitimacy as a resource that an entity either does or does not possess based on the existence or non-existence of a legitimacy gap; "legitimacy as a process", which sees legitimacy as constructed in an interactive process, the process thus granting legitimacy; and "legitimacy as a perception", which focuses on its perception and evaluation and sees cognition as the primary mechanism through with legitimacy is constructed (2016). Prior to Suddaby et al., Suchman (1995) classified legitimacy into three types: 'pragmatic legitimacy', which describes whether the characteristics of a company enable it to achieve its practical objectives; 'moral legitimacy', which refers to the congruence of organizational values with the normative expectations of the environment that surrounds it; and 'cognitive legitimacy', which rests on the organizational image and the societal acceptance of this image. All types of legitimacy show that it is an essential yet intangible resource for companies, which can be threatened and needs to be managed carefully.

Suchman's typology demonstrates that moral legitimacy forms the core of legitimacy as a theoretical construct: without the normative views of the social environment in which the company is embedded there is no frame of reference to judge the actions of a company, and therefore legitimacy cannot be used to explain the enabling or constraining of organizational activities. Surprisingly, it is not exactly clear what the repercussions are of organizational legitimacy being negatively affected. Davis (1973) says that organizations can lose legitimacy, while Dowling and Pfeffer even argue that an organization needs legitimacy in order to continue to exist (1975). It has long been recognized that threats to organizational legitimacy can result in negative financial consequences (Deegan & Blomquist, 2006). Considering the ascendency of neoliberalism and the diminishing appetite for government intervention in business affairs, market forces arguably become increasingly important in influencing organizational legitimacy. This trend can be witnessed in the growth of consumer pressure (Colli, 2017) and investor activism campaigns (O'Brien, 2020). Yet, it remains uncertain whether this leaves stakeholders such as consumers and investors with enough leverage to challenge corporate conduct.

Apart from being used in different disciplines, legitimacy can also be linked to various theories. Legitimacy as a resource is related to resource dependence theory, which theorizes that the behavior of an organization can be explained on the basis of their need for resources such as labor or capital (Hillman, Withers and Collins, 2009); legitimacy as a process can be linked to stakeholder theory, which has descriptive, instrumental, and normative dimensions, and is concerned with how companies manage the (competing) demands of their stakeholders (Donaldson and Preston, 1995); while legitimacy as a perception can be linked to reputational and impression management theory (McDonnell and King, 2013), which revolve around the portrayal of the corporate imagery. Institutional theory examines how organizations deal with normative pressures, which frequently occurs by copying accepted practices displayed by other organizations (DiMaggio and Powell, 1983). In the context of organizational legitimacy, this means that organizations are more likely to prosper if legitimacy is obtained by conform-

ing with its institutional environment, or by acting similar to other organizations that it shares this environment with (Haack, 2012).

A useful taxonomy of legitimacy-related theories is the distinction between institutional and strategic approaches. Suchman (1995) divides theoretical approaches to legitimacy into these two groups: the first category is concerned with organizational legitimacy being gained by conforming with institutional settings; the second perspective is concerned with the way in which organizations strategically manage and even manipulate their environment to obtain legitimacy. The former approach has a normative footing, while the later approach is aligned with instrumental approaches. In practice it is questionable whether legitimacy can be viewed along such strict lines. Regardless of the theoretical approach, in each scenario where legitimacy is a feature, legitimacy is in a state of flux as organizations are dealing with the demands of actors that can (seemingly) influence organizational legitimacy. In addition, each theoretical approach posits that organizations will strive to maintain stability of legitimacy. Where theories differ is how the different demands and groups expressing those demands are approached by organizations, what kinds of strategies are used in doing so, and why organizations are (not) motivated to meet those demands.

It is arguable that there is no such thing as 'legitimacy theory' in and of itself. Instead, it seems that legitimacy is an explanatory concept that is applicable across different disciplines and theories. For example, seeing legitimacy in the context of institutional theory explains why companies do not only conform to the law, but also conform to informal norms. It explains why organizations meet and comply with informal institutions, as there is something that is at stake, that stake being legitimacy. Similarly, stakeholder theory argues that organizations have stakeholders whose claims they need to consider. The same applies to the addition of legitimacy to stakeholder theory: it assists in explaining actor motivations and strategies, and therefore increases the explanatory power of this theory. In short, legitimacy should not strictly be regarded as a theory, but rather a useful theoretical construct that has a strong interplay with other theories and expands their explanatory capacity.

## STAKEHOLDER THEORY AND THE SOCIAL LICENSE TO OPERATE

Stakeholder theory can bring together several key components of the other theories. Stakeholder theory harmonizes institutional and strategic approaches, as it can embody descriptive, normative, and instrumental views (Donaldson and Preston, 1995). It can describe managerial motivations within institutional settings, while also capturing the stakeholder demands. In addition, stakeholder theory can also consider social, political, and economic factors, and it does so by focusing on the dynamics between companies and their stakeholders within the specific context at hand. Finally, organizational legitimacy can be inserted into stakeholder theory as the abstract concept that represents the stake.

Stakeholder theory was popularized by Edward Freeman in the early 1980s. What is often left unsaid about the genesis of stakeholder theory is that it was introduced as part of a strategic management paradigm (Freeman, 1984). Freeman described how companies could manage their stakeholders to further the goals of the company, he did not suggest that stakeholders should replace shareholders as the locus of the organization. Many scholars have built on stakeholder theory to capture the dynamics between companies and their stakeholders. In addi-

tion, companies have widely adopted the stakeholder narrative in their annual and sustainability reports to demonstrate their awareness and alleged concern for social and environmental issues.

The previous sections show that the commonly accepted notion is that stakeholders can judge the legitimacy of an organization by evaluating its activities. The frame of reference in making this judgement is marked by stakeholder interests and more broadly with the question of whether the activities of the organization are aligned with social norms. However, arguably, not all stakeholder groups will be equally powerful, and therefore will not have the same impact in bestowing or threatening legitimacy. Following this reasoning, a company will be more concerned with certain stakeholder demands compared to others. In descriptions of who can influence legitimacy, literature uses broad terms such as "a status conferred by social actors" (Guthrie and Parker, 1989) or "conferring publics" (O'Donovan, 2002).

Freeman describes stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). In a seminal work on stakeholder identification, Mitchell et al. (1997) describe how organizations classify stakeholders and their demands. In the context of legitimacy, these attributes can help to determine the influence of stakeholders, and how companies prioritize stakeholders and develop strategies to manage organizational legitimacy. The first and arguably most important stakeholder attribute is power, which determines the degree of influence a stakeholder has; the second attribute is urgency, which relates to the importance of the demand and the timeliness of the corporate response; and the third attribute is legitimacy, which concerns the judgment of the company regarding validity of the stakeholder group and their claim.

The idea that businesses must act in accordance with societal values relates to the notion of the *social contract*, which states that if an entity is found to be in breach of the contract with society, repercussions can be severe and this may even result in the failure of that entity (Deegan & Blomquist, 2006). The concept of the social contract dates back to philosophers such as Thomas Hobbes and Jean-Jacques Rousseau and was initially related to governing entities. For Rousseau, the social contract intends to safeguard the freedoms of the people: while power may be exercised by sovereigns, this right is not divinely granted and can instead only be granted – and taken away – by the people (Rousseau and May, 2002). Hobbes argues that individuals consent to give up a degree of their liberty in order to benefit from the political order (Hampton, 1988).

In short, social contract theorists such as Hobbes and Rousseau argue that the exercise of power is condoned by the public in so far as it is beneficial for the many and in congruence with prevalent values, while rulers are condemned to give up their authority once the conditions of the social contract are violated. Researchers have theorized about the relation between the social contract and organizational legitimacy. For example, Shocker and Sethi (1973) argue that a social contract between an organization and society exists, whereby the community grants the organization permission to operate – be it in accordance with social expectations about appropriate conduct: "an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval" (1973, p. 97). Evidently, this statement is related to the social responsibilities of corporations: in addition to reaping rewards it is also implied that a business has a duty to act in a socially responsible manner.

According to Guthrie and Parker (1989), legitimacy as a theoretical notion used in management studies relies on the idea that an organization needs a social contract with society. In

other words, corporate activities need to be regarded as desirable – or at least not in contrast with social norms, in order to be condoned by the community and therefore for the organization to continue its endeavors. If Weber's socio-political view of legitimacy can be linked to the general idea of the social contract, then the notion of organizational legitimacy can be linked to the "social license to operate". Indeed, research suggests that the social license to operate may well be "legitimacy by another name" (Gehman, Lefsrud and Fast, 2017). The idea of the social license to operate emerged in the 2000s in the mining and resource industry, which was "distrusted by many of the people it deals with day to day" and has been "failing to convince some of its constituents and stakeholders that it has the 'social license to operate" (International Institute for Environment and Development, 2002, p. xiv).

Other definitions include having "the approval, the broad acceptance of society to conduct its activities" (Joyce and Thomson, 2000, p. 52), the demands on businesses "that emerge from neighborhoods, environmental groups, community members, and other elements of the surrounding civil society" (Gunningham, Kagan and Thornton, 2004, p. 308), and as a sign of "social acceptance or approval… a socially constructed perception that your company or project has a legitimate place in the community" (Black, 2017, p. 18). The social license to operate has become embedded in corporate sustainability reports, as well as in company and industry policies and standards, in CEO speeches, and in statements by peak industry bodies: "[…] the concept of a social license to operate has been widely accepted by the industry as an essential attribute of success. It has prompted companies to look well beyond their self-interest." (International Council on Mining and Metals, 2012, p. 5). The concept has also been embraced by civil society: "[t]he social license is fundamentally about accountability to people and not just powerful interests" according to Kumi Naidoo, former Executive Director of Greenpeace International and former Secretary General of Amnesty International (Morrison, 2014).

Despite its common acceptance, the social license "exists" on the basis of an unwritten agreement between business and society. Problematically, while an actual regulatory license has precise conditions, the social license to operate is intangible with conditions that are not universally defined, in addition to being subject to continuous change. Apart from its conditions not being universally defined, the idea of the social license suggests that it can be granted and revoked, propositions which are questionable given the empirical record. It has been pointed out that "it is easier to point to an absence of particular factors […] necessary for a social license rather than to know when all relevant factors are actively in place" and that the "absence of explicit forms of contestation can be interpreted as latent support in so far as communities have not offered any explicit point of objection" (Owen and Kemp, 2013, p. 32).

The burden of proof therefore seems to lie with stakeholders to show what companies are doing wrong, not with companies to prove what they are doing right. In addition, the absence of community protest can be interpreted as consent. Regarding revoking the social license: while companies that act against societal values can ostensibly suffer repercussions, these only have potential reputational and financial bearing if companies do not break the law, which suggests that the social license relies on the market to balance interests and create desired outcomes for companies and stakeholders. Therefore, while the social license is a seemingly useful abstract concept, and it arguably represents the organizational equivalent of the social contract, the way in which it is said to operate remains contentious.

Civil society organizations are essential actors in exposing corporate misconduct and in holding companies to account. Non-governmental organizations and trade unions in particu-

lar are organizations that are ideologically driven and actively aim to influence community perceptions on corporate behavior. Through their campaigns, civil society organizations try to create a legitimacy gap by arguing there is a discrepancy between organizational behavior and social norms. The same can be achieved by the media through investigative journalism. In other instances, the media serves as an amplifier that reverberates concerns raised by civil society. Basically, the suggestion of a legitimacy gap is meant to threaten organizational legitimacy, which in turn is meant to pressure companies to respond to the issues that have been raised.

"Legitimation" refers to the tactics that companies use to maintain, gain, or repair legitimacy (Ashforth and Gibbs, 1990). Dowling & Pfeffer (1975) contend that organizations have three options: conforming by adapting to expectations; altering expectations among those that judge the organizations; and aligning the organization with institutionalized symbols or values that are considered legitimate. Lindblom (1993) argues along the same lines: a company can change its activities; change perceptions of its activities; distract from issues that are a concern; or alter expectations about the organization. A company can, of course, also choose not to respond. For example, the company may not recognize the individual or group that raises the issue as a stakeholder, it may deem the issue not to be in breach with its own values or the values of the institutional environment in which it operates, or the organization may not be concerned about the threat to its legitimacy.

Other authors have made a distinction between symbolic and substantive legitimation (Ashforth and Gibbs, 1990). Symbolic legitimation signals increased compliance through positive disclosures. Effectively, this means that a company shapes its image to align with community expectations, while not necessarily substantially changing its behavior. In doing so, the company aims to "appear consistent with social values and expectations" (Ashforth and Gibbs, 1990, p. 180). Ashforth and Gibbs call this tactic "double-edged", as companies outwardly meet community expectations, yet make no changes to their operations. Conversely, substantive legitimation is based on actual changes in practices.

In addition to Dowling and Pfeffer, Lindblom, and Ashforth and Gibbs, researchers have identified a range of ways to classify corporate approaches to managing legitimacy. For example, companies *conform*, in which case a company signals it has adjusted activities, symbolically or substantially, with the expectations of its stakeholders (Sethi, 1978); *ignore*, which is a passive non-response to an issue; and relatedly a company can *avoid*, which is an active response to shun an issue (Oliver, 1991). Companies can also deploy a manipulative strategy as it can *distract*, in which case companies accentuate a different and more positive side of an issue, or point to a different issue (Lindblom, 1993); *deny,* to detach a company from an event by arguing it did not happen or the company was not involved (Elsbach, 1994); and *challenge*, in which case a company goes on the attack by undermining its critics or tries to change the values by which it is judged (Oliver, 1991).

There are two further corporate responses to legitimacy threats that require attention. The first is *compromise*, which implies an acknowledgement of the issue, but also involves efforts by the company to seek concessions from its critics in implementing its response; and finally *cooperate*, which in addition to acknowledgement of the issue involves the company engaging in a partnership to resolve the issue (O'Donovan, 2000). The latter approach often takes the shape of multi-stakeholder initiatives. These initiatives can take a substantive form and provide a way forward for groups to collaborate and solve issues, but they can also take on

a symbolic form where companies engage so that they are seen to address an issue, thereby positively contributing to organizational legitimacy (Boersma, 2018).

As we have seen at the outset of the chapter, companies that have been involved in scandals, misconduct and dubious ethics continue their operations relatively unchallenged. Nevertheless, corporate stakeholders seemingly have not entirely lost faith in approaches that challenge organizational legitimacy, as civil society organizations keep on targeting the reputation of companies in attempts to make them change their behavior. To explain this impasse, a critical approach to organizational legitimacy as a theoretical construct can help to reveal why market-based approaches to hold companies accountable fall short, and why these flawed approaches nevertheless continue. This task is aided by applying knowledge from other scholastic areas (Spicer, Alvesson and Kärreman, 2009).

## EXPANDING LEGITIMACY: SOCIAL DOMINANCE THEORY AND LEGITIMIZING MYTHS

To expand the use of legitimacy as a theoretical construct, this research incorporates notions from social dominance theory. Social dominance theory aims to increase understanding of conflict between different social agents by framing societies as group-based hierarchy structures, and by taking into account cultural, ideological, political, and structural aspects of societies (Sidanius and Pratto, 1999). It postulates that the social agents that benefit from the status quo will demonstrate hierarchy-enhancing behavior – and promote myths that strengthen their hegemony, while marginalized social agents will express hierarchy-attenuating behavior – and use legitimizing myths that aim to undermine the existing hierarchy. These legitimizing myths are described as the "attitudes, values, beliefs, stereotypes, and ideologies that provide moral and intellectual justification for the social practices that distribute social value within the social system" (Sidanius and Pratto, 1999, p. 45).

Social dominance theory posits that marginalization of social agents is based on ideologies and associated myths, which have become embedded in institutions such as companies and schools. These institutions disproportionately distribute sought-after goods such as wealth and knowledge to dominant groups, while directing undesirable elements such as hazardous work and unemployment toward members of less powerful groups. According to social dominance theory, social inequality becomes systematic because of this embeddedness in social institutions: as people tend to support institutions that align with their beliefs, they therefore support the manner in which these institutions allocate resources. According to social dominance theory, the beliefs that legitimize and enhance the existing hierarchy gain strength as the social status of benefitting social agents increases (Sidanius *et al.*, 2004).

Legitimizing myths are therefore an important factor in explaining social inequality. An example of legitimizing myths are paternalistic myths, which contend that hegemony is beneficial as particular groups are unable to look after themselves – thus justifying the need for the welfare state. Other examples are reciprocal myths, which claim that dominant and marginalized groups are in fact equal, and meritocratic myths, which suggest equal opportunities while in reality enhancing inequality (Pratto *et al.*, 1994). A taxonomy of legitimizing myths, which is relevant for the question at hand, concerns *hierarchy-enhancing myths* and *hierarchy attenuating myths* (Sidanius and Pratto, 1999). The first kind maintains the status quo, while the second kind seeks to undermine it. The patriarchal myths are an example of

hierarchy-enhancing legitimizing myths, which justify inequality based on gender, while feminist myths are an example of hierarchy-attenuating myth, which aim to undermine the patriarchy and strive towards gender equality (Sidanius and Pratto, 1999).

Identifying legitimizing myths can help to reveal how social agents uphold or challenge the taken for granted notions around organizational legitimacy. It can assist in analyzing how companies manage organizational legitimacy when responding to legitimacy threats, and it sheds additional light on the dynamics surrounding social and environmental issues. In other words, where the addition of legitimacy as a concept adds a focal point and motivating factor for social actors, and thus enhances the explanatory ability of theory, legitimizing myths increase explanatory power by describing how social actors maintain or contest the taken for granted notions that surround the gaining, maintaining, threatening, and repairing of organizational legitimacy. Up until now, social dominance theory and legitimizing myths have not been applied in the context of organizational studies. A well-known book by Lynn Stout titled "The Shareholder Value Myth" (2012) does posit that shareholder primacy has no basis in law or economics, but Stout does not explicitly use social dominance theory or legitimizing myths. Yet, the myth of shareholder value is a typical example of a hierarchy-enhancing legitimizing myth, as it contributes to the hegemony of companies and shareholders while delegitimizing broader stakeholder concerns.

This research proposes that organizational legitimacy currently fails to adequately explain how companies can be held to account. Applying notions from social dominance theory to organizational legitimacy implies that companies, as a dominant group of social agents, want to maintain the dominant governing rationality, which is that the market is able to balance social, environmental, and financial interests. Companies will therefore express hierarchy-enhancing myths to maintain the status quo. Negatively affected social agents will ordinarily express hierarchy-attenuating myths to contest this dominant governing rationality. However, the following paragraphs will contend that the key antagonistic stakeholders of companies have either bought into the hierarchy-enhancing myths that companies perpetuate; or have not developed sufficiently compelling hierarchy-attenuating myths.

With the diminishing role of government intervention, the gaining, maintaining, repairing and threatening of organizational legitimacy increasingly relies on market forces. Questioning organizational legitimacy is a seemingly powerful tool for corporate stakeholders. Yet, while this tactic may prompt a response from companies, examples provided at the outset of this chapter show that threats to organizational have limited effect. Insolvency aside, every example provided at the beginning of this chapter shows that companies whose legitimacy was questioned because of scandals or misconduct have survived and thrived. This research suggests that the unquestioned reliance on the market to balance social, environmental, and financial interests is upheld by legitimizing myths.

If we accept that brand damage campaigns orchestrated by stakeholders rely on market forces, we should also accept that corporate responses may follow the logic of the market. In responding to social and environmental issues after being pressured by stakeholders, companies may therefore be driven by instrumental rather than by moral incentives, meaning that corporate responses to stakeholder concerns become a means to an end (meeting financial objectives by addressing stakeholder concerns) rather than an end in itself (addressing stakeholder concerns). As the market ascribes commercial value to the corporate brand and reputation, which are threatened by the campaigns of stakeholders, any corporate response that neutralizes the threat to the corporate brand and reputation suffices. This results in the option

of an entirely symbolic rather than a substantive approach to social and environmental issues, without adequately addressing underlying stakeholder concerns.

For example, following reports that Apple was sourcing from sweatshops, the company implemented a supplier code of conduct and hired a social auditing firm to make its suppliers implement reforms. In the words of CEO Tim Cook: "…to me that goes from everything, from environmentally, to how you work with suppliers, with labour questions, to the carbon footprint of your products, to the things you choose to support, to the way you treat your employees" (Haslam, 2013). Despite these public statements, new evidence of continuing labour abuses were presented numerous times over the course of a decade (Clarke and Boersma, 2015). As a former Apple executive told the New York Times in 2012: "We've known about labour abuses in some factories for 4 years, and they're still going on. Why? Because the system works for us. Suppliers would change everything tomorrow if Apple told them they didn't have another choice" (Duhigg and Barboza, 2012). While Apple's organizational legitimacy is allegedly "threatened", the array of incidents in its supply chain have not had major – if any – impact on the company's success.

One of the key concepts that upholds the idea that the market can balance social, environmental and financial interests is the "social license to operate". A major assumption underlying organizational legitimacy is that a social contract exists between companies and society. This is why the social license to operate is also referred to as "legitimacy by another name" (Gehman, Lefsrud and Fast, 2017). The social license to operate suggests that companies will suffer negative consequences if their actions are not aligned with societal norms. While intangible and merely implied, the notion of the social license to operate has become commonplace and is used by companies and civil society organizations alike. The social license to operate implies two things: first, that society can grant this license to a company; and second, that the license can be revoked. However, the examples of corporate misconduct provided throughout this chapter suggest that these notions are contentious.

For example, Apple applies a combination of legitimation tactics to safeguard its social license to operate. Following Dowling & Pfeffer's (1975) and Lindblom's (1994) taxonomies, it *conforms* with stakeholder pressures by implementing reforms; it *alters* expectations by not taking responsibility for transgressions but by blaming its supplier Foxconn; and it *aligns* itself with institutionalized symbols that are considered legitimate, namely through a code of conduct and social auditing approach. While Apple uses *symbolic* and *substantive* means to manage its legitimacy, Foxconn deploys a manipulative tactic to maintain its legitimacy vis-à-vis Apple, as it *decouples* symbolic from substantive measures: Apple's promised reforms do not align with Foxconn's operational reality, as Apple's supplier falsely signals compliance while continuing to breach conditions (Clarke and Boersma, 2015).

In terms of Suchman's legitimacy taxonomy (1995), Apple manages its *cognitive legitimacy* through a mix of symbolic and substantive means: the positive statement by Tim Cook about Apple's approaches to supply chain labour issues are examples of symbolic means, while hiring independent social auditors to monitor activities at suppliers is an example of a substantial effort. In doing so, Apple ostensibly attains *moral legitimacy* by appearing to align itself with normative expectations expressed by civil society organizations. Despite the fact that civil society organizations are persistent in their skepticism about Apple's reforms, and continue to gather evidence which demonstrates that labor exploitation is ongoing, Apple attains *pragmatic* legitimacy by achieving its organizational goals and by reaching a market capitalization of $US one trillion.

The case of Apple shows that the company deploys effective legitimation tactics to manage its social license to operate. Based on the literature, it can be argued that Apple views organizational legitimacy as a resource that represents value to the company – mainly via its brand - which can be maintained by managing stakeholder perceptions. By suggesting that its actions are congruous with the values and expectations of stakeholders, Apple positively influences public views and thus neutralizes threats to its brand. Arguably, civil society organizations on the other hand regard organizational legitimacy as something that is withheld or bestowed based on whether issues have been substantively addressed. Civil society organizations nevertheless continue to apply pressure on Apple and try to leverage the company's brand to effectuate change (China Labor Watch, 2019). This difference in views on organizational legitimacy offers an explanation as to why brand damage approaches are an inefficient strategy to make a company fundamentally change its behavior, however it does not explain why this cycle of failure continues unhindered.

There is no evidence to suggest that any amount of threat to the social license to operate posed an existential threat to Apple or any of the other companies mentioned in this chapter. This gives credence to the suggestion that the social license to operate constitutes a hierarchy-enhancing legitimizing myth that upholds the idea that the market can balance social, environmental, and financial interests. One of the potential reasons why civil society organizations and other antagonistic stakeholders continue to take the failing brand damage approach to change corporate behavior is because they also have come to believe the myth that a company's social license to operate can be threatened. Alternatively, there may simply be a lack of alternatives, which means there are no compelling hierarchy-attenuating myths to challenge the status quo. Ironically, the best advice for antagonistic stakeholders comes from a champion of neoliberalism, Milton Friedman: "Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable" (Friedman, 2009, p. xiv). Whatever the current or upcoming crises may be, the defenders of the status quo have already developed a new legitimizing myth: corporate purpose.

## CONCLUSION

Organizational legitimacy is a useful construct within organizational studies, that can be inserted into several theoretical frameworks. Organizational legitimacy dictates that the actions of a company need to be appropriate within a wider system of beliefs. Organizational legitimacy can assist in assessing how companies respond to societal pressures and assist in explaining how stakeholders attempt to hold companies accountable. However, this chapter argues that organizational legitimacy as a theoretical construct currently does not adequately explain how the social and environmental impacts of companies are contested. It argues that we need to critically rethink the ways in which companies can be held accountable.

This is achieved by borrowing the concept of legitimizing myths from social dominance theory, thus broadening the conceptual use of legitimacy within the context of organizational studies. Social dominance theory posits that groups of social agents that benefit from the current social order will display hierarchy-enhancing behavior – and promote legitimizing myths that strengthen the existing hegemony, while marginalized groups of social agents will

express hierarchy-attenuating behavior – and therefore spread legitimizing myths that aim to undermine the hierarchy. According to social dominance theory, the beliefs that legitimize and enhance the existing hierarchy gain strength as the social status of benefitting social agents increases.

The introduction of legitimizing myths advances the analysis of the dynamics between companies and their stakeholders and explains the struggle to maintain or challenge the status quo. In applying a social dominance theoretical perspective to organizational legitimacy, it is suggested that companies, as an influential and dominant group, want to maintain how they are held to account for their social and environmental impacts, which is through market forces. The chapter contends that the social license to operate and corporate purpose are hierarchy-enhancing legitimizing myths that uphold this status quo in favor of companies at the detriment of society. In explaining why antagonistic stakeholders continue to rely on market-based approaches, it is suggested that they either believe the hierarchy-enhancing myths, or they have not created compelling hierarchy-attenuating myths to defy the status quo.

Future research could apply the suggested theoretical expansion of organizational legitimacy to case studies that involve corporate misconduct and ethical transgressions, in order to bolster the operational rigor of the proposed expansion. Research could also explore the existence of additional hierarchy-enhancing myths that are used to uphold the reliance on market forces to address societal concerns. A useful and supplementary frame of analysis that could be operationalized in doing so is the work by Chomsky (2002) on manufacturing consent, to demonstrate how societal consensus on values can be shifted and manipulated. In addition, research could focus on the existence and possible creation of hierarchy-attenuating myths that challenge the faith in the market to alleviate collective concerns. Such research could also explore the specific role that antagonistic stakeholders may play in this context, whether they are consumers, the media, investors, or civil society organizations.

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