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**Managing Legitimacy in Complex and Heterogeneous
Environments: Sustainable Development in a Globalized World**

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**MANAGING LEGITIMACY IN COMPLEX AND HETEROGENEOUS
ENVIRONMENTS: SUSTAINABLE DEVELOPMENT IN A GLOBALIZED
WORLD**

ABSTRACT

The sustainability problems of the production, distribution, and consumption of goods and services increasingly challenges the legitimacy of corporations. Corporate legitimacy, however, is vital to the survival of corporations in competitive environments. The literature distinguishes three strategies that corporations commonly employ to address legitimacy problems: adapt to external expectations, try to manipulate the perception of their stakeholders or engage in a discourse with those who question their legitimacy. This paper develops a theoretical framework for the application of different legitimacy strategies and suggests that corporations facing sustainability problems have to be able to activate all three legitimacy strategies, despite their inherent incompatibilities.

KEYWORDS

Corporate Legitimacy, Corporate Responsibility, Globalization, Institutional Theory, Paradox, Sustainability

INTRODUCTION: SUSTAINABLE DEVELOPMENT AND ORGANIZATIONAL LEGITIMACY

The World Commission on Economic Development (WCED) of the United Nations defines sustainable development (SD) as the ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ and suggests that this ‘should become a central guiding principle of the United Nations, Governments and private institutions, organizations and enterprises’ (United Nations, 1987). SD rests on three principles: environmental integrity, social equity, and economic prosperity (Bansal, 2005). In its recent analysis of the current state of the planet, the WWF has shown that the current system of human development is clearly unsustainable and by 2030 humanity would need the resources of more than two planets to satisfy the needs of globalized systems of production and consumption. Ecosystems are being degraded, the supply of food, water and energy is becoming problematic and humanity is more vulnerable to natural disasters, health risks and resource-driven conflicts. The globalization of economic processes intensifies problems such as global warming, chemical pollution, ocean acidification, water scarcity, and biodiversity loss (WWF, 2012, see also Rockstrom et al., 2009). Since these problems regularly manifest themselves as negative side-effects of global business activities (Buckley & Ghauri, 2004), ‘the legitimacy of business has fallen to levels not seen in recent history’ (Porter & Kramer, 2011, p. 64).

While the business world was initially reluctant to assume responsibilities for SD beyond economic interests (Bansal, 2002; Hedstrom et al., 1998), the impact of unsustainable business practices on their legitimacy has motivated many corporations to engage with the SD discourse. Today, many corporations have adopted sustainability principles as part of their mission statement (WBCSD, 2011). Legitimacy can be understood as the social acceptance of actions or institutions and is ascribed to corporations in processes of social construction (Ashforth & Gibbs, 1990; Berger & Luckmann, 1966). Legitimacy is vital to corporations as

it is a precondition for the continuous flow of resources and for securing the sustained support of the organization's constituencies (Pfeffer & Salancik, 1978). Legitimacy becomes relevant for corporations when their actions are perceived as inappropriate and undesirable within their respective societal contexts (Palazzo & Scherer, 2006; Suchman, 1995). With the growing societal sensitivity for social and environmental harm occurring along globalized systems of production and consumption, the SD discourse is probably the key driving force of corporate legitimacy problems. Dealing with SD-related issues is challenging when operating in fragmented and dynamic global environments with a multitude of complex and often contradictory sustainability demands. We therefore address two research questions: *First, what strategies do corporations possess for dealing with SD-related legitimacy challenges and when are they employed? Second, how can corporations deal with contradictory sustainability demands requiring conflicting legitimacy strategies?*

Suchman (1995) argues that organizational legitimacy can either rest on the benefits that are perceived to spring from the organization's existence or behaviour (pragmatic legitimacy), or on the subconscious acceptance of the organization, its structures, and processes, as representative of a 'normal' status quo (cognitive legitimacy), or on an explicit moral discourse about the acceptability of the organization and its activities (moral legitimacy). In the management literature, the connection between the corporation, legitimacy, and SD has followed Suchman's categorization but focused on the pragmatic and cognitive perspective. Pragmatic legitimacy has been explored from resource-based theory (Barney, 1991), cognitive legitimacy from an institutional theory perspective (Meyer & Rowan, 1977).

Resource-based theorists emphasize the business case for SD and argue that certain resources and capabilities help corporations realize higher economic rents by contributing to SD (Christmann, 2000; Hart, 1995). This instrumental view complements the position of authors who support the business case for corporate social responsibility (CSR) (McWilliams

& Siegel, 2001), environmental sustainability (Orlitzky et al., 2011), or green management (Siegel, 2009). In situations where corporations see their legitimacy challenged and their access to resources from key constituencies potentially threatened, they may opt for either of two strategies. According to the instrumental view they may either provide economic benefits to their constituencies or engage in impression management and other manipulation strategies in order to maintain or repair their legitimacy. Institutional theorists, in turn, suggest that corporations strive for societal approval and respond to institutional pressures by adapting to SD principles (Jennings & Zandbergen, 1995; Schaefer, 2007). Schaefer (2007) and Bansal (2005) argue that institutional forces are the dominant drivers of the corporate engagement with environmental management systems.

The management of legitimacy by either passive *isomorphic adaptation* or by active *strategic manipulation* of social expectations was regarded as one of the preconditions for the survival of organizations, especially under conditions of low complexity (Oliver, 1991). Today, the situation has changed (Palazzo & Scherer, 2006). Corporations often face conditions of *increasing complexity* in their social environment (Child & Rodrigues, 2011; Jones & Fleming, 2003; Kostova & Zaheer, 1999; Smith & Lewis, 2011). Multinational corporations (MNCs) in particular operate across national borders with heterogeneous legislation and enforcement mechanisms and in diverse cultural environments that often have radically different social expectations and mores. In order to address legitimacy gaps these companies seek standards for behaviour which in many cases are yet to be established (Brunsson, Rasche, & Seidl, 2012). In a globalized world the regulatory power of the nation-state governance system is in decline (Beck, 2000; Habermas, 2001; Kobrin, 2001) and cultural homogeneity within social communities is eroding due to processes of migration and individualization (Beck, 2000; Beck-Gernsheim & Beck, 2002). Under these conditions, which have been referred to as the postnational constellation (Habermas, 2001) or post-Westphalian order (Cutler, 2001), the power to address issues of public concern, to define

standards for behaviour, and to determine the conditions under which SD can unfold is shifting from state institutions to private actors (e.g. business firms) and civil society actors (e.g. NGOs and social movements) (Beck, 2000; Chandler & Mazlish, 2005; Kobrin, 2001; Mathews, 1997). As a result the social environment has become highly ambiguous and corporations have difficulties in maintaining their legitimacy (Kobrin, 2009; Kostova & Zaheer, 1999). The strategies of simply adapting to the environment or manipulating the perceptions of the most important social constituencies do not work as smoothly as they once did. In the course of the globalization process, the social environment has become heterogeneous and ambiguous, and often accepted standards of behaviour, such as legal rules or self-regulation schemes (Shelton, 2000), are fragmented or not available (Fischer-Lescano & Teubner, 2004), so that the corporation has to engage in a process of *mutual* adaptation where it is not clear from the outset whether the corporation or the societal expectations will dominate the resolution or whether a new position is created. Palazzo and Scherer (2006) have elaborated on the perspective of moral legitimacy proposed by Suchman, and have argued that in some situations corporations have to engage in *moral reasoning* in order to maintain their legitimacy.

The key difference between the moral, cognitive and pragmatic strategies of legitimacy lies in their respective assumptions about the locus of control. While the pragmatic view puts forward that the corporation can influence how its key constituencies perceive its legitimacy, the cognitive view builds on the assumption that the corporation is subject to the control of surrounding institutional pressures and routines. The moral legitimacy view, in turn, argues that legitimacy results from the discourses that connect organizations with their environment. Whether these legitimacy strategies are mutually exclusive and whether they could and even should be combined has yet to be resolved (Lamin & Zaheer, 2011).

Building on the SD discourse, our paper challenges two assumptions of the scholarly debate on legitimacy: First, despite their often significant conceptual differences, the scholarly debate treats legitimacy as a general perception about the *corporation as such* while we argue that legitimacy results from a broad variety of often parallel and contradictory perceptions of the corporation with regards to *specific SD issues* – ranging from environmental issues such as water scarcity to social issues such as working conditions in supplier factories. Second, theoretical assumptions behind the different approaches – from the resource-based view, institutional theory, or discourse ethics – are so contradictory that the discussion gives the impression that corporations have to *choose one general legitimacy strategy* from the three options of manipulation, adaptation and deliberation. In contrast, we will argue that corporations have all three options at their disposition and the appropriate choice depends on the particular issue at stake. Particularly in fragmented and dynamic global environments, facing a multitude of complex and often contradictory sustainability demands, there is no ‘one-best-way’, but corporations are left with the ‘paradox’ (Smith & Lewis, 2011) of enacting all three strategies simultaneously. The existing literature offers insights into the different approaches to managing response strategies, especially in complex environments with heterogeneous or paradoxical demands (Child & Rodriguez, 2010; Greenwood et al., 2011; Pache & Santos, 2010; Simsek, 2009; Sirmon et al., 2007). However, the combination of legitimation strategies and their organizational prerequisites have not yet been explored.

In the present paper we will argue that the successful maintenance of corporate legitimacy in the face of increasingly complex and heterogeneous SD-related demands is likely to depend on the organizational capability to activate each of the three legitimacy strategies, as this allows responding to specific legitimacy challenges with the most suitable strategy. Corporations need to switch efficiently between these strategies, and even to manage the pursuit of all three simultaneously, as required by the circumstances.

The paper is structured as follows: In the next section we will address our first research question by discussing the different legitimacy strategies and developing a framework for the management of corporate legitimacy in complex environments. This will be further elaborated in the third section where we will present anecdotal evidence of how corporations employ the different legitimacy strategies. In the fourth section we will address our second research question and discuss potential approaches (‘one best way approach’, ‘contingency approach’, and ‘paradox approach’) for selecting legitimacy strategies in complex environments with heterogeneous sustainability demands. We will elaborate on the paradox approach as the most promising and outline the preconditions for accommodating such an approach within the organization. We conclude with a reflection on the contributions of this study.

MANAGING CORPORATE LEGITIMACY IN COMPLEX ENVIRONMENTS: A FRAMEWORK

Business firms are considered legitimate when their organizational practices are perceived to satisfy the social expectations of their environment. Normally, capitalist institutions such as business firms, property rights, contractual obligations etc. meet general expectations of how society should work, and do not raise legitimacy concerns unless everyday routines fail or unless there is a crisis. Within the capitalist system, economic institutions and processes are highly routinized and unfold within the established and socially accepted legal rules of the economic game. As long as these taken-for-granted institutions and processes do not fail and are not questioned, they build upon *cognitive legitimacy*. This legitimacy is disputed if social actors perceive a *mismatch* between the corporation’s status-quo or behaviour and societal expectations (see Figure 1).

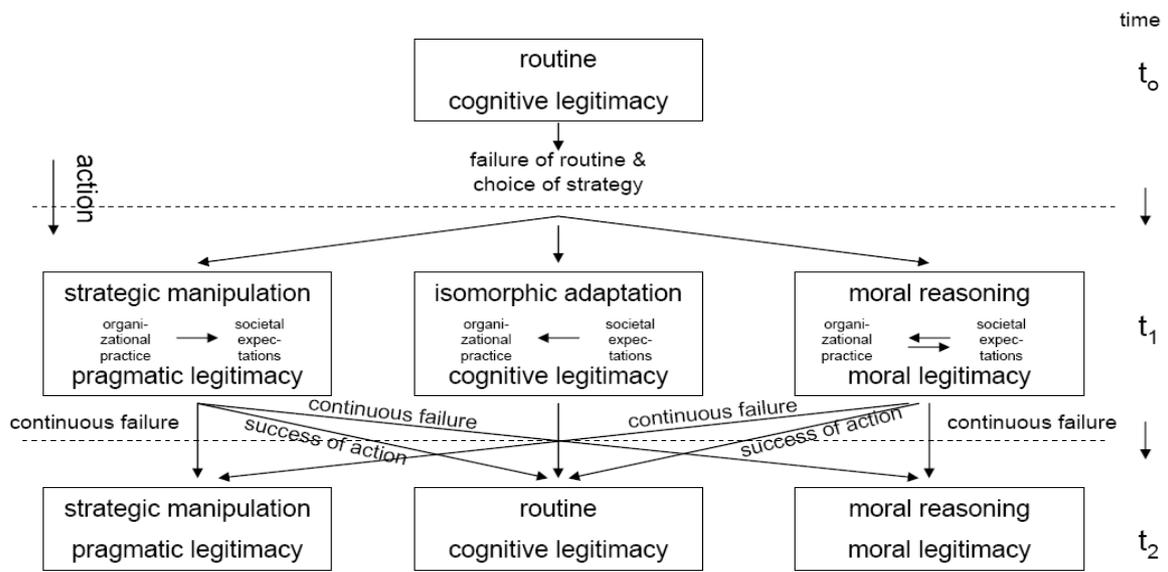


Figure 1: Strategies of Organizational Legitimacy

The postnational constellation will make such a situation more likely, as in the global arena corporations often operate under conditions of governance gaps due to global public goods problems (Kaul et al., 2003), incapable or unwilling national governments (Beck, 2000; Kobrin, 2001), insufficient regulatory power of international organizations (Beck, 2000; Habermas, 2001), and a lack of acceptable and coherent standards of behaviour (Chandler & Mazlish, 2005).

A failure of routine and a crisis of legitimacy can occur on three different institutional levels: a specific corporation, a specific industry, or the economy as a whole. The legitimacy of a particular company may be questioned as a result of a corporate scandal, while the increased incidence of corporate misbehaviour or the involvement in unsustainable business practices may also raise questions about the legitimacy of a particular industry (e.g. the chemical or the banking industry) or even of the capitalist system as a whole – the latter case is illustrated by the intensification of anti-globalization activism by civil society groups and the recent ‘Occupy Wall Street’ movement, which emerged during the financial crisis.

We suggest that, logically, corporations have *three different legitimacy strategies* at their disposal to (re)establish the congruence between their organizational practices and social expectations, summarised in Figure 1 (Oliver, 1991; Palazzo & Scherer, 2006; Suchman, 1995): the isomorphic adaptation strategy, the strategic manipulation strategy, or the strategy of moral reasoning. The *isomorphic adaptation strategy* means that corporations can change their organizational practices and adapt to social expectations in order to maintain cognitive legitimacy (Deephouse, 1996). This can take the form of (a) *coercive isomorphism*, when the corporation is driven by pressure to adapt to cultural or institutional expectations of its societal environment, (b) *mimetic isomorphism* when corporate managers resolve their uncertainty over decisions and outcomes by imitating best practices of exemplary firms or managers, or (c) *normative isomorphism* when managers have similar professional

backgrounds and adhere to the same professional standards. This means that organizational practices are determined to a high degree by societal expectations. In Figure 1 this is indicated by the arrow in the isomorphic adaptation box, which points from societal expectations to organizational practice. Such a scenario might arise when corporations change their practices to meet the interests and legitimacy concerns of their most powerful stakeholder groups (Mitchell et al., 1997).

The *strategic manipulation strategy* describes cases where corporations actively influence social expectations by swaying or even manipulating the perceptions of key actors or policy-makers in their environment (Barley, 2010; Child & Rodriguez, 2011; Oliver, 1991). The notion of ‘manipulation’ refers to ‘the active attempt to alter the content of institutional requirements and to influence their promoters’ (Pache & Santos, 2010, p. 463). Here, societal expectations are mainly shaped by the corporation’s political strategy (Hillman, Keim, & Schuler, 2004), which in Figure 1 is indicated by the respective arrow in the strategic manipulation box. The corporation attempts to influence these expectations through advertising campaigns, the dissemination of (mis)information, lobbying, and other instruments of strategic public relations. The aim is to create a favourable public image so that its social constituencies perceive the corporation as beneficial, even if its practices do not necessarily correspond to that image (Barley, 2010; Fombrun, 2001; Oliver, 1991).

The third strategy, that of *moral reasoning*, builds upon a process of deliberation. The organization engages in an open discourse with focal stakeholders or societal groups in order to argue for the acceptability of its status quo and behaviour (Habermas, 1990). Both parties consider the pros and cons of their own and the other party’s position and try to find a common solution that is based on a sound argument and serves the well-being of society rather than egoistic motives or narrow interests. This mode of interaction ‘reflects a pro-social logic that differs fundamentally from narrow self-interest’ (Suchman, 1995, p. 579). Unlike

persuasion strategies, which aim to establish one's own position by manipulating the other party's position, moral reasoning means that the two parties try to learn from each other and eventually adapt their positions constructively. The aim is to reach a consensus (or at least an informed compromise) and ultimately a new match between organizational practices and societal expectations that will (re)establish legitimacy (Palazzo and Scherer, 2006). Multi-stakeholder initiatives that target regulatory gaps with regards to particular SD challenges such as deforestation, overfishing or water scarcity illustrate how corporations engage in arenas of deliberation with other corporations, civil society organization and governments, in order to define and enforce global behavioural standards.

Corporations opt for either the isomorphic adaptation strategy or the manipulation strategy primarily in order to maintain their legitimacy. Occasionally, these strategies are complemented or even substituted by moral reasoning. In line with the economic and institutional approaches, we expect that the particular choice of legitimacy strategy can be explained on the basis of two factors: first, the *costs of organizational change*, i.e. the costs incurred by making necessary changes to a corporation's structure and processes so that they match societal expectations and contribute to sustainable development (McWilliams & Siegel, 2001; Hart, 1995); second, the *consistency of societal expectations* to which the corporation has to respond when attempting to (re)establish its legitimacy. The latter factor draws on institutional theory (Greenwood et al., 2011; Pache & Santos, 2010; Powell & DiMaggio, 1991) and the theory of paradox (Smith & Lewis, 2011).

A failure of organizational routine that reduces the societal acceptability of a corporation and its behaviour will incur costs in the form of time, labour, and assets that are necessary in order to resolve the misfit between organizational practice and societal expectations. In order to respond effectively to sustainability issues that are put forward by societal stakeholder groups, corporations have to rearrange their value chains (e.g. stop

sourcing from countries with undemocratic regimes), change their production processes or product technologies (e.g. implement green technologies), or spend resources (e.g. invest in infrastructure and public goods such as public transportation, education, or security in host countries where public authorities are not able or willing to do so) in order to preserve the natural environment or protect human rights.

Scholars who adopt the economic theory of the firm perspective on CSR argue that there are benefits and costs of corporate social responsibility and sustainability that managers take into account when responding to legitimacy issues (McWilliams & Siegel, 2001; Orlitzky et al., 2011; Springle & Maines, 2010). They suggest that rational managers invest in corporate sustainability as long as the benefits exceed or at least equal the costs (McWilliams & Siegel, 2001; Siegel, 2009). Proponents of the resource-based theory, on the other hand, suggest that corporations may achieve a favourable position in competition when they develop specific competences that are valuable and contribute to sustainability but are not substitutable by other competences and difficult to imitate (Barney, 1991; Christmann, 2000; Hart, 1995). For other corporations such competences represent an entry barrier and their acquisition, although necessary when implementing a sustainability strategy, incurs costs.

MNCs have extended their activities to countries and cultures that have different societal and institutional conditions. As global actors, they are exposed to two contradictory pressures: on the one hand, globalization promotes a transnational standardization of rules and (mainly soft law) regulation: 'the globalization of practices and cultures increasingly exposes organizations to the simultaneous influence of local and global institutional pressures. Local regulative, cognitive, and cultural influences interfere with national and global trends toward homogenization of rules, values, and practices' (Pache & Santos, 2010, p. 471). On the other hand, the diversity of local contexts in which MNCs operate creates institutional contradictions. As a result, corporations are confronted with a multitude of expectations from

primary stakeholders, such as company owners, employees, customers, or suppliers, and from secondary stakeholders, such as NGOs or activists, local communities, or governments (Waddock et al., 2002), as well as with pressures from a variety of international institutions (Waddock, 2008). This simultaneous tendency towards more homogeneity and more heterogeneity becoming manifest in various local and global expectations creates tensions. Under these conditions, companies seek accepted standards of behaviour (e.g., with respect to social and environmental issues), which provide a level playing field, incur the same costs on all companies within an industry, and at the same time provide them with legitimacy. However, even though self-regulation and standardisation of business practices is a prevalent phenomenon in global business regulation (Braithwaite & Drahos, 2000) such standards are not always available around the globe in every industry, every region, or on every sustainability issue as these standards are sometimes contested (e.g. the responsibility of private companies for the protection of human rights) (see e.g. Ruggie, 2007) and the institutionalization process of codes of conduct for global business and value chains is a recent phenomenon and many companies, industries and regions still lag behind. Some students of international law even claim that this situation of heterogeneity and fragmentation of rules will continue as it reflects ‘deep contradictions between colliding sectors of a global society’ (Fischer-Lescano & Teubner, 2004, p. 1004).

As a result, MNCs operate under conditions of complexity and may often face highly heterogeneous expectations from their societal and institutional environment (Child & Rodriguez, 2011; Palazzo & Scherer, 2006; Smith & Lewis, 2011). Heterogeneous environments that pose different and contradicting social demands on corporations correspondingly have varied societal expectations, while in homogeneous environments social expectations tend to be consistent.

We suggest that where social expectations are consistent and/or widely accepted standards of behaviour exist, corporations tend to choose adaptation strategies when the costs of organizational change are low and active manipulation strategies when these costs are high. In the latter case, corporations engage in decoupling (Boxenbaum & Jonsson, 2008); for example, they attempt to leave the organizational machinery as it is and create a positive public image by simply evoking the impression that the corporation complies with established standards, with the help of public relations and strategic manipulation strategies. This way they simply appear legitimate in the eyes of the societal environment (Ashforth & Gibbs, 1990) and of key stakeholders or policy makers (Barley, 2010) even though their business processes have not changed. This tendency is more pronounced when corporations have the power to actively influence their environment (Child & Rodriguez, 2011) and when the societal expectations are not represented within the company – e.g. when there are no organizational members that feel responsible for social or environmental issues (Pache & Santos, 2010).

Corporations that employ manipulation strategies do not modify the practices that some of their stakeholders criticize; instead, they manipulate the perception of those stakeholders in order to avoid the pressure. While such strategies of decoupling and impression management are discussed critically in the business and society literature (Palazzo & Richter, 2005; Weaver et al., 1999), it is important to highlight here that they are neither good nor bad in normative terms. As we will argue later on, external demands can be based on unrealistic claims, poor data, or misunderstandings (Teegen, Doh, & Vachari, 2004) and may often collide with the expectations of other stakeholders (Calton & Payne, 2004; Pache & Santos, 2010). A corporation can apply strategic manipulation or isomorphic adaptation to a wide range of situations in order to maintain its legitimacy. However, both strategies have limitations and may fail under certain conditions. There is always the danger that a

corporation's attempts to manipulate perceptions may be uncovered by those who are targeted by the strategy, which may have the opposite effect and damage the corporation's legitimacy (Patriotta, Gond, & Schultz, 2011).

Even though there is some evidence that strategic manipulation is often successful (Barley, 2010), the cases of Enron (fraudulent book-keeping, Ley Toffler & Reingold, 2003; Time Magazine, 2002), Siemens (widespread corruption; New York Times, 2008), or BP (disregard for safety standards and highly risky tactics; New York Times, 2011) are a reminder that once the image of legitimacy is exposed as a façade, the consequences for companies and top managers in terms of cost and reputation can be disastrous. In all three cases the corporations had created positive public images with the help of public relations: Enron had even been considered a 'CSR poster child' thanks to its publicly announced CSR policies (Murphy, 2008). Likewise, Siemens was a forerunner in many CSR initiatives and communicated its policies very actively (Kaufmann, 2008), while BP had created a pro-sustainability image with the slogan 'Beyond Petrol' (Muralidharan et al., 2011). However, as the scandals associated with these corporations have shown, none had actually implemented its publicly announced policies by sufficiently changing its corporate structures and practices. These scandals were the result of misconduct by individuals, as well as of systematic problems with incentives and control within the companies. Strategic manipulation and keeping up a façade are more likely to fail when there is anti-corporate action by NGOs and stakeholder activists (den Hond & de Bakker, 2007; Teegen, Doh, & Vachari, 2004) and when transparency is high and information can be readily disseminated to the relevant public via the media (e.g. the internet or news agencies) (Patriotta, Gond, & Schultz, 2011).

A strategy of adaptation may also fail if the organization faces many heterogeneous and contradictory expectations (Lamin & Zaheer, 2011). In such cases, adapting to the expectations of one part of the social environment is likely to clash with the expectations of

other societal sectors: ‘in conflict situations plain compliance is problematic, since complying with one demand requires defying the competing other(s)’ (Pache and Santos, 2010, p. 463). Palazzo and Scherer (2006) have argued that during the process of globalization the societal environment of multinational firms has become fragmented and heterogeneous, and industry standards and self-regulation schemes are often not yet available, but first need to be developed. Under these conditions, adaptation strategies are insufficient for maintaining corporate legitimacy. By contrast, in cases of low consistency of societal expectations, strategic manipulation as well as moral reasoning strategies can be applied selectively to certain stakeholder groups in order to address their legitimacy concerns either by means of manipulation or argumentation. Manipulation strategies, however, may prove insufficient: the corporation may not be able to actually influence the relevant societal groups in the first place, while the widespread availability of information and communication means that corporate manipulation strategies may be easily discovered and circumvented. Under such conditions moral reasoning will become more important for managing corporate legitimacy (Palazzo & Scherer, 2006).

However, we suggest that moral reasoning cannot completely substitute adaptation and strategic action. The complexity of the corporation’s steering task in competitive market societies would overburden the corporation in its strategic course if only moral reasoning was available as a means of establishing legitimacy. Therefore, moral reasoning has to be regarded either as a *retreat strategy* when the mechanisms of social routine, adaptation, and manipulation fail, or as a *proactive strategy* for establishing relationships of trust with the corporation’s constituencies or for addressing emerging sustainability issues that may erode the corporation’s legitimacy in the future. The strategy of moral reasoning may be appropriate when societal expectations are heterogeneous and corporations engage in moral discourse with particular societal groups in order to selectively address and eventually satisfy their

demands (Calton & Payne, 2004). Unlike the adaptation strategy, moral reasoning can be applied selectively to particular stakeholder groups and this will not necessarily lead to a mismatch with the expectations of other societal groups. However, moral reasoning is costly and requires particular efforts from those who engage in it. Therefore, it cannot entirely substitute social routines, isomorphic adaptation, and strategic manipulation, which often help corporations tackle the legitimacy challenges of competitive environments more efficiently.

In a globalized world, the environmental challenges and societal demands to which companies have to respond are in 'continual flux' (Greenwood et al., 2011, p. 319). Greenwood and colleagues (2011, p. 351) note that the 'sustainability of organizational responses and their alteration and variability across time is a neglected but important theme that deserves serious attention'. In this paper we address this issue and argue that corporations that possess the capability to simultaneously apply or to switch between the different legitimacy strategies (i.e., manipulation, adaptation and moral reasoning) are better able to preserve their legitimacy in face of highly fragmented and dynamic environments.

Recently, Pache and Santos (2010, p. 473) proposed that there are 'specific organizational skills' that are necessary for 'mobilizing particular strategies' and suggested that the organizations that are 'particularly competent in mobilizing these strategies are likely to be in a better position to survive and thrive in the mist of conflicting institutional demands'. However, the authors did not explore this issue further. According to the contingency theory they developed, an appropriate legitimacy strategy needs to be tailored to the specific requirements and legitimacy demands in a particular situation (see also Oliver, 1991). However, their theory neglects the dynamics of environmental challenges and at the same time regards conflict and heterogeneity among institutional demands as an exception rather than the rule in the globalized world (see the limitations in Pache and Santos, 2010, p. 472).

As we will argue in section four below, such a contingency approach has its limitations in a social environment characterized by increasing complexity, as companies may be confronted with paradoxical situations of high and low heterogeneity and high and low costs of organizational change at the same time. Instead, in order to survive corporations are likely to need the capability to flexibly activate all three legitimacy strategies, either subsequently or simultaneously, and to manage the paradoxical tensions between them despite their conflicting structural prerequisites. The theory of paradox will be helpful in this respect. Paradoxes have been discussed as “contradictory yet interrelated elements [of managerial challenges, the authors] that exist simultaneously and persist over time” (Smith and Lewis, 2011, p. 382). Before we turn to the management of paradox the advantages and limitations of the three legitimacy strategies with regards to SD decisions in corporations are empirically illustrated.

EMPIRICAL ILLUSTRATION OF LEGITIMACY STRATEGIES WITH REGARDS TO SD ISSUES

How can corporations react when their legitimacy is challenged because of sustainability problems? In a highly complex environment, under time pressure, with no acceptable standards of behaviour available, with little or no experience of how to handle the issue at stake and confronted with contradictory expectations and aggressive campaigning, it is far from clear which legitimacy strategy is best (Greenwood et al., 2011; Pache & Santos, 2010). As mentioned earlier, a moral reasoning strategy might be expected to be appropriate for responding to the failure of a normative routine. Nevertheless, opting for isomorphic adaptation or strategic manipulation might be a better choice. In fact, as the following examples aim to illustrate, it would be naïve to assume that, under the postnational constellation, cognitive and pragmatic strategies are always and necessarily inferior to a moral strategy, when legitimacy has to be repaired or maintained.

The case of Chiquita Brands International illustrates how *strategic manipulation strategies* might be successfully employed. Chiquita has been exposed to harsh criticism in the German, Swiss and Swedish mass media for its cooperation with the Rainforest Alliance. It was argued that the social and environmental standards of this civil society coalition were not sufficiently high. For instance, critics argued that as long as pesticides were used on the plantations, announcements about the reduction of pesticide use were mere window-dressing (*DER SPIEGEL*, 2006, 2008; Macquet & Kjellberg, 2011). How should the corporation react? On the one hand, Chiquita used to be considered a CSR leader and their partner, the Rainforest Alliance, is an expert NGO that has been working with Chiquita over several years and has also been a key player in various standard-setting, labelling, and monitoring initiatives. On the other hand, the credibility of this engagement and the reputation of the corporation were repeatedly challenged. Here, a natural response would be to inform the public (in a joint action with the Rainforest Alliance and other partners) about the criteria applied to rate Chiquita's contribution to sustainable development and the challenges the corporation faces. In other words, it might make sense to react by adopting a strategic public relations approach if, first, the corporation already employs a credible moral reasoning strategy, second, if the accusations can be refuted, or, third, if the costs of implementing changes are too high (such costs could result e.g. from fulfilling the demand that the company immediately reduce the use of pesticides to zero).

Criticism of a corporation's practices might find broad public support even if it builds on false claims or unrealistic expectations (e.g. the idea that a large corporation could switch to a fair trade scheme or phase out a certain pesticide in a couple of weeks). In such a case, corporations might choose to defend their current sustainability engagement against criticism instead of complying with their opponents' demands (Christmann & Taylor, 2002; Oliver, 1991). Critique may not be advanced in a way that it constitutes a concrete alternative option

for the corporation: the Chiquita banana has for instance been accused of being less fair than the fair trade banana and less green than the bio banana. Yes, applying fair trade and bio criteria on large plantations might be very difficult, if not impossible from a technical perspective. However, moral reasoning might be chosen as a retreat strategy if the attempt to re-establish corporate credibility by informing the public fails and relevant and powerful actors join the critics. In such a case it might be highly risky to carry on using strategic public relations as a means of tackling the situation (Palazzo & Scherer, 2006).

The appropriateness of an *isomorphic adaptation strategy* is evident in the examples we will discuss below. As mentioned earlier, some companies choose a proactive moral reasoning strategy, which involves setting and controlling new standards. In practice, this might entail implementing controlling procedures for which third parties, such as civil society organizations, are responsible, disclosing the names of the company's supply-chain partners or joining multi-stakeholder initiatives for sustainable development (Bäckstrand, 2006; Basu & Palazzo, 2008). As soon as a major actor or at least a few actors in an industry take such steps, it makes sense for competitors or other industries to adapt to the emerging institutional context (DiMaggio & Powell, 1983). For instance, while Nike's decision to publish the names of its supply-chain partners was a proactive move that might be interpreted as the result of the company's interaction with civil-society critics, the decision of Puma and Adidas to do the same a few days later can be interpreted as an isomorphic adaptation to a new standard (Doorey, 2011). If a new behavioural standard is established that does (or presumably will) meet with broad public acceptance, it might make sense for companies to adapt it to their specific circumstances, instead of going through the long process of devising similar standards with similar partners, which the strategy of moral reasoning would require. Nespresso's (Alvarez et al., 2010) and McDonald's (McDonald's, 2007) decisions to work with the Rainforest Alliance can be interpreted as the result of an isomorphic adaptation

strategy. If the introduction of standards is costly this may prevent corporations from adapting to societal demands (Oliver, 1991; Pache & Santos, 2010). However, if the pressure from societal groups is high, corporations may decide to adapt to societal demands despite costs: if these standards become established across an entire industry, the costs of organizational change will be redefined as costs of doing business. If all competitors in the industry have to bear the same type of costs, these will eventually be neutralized. Again, in such a scenario moral reasoning might be chosen as a retreat strategy if the legitimacy of the standard is disputed or alternative and more credible options emerge. However, when environmental expectations are consistent but global hard-law regulations are unclear or fragmented, isomorphic adaptation to an emerging soft-law standard can be an acceptable strategy in reaction to legitimacy challenges (Mörth, 2004; Shelton, 2000).

While the discussion above outlines certain conditions under which manipulation or adaptation strategies might make sense as a first reaction to routine failures, choosing either strategy in reaction to changing expectations and challenged practices clearly has its limits. The following two examples illustrate the risks of reacting to normative challenges with a manipulation or adaptation strategy.

The failure of *isomorphic adaptation* is exemplified by the case of Yahoo (Brenkert, 2009) which can be considered as an instance of the fragmentation of law in the corporate environment even though this phenomenon has been widely dismissed in favour of a harmonization view on international law (Benvenisti & Downs, 2007). As Fischer-Lescano and Teubner (2004, p. 1004) point out, ‘the fragmentation of global law is not simply about legal norm collisions or policy-conflicts, but rather has its origin in contradictions between society-wide institutionalized rationalities, which law cannot solve’. Yahoo has expanded its operations to China: In 2002, Yahoo has signed the ‘Public pledge on self-discipline for the Chinese internet industry’, which is sponsored by the government-affiliated Internet Society

for China. Together with other internet providers, the company was accused of being the gatekeeper for an oppressive government by Human Rights Watch and other NGOs. In addition, two Chinese journalists were sentenced to ten years in jail because Yahoo disclosed their email addresses to the Chinese government (Brenkert, 2009; Dann & Haddow, 2008). This prompted much criticism, in reaction to which Yahoo published the statement that the company 'must ensure that its local country sites must operate within the local laws, regulations, and customs' (BBC, 2005). Torn between the expectations of (mainly Western) public expectations and those of the Chinese government, the company chose to adapt to the local rules, thereby not only provoking worldwide indignation, but also triggering a hearing in the US Congress on the complicity of internet companies with the human rights violations in China. Having ignored the moral dimension of its decision to cooperate with local authorities and chosen to adopt routinized behaviour that is approved in other geopolitical contexts, the company found itself trapped in a legitimacy crisis. Generally speaking, an isomorphic adaptation strategy may be considered inappropriate in cases of colliding standards that represent conflicting political, cultural or economic forces (Pache & Santos, 2010).

In contrast to this, when societal expectations are fairly homogeneous, isomorphic adaptation strategies might also fail. Even in a situation when MNCs operate in a legal environment that is highly fragmented with regard to the legal regulation of sustainability issues, they might be confronted with much more homogeneous social expectations: for instance, they would be expected to source commodities such as palm oil, wood, cotton or coffee in a sustainable way without destroying the rain forest, wasting scarce water resources, or using child labour, issues that are often not regulated or only weakly enforced in the host countries in which the MNC is operating. Corporations that decide to fulfil the criteria of a multi-stakeholder initiative might adopt a soft-law standard (Mörth, 2004; Shelton, 2000) with regard to sustainability problems, because they are under isomorphic pressure to follow

the emerging practices of their industry. However, as Meyer and Rowan (1977) have already pointed out, commitment to a standard does not necessarily lead to a change in behaviour. The adoption of standards might be purely symbolic, decoupled from business operations (Boxenbaum & Jonsson, 2008). A corporation that joins the UN Global Compact, for instance, will not necessarily invest in sustainability as expected by this initiative. Given the multitude of competing soft-law standards – just for sustainable forest management there are more than 50 such standards (Domask, 2003; Schepers, 2009) – corporations might be tempted to pick the easiest one and not the standard that forces them to organize their supply chain in a more sustainable way. In such a case, the adaptation strategy might be perceived as greenwashing (Laufer, 2003), and the process of delegitimation might not be stopped through isomorphic adaptation.

Likewise, the failure of *strategic manipulation* is evident in the case of Wal-Mart: for several years now, Wal-Mart has been under pressure to address the social and environmental side effects of its business practices (Beaver, 2005). The campaign against the company culminated in Robert Greenwald's 2005 documentary entitled 'Wal-Mart: The High Cost of Low Price'. In reaction to the massive criticism, the corporation launched a large-scale advertising campaign aimed at presenting the arguments of its opponents as false and insisted that the public ought to have access to the correct 'facts' (Ethical Corporation, 2005). However, this PR campaign did not solve Wal-Mart's problems but rather contributed to its legitimacy crisis. In response, the company then switched to a retreat strategy, initiating a discourse on environmental questions with experts critical of its practices and announcing it would make a \$500 million investment in corporate sustainability. Recently, Wal-Mart has been attacked as greenwashers again, because they have not seriously advanced on implementing their greening strategy and they have not sufficiently engaged with civil society (Mitchell, 2012). In general, the success of a strategic manipulation strategy depends on the

ability of the corporation to persuade critics that their description of a certain situation, practice, or effect is wrong, while the corporation's own description of the same is right. Repairing or maintaining legitimacy through strategic manipulation is a high-risk strategy if there is overwhelming evidence in support of the opponents' position or if the opponents' credibility is much higher than that of the corporation. In the case of Wal-Mart, it can be assumed that the corporation chose a strategic manipulation strategy to start with, instead of adapting to societal expectations, in order to avoid the costs of organizational change. However, refusing to adapt to generally consistent societal expectations can be dangerous for corporations and, as the Wal-Mart case indicates, such decisions can prove counterproductive if the costs of resisting change are higher than the costs of introducing change.

The above examples provide some empirical evidence that supports the framework developed in Section 2. As explained further up, there are mainly two factors that influence the choice of legitimacy strategy: the consistency of environmental expectations and the costs of organizational change. When routines fail, organizations are often expected to change. However, the costs of change can be so high that corporations are more likely to decide to resist external expectations and to attempt to influence key stakeholders through strategic manipulation instead (Oliver, 1991; Pache & Santos, 2010). In contrast, when the costs of change are low, corporations might choose to adapt quickly to expectations if the new standards of behaviour are visible and univocal. In the case of Nike, for instance, the decision to publish its list of suppliers was highly risky because competitors found out about Nike's partners and this might have affected the corporation's competitiveness. The decision of Puma and Adidas to follow Nike's example, however, was not as risky. Besides the costs of change, the pressure of external expectations also influences the choice of legitimacy strategies. If those expectations are clear and unambiguous, they promote adaptation. If they are heterogeneous, fragmented, and contradictory, corporations might have a greater incentive

to engage in moral reasoning, even if the costs of change seem to be high. High costs of change and low consistency of expectations might favour the choice of strategic manipulation or of moral reasoning, if corporations are confronted with legitimacy issues.

In the context of the postnational constellation, corporations have to find answers to the rising tide of legitimacy challenges. This does not mean that they should switch automatically from pragmatic and cognitive to moral legitimacy. Instead, corporations have to develop the sensitivity for identifying the appropriate strategy and the right mix of the three options open to them. There may even be a situation where a company is facing a multitude of sustainability issues and contradicting societal expectations at the same time, so that the response to legitimacy problems involves the balancing of high and low consistency and high and low costs of organizational change simultaneously. The response strategy of the corporation may require it to manipulate the societal environment, to adapt to social expectations and to engage in stakeholder dialogues at the same time, so that the challenge is to balance the inherent contradictions between these strategies and their organizational prerequisites without losing trust and credibility.

From this paper's point of view, corporations need to develop an ability to choose flexibly between the three types of strategies and to evaluate the appropriateness of each strategy in a situation of routine failure. For instance, if there are violations of workers' rights in a corporation's supply chain, the corporation might choose to engage in a moral discourse with NGOs (a case of moral legitimacy), and at the same time and with regards to another issue launch a PR campaign to announce to its various stakeholders that it has chosen to adhere to a particular standard and explain why it has chosen that particular standard, such as the Rainforest Alliance, over another standard, such as Fair Trade (an instance of pragmatic legitimacy). The same corporation might start to measure and release data on its water footprint on the basis of an established and accepted scientific method (an instance of

cognitive legitimacy). The choice of different strategies for different legitimacy challenges will not lead to additional legitimacy problems, as long as the objectives behind those choices are not perceived as contradictory (on conflicts of goals vs. conflicts of measures, see Pache & Santos, 2010). However, if a corporation engages in discussions on labour rights with unions and NGOs and at the same time lobbies the government to relax labour laws, it will be seen to have contradictory objectives so, in such case a combination of moral and pragmatic legitimacy strategies may not be appropriate and may provoke distrust and perception of illegitimacy.

The appropriateness of strategic choices with regard to legitimacy might also change over time so that the corporation will change its legitimacy strategies accordingly. In t_1 , a corporation might decide to develop a solution for a sustainability problem through discussion, while in t_2 , if such a standard is already established and widely accepted, the organization might decide to adapt the standard without further dialogue (see Figure 1). And a second example, in t_1 a corporation might develop an innovative solution for a sustainability challenge (e.g. pioneering the analysis of the life cycle of a specific product) and launch a marketing strategy that centres on this innovation, while in t_2 it might join a multi-stakeholder initiative and engage in an industry-wide discourse in order to establish the very same innovation as an industry standard. As Child and Rodrigues have argued (2011: 809), the ability of organizations 'to learn as they confront emergent and complex situations is a necessary condition for them to decide on how they will act in such situations'.

THE PARADOX OF ACCOMMODATING CONFLICTING LEGITIMACY STRATEGIES

The empirical examples presented above demonstrate that all three legitimacy strategies with regards to the corporate contribution to SD have their particular advantages and weaknesses. As those cases illustrate, some strategies seem to work better in some situations than in others. In view of that, the crucial question for organizations is how to select the most appropriate legitimacy strategy. In principle, there are three possible approaches to responding to legitimacy demands in complex environments: (1) the ‘one best way’ approach, (2) the contingency approach, and (3) the paradox approach.

The ‘*one best way*’ approach assumes that even though organizations face different situations, there is ultimately one best way of responding to legitimacy threats. Such a position can variously be found in the literature: Ulrich (2008), for instance, maintains that all legitimacy concerns should be dealt with discursively so that consensual solutions can be generated. In particular, corporations should refrain from strategic political action and from manipulating the corporate environment (Ulrich, 2000); that is to say, the moral reasoning strategy is the preferred option when assessing the corporate contribution to SD irrespective of the concrete situation. The same view is also reflected in the critical approach to strategic management (Alvesson & Willmott, 1995; Shrivastava, 1986). With respect to the strategy of a corporation Shrivastava (1986, p. 373) suggests ‘that stakeholders who influence or are influenced by organizations be identified as legitimate participants in the discourse on its strategy. Ideally, organizational goals should be settled discursively, through rational argumentation under undistorted communicative conditions.’

A very different example of this ‘one best way’ approach is the study by Siegel (2009), who regards instrumental action and strategic manipulation as the preferred legitimacy strategy. He argues that corporations should always stress the economic role of the business

firm when engaging with green strategies. According to his view, corporations are not directly responsible for advancing the social good, but for being productive and generating profits; it is ultimately up to governmental institutions to develop an appropriate regulatory framework that safeguards the social good (Sundaram & Inkpen, 2004). Corporations maintain their legitimacy by providing economic value to their owners (shareholders) and – indirectly – by contributing to society and sustainable development via the allocation function of competitive markets. From this viewpoint, corporations either have to offer benefits to their constituencies or they should at least influence the perceptions of their main stakeholders and create a positive image by strategic manipulation and public relations in order to achieve pragmatic legitimacy (Suchman, 1995).

Although attractive due to its simplicity, we would argue that the ‘one best way’ approach is highly problematic as it has severe shortcomings. First, its premises rest on idealistic assumptions about contextual conditions such as the readiness of organizational members and stakeholders to engage in a constructive discourse, the capacity of governmental institutions to set appropriate regulatory frameworks, or the allocation function of markets. Second, the approach tends to overlook the possibility that the envisioned solutions cannot always be realized: the various parties may not always reach consensus nor is it always possible to make the business case for the issue at hand (van den Hove, 2006). Third, the focus on a single legitimacy strategy seems like an unnecessary restriction, given that each of the three strategies has its own strengths and that companies are generally capable of employing more than one strategy. The assumption that corporations can always manipulate public discourse successfully in their favour when their legitimacy is in question is as naïve as assuming that consensus may be reached in any situation of conflict. Overall, the ‘one best way’ approach does not seem to tap the full potential of legitimacy strategies that corporations have at their disposal. For instance, while it might make sense to engage in a discourse with

e.g. critics when there are no adequate behavioural standards with regard to a specific sustainability problem, this approach would be less useful when such standards already exist and have been implemented by competitors. In such a situation, adapting to the standard without engaging in any discourse might be sufficient.

A more promising approach than the ‘one best way’ approach is the *contingency approach*. This approach can also be found in the literature on the management of corporate responses to legitimacy issues (Christmann and Taylor, 2002; Oliver, 1991) or to complex and heterogeneous environments (Child and Rodrigues, 2011; Pache and Santos, 2010; Sirmon et al., 2007). The focus, here, is on the different strengths and weaknesses of each strategy in relation to different circumstances. In contrast to the ‘one best way’ approach the assumption that there is one strategy that fits all situations is refuted. Instead it is argued that, while there is one ‘best way’ for each situation, this way will vary, depending on the particular circumstances. Corporations need to identify the one way that fits best a specific situation in order to achieve ‘congruence’ between the environmental challenge they face and their strategic response (Hambrick, 1983; Simsek, 2009).

Adapting to the environment in order to create ‘an acceptable fit’ (Hambrick, 1983; Sirmon et al., 2007, p. 275) and aligning organizational structures and processes to create internal ‘harmony’ (Sirmon et al., 2007, p. 287) are central pillars in contingency theory. Child and Rodrigues (2011), for example, argue that the choice of strategy in response to environmental demands depends on a corporation’s relative power. They suggest that less powerful corporations are limited to a single strategy while more powerful companies have greater choice, but finally focus on only one out of the set of available strategies to deal with environmental complexity. Pache and Santos (2010) suggest that the organizational response depends on two factors: the nature of environmental demands (conflict of goals vs. conflict of means) and the representation of these demands within the organization (whether there is a

single representation, multiple representations, or no representation). These authors assume that the environmental contingency factors determine the selection of the response strategy, and that this strategy resolves conflicts and balances heterogeneous demands.

Even though the contingency approach is more sophisticated than the ‘one best way’ approach, its limitations are apparent in cases characterized by extreme degrees of environmental dynamism, complexity, and heterogeneity of societal demands. Under such conditions it is not possible to assume that there is ‘one best way’ for any given situation. On the contrary, it is more likely that corporations will need continuously to balance equifinal alternatives that lead only to suboptimal solutions (Gresov & Drazin, 1997). The inherent dynamic of the environment keeps societal demands in ‘continual flux’ (Greenwood et al., 2011, p. 319), demanding ‘flexibility and agile actions’ (Simsek, 2009, p. 614) from the corporation. This means that a legitimacy strategy may become immediately obsolete and requires corporations to respond with ‘organizational fluidity’ (Schreyögg & Sydow, 2010).

Likewise, if the inherent contradictions in environmental challenges and corporate responses prevail (Gibson & Birkinshaw, 2004), contradiction and conflict may be the rule, rather than the exception, in the process of managing legitimacy. Acknowledging this, Simsek (2009, p. 618) points to the limitations of his own contingency approach as ‘new opportunities (and threats) are constantly created by the organization’s internal and external dynamics’, which means that the organization ‘may never achieve a lasting balance’. Moreover, ‘there is not just one but many institutional environments’ (Scott, 1991, p. 167) with incompatible demands and the corporation has to respond to these by activating different legitimacy strategies at the same time. However, as Greenwood et al. have observed (2011, p. 351), ‘most empirical studies assume or imply that organizations enact single and sustainable responses. In doing so, they largely ignore the fact that ‘different subunits [...] find heterodox

ways of responding to the accountability demands of [their] environment' (Binder, 2007: 567)' (an early exception to this tendency is the study by Lawrence & Lorsch, 1967).

The *paradox approach* is a direct response to the shortcomings of the contingency approach. The existing literature on the paradox approach (e.g. Lewis, 2000; Schreyögg & Sydow, 2010; Smith & Lewis, 2011) stresses that under certain conditions (such as high dynamism, heterogeneity, and complexity) it is necessary to go beyond a simple contingency approach and accept the necessity of accommodating several conflicting environmental strategies at the same time. As Smith and Lewis write: 'Today, as globalization, innovation, hypercompetition, and social demands create more dynamic and intricate environments, paradox becomes a critical theoretical lens' that can be used 'to understand and lead contemporary organizations' (2011, p. 398). In the globalized world there are frequently paradoxical situations where the different societal and environmental demands remain unresolved as no stable solution can be found. As a consequence, corporations are likely to employ several different legitimacy strategies in parallel despite the (latent) conflict between them. The either-or-logic of the contingency approach is replaced by the both-and-logic of the paradox approach.

Of the three approaches to selecting legitimacy strategies presented here, the paradox approach seems to be the most suitable one in the context of the postnational constellation and the corporate contribution to SD (Habermas, 2001; Scherer & Palazzo, 2011). This does not imply that the insights of the contingency approach are invalid. Instead, the paradox approach can be understood as an extension of the contingency approach that can be applied in situations where environmental demands are characterized by high dynamism, complexity and heterogeneity, as is the case with the postnational constellation and the related sustainability issues (Smith & Lewis, 2011). In this sense, our own framework of legitimacy strategies, discussed in the second section of this paper, incorporates aspects of contingency

theory in the description of the advantages that different strategies have in relation to different contextual factors. Yet, in the setting that the postnational constellation describes, corporations will typically have to mix different strategies in order to ensure their sustainability. In contrast to what the contingency approach would suggest, there is no general solution to the problem of strategy selection that can be applied in advance (Lewis, 2000; Smith & Lewis, 2011). Organizations can merely develop the organizational and individual capabilities necessary for activating the various modes of generating legitimacy, and they will have to determine the mix of legitimacy strategies anew in each concrete situation they face (see Greenwood et al., 2011).

Creating the organizational preconditions for activating each of the three legitimacy strategies simultaneously poses a significant challenge for corporations. Corporations that try to develop the ability to activate all three legitimacy strategies simultaneously are typically confronted with the paradox of meeting opposing structural demands. Building on the existing literature on organizational paradoxes, we can distinguish three different ways in which organizations can accommodate the various strategies (Schreyögg and Sydow, 2010): first, *structural solutions* (Gilbert, 2005; Tushman and O'Reilly, 2008; for overviews see Greenwood et al., 2011; Raisch and Birkinshaw, 2008); second, *contextual solutions* (Gibson and Birkinshaw 2004; Smith and Tushman, 2005; for an overview see Greenwood et al., 2011; Raisch and Birkinshaw, 2008); third, *solutions based on reflection capacities* (Schreyögg and Kliesch-Eberl, 2007; Schreyögg and Steinmann, 1987; Schreyögg and Sydow, 2010). These solutions are helpful for understanding how companies can manage different legitimacy strategies. These ideas have not yet been applied to legitimacy issues when the corporate contribution to SD is at stake.

Structural solutions deal with conflicting organizational functions by means of 'structural separation' (Gibson & Birkinshaw, 2004, p. 210). This entails putting in place a

range of structures so that the different units or groups within the organization focus on different functions (Adler et al., 1999; Tushman & O'Reilly, 1996). More precisely, this enables organizations to dedicate different units or groups to different legitimacy strategies. For example, marketing and public relations departments may focus on strategic manipulation (Christensen, 1995), while specialized groups may coordinate an open dialogue with stakeholders in the context of a moral reasoning strategy in order to address sustainability issues (Payne & Calton, 2004). At the same time, other groups or units, such as investor relations, may be tightly coupled to specific stakeholders, ensuring the timely recognition of changes in the latter's perceptions and managing the respective adaptation processes within the organization (Lawrence & Lorsch, 1967). In this scenario, each unit or group specializes in a particular legitimacy strategy; thus, it is not exposed to the tensions between the different strategies. However, as critics have pointed out (Gibson & Birkinshaw, 2004; Greenwood et al., 2011), such structural solutions merely shift the tension between the different functional requirements to other levels without resolving the question of how the activities of the various units or groups should be coordinated. As Schreyögg and Sydow write: 'Strict separation is likely to result in sharp interfaces, ambiguous priorities and a lack of a common orientation' (2011, p. 1257).

Contextual solutions, in contrast, create an internal organizational context that encourages individuals to make their own judgments about sustainability issues and about which actions are the most appropriate in a given situation and "to do whatever it takes" to deliver results' (Gibson & Birkinshaw, 2004, p. 213). The management of the tension between different requirements is thus shifted to the level of the individual. Contextual solutions require 'ambitextuous leaders [...] who are able to understand, and are sensitive to, the expectations and requirements of constituencies of multiple logics' (Greenwood et al., 2011, p. 356) and who also encourage organizational members to use their own judgments. In

terms of organizational design, the only requirement is that the organization creates the appropriate contextual conditions, i.e. discipline, stretch, support and trust (Raisch & Birkinshaw, 2008) that will help stimulate specific behavioural competences. Thus, this approach allows every individual to decide in every concrete situation whether to apply strategic manipulation, isomorphic adaptation, or moral reasoning in order to address the legitimacy issues that are involved in the corporation's contribution to sustainable development. However, this solution also has its shortcomings. In particular, it has been pointed out that the focus on the individual 'overstretches the behavioural flexibility of individual members' (Schreyögg & Sydow, 2010, p. 1259). Individuals have their cognitive limits (Raisch et al., 2009) and their behaviour is influenced by organizational routines, so it is unlikely that providing a stimulating context suffices to ensure that the members of the organization select the appropriate response strategies to legitimacy demands.

Developing internal *reflection capacities* offers another approach to dealing with the paradoxical tensions mentioned above. For this purpose, the corporation creates internal platforms for 'meta-level processes' (Schreyögg & Sydow, 2010, p. 1259). These platforms allow the company to select appropriate response strategies to legitimacy challenges that are linked to the corporation's contribution to sustainability. These meta-level processes might be located on different organizational levels. For example, legitimacy challenges might be initially discussed on the level of the particular subunit in which they have arisen; nevertheless, if the participants come to the conclusion that the particular challenge and potential responses to it also concern other parts of the organization, the discourse on the topic might be shifted to higher organizational levels that encompass a broader set of organizational members (e.g. representatives of the different parts of the organization). This has the advantage of allowing both for direct, localized responses, as well as for more coordinated responses among various parts of the organization.

Like the other approaches to managing paradoxical tensions, this approach also has some shortcomings. First, it is probably unrealistic to assume that it would be possible to hold an internal reflective discourse every time a legitimacy challenge related to the corporate involvement with sustainable development arises, given that this would consume a lot of time and resources. Second, this solution presupposes certain elements of the other two solutions: in particular, critical discourse is only possible if there are individuals capable of critical thinking and discussion. These abilities can be encouraged through the creation of a stimulating organizational context, supportive leadership, and appropriate HR policies, such as the selection of open-minded people, personal training in situations of ambiguity and conflict, and incentive systems that endorse reflective critique (see e.g. Kang & Snell, 2009). Similarly, the selected legitimacy strategies might require specific groups or units that are capable of implementing them. These might include marketing and PR departments whose staff have the necessary skills in strategic manipulation, specialized teams that can provide a platform for an open discourse with stakeholders, or teams that are able to manage the process of change in the case of isomorphic adaptations.

As indicated earlier, the capacity of an organization to accommodate all legitimacy strategies seems to rest on a combination of the three different solutions: the capacity for *internal reflection* means that the different legitimacy challenges of unsustainable business practices can be considered on different levels of the organization and the selected strategies in response to those challenges can be better coordinated. The *contextual solutions* approach helps individual members acquire an at least basic ability to select between different legitimacy strategies in direct contact with their local stakeholders and their concerns about sustainability issues. This can also help reduce the number of internal reflection platforms that these processes require and encourage individuals to develop the critical ability that is necessary for conducting reflective discussions. Finally, the *structural solutions* approach can

help the organization develop the ability to employ its chosen legitimacy strategies in an effective and efficient way. Seen from this perspective, the corporation will be able to develop a both-and-logic in order to respond to the challenges of paradox and to manage the legitimacy expectations with regards to sustainable business practices.

CONCLUSIONS AND CONTRIBUTIONS

We started this paper with the observation that the debates on sustainable development and on corporate legitimacy have become strongly entangled, in the sense that corporations that do not conform to expectations about sustainability will see their legitimacy challenged. Drawing on the existing literature, we have argued that the opportunity to tackle perceived legitimacy challenges is what mainly motivates corporations to adopt sustainable practices and engage in debates on SD issues. The traditional approach to such challenges entails either adapting isomorphically to the expectations of the external stakeholders or strategically manipulating those expectations without altering the corporation's existing structures and practices. However, we argued that it is no longer sufficient for MNCs to rely on these two legitimacy strategies due to the growing complexity and heterogeneity of today's social environment (Child & Rodrigues, 2011; Jones & Fleming, 2003; Kostova & Zaheer, 1999; Scherer & Palazzo, 2011; Smith & Lewis, 2011). Instead, corporations are increasingly acknowledging the necessity of moral reasoning as an alternative legitimacy strategy (Palazzo and Scherer, 2006) and also the need to develop the capacity to activate all three legitimacy strategies simultaneously, if necessary. We showed that both the 'one best way' approach (e.g. Ulrich, 2000) and the contingency approach (e.g. Child & Rodrigues, 2011) with their focus on a single legitimacy strategy (in general or for each situation) are problematic as corporations navigate in an increasingly fragmented and dynamic global environment facing multiple, heterogeneous and conflicting SD related challenges. In such contexts, the successful maintenance and repair of legitimacy tends to require a much more sophisticated approach

calling for a capacity to use the three strategies in combination in order to address the various legitimacy issues related to the corporation's contribution to SD. Drawing on the burgeoning paradox literature (Raisch & Birkinshaw, 2008; Schreyögg & Sydow, 2010; Smith & Lewis, 2011), we described how corporations can develop such a capacity by combining structural and contextual arrangements with internal platforms for reflection. We argue that corporations that possess this capacity are more successful in preserving their legitimacy in face of multiple, heterogeneous and conflicting SD related challenges than those that do not.

Overall, this paper makes contributions to two streams of literature. First, it contributes to the burgeoning SD literature by providing a systematic analysis of SD-related issues from the perspective of organizational legitimacy. While other authors have already pointed to the fruitfulness of the institutional perspective for studying how corporations deal with SD-related issues (Bansal, 2005; Jennings & Zandbergen, 1995; Schaefer, 2007), this is the first paper to provide a systematic analysis of the different legitimacy strategies. Thus, we contribute to this literature by providing an integrated framework of the different legitimacy strategies and the ways in which they are employed. Beyond that, we make a further contribution to the SD debate by elaborating on the challenges resulting particularly from operations in increasingly fragmented and dynamically globalized environments, which require a 'paradox approach' for managing SD-related legitimacy concerns. Second, we contribute to the legitimacy literature, which has lately taken a particular interest in understanding the organizational responses to institutional complexity (Greenwood et al., 2011). We show that the integration of concepts from the paradox literature can help explain how organizations are able to respond to contradictory legitimacy demands by employing conflicting strategies in parallel, which implies a both-and-logic instead of an either-or-logic.

In the light of the present study, we see three interesting avenues for further research. A first area for further research concerns the appropriateness of different legitimacy strategies.

The appropriateness of the different strategies with regards to particular issues in particular situations can be evaluated from two different epistemological perspectives: those strategies (and their combinations) can be appropriate or inappropriate from a normative point of view. Cognitive legitimacy might for instance be inappropriate in this sense, when the corporations adapts to the local rules in a repressive regime. However, appropriateness can be evaluated also from a purely instrumental point of view. The above discussed decision by Walmart to react to external pressure concerning its unsustainable practices with a manipulation strategy backfired and harmed the legitimacy of the corporation even further. The instrumental interpretation of our concept of legitimacy management will certainly require the development of testable hypotheses about the use and combination of the three strategic options of adaptation, manipulation and deliberation. The normative interpretation of our concept provokes various questions that deserve further elaboration such as the moral justification of manipulation strategies or the moral criteria for cognitive legitimacy in contexts of repressive or absent regulation.

Second, the introduction of concepts from legitimacy theory into the SD literature emphasizes the significance of communication in dealing with SD-related issues (Phillips et al., 2004). Legitimacy challenges and a corporation's response strategies are constituted to a large extent by and through communication – both within, outside, and across the organizational boundary (Christensen and Cornelissen, 2011; Christensen et al., 2011; Kuhn, 2008). For instance, communication plays a significant role in how reflection capacities help balance conflicting environmental demands and functional requirements. Future studies should investigate how different forms of communication affect the management of legitimacy and how they relate to the forms and combinations of legitimacy strategies.

Finally, a topic that merits further exploration is how organizations accommodate the paradoxical demands described in this paper and how they manage to maintain their

coherence and avoid disintegration in the face of such paradoxes. It seems that the organizational identity might play an important role in providing some sense of unity and preserving a boundary between the organization and its environment (Gioia, Schultz and Corley, 2000; Schreyögg and Sydow, 2010; Scott and Lane, 2000; Seidl, 2005). Further studies could examine to what extent different types of organizational identity enable or restrict the corporation's ability to accommodate multiple legitimacy strategies.

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