



# Predominant strategies of legitimacy in environmental and social disclosures

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## Abstract

**Purpose** – The purpose of this study is to identify which of Lindblom's strategies of organizational legitimacy predominate in environmental and social disclosures in administration reports of publicly traded family companies under Brazilian shareholder control during the period 1997-2006.

**Design/methodology/approach** – Descriptive research from a universe of 500 large companies from the ranking made in *Exame* magazine – “best and biggest”, 2006 edition. From these, 21 publicly traded family companies under Brazilian shareholder control were identified, but the longitudinal study was made with the 16 that published their administration reports in the last ten years. The sentence was considered as the unit of analysis, with application of the content analysis technique to messages contained in the administration reports that were related to environmental and social disclosures.

**Findings** – Research results show that the companies researched used the four strategies of organizational legitimacy proposed by Lindblom, either together or separately.

**Research limitations/implications** – The second and third strategies predominated in the environmental and social disclosures from administration reports made from 1997 to 2006.

**Originality/value** – The value of the study is in its advancement of research made in the UK by Gray *et al.*, Parsa and Kouhy, and in Brazil by Silva.

**Keywords** Disclosure, Environmental management, Family firms, Company accounts, Brazil

**Paper type** Research paper

## Resumen

**El propósito** – El objetivo del estudio es identificar cuáles estrategias de la legitimidad de organización de Lindblom predominan en la divulgación ambiental y social en los informes de la administración de los períodos comprendidos entre 1997 y 2006 de las empresas de control familiar que cotizan en bolsa brasileña.

**La Metodología** – Estudio descriptivo de un universo de 500 grandes empresas de la clasificación hecha en la revista *Exame* – “Mejores y Mayores” (*Exame – Melhores e Maiores*), edición de 2006. A partir de estos, 21 empresas de control familiar brasileñas fueron identificadas, pero el estudio longitudinal se realizó en los informes de la administración publicados en los últimos diez años de 16 empresas. La sentencia fue la unidad de considerado el análisis, con la aplicación de la técnica de análisis de contenido a los mensajes contenidos en los informes de la administración que estaban relacionadas con la divulgación ambiental y social.

**Los resultados** – Las investigaciones realizadas indican que las empresas investigadas utilizan las cuatro estrategias de la legitimidad de organización propuesta por Lindblom (conjuntamente o por separado).



**Las limitaciones/implicaciones de la investigación** – La Segunda y a tercera estrategias predominó en la divulgación de información ambiental y social de los informes de la administración a partir de 1997 a 2006.

**La originalidad/el valor** – El valor del estudio es en la promoción de ITS de la investigación realizada en el Reino Unido por Gray, *et al.* y Parsa y Kouhy, y en Brasil por Silva.

**Palabras clave** Divulgación, Gestión del medio ambiente, Empresas familiares, Cuentas de compañías, Brasil

**Tipo de artículo** Artículo de investigación

## Resumo

**Propósito** – O objetivo deste estudo foi identificar que estratégias de legitimidade da organização de Lindblom (1994) predominam na divulgação social e ambiental nos relatórios da administração do período entre 1997 e 2006 das empresas de controle familiar cotadas em bolsa.

**Metodologia** – Estudo descritivo de um universo de 500 grandes empresas na classificação feita pela revista EXAME – Melhores e Maiores, edição 2006. Dessas, 21 empresas de controle familiar no Brasil foram identificadas, mas o estudo longitudinal, baseou-se na análise de relatórios de contas publicados nos últimos 10 anos de 16 empresas. A *frase* foi considerada a unidade de análise, aplicando a técnica de análise de conteúdo das mensagens contidas nos relatórios de gestão relativamente à divulgação ambiental e social.

**Resultados** – A pesquisa indica que as empresas utilizam as quatro estratégias de legitimidade da organização proposta por Lindblom (1994), em conjunto ou separadamente.

**Limitações/Implicações da investigação** – As 2<sup>a</sup> e 3<sup>a</sup> estratégias dominaram a divulgação dos relatórios de gestão ambiental e social 1997-2006.

**Originalidade/Valor** – O valor do estudo está na promoção da investigação ITS no Reino Unido (UK) por Gray, Kouhyar e Lavers (1995) e Parsa e Kouhyar (2001), e no Brasil por Silva (2003).

**Palavras-chave** Divulgação, Meio ambiente, Social, Estratégias de legitimidade, Relatórios de contas, Empresas familiares

**Tipo de artigo** Artigo de investigação

## 1. Introduction

The question of social and environmental responsibility on the part of society arose at the moment in which this same society became aware of the primacy of human rights and the finite nature of environmental resources. Various agencies have monitored these resources and demanded greater care in their use. It was from this starting point that the need for greater information on the environment and human rights began, principally those resources necessary for the development of activities within companies.

Companies are increasingly under pressure from society to demonstrate that they are concerned with the environment and with social matters, at the same time they seek to generate wealth. They need to demonstrate that they actively participate in environmental preservation and in the valorization of society at large. Accounting makes use of a set of accounting statements and complementing reports that disclose information related to a company's activities. These statements and reports present qualitative and quantitative information on the economic, financial, and asset-related situation of a company.

However, such reports can also reveal, in a voluntary manner, matters that interest a wide spectrum of accounting users, including information on social and environmental questions. Administrative reports complement the set of accounting statements that companies publish annually. Legally, they are mandated in Brazil by the *Lei das Sociedades por Ações* (Law regarding Publicly Held and Traded Companies),

Law no 6.404/76, and the *Comissão de Valores Mobiliários* (CVM, the Securities and Exchange Commission of Brazil) in its Orienting Guideline no 15/87. Accounting statements are the means by which a company transmits compulsory and voluntary information to its internal and external publics.

Evidencing voluntary information about its relationship with environmental and social matters in administrative reports can be linked with a company's need to seek legitimacy within its own environment, or rather to maintain the organizational legitimacy that has already been recognized by society. On the other hand, its legitimacy can be compromised by the occurrence of undesirable situations that impact its stability, leading to the need to recover whatever legitimacy is lost in such an event.

Lindblom (1994) explains that legitimacy is a state and a process in which corporations find themselves. Since the process of legitimizing is below the state of legitimacy, it is precisely the process of seeking its legitimacy that brings together the corporate and social environments of the company. He points out further that a great deal of voluntary social revelations emitted by corporations can be linked to their efforts towards legitimacy. These efforts are necessary for achieving the state of legitimacy.

In this sense, in his work "The implications of organizational legitimacy for corporate social performance and disclosure", Lindblom (1994) proposes that companies can use, simultaneously or not, four strategies of organizational legitimacy in order to divulge voluntary or compulsory information about the inherent environmental and social aspects of their activities.

It was in this sense that the following question-problem was formulated: what strategies of organizational legitimacy postulated by Lindblom (1994), predominate in disclosures on environmental and social matters that appear in the administrative reports of publicly held shareholder controlled family-run companies in the period from 1997 to 2006? The objective of the study is to identify which of Lindblom's (1994) strategies of organizational legitimacy predominate in environmental and social disclosures in administration reports of publicly traded family companies under Brazilian shareholder control during the period 1997-2006.

This study concentrates on family companies, whose creation commonly originates in the nuclear family, with the primary purpose of satisfying financial needs, thus to the personal satisfaction of the founders. Therefore, the initial focus of a family company is not oriented towards the legitimacy linked to the corporate and social environment since this interest is only stirred in the generations that succeed the founder.

As the present study considers large family companies, i.e. the largest companies by billing listed in the *Exame – Melhores e Maiores* (*Exame* magazine – "best and biggest") 2006 edition, we believe that these companies already passed through processes of management succession and professionalization. Thus, it was presupposed that the family business analyzed made use of the four strategies of organizational legitimacy proposed by Lindblom (1994), simultaneously or not, in the process of environmental and social disclosure in administrative reports, seeking to obtain, maintain or even recover their legitimacy in the environment where they perform.

The organizational strategies of Lindblom (1994) that predominate in the disclosure of social and environmental matter in administrative reports have been studied by Gray *et al.* (1995), Parsa and Kouhy (2001), on companies in the UK, and by Silva (2003), on Brazilian companies. So this study is justified by the absence of similar studies that concentrate on family enterprises, whose business is not supposed to initially focus

on the legitimacy linked to the corporate and social environment. It is believed that this study will contribute to knowledge on the strategies of voluntary environmental and social disclosure of Brazilian publicly held shareholder controlled family-run companies.

## 2. Social and environmental disclosures

It is apparent that a significant number of companies have been voluntarily disclosing more and more information inherent to their business, besides that of economic, financial, and asset-related nature, seeking to meet the expectations and pressures exerted by the internal and external public. Nossa and Carvalho note that “pressure increases when environmental conditions become inadequate, due to pollution caused by production activities, altering the relationship between man and the environment” (Nossa and Carvalho, 2003, p. 1).

Studying the reasons that lead administrators and companies to voluntarily disclose information related to their activities has been the theme of several accounting researchers, among them Deegan *et al.* (2002), Milne and Patten (2002), O’Donovan (2002), Campbell (2004), Borba and Nazário (2003), Nossa and Carvalho (2003), Silva (2003), and Calixto (2006).

Silva mentions that “voluntary inclusion of social and environmental information in the narrative section of the annual report can, for example, help the CEO transmit the idea that his/her company is acting in a socially responsible manner” (Silva, 2003, p. 16). Lindblom (1994) says that much of the social disclosure voluntarily emitted by corporations can be seen as efforts at legitimacy. Efforts to reach the state of legitimacy, or corporate efforts at legitimizing.

de Luca (1998) emphasizes the importance of disclosing information on natural, human, financial, technological, and other resources, as a way for companies to earn credibility. In this sense, Lima *et al.* (2006, p. 8) point out that:

[...] whether it is spontaneous recognition of contemporary business practice or through imposition of the market a company has a great responsibility towards society, which is seen to significantly impact its development.

This responsibility is also recognized by the Brazilian Federal Constitution of 1988, in article 225, Chapter VI:

Art 225. All have rights to an ecologically balanced environment, which is a benefit for the common use of the people and essential to wholesome quality of life, imposing upon the public power and the collectivity the duty of defending it and preserving it for present and future generations.

Concern with the environment is, therefore, not only an economic, but also an ethical issue and the survival of companies in the market place depends on it (Lima and Viegas, 2002).

Borba and Nazário (2003) understand that some factor may have contributed to the increase in perception on the part of companies in environmental disclosure. The surge of more rigorous environmental legislation, ecological movements promoted by private and non-governmental agencies, besides significant portions of society that have come to demonstrate greater concern over how environmental resources are used, contribute to increase the awareness of companies towards environmental disclosure. Patten and Trompeter (2003, p. 83) argue “that corporate management believes environmental disclosure is an effective tool for reducing exposure to potential regulatory costs”.

Behavioral changes prompted by the review of ethical values in society as a whole imposes on companies, regardless of their size and characteristics, their share of responsibility with the internal and external environment in which they interact, which goes beyond the economic and financial vision. Rodrigues and Marinho (2006, p. 3) state that:

[...] currently, it is not enough to manage organizations but it is also necessary to carry out management in communion with social welfare, endogenous, and exogenous, i.e. in the organization scope and in its external relations.

Parsa and Kouhy (2001) say that companies disclose social information in order to provide information about their activities, seeking to legitimize their behavior and actions as well as to project their values and ideas in response to external factors. Patten (1991, p. 297) understand:

[...] that social disclosures are used as a means of addressing the exposure firms face with regard to the social environment, and as such should be related more closely with public-pressure variables than profitability measures.

Attention is turned toward attitudes, ethics, and responsibility of organizations and disclosure can be tied to the need of seeking, maintaining or recovering organizational legitimacy in the social area.

### 3. Social and environmental disclosures in administration report

Article 133 of the law for publicly held companies (*Lei das Sociedades por Ações*, Law no 6.404, of December 15, 1976) mandates the elaboration and presentation of an administration report at the end of each fiscal period, with information related to the business of the company and the principal facts regarding its administration. Boards have the task of disclosing facts relative to the acquisition of debentures emitted by the company (art. 55, § 2°), and its policy on reinvestment of profits and distribution of debt (art. 133, § 5°); investments made by the company in other companies it controls or is connected to, along with any modifications resulting from the exercise of this activities (art. 243).

However, elaboration and disclosure of the administration report is not compulsory for all companies. The deciding factor in the obligation is whether shares are traded on the Stock Exchange, i.e. whether the company is made up of closed or open capital. Companies that are publicly traded are obligated to elaborate and publish the accounting statements mandated by Law no 6.404/76.

In its Guideline no 15, of 28 December 1987, the *Comissão de Valores Mobiliários* (CVM, 1987; i.e. the Brazilian Securities and Exchange Commission), established procedures to be observed by publicly held companies and independent auditors in the elaboration and publication of accounting statements, administration reports and in auditing guidelines relative to fiscal periods beginning with the one ending in December 1987. In accordance with Guideline no 15/87, the CVM mentions that:

As an integral piece of accounting statements, the report must complement accounting information and explanatory notes, observing due connection to the situation they describe, forming a complete portrait of the postures and performance of the administration in management and allocation of resources which it finds and is entrusted with.

Besides, those items mandated by Law no 6.404/76, that must be stated in the administration report, the CVM, by means of Guideline no 15/87, recommends that

the board makes available detailed information on the description of its business, products; and services; commentaries on its general economic circumstances; human resources; investments; research; and development; new products and services; environmental protections; administrative reformulations; investments in associated and controlled companies; shareholders' rights and market data; perspectives and plans for the current and future fiscal periods, and, in dealing with a shareholder company, the report must consider the information mentioned above, even in a more synthesized manner, relative to companies invested in.

Besides, these items, the CVM provides directions on other information inherent to the company and which the Board finds convenient to mention in the administration report. It must do so to complement and clarify accounting reports even further to internal and external users. Therefore, the administration report, elaborated and made available in accordance with Law no 6.404/76 of the CVM, encompasses information from the financial, social, and economic areas, information about investments, research, and development and new products, and the environment, besides the information already deemed inherent to the company.

It can be inferred from what has been discussed that the administration report can be used by the company as a means of arousing interest in people, agencies, investors, and society in general, allowing such parties to know about its responsibilities, ethics, and transparency in a better way. The disclosures made in the administration report can be quantitative or qualitative, or a combination of both; compulsory or voluntary, and of an economic, financial, asset-related, environmental, and social nature.

#### 4. Organizational legitimization according to Cristi K. Lindblom

It is common to observe that new search for legitimacy, acceptance in the environment in which they intend to be a part. As such, they pass from the state of legitimization to the acquired legitimacy. From that point, they can work to maintain this legitimacy, realizing their activities normally and within established standards, or work to recover legitimacy erased or lost in light of negative facts or events in relation to their activities.

To Lindblom (1994), organizational legitimacy is related to social performance and the disclosure of such performance. The search for organizational legitimacy influences the form and content of corporate social disclosures.

Silva and Sancovschi (2006, p. 2) state that:

[...] when a present or potential threat to the legitimacy of the company occurs, resulting from a negative event, directors can try to change the perception of outsiders, with the objective of increasing the congruence between the activities of the organization and the expectations of society.

Lindblom points out that an organization seeks the condition (or state) in which its system of values conforms to the greater social system of which it is a part.

Companies always respond to negative events that can impact the legitimacy of their activities, using strategies of organizational legitimacy in the disclosure of their annual accounting reports (Lindblom, 1994). Thus, Lindblom proposes that managers of companies can adopt, separately or together, four strategies in disclosure, seeking to legitimize their own existence, as shown in Table I.

According to Lindblom (1994, p. 2) "evaluation of legitimacy is concluded at the individual level and individuals form various groups interested in and related

**Table I.**  
Lindblom's strategies of  
organizational legitimacy

Strategies	Objective of the company
1 <sup>a</sup>	Educate and inform its pertinent public on the changes in its current performance and activities
2 <sup>a</sup>	Change the perception of the pertinent public in regard to its current performance and activities without having to change its actual behavior
3 <sup>a</sup>	Manipulate the perception of the pertinent public deflecting attention about a subject that calls attention towards another subject related to it, or even pointing out past social actions realized in lieu of informing and educating the public
4 <sup>a</sup>	Change external expectation about its future performance

**Source:** Adapted from Lindblom (1994, pp. 12-17)

to the corporation that come to be known as *pertinent publics*". A pertinent public, internal to the organization, is made up of employees, shareholders, and owners, while the external public consists of customers, clients, and the competition.

From what has been discussed it can be inferred that companies can disclose environmental and social information related to their activities, using, intentionally or not, the four strategies of legitimacy proposed by Lindblom (1994), alternatively or by a combination of the four, seeking to obtain, maintain or recover their legitimacy in their area of performance.

Parsa and Kouhy (2001) analyzed the annual reports from 71 companies from the UK looking to identify whether boards adopted some of Lindblom's strategies of legitimacy. Results indicated that disclosed social information was mainly related to Lindblom's second and third strategies.

Gray *et al.* (1995) made a longitudinal study over a period of 13 years. They separated companies into two samples: one sample with various companies from the UK for which they analyzed their annual reports from 1979 to 1978; in the other sample, they concentrated exclusively on the 100 largest companies in the UK, analyzing annual reports from the period 1988 to 1991. According to them, the tone, orientation, and focus of environmental disclosures related much more to the second and third state of Lindblom's strategies of legitimacy. A minority of companies considered it necessary to change their performance with respect to environmental interactions (Lindblom's first strategy), using social disclosure to do so.

Gray *et al.* (1995) consider that environmental disclosure of companies is first oriented towards changing the perception that a company is "dirty" and "irresponsible" (Lindblom's second strategy); and secondly towards distracting attention from central environmental matters (the third strategy of legitimatization). They point out that companies have been increasingly required to demonstrate a satisfactory performance in relation to environmental questions; social disclosure seems to be one of the mechanisms that organizations use to satisfy (or manipulate) this requirement.

## 5. Management of family companies

Moreira Júnior (1999, p. 73) defines a family company as:

[...] an organization in which both administrative management and property are controlled in large part by one or more families, and where two or more members of the family participate in the work force, mainly as members of the board of directors.

To Floriani, a family company is:

[...] the extension of a large family, beginning with the nuclear family headed by the entrepreneur-founder, later followed by his heirs and successors, who provide continuity to the dream he realized (Floriani, 2006, p.45).

According to Bornholdt (2005), a family enterprise has one or more of the following characteristics:

- shareholder control belongs to a family and/or one of its heirs;
- family connection determine the succession of power;
- relatives are found in strategic positions, such as on the board of directors or administrative board of the company;
- the beliefs and values of the company are identified with the family;
- acts of family members have repercussions on the company, whether or not those members work in the company; and
- the absence of total or partial freedom to sell their accumulated or inherited bonds/shares in the company.

Bornholdt (2005) also considers an enterprise to be a family company when it is composed of family nuclei that are not of the same blood (multi-family), but which still meet one or more of the criteria cited above.

As can be seen, there is no single definition for a family company. However, definitions consistently emphasize that controls are predominantly in the hands of family members, and that these companies typically pass through the process of succession in order to be characterized as a family company. Lethbridge (1997) points to three basic types of family companies:

- (1) *traditional* – privately owned, with little administrative and financial transparency, and where the family exercises complete control over the business;
- (2) *hybrid* – publicly held and traded, but where the family still retains control, although with greater transparency and participation in administration by professionals in the family group;
- (3) *family influenced* – where the majority of shares are in the market but where the family, even removed from day-to-day administration, maintains strategic influence through significant shareholder participation.

For the purpose of this study, a family company was considered to be such when its origin and continuity reside with a project idealized by a founder and entrepreneur, or by a group of shareholders, or partners, or even by a union of several distinct families or multi-family groups that retain shareholder and property control throughout the history of the company, even when management is not under the command of the company founder or the successor family but rather under contracted administration.

In regard to the management of a family company, it is worth noting its strong relationship with the culture and characteristics of its founder. His/her origins and personality influence the formation of the culture of the organization, mainly by virtue of being the center of decisions. People that come to be part of the company and stay with it are generally influenced by the culture and style of management already



established in the company, which often has become intrinsic to it. Davel and Colbari (2003, p. 4) state that:

[...] it has become almost impossible to overcome values, emotions, sentimental ties and patterns of actions inside an organization that was modeled on family roles and relationships. This base of values and sentiments tends to survive and remain as a reference point in interactions, even when the organization is no longer a family company.

The family company presents itself in an ambiguous way, according to Barros (2006, p. 205), who says that:

[...] the family is on one hand associated with the traditional type of management and the paternalist cultural matrix, the enemy of managerial professionalism, and on the other is a partner in the construction of the ethical references and positive images that feed and influence the sphere of the organizational culture".

Lethbridge points out that:

[...] the desire to maintain things *en famille* and the fear of losing control – in behavior that confuses the concepts of family control and family management – inhibits administrative openness in a large part of traditional family companies (Lethbridge, 1997, p. 10).

However, growth and lack of managerial capacity within the family may determine professionalization and delegation of authority to non-family members (Lodi, 1999; Longenecker, *et al.*, 1998).

Management of a family company, be it the responsibility of family members or contracted to professional executives, needs to be committed to the continuity of business, just like any other company. It must consider its objectives, its mission, and commitments to the economic and social environment. This implies that the growth of the organization must also be accompanied by greater transparency in its actions, by means of disclosure of information inherent in management of the organization.

## 6. Research method and procedures

This study is characterized as descriptive with qualitative approach. Gil (2002) notes that the objective of descriptive research is to describe the characteristics of a determined population or phenomenon. In this sense, this research seeks to describe the predominant Lindblom's (1994) strategies of organizational legitimacy in environmental and social disclosures in administration reports of companies involved in the study.

The qualitative approach, as Richardson (1989, p. 38):

[...] differs, in principle, from the quantitative to the measure that it does employ statistical instruments based on analysis of a problem. It is not intended to number or measure units or homogenous categories.

The qualitative approach was adopted, through the content analysis of information related to social and environmental disclosure contained in administration reports.

The research was a longitudinal study. The period of analysis encompassed ten years, beginning with the 1997 fiscal years and going to 2006. Hair *et al.* (2005, p. 88) point out that longitudinal studies:

[...] require that data be collected from the same sample unit at various points over time. Data represents a series of temporal observations. Longitudinal data allows mapping of administrative elements in such a way that tendencies may be observed.

The universe of the study was composed of the largest companies by sales from the *Revista Exame – Melhores e Maiores* (*Exame* magazine – “best and biggest”, 2006) edition based on 2005 results, classified from the 1st to the 500th position. In this universe, through a survey conducted by e-mail 21 publicly traded family companies under Brazilian shareholder control were identified.

Among the 21 companies, it can be stated that only 16 published their administration reports in the ten years considered in the research. Therefore, the sample is represented by 16 elements that characterized as publicly traded family companies under Brazilian shareholder control: Avipal S/A Avicultura e Agropecuária, Cia. Brasileira de Petróleo Ipiranga, Dimed S/A – Distribuidora de Medicamentos, Eucatex S/A – Indústria e Comércio, Gerdau S/A, Indústrias Romi S/A, Itautec S/A, Klabin S/A, Marcopolo S/A – Autopeças e Veículos, Randon S/A – Implementos e Participações, Sadia S/A, Suzano Papel e Celulose S/A, TAM S/A, Vicunha Têxtil S/A, Votorantim Celulose e Papel S/A – VCP and WEG S/A.

Data collection was made from the site of the State of São Paulo Stock Exchange (Bovespa – www.bovespa.com.br) and the sites of the companies used in the study. Data collection by means of documental research was developed through searches through the administration reports disclosed jointly with other accounting statements (compulsory or not), at the end of each fiscal period for the companies studied, making for a longitudinal study of ten years (1997-2006).

In the analysis of data, the technique of content analysis was used on messages contained in the administration reports related to social and environmental disclosure, considering the sentence as the unit of content analysis. According to Bardin (1979), it deals with a set of investigative techniques designed to analyze communications. Dellangelo and Silva (2005, p. 100) point out that in content analysis the researcher “seeks to analyze the causes and antecedents of a message, seeking to know the conditions of its production”.

Even though the method and techniques of the research are well defined, limitations can be found resulting from the study, namely, subjectivity due to personal interpretations of the researcher (Demo, 2000).

## 7. Description and analysis of data

In this section, an initial description and analysis of some parts of the administration reports is made in order to elucidate the presence of Lindblom’s (1994) strategies of organizational legitimacy in social and environmental disclosures. In light of the limitations on the size of the study, some selected sections of administration reports are presented, which shed light on strategies of organizational legitimacy. Later, considering the sentence as the unit of content analysis, the study analyses the preponderance of some strategies in environmental and social disclosure over the course of the ten years analyzed (1997-2006).

### *7.1 Environmental and social disclosure from the perspective of the strategies of organizational legitimacy proposed by Lindblom (1994)*

Some parts selected from company administration reports are presented, related to the categories of environmental, and social disclosure, according to the four strategies of organizational legitimacy.

*First strategy – educate and inform its pertinent public on the changes in its current performance and activities.* This strategy refers to the intention of the company in conducting its administration conforming to the values institutionalized in the social environment, those considered to be appropriate and correct both for the company and for society in general. In this case, the administration recognizes that society has called its attention to some negative environmental matter resulting from its activities, thus leading the company to disclose changes implemented as a means of resolving a threat to its legitimacy.

The following is a citation from the Gerdau Company related to the category of environmental disclosure and a citation from the Marcopolo Company related to social disclosure:

By means of new technologies and conscientious actions, *the amount of captured water was reduced from 46 million cubic meters in 2005 (for the production of 13.7 million tons of gross steel), to 44 million cubic meters in 2006 (for the production of 15.6 million tons of gross steel). The re-utilization of water in the production process was 97.3 percent in the period (Gerdau, 2006, emphasis added).*

The administration of the Gerdau Company demonstrates its concern with preserving water by informing the reader of the possibility of reducing consumption and re-using the water necessary for industrial production, by means of new technologies and conscientiousness on the part of its employees. In doing so, it informs us of the total water consumed and the percentages re-used in the productive process:

The company continues with occupational and social health programs for its employees and associates, *having done, solely under its own management, 52,300 medical, out-patient and dental consults.* The company also maintains Private Health Plans, free transportation and in-house restaurant. In the area of personal development, *the Company held 827 events, involving more than ninety thousand hours of training.* In the area of formal education, *608 scholarships of incentives to education were given out, at all levels, with R\$ 13 million applied in these programs (Marcopolo, 1998, emphasis added).*

The citation from the Marcopolo company evidences social actions related to its internal public (employees) and external public (the community), highlighting benefits conceded to its employees, family, and community. Together, with this, it informs us of the values invested and the social results already obtained from these actions, as a form of keeping its public informed of the changes and attitudes implemented.

*Second strategy – change the perception of the pertinent public in regard to its current performance and activities without having to change its actual behavior.* In regard to the second strategy, the administration has knowledge of negative events related to its activities, and therefore, discloses that its production, methods and objectives conform to the standards and values instituted in society. No change in attitude is required on the part of the company to resolve negative environmental events in meeting the expectations of society, but does require a change in the perception of society by demonstrating the convenience and usefulness of its activities in the society in which it operates.

Below are two citations, from the Suzano Company related to the category of environmental disclosure and from the Gerdau Company related to the category of social disclosure:

*Our industrial units have been presenting decreasing levels of atmospheric emissions. The levels of particle material and odorous gases (expressed in TRS) are perfectly reasonable for the areas where the factories are located, not causing adverse environmental impacts. The company's integrated system of waste management, focused on reduction of particles, re-use and recycling, has been able to increase the useful life of industrial units' landfills (Suzano, 2006, emphasis added).*

Observe that Suzano recognizes that it has caused environmental damage from its activities. However, it seeks, in a general way, to justify itself by informing us that the levels of pollution are decreasing and that the environmental performance related to its production fully meets legal requirements, in an attempt to change the public's understanding of its involvement with natural resources:

*In the safety aspect of the work environment, the goal is "Zero Accidents", both for associates and service providers. In 2005, Gerdau invested more than R\$ 89 million in order to reach this goal. The set of safety practices – the Total Security System (SST) – applied in all units, has presented very positive results. The frequency rate of accidents (the number of accidents per one million hours worked) fell from 4.1 in 2004 to 2.1 in December 2005, a much better index than the world average in the metallurgical sector (6.5, according to the International Iron and Steel Institute – IISI) (Gerdau, 2005, emphasis added).*

The company recognizes the occurrence of work accidents in its units, despite the investment made to eliminate them. In comparing its accident rate with the world average in the metallurgical sector, the company is simultaneously trying to demonstrate positive aspects of management and trying to shift the perception of the public, showing that even though accidents happen, they are still below the world average.

*Third strategy – manipulate the perception of the pertinent public deflecting attention about a subject towards another subject related to it, or even pointing out past social actions realized in lieu of informing and educating the public.* The third strategy is related to the omission of negative information or an emphasis on positive information related to the company's activities with natural resources. Regarding omission, the company may not be lying about negative events, but rather not mentioning them. In their place, the company can emphasize positive actions like sponsorships given out and awards received.

The following are a citation from the Klabin company related to the category of environmental disclosure and a citation from the Cia. Ipiranga Company related to the category of social disclosure:

*In relation to management of quality and the environment, Riocell kept its ISO 9002 and ISO 14001 Certificates, besides winning the Bronze Trophy from the Gaúcho Quality and Productivity Program. For the year 2000, we are competing for the Silver Trophy from this program, and initiated actions for obtaining new certification with the FSC – the Forest Stewardship Council, the green seal of our forests (Klabin, 1999, emphasis added).*

*As a result of its Human Resources Policy, the Company was classified among the 50 best companies to work for in the country, according to research made by Exame Magazine. By means of a questionnaire distributed in the Company, the magazine evaluated the degree of satisfaction among employees in relation to different aspects such as work environment and benefits offered. The Company was the only company in its area that appeared and stood out on the list (Cia. Ipiranga, 1997, emphasis added).*

Note, the emphasis given in both to awards received in recognition of programs directed at the preservation of the environment. However, the companies do not inform us of the results obtained as a result of implementing these programs. The sub-text is that emphasizing awards and programs is a means of drawing attention away from an important matter, although this is highly legitimate in society.

*Fourth strategy – change external expectation about its future performance.* The fourth strategy refers to the company's attempt to change the expectations of the public regarding its future relationship with the environment and society. Note that this is not an attempt to manipulate understanding, but one aimed at altering expectations of the public regarding future company attitudes.

The following are citations from the TAM Company related to the category of environmental disclosure, and from the VCP Company related to the category of social disclosure:

TAM's investment in the construction of the ETE was R\$ 330 million. This entire *project* integrates the environmental program from the São Carlos technological unit, which *indicates the best practices of protection and harmony for and with the environment*, including re-forestation activities already carried out; monitoring and protection of fauna and rigorous control of noise and emission pollution within international standards (TAM, 2004, emphasis added).

It is worth pointing out that TAM's administration does not furnish information about results obtained from the monitoring and protection of fauna or the control of noise and pollutant emissions caused by its activities in the years before 2004, even though they were in accordance with international standards for environmental protection. However, the administration report for 2004 shows the intention of adequately meeting expectations of the public in relation to responsibility for the environment, as a form of preventing an eventual threat to its legitimacy:

The participation of the VCP in communities manifests itself in the *generation of jobs, direct and indirect, and in social investments, besides the payment of taxes and other contributions.* We point out that in 1999 we cited the *obtainment of the "Company Friend of Children" seal, given by the Abrinq Foundation for Children's Rights, involving ourselves in the productive chain in favor of the prohibition of child labor* (VCP, 1999, emphasis added).

The fourth strategy can be observed in this citation from the VCP Company that emphasizes the realization of programs directed at its internal public and the receipt of social certifications already legitimized by society.

#### *7.2 Predominant strategies of legitimacy in environmental and social disclosures*

The following are the predominant strategies of legitimacy in environmental and social disclosures in administration reports from the period 1997 to 2006 from the 16 companies analyzed, considering the sentence as the unit of content analysis.

In terms of the 16 companies analyzed, Table II shows that these mainly employ the second and third strategies of organizational legitimacy in order to disclose environmental and social aspects related to their activities. The third strategy predominated in six years – 1999-2002, 2005, and 2006, totaling 148 observations in the period, followed by the second strategy, which predominated in three years – 1997, 1998 and 1999, totaling 121 observations in the period. There was a balance between the second and third strategies of legitimacy in the year 2004, with 14 observations in each.

Even though the first strategy of legitimacy was not predominant in any year, it is worth pointing out that it surpassed the number of observations of the fourth strategy, totaling 86 observations against the 20 observations of the fourth strategy.

## 8. Conclusions

The objective of the study was to identify which of Lindblom's (1994) strategies of organizational legitimacy more frequently appear in environmental and social disclosures in administration reports of publicly traded family companies under Brazilian shareholder control during the period 1997-2006. Descriptive research considered 16 companies identified as being publicly traded family companies under Brazilian shareholder control that published their administration reports over the past ten years on the Bovespa site and/or on their own sites. The technique of content analysis was used on messages contained in the administration reports related to environmental and social disclosure.

Research results show that, in a general way, the companies studied used the four strategies of organizational legitimacy proposed by Lindblom (1994) in unison or separately. These family companies make use of the four strategies of organizational legitimacy proposed by Lindblom (1994), simultaneously or not, in the process of environmental and social disclosure in administration reports, seeking to obtain, maintain or recover their legitimacy in the area in which they function.

Considering the sentence as the unit of content analysis, it can be stated that in the administration reports from the period 1997 to 2006, there was a preponderance of environmental and social disclosure of two strategies:

- (1) Manipulate the perception of the public in regard to the company's performance and relationship with the environment and society through excessive emphasis on awards received (third strategy).
- (2) Change public perception regarding the company's performance and relationship with the environment and society by informing by informing the public that the company's activities were in accord with the standards and values instituted in society (second strategy).

In part the results are surprising because, despite a slight increase, we did not find a steady growth in items of environmental and social disclosures in administration reports of publicly traded family companies under Brazilian shareholder control during the period 1997-2006. The professionalization and succession management in family companies over the years should be reflected in the disclosure, according to Longenecker *et al.* (1998). However, the results are not surprising in relation to Lindblom's (1994) strategies of

Strategies	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
1 <sup>st</sup>	3	4	7	14	7	7	12	11	8	13	86
2 <sup>nd</sup>	10	10	8	9	17	13	16	14	15	9	121
3 <sup>rd</sup>	4	8	17	17	19	20	15	14	18	16	148
4 <sup>th</sup>	2	2	1	1	6	3	2	1	2	0	20
Indef.	3	3	1	3	1	0	2	2	2	4	21

Source: Research data

**Table II.**  
Predominant strategies of legitimacy in environmental and social disclosures

organizational legitimacy that prevailed in environmental and social disclosures in administration reports, which were similar to previous studies.

While the 16 publicly traded family companies had demonstrated the adoption of the four strategies of organizational legitimacy proposed by Lindblom (1994), two strategies were clearly predominant.

These results are similar to those found in other studies related to the strategies of organizational legitimacy proposed by Lindblom (1994), which also highlight the predominance of the second and third strategies of legitimacy.

These results are similar to the results of research made by Silva and Sancovschi (2006) in a Brazilian company. Analyzing the annual reports of Petrobrás from the period 1993 to 2002, they stated that the administration used more than one strategy in each year, predominantly the third strategy of organizational legitimacy proposed by Lindblom (1994), in relation to the others. It is similar as well to the results of studies made in the UK by Gray *et al.* (1995) and Parsa and Kouhy (2001), where social information disclosed by the companies analyzed presented relationships mainly with the second and third strategies of Lindblom (1994).

However, even when the contents of administration reports had been classified in the strategies of organizational legitimacy proposed by Lindblom (1994), it is not possible to state that Boards use such strategies, consciously or not, to maintain or recover legitimacy. Thus, further studies are recommended in order to verify this aspect.

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