Open Access Library Journal
2023, Volume 10, e9713
ISSN Online: 2333-9721
ISSN Print: 2333-9705

An Exploration of Legitimacy Theory in Accounting Literature

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How to cite this paper: Martens, W. and Bui, C.N.M. (2023) An Exploration of Legitimacy Theory in Accounting Literature. *Open Access Library Journal*, **10**: e9713.
https://doi.org/10.4236/oalib.1109713

Received: December 27, 2022
Accepted: January 17, 2023
Published: January 20, 2023

Abstract

Purpose of the Paper: The aim of this research is to examine the contributions that publications have made to the literature on legitimacy. This presentation will also give insights into the roots of legitimacy theory as it appears in the literature, the gaps, intersections with other theories, and theory criticisms. **Design/Methodology/Approach:** As a reflection, this study uses a survey of the social and environmental accounting and institutional literature from a number of decades to provide light on the evolution and use of legitimacy theory as a foundation for explaining social and environmental reporting practices. We argue that this theory alone cannot support broad inferences. To gain a deeper understanding, we analyzed the intersection of legitimacy, institutional theory, stakeholder theory, institutional theory, and stakeholder theory and identified multiple potential overlap locations. **Findings:** This reflection demonstrates while there are similarities and interrelationships between legitimacy theory, stakeholder theory, and institutional theory, they are believed to be more complementary than competitive. The criticism against legitimacy theory demonstrates, therefore, that it requires further development. **Practical Implications:** Examination of legitimacy theory in financial reporting increases awareness as business environmental consequences grow in prominence. **Originality of the Paper:** The study adds to research on disclosures in financial reports by investigating a broader comprehension of legitimacy theory. Consideration is also given to legitimacy theory as a policy tool for governance.

Subject Areas

Accounting

Keywords

Legitimacy Theory, Social and Environment Reporting, Social Contract, Accounting Theory

1. Introduction

Institutions and civil society endorse increased openness and transparency. Openness via public disclosures is anticipated to increase benefits for all, for greater transparency has been promoted to enhance an organization's credibility. It is further supported through extant literature that organizations must disclose information about their activities to bolster their legitimacy when social or environmental crises emerge [1]. Despite this support, there is a lack of research on whether the dissemination of this information affects the organization's legitimacy as seen by society. Extant research examining the response to disclosure at the time of legitimacy-threatening occurrences exists, yet research regarding disclosure's usefulness; sharing information inter-organization in preserving or re-establishing its legitimacy is undoubtedly an area in need of further exploration.

According to the legitimacy theory, the community in which a business operates grants the business the ability to function and access resources [2]. Establishing legitimacy leads to the perception of being responsible, dependable, and trustworthy [3]. The improved corporate image and reputation attained through social legitimacy are advantageous to individuals and society [4]. As legitimacy is based on the response of a company's observers and on the organization's actions aligning with society's shared ideals, failure to conduct business in a manner deemed appropriate by the community may result in the revocation of a company's ability to operate in that society [5]. Legitimacy is time-dependent; what is regarded as legitimate now may not be considered legitimate in the future due to shifting societal values [6]. Essentially, corporations must continually adapt to the needs of society [7].

Corporate social responsibility (CSR) reporting satisfies the community's demand for transparency by demonstrating that a company's actions benefit society. According to the legitimacy thesis, increased organizational transparency indicates to society that the organization shares the same objectives as the community. When corporations utilize CSR reporting strategically, stakeholders frequently perceive it to be authentic [8]. Businesses can report on various topics, including profitability, people, external and internal stakeholders, have a regional or global focus, and have varying levels of CSR ambition. Accounting disclosure and transparency help bridge the knowledge gap [9] [10] [11], but inadequate or inaccurate business disclosures have sparked controversy. According to [12], accounting openness and transparency may have averted the Asian financial crisis by alerting regulators and investors. Consequently, reporting is problematic due to variations in the selection of activities to report, the processes used to assess the consequences of such actions, and the distinctions between required and voluntary reporting in various countries [8] [13].

This study's objective is to investigate accounting disclosure-related literature findings. Disclosures that compromise validity are of particular interest to us. We investigate the legitimacy gap and legitimacy's evolution. In addition, we investigate the overlaps between legitimacy theory and other legitimacy theories and criticisms. A review of the literature will provide a historical perspective on openness. We contribute in multiple ways by doing so. First, we intend to improve the problem-solving approach in relation to CSR. Additionally, this research raises managerial awareness of the interactional nature of legitimacy, which may limit their ability to narrow or bridge the legitimacy gap. Our research is therefore organized as follows. Section 2, we provide an overview of legitimacy. Section 3 reviews empirical investigations of legitimacy. Criticisms of legitimacy are presented in Section 4. Section 5 concludes with limited support for legitimacy theory.

2. Legitimacy Overview

Legitimacy is a social contract between organizations and society's social expectations [14]. A business endeavors to fulfill the terms of the social contract through its sustainability disclosure practices. According to [15], businesses operate internally within a larger social system, and movements (real or perceived) from its social system threaten its integrity and validity. Consequently, legitimacy is also dependent on context, and acceptance in one context does not confer legitimacy in another [16][1] Examining the concepts of legitimate activity and legality necessitates caution. Legitimacy must be comprehended in a specific temporal and spatial context [18].

In order to survive in the post-industrial era, organizations must adapt to shifting social expectations in relation to time and place. When the public questions a group's legitimacy, it is especially important to adapt. An entity will struggle to attract capital, staff, and consumers if its legitimacy is questioned by the media, lawmakers, or government [19]. A successful manager can anticipate societal expectations as they evolve. [20] [21] introduced the concept of a "legitimacy gap" to define the distance between social expectations and current perceptions of behavior. The author argues that the legitimacy gap will widen if the organization does not adjust. Legitimacy is compromised when the public believes the institution is no longer the best alternative or its activities fail to conform to social norms [22]. We address this further in Section 2.2.

2.1. Legitimacy Background

According to legitimacy theory, corporate disclosure is a response to environmental forces (economic, social, and political), and disclosures legitimize actions [23]. This hypothesis is primarily reactive in nature, implying that organizations attempt to align their actions with societal standards. The use of business social disclosures to justify corporate behavior may then be viewed as a reaction to the environment [24]. [25] conducted a legitimacy study to determine the impact of perceived legitimacy, power, and urgency on stakeholder actors' CSR reporting

[1]An example of location dependent acceptance would be the accepted and presence of Bitcoin in some nations. The U.S Central banks does not interfere with a Bitcoin transaction, Singapore taxes Bitcoin as a commodity, and China restricts business from using it [17].

activities. The study sought to identify the specific factors that drive one company's management to engage in extensive CSR disclosure. Another company's management, on the other hand, only discloses the bare minimum, as well as the relationship between the presentation of sustainability information and stakeholder demands. According to the authors, environmental transparency demonstrates the importance of environmental nongovernmental organizations.

The concept of the social contract has been applied to CSR. Of the six major ways in which society views CSR, the first is pure capitalists who believe that free economic democracy is a reasonable representation of how the world works and should work [26]. The second group believes that accepting some (usually minor) larger social responsibilities is the only way to achieve long-term economic prosperity and stability. The third group, supporters of the social contract, believe that firms exist at the whim of society and are thus obligated (to some extent) to society's desires but may have serious concerns about the scope of companies' responsibilities. Deep ecologists, radical feminists, and social ecologists comprise of the remaining three [26] and can be thought of as a continuum, with pure capitalists and advocates of the social compact at the extremes. **Figure 1** depicts an outline of the social contract, in which firms and society have a social contract with each other, with society providing resources and firms providing products and services. As part of their contract, businesses must also report their CSR activities to society.

Figure 2 depicts threats to a corporation's current or future legitimacy as a result of a failure to identify with a specific issue/event. The "X" area indicates how well corporate behavior conforms to social expectations about the corporation and its activities. The Z and Y regions reflect the disparity (a gap) between an organization's operations and society's expectations of its activities [27]. The firm intends to close the legitimacy gap by extending region "X" and implementing several transparency approaches [29] used legitimacy theory to investigate the impact of the Exxon Valdez oil spill on the environmental dis-closure procedures in the annual reports of North American petroleum companies. Following the incident, the author observed a significant increase in disclosures and

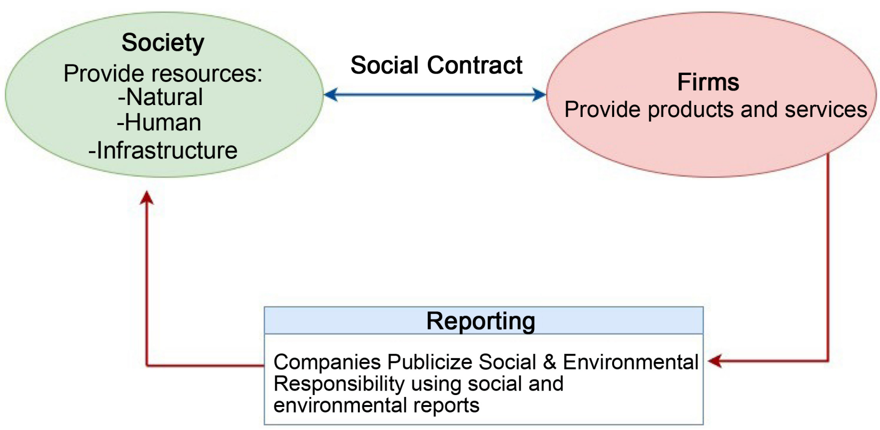

Figure 1. Social contract (Author's creation).

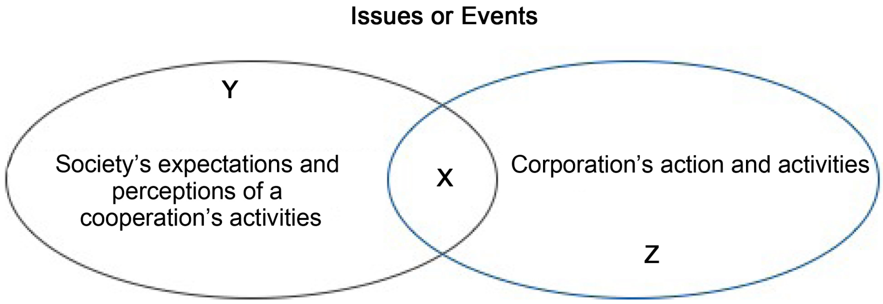

Figure 2. Adapted from [28].

stated that when a threat to a company's legitimacy became apparent, industry participants moved to mitigate the concern by increasing environmental disclosure in order to maintain credibility. [15] argues that revealing information about a company's social and environmental performance helps it retain or reclaim legitimacy in the eyes of society. [30] discovered that businesses significantly improve their provision of favorable environmental information in the context of environmental prosecution in a further effort to analyze the legitimacy theory through environmental disclosure policies through Australian business annual reports in the aftermath of confirmed environmental prosecutions. Furthermore, the authors discovered that companies that were prosecuted made more positive environmental disclosures during the years of the judicial process.

According to [31], legitimacy theory is crucial for assessing corporate social disclosure motivations in various environments, particularly in continental European and Anglo-American countries. According to [32], the media can successfully arouse community concern about a certain organization's environmental performance. In response to such concerns, organizations will broaden the scope of environmental disclosure in their annual reports (from legitimacy theory). The study's findings show that increasing media attention is significantly associated with expanded environmental disclosures in annual reports for the vast majority of businesses studied. Changes in environmental disclosure policy, according to [30], are motivated by organizations' efforts to legitimate their operations, based on the idea that various groups utilize the environmental data published in the annual report. The findings of the study support this premise; certain groups of society consider environmental issues important in their decision-making processes, and they seek information about these activities in the annual report. [33] uses an in-depth case study and historical overview of Falconbridge Company to explain corporate environmental disclosures using both legitimacy and political economy theory. The empirical data suggest that legitimacy theory, rather than political economy theory, gives a more persuasive explanation for why corporations make corporate social and environmental disclosures. According to the authors, social responsibility disclosure happens as a result of external social and economic constraints.

The early [21] study suggests a three-stage classification of an entity's responsibility; social duty, social responsibility, and social responsiveness. A company's commitment includes its response to market conditions or legal limits. Responsibility requires aligning the conduct of a firm with common social norms. The function of a corporation in a dynamic social system, rather than its reaction to societal factors, determines its responsiveness.

[34] stress that cultural expectations are not static; they evolve with time. A legitimacy gap, according to [35], is predicated on relational perception, which recognizes an organization's link with society. An organization is called pragmatic if it is attentive to its operating environment. In addition, they must make disclosures to demonstrate that they are adapting to the domain's dynamic nature. Stakeholder legitimacy is crucial because, according to [36], a legitimacy gap exposes the firm to considerable potential protests from stakeholders, threatening its existence, altering operational stability, and eventually diminishing profitability. [37] notes that low-impact organizations may fear that excessive transparency exposes them to criticism or presents them as "protesting unduly". A high-impact company, meanwhile, may adopt a "nothing to see here" strategy or simply assume that its legitimacy gap cannot be closed and is therefore uninvestable [37] furthermore, the gap between financial and non-financial reporting looks to be narrowing at a fast pace, with non-financial reporting achieving the level of pervasive coverage long associated with financial reporting. [38] indicates that the legitimacy gap is produced early in the decision-making process; when decision-making is no longer based on the guiding ideas and ethos, a legitimacy gap is created. In the framework of legitimacy theory, this knowledge asymmetry is the cause of the legitimacy gap. [27] highlights a major contributors to the legitimacy gap: a change brought about by the discovery of previously undiscovered information regarding an organization.

[39] examined environmental disclosures in annual reports of publicly traded firms in Canada that operate in the mineral extraction, forestry, oil and gas, and chemical industries between 1982 and 1991. The investigations determined whether such disclosures emphasize beneficial environmental measures or conceal negative environmental consequences. The authors debate whether such disclosures highlight practical environmental initiatives, conceal negative environmental consequences, or both. [40] investigated whether increased social disclosures could be part of a strategy to change the public's perception of an organization's legitimacy. The authors argue that corporate image and identity serve as a unifying foundation for corporate reporting. Corporate social reporting requirements are governed by several factors, including firm size, industry type, profitability, and country. The authors propose that increasing social disclosures is part of a strategy to influence the public's perception of an organization's legitimacy. [41] investigates the relationship between national culture and the amount of internal control information disclosed in annual reports. A manager's assessment of the costs and benefits of sharing information influences their disclosure decisions. They also investigated whether culture influences dis-

closure decisions through investor protection. The authors discovered that national culture has a direct influence on such disclosures. We also demonstrate that national culture influences disclosures indirectly through investor protection. Following that, [42], in claiming legitimacy theory as a tool for explaining managerial decisions, notes that legitimacy theory is still considered an underdeveloped organizational behavior theory. [43] argues that given the current understanding of corporate social responsibility reporting in standalone (and other) formats, it is appropriate to be open to a variety of theoretical approaches. [44] examines and critiques twenty-one years of current social and environmental accounting research, concluding that recent methodological advances place a premium on content analysis/statistical connections research, as well as case/field/action/ethnographic research. External disclosure, attitude research, and theoretical framework publications all gained traction.

2.2. Legitimacy Gap

As noted previously, a legitimacy gap arises when an origination fails to adapt to shifting societal expectations. [45] defines organizational shadows as a change caused by the emergence of previously unknown organizational knowledge. The authors discovered that the amount of information about the organization potentially unavailable to the public poses an ongoing threat to the corporation's credibility. A legitimacy gap may develop when a portion of an organization's shadow is revealed, whether by accident, by an activist group, or by a journalist's action. Consequently, it is reasonable to assume that this piece of information that would not have been made public becomes a time bomb for the organization's reputation. It threatens the organization's credibility. As a mitigation, [46] suggests that a legitimacy gap threatens the organization's legitimacy and must therefore be addressed appropriately. [35] asserts that a group must employ strategies to close the legitimacy gap. Without established legitimacy strategies, organizations will be vulnerable, and this vulnerability will be exacerbated in times of peril. According to [47], such techniques may involve legitimate-in-and-of-themselves targeted disclosures and collaboration with other entities. According to [48], an organization can maintain legitimacy by conforming to these established institutional patterns, thereby attracting support and resources.

In **Figure 3**, the legitimacy gap is graphically represented, with the area in green representing the disparity between how stakeholders anticipate an organization to operate and how it really acts. The straight line reflects shifting expectations and the curve line represents the organization's continuous activity. [35] argues that the gap results from the organization's practices remaining unchanged while social expectations have shifted due to the discovery of previously unknown information about the organization (knowledge asymmetry). The purpose of the entity is to be legal, to maximize the X area by minimizing the legal void.

Social expectations are always accompanied by social development, resulting

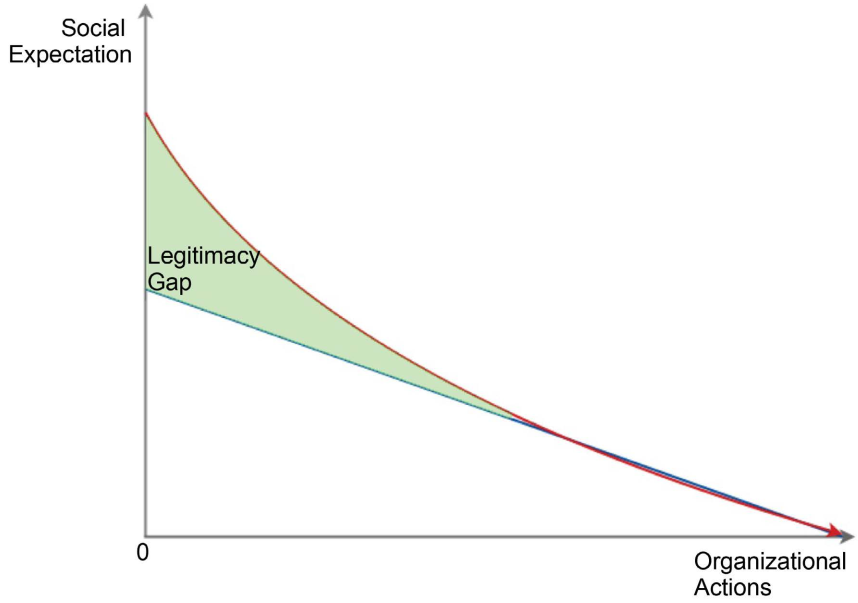

Figure 3. Legitimacy gap as illustrated by [49].

in a legal vacuum even if the organization's operations remain unchanged. When previously unpublished information about the organization becomes available to the public via the media. On a variety of issues, it is believed that the media can exert a substantial effect on public opinion. According to [45], unsolicited information about an organization may threaten its legitimacy. When a shadowy area of an organization is revealed, a legal void may result (accidentally or purposely).

The parallel is uncomplicated and exemplifies the current debate regarding legitimacy theory. The concept of legitimacy has not advanced to the point where the gap cannot be precisely measured. The distinction between lawful and unlawful behavior within an organization is readily apparent. This is also the primary reason why the theory of legitimacy is presently regarded as emergent.

2.3. Legitimacy Theory's Intersection with Other Theories

Legitimacy theory is a normative theory that seeks to describe or explain organizational behavior (to foster legitimacy) instead of prescribing how organizations should behave. It describes in greater detail how to establish credibility. However, legitimacy theory intersects with institutional and stakeholder theories as well. According to [50] social and political theories such as legitimacy, stakeholder, and institutional theory can offer more pertinent theoretical perspectives on CSR than economic theories alone. [51] further emphasized the close relationship between these three theories and CSR activities.

Stakeholder theory examines the relationship between an organization and its constituents. According to [52], a stakeholder is any group or person who may influence or be affected by the organization's goals. Several academics attempted to refine Freeman's definition of a stakeholder by more precisely categorizing them. Subgroups of stakeholders such as shareholders, employees, and customers [53]; single-issue and multiple-issue stakeholders [54]; supportive, marginal, and unsupportive stakeholders [55]. They are intended to highlight numerous stakeholder groups with varying and potentially conflicting needs.

According to stakeholder theory, an organization's management must engage in activities and provide information deemed essential by its stakeholders. Consequently, "accountability" is frequently used to describe how a focused organization fulfills its responsibilities to its numerous stakeholders, [56] and several assumptions underpin stakeholder theory: 1) stakeholders are identified from the perspective of a single organization, 2) an organization's success depends on its ability to manage stakeholders, 3) stakeholders come in many forms, with often conflicting interests, 4) a company must be able to balance conflicting stakeholder interests both internally and externally, 5) stakeholders exert pressure on a company because they expect or want something, and 6) stakeholders have a financial, social, and environmental obligation.

The literature discusses legitimacy and the distinction between those with legitimate claims on organizations and those whose claims are deemed unworthy. [57] proposes a contractual barrier, defining legitimate stakeholders as those who demand the organization's services. If stakeholders can establish institutional connections with organizations, or if intermediaries are created to facilitate such connections, the legitimacy of organizations' relationships with these stakeholders will increase.

Institutional theory investigates organizational structures and explains why organizations with similar features or forms belong to the same organizational field. An organizational field is defined by [58] as the collection of organizations that form a recognized region of institutional life: major suppliers, resource and product consumers, regulatory authorities, and other organizations that provide equivalent services or goods. [59] noted that institutional theory views businesses as operating within a social framework of traditions, values, and implicit assumptions regarding what constitutes appropriate or acceptable economic action. According to institutional theory, organizations adapt to their organizational field, perhaps in response to institutional demand for change, because they are rewarded with increased legitimacy, resources, and survival capabilities if they do so [60]. [61] contend that, once an organizational field is established, a variety of substantial social pressures converge to homogenize the organizations within the field.

Connecting institutional theory to organizational activities, such as CSR and other accounting processes, to the norms and values of the society in which an organization operates, their relationship ultimately compels an organization to seek, acquire, and reclaim legitimacy [51]. Through coercion, imitation, and normative pressures, organizations in a field acquire legitimate structures and practices. Through these invertible processes, organizations build institutional practices [62]. Voluntary CSR disclosure and participation in CSR initiatives are regarded as institutional norms [51]. Institutional theory is a well-established framework in management accounting, and it is fundamentally capable of explaining CSR compliance among businesses. To gain legitimacy, organizations strategically align their practices with environmental expectations [63].

Figure 4 depicts an intersection of theory developed by [64]. Scholars have realized that a company's actions impact its external environment, making it accountable to a broader audience than its stakeholders. While large corporations recognize the importance of adapting to a new social responsibility environment, their focus on financial results hinders social consciousness. No longer are corporations solely accountable to their shareholders. They have obligations to society [65]. Consequently, organizations become more responsive to all stakeholders, necessitating a more inclusive social contract between a corporation and its stakeholders. Therefore, the three theories discussed previously are considered to overlap. Rather than relying solely on one of the three theories to describe a company's operations, some researchers have combined all three.

2.4. When Legitimacy Is Threatened

Legitimacy theory suggests that for businesses to be successful, they must operate within the boundaries of socially acceptable behavior; otherwise, they risk jeopardizing their future profitability. Those who hold this view believe that voluntarily disclosing a company's social initiatives in its annual report can legitimize it in the eyes of the public. Researchers discovered that corporations would increase their environmental disclosures if they explained or justified environmentally irresponsible conduct. If mainstream media brought these environmental activities to the public's attention, the desire to reveal increased. Environmental information included in the annual report may also assist managers in shaping public opinion. The majority of research indicates that when managers believe their legitimacy is threatened to the point of jeopardizing the organization's success, the legitimacy theory will recommend corrective actions based

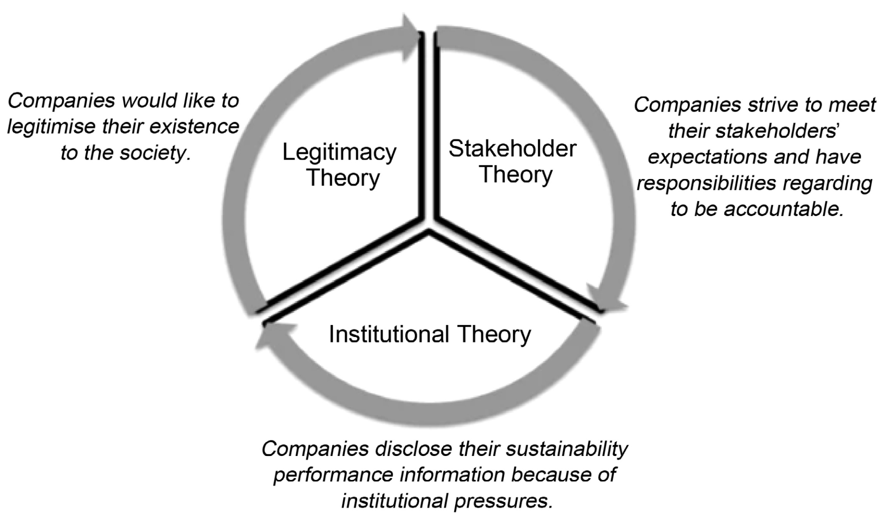

Figure 4. Corporate suitability disclosures framework by [64].

on the information to be disclosed. [66] and [15] assert that a company's information sharing serves two primary functions. First, a company asserts that it operates or intends to operate in accordance with societal norms. Secondly, a company will attempt to redefine legitimacy via the media in order to align social expectations with economic activity.

If a company believes its legitimacy is under attack, it may attempt to mitigate the threat's effects by disclosing information via various media outlets, such as its annual report [30]. Corporate annual reports enable businesses to respond to stakeholder complaints about corporate activities efficiently and cost-effectively. [67] found a positive correlation between negative media attention on environmental issues and corporate annual report disclosures. Voluntarily including social and environmental information in the annual report may aid in conveying the message that the company is socially responsible. In addition, the narrative sections of an annual report allow management to tell the company's story in the tone and style of their choosing and to target specific audiences with their messaging. According to [39], management prefers narrative disclosures over financial or other quantitative forms of annual report disclosures because they can be tailored to target audiences more effectively to manage public perceptions. Together with the organization's control over the design of the annual report, this allows the company to influence how readers.

3. Empirical Investigations

The majority of research in the accounting field has applied the legitimacy theory to social and environmental issues. Below, we examine why legitimacy is not more commonly applied to other facets of accounting, specifically the provision of financial accounting information.

One of the first accounting studies to apply the principle of legitimacy was conducted by [68]. This is an analysis of the information made public by the U.S. Steel Corporation. The findings suggest that the level of social disclosure fluctuates annually in response to changing societal expectations for business conduct. Subsequently, his research [29] highlighted changes in environmental disclosure by North American oil companies before and during an oil disaster.

[69] used legitimacy theory to explain systematic changes in environmental disclosure regulations over time in Australian research. A legal action concerning the environment. During the year in which they were prosecuted, prosecuted corporations disclosed significantly more environmental information than corporations that were not prosecuted. Additionally, corporations facing prosecution provide more environmental information than those not facing prosecution. The authors conclude that the disclosure of environmental claims against one company affects the disclosure policies of the other corporations involved.

[50] used [15] disclosure techniques to evaluate British society and its environment from 1979 to 1991. After examining the scope and style of disclosure by businesses, they determined that the nature, direction, and focus of environ-

mental disclosures by businesses are consistent with their strategy. [30] analyzed the disclosure of social and environmental issues in BHP's two annual reports between 1983 and 1997[2], annual report from 1983 to 1997. Their study establishes a link between media coverage of certain social and environmental concerns and the volume of information published. Their research establishes a connection between media coverage of particular social and environmental issues and the quantity of information published.

Following a growing body of research, legitimacy strategies may also be implemented at the industrial level. If an industry is experiencing a legitimacy crisis, a centralized industry center can be created to enforce industry standards and restore the business' credibility. [70] demonstrates that Australia's mining sector has developed an industry-wide set of environmental management regulations to bolster the sector's overall legitimacy. The Australian mineral sector was confronted with several independent concerns stemming from multiple environmental disasters and workplace fatalities. As such, the Australian mining industry has attempted to link society and the Environmental Management Code, a symbol of legitimacy [70]. This environmental management code is seen as a commitment to improving the industry's environmental performance. The existence of the Code, as well as the number and identities of businesses that adhere to it, is made public by industry organizations. In their annual reports, members of the Code frequently emphasize their membership.

4. Criticisms

In addition to noting some proponents of the legitimacy hypothesis in accounting research in the preceding sections, contrary research is also presented. [71] observed that concerns about legitimacy rarely motivate large Irish businesses' social and environmental disclosure policies. Campbell (2000) observed that human variables, such as the identity of the chairman, seemed more capable of adequately explaining the company's dis-closure practices. Similarly, [24] discovered no evidence to support their use of the legitimacy theory to explain why they provide information about society and the environment[3]. Consequently, the findings indicate that it is challenging to establish a connection between the concept of legitimacy and BHP's information provision. According to [72], action disclosures elicit more negative emotions than talk and decision disclosures, indicating that corporate legitimacy is influenced not only by action information, but also by the supply of talk and decisions to accommodate diverse stakeholder interests. [73] argued that although businesses' disclosures regarding progress toward pledged targets may elicit positive stakeholder responses, concerns about the inadequacy of the progress persist.

Numerous previous publications have discussed legitimacy theory in detail[4]. Many who have focused on environmental disclosure have noted that environ-

[2]Now BHP Billiton.

[3]Between 1885 1985 for BHP.

[4]See [15] [31] [74] [75] [76].

mental disclosures may and frequently help re-establish legitimacy by addressing public concerns, seemingly countering criticism, and fostering societal acceptability. Although numerous studies demonstrate that the legitimacy theory can be used in accounting research, a greater sum found otherwise. It is, therefore, necessary to acknowledge that there is very little empirical evidence demonstrating the legitimacy theory's certainty and conviction in accounting research. Unless society raises specific issues, individuals will face little or no accountability for their behavior [30] [77]. To address the issue of the absence of a legitimacy theory model that is more widely applied in other areas of accounting, [78] showed that investors do not reward the company when a company does a beneficial social action for stakeholders. Further, the publication of action information may potentially elicit unfavorable responses [79].

[80] contends that legitimacy and associated concepts are abstract and undefinable. Therefore, the legitimacy hypothesis can only explain subjective human views since it is not comparable to a tool that can be utilized for generating accurate predictions [16]. An organization cannot satisfy all its observers; therefore it must decide how to demonstrate its credibility. Obtaining, maintaining, and cultivating legitimacy in the eyes of influential observers is one of legitimacy theory's most pressing concerns [3].

Proponents of voluntary disclosure theory (VDT) have also questioned legitimacy theory (see [81] [82] [83]). Proponents of VDT say that corporations are compelled to report positive news to separate them from inferior performance, relying heavily on financial economics and concentrating nearly completely on environmental disclosure as opposed to CSR disclosure [83]. This contradicts environmental performance and transparency legitimacy philosophy. [84] suggested that enterprises with more exposures, such as those with worse environmental performance, would be required to disclose their environmental impacts in greater detail. This is impossible if no existing model describes which observers are the most vital to the organization [85].

Legitimacy theory has also been criticized by proponents of voluntary disclosure theory (VDT) [81] [83] [86]. Proponents of VDT argue firms are driven to publish good news to distance themselves from weaker performance, leaning largely on financial economics and focusing almost exclusively on environmental disclosure over CSR disclosure [83] This defies legitimacy theory concerning environmental performance and transparency. [84] notes companies with greater exposures, such as those with worse environmental performance, would be compelled to provide more thorough environmental disclosures. This is impossible if there is no current model to explain which observers are most important to the organization [85].

5. Conclusions

The role of legitimacy in the survival of organizations, institutions, and society is paradoxically driven by negative social and environmental events that come from the lack of legitimacy. According to legitimacy literature, the survival of an organization is based on its legitimating methods and how it addresses continuing pressures and difficulties. Legitimating methods aim to obtain and maintain the approval of stakeholders. Numerous accounting scholars employ the legitimacy thesis at present; however, questions remain regarding the use of legitimacy theory in accounting research. Disclosure has been hailed as a mechanism for establishing legitimacy, yet few studies investigate how corporate managers define their social contract. Consequently, there is inconclusive evidence regarding the effectiveness of corporate disclosure in altering public expectations. Given that there are no guidelines for identifying the most significant parties required to establish, maintain, or reestablish legitimacy, legitimacy theory frequently fails to address the actual problems [24].

It is essential to recognize that organizations do not work independently. While an organization can impact its legitimacy, perfect control is unrealistic and thus legitimacy is ultimately granted by the stakeholders with whom it interacts. Companies jeopardize their legitimacy when they fail to meet what is typically seen as a genuine expectation. Legitimacy is essential for both economic and environmental viability. Disclosures motivate firms to communicate sustainability information and implement sustainable practices proactively, and they provide legitimacy and confidence to all stakeholders. When an organization's objective is to maximize shareholder wealth, it is unlikely that significant reporting changes would occur. Companies have demonstrated proficiency in evading regulatory frameworks through reports that provide a restricted overview of the organization's functions, suggesting that regulatory action may be necessary to spur enterprises into action.

Through a literature review on legitimacy, this work contributes to the body of information around the theory. In reviewing the theoretical gap and the critique of the theory, this work contributes to closing the academic gap. Longevity is frequently correlated with a theory's authority [87]. If the legitimacy theory continues to explain growing environmental disclosures, longitudinal studies employing management interviews and ex-post annual report/environmental report content analysis could determine this. This should also allow researchers to assess whether the legitimation/disclosure methods utilized in this analysis are still in use, which could lead to the identification of other legitimation/disclosure methods. A natural extension of the legitimacy theory is to examine whether legitimation strategies and annual report disclosures have the desired effect on audiences.

Conflicts of Interest

The authors declare no conflicts of interest.

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