

Legitimacy Theory in Management Accounting Research

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Legitimacy theory helps to understand the organization's behavior in implementing, developing and communicating its social responsibility policies. The main assumption of legitimacy theory is fulfilling the organization's social contract, which enables the recognition of its objectives. This in turn requires the adoption of a CSR strategy affecting various areas of activity, including in particular management accounting. The paper draws arguments from literature to identify the role of the legitimacy theory in management accounting research. The article's thesis is that sustainable management accounting is a valuable tool of legitimacy for a socially responsible company. The paper is structured as follows: after the introduction, the second section provides the background for the research study; it is a literature review concerning the way in which accounting legitimizes the status of a socially responsible corporate. The third section of the paper presents sustainable management accounting (SMA) as a tool for legitimacy in a socially responsible company. And the last section is dedicated to the presentation of SMA development directions. On the basis of a normative approach, it presents the author's proposal of treatment of sustainable management accounting as a tool for sustainable business legitimacy.

Keywords: management accounting, corporate social responsibility, CSR, theory of legitimacy, legitimacy.

Teoria legitymizacji w badaniach rachunkowości zarządczej

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Teoria legitymizacji pomaga zrozumieć zachowanie organizacji w zakresie wdrażania, rozwijania i komunikowania swoich zasad odpowiedzialności społecznej. Głównym założeniem teorii legitymizacji jest realizacja kontraktu społecznego organizacji, która umożliwi uznanie jej celów. To z kolei wymaga przyjęcia strategii CSR wpływającej na różne obszary działalności, w tym w szczególności na rachunkowość zarządczą. Artykuł ukazuje zrównoważoną rachunkowość zarządczą (SMA) jako narzędzie legitymizacji dla jednostki odpowiedzialnej społecznie. Artykuł jest sformułowany w następujący sposób: po wprowadzeniu, druga sekcja stanowi tło dla badań – jest to przegląd literatury dotyczący sposobu, w jaki rachunkowość legitymizuje status jednostki społecznie odpowiedzialnej. Trzecia część artykułu przedstawia SMA jako narzędzie legitymizacji w jednostce odpowiedzialnej społecznie. Ostatnia część poświęcona jest prezentacji kierunków rozwoju SMA. Na podstawie podejścia normatywnego przedstawiono propozycję autora, aby traktować zrównoważoną rachunkowość zarządczą jako narzędzie służące zrównoważonej legitymizacji biznesowej.

Słowa kluczowe: rachunkowość zarządcza, społeczna odpowiedzialność biznesu, CSR, teoria legitymizacji, legitymizacja.

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1. Introduction

The world-famous sentence of Winston S. Churchill “The price of greatness is responsibility” can refer to every sphere of life, including economic life. This motto is of particular importance in a socially responsible enterprise that does not ignore its impact on the environment, but strives to acquire knowledge of its own socio-economic and environmental potential, tries to measure it, manage it, and communicate it to the stakeholders. The company assumes that this attitude is desirable for the current system of values in the economic and social life and it shows this approach not only by external reporting but by management accountability of the corporate activities undertaken for sustainable development. The approach of taking account of social relationships in management accounting is in line with the legitimacy theory.

The purpose of the paper is to present the conclusions of the analysis of the importance of management accounting for corporate social responsibility (CSR). The analysis is conducted in the light of the legitimacy theory. The purpose of the study was to answer the research questions: how does accountancy legitimize the status of a sustainable enterprise, how does internal social responsibility accounting become the tool of legitimacy of a sustainable enterprise and what are the directions of internal social responsibility accounting development. Research methods were used in the search for the answers in the form of critical analysis of scientific literature and deductive inference. The inference made it possible to show the author’s approach to treating internal social responsibility accounting as a tool for the legitimacy of a sustainable enterprise. It allows for indicating the predicted directions of sustainable management accounting development.

2. Legitimizing the Status of a Socially Responsible Company by Means of Accounting

Legitimacy theory is crucial in explaining the organization’s behavior in implementing and developing social responsibility policies, and then communicating its results. It treats corporate social and environmental performance and disclosure of this information as a way to fulfill the organization’s social contract that enables the recognition of its objectives. The sustainability of legitimacy theory is based on the management heritage that connects traditional norms and values with modern ethics (Burlea and Popa, 2013, p. 1579).

Legitimacy is a mandate to act, to give something legal force, to sanction. Legitimacy is also considered to be a generalized perception or an assumption that the subject’s actions are desirable or appropriate in a socially constructed system of norms, values, beliefs and definitions (Suchman, 1995, p. 574; Deephouse and Suchman, 2008, pp. 51–52). Legitimacy in an enterprise is derived from its subordination to social norms and the

law. It must be noted that there is a positive correlation between the size of the enterprise and its drive for legitimacy (Van der Laan, Van Ees and Van Witteloostuijn, 2008, pp. 306–308).

The basic premise of the theory of legitimacy is the belief that a company influences the society in which it operates. At the same time, the company is also socially influenced, that is why its functioning is similar to a kind of social contract aimed at obtaining and maintaining social acceptance (Łada and Kozarkiewicz, 2014, p. 48). This social acceptance of the actions undertaken by the company is particularly important in the CSR era.

Legitimizing from the perspective of a socially responsible company means the authorization to act justified by rational premises. And demonstrating the legality of action is perceived as having a fair impact on the internal and external environment. It supports the justification of the legitimacy to affect the ever-scarcer resources that it owns and uses, as well as those resources affected indirectly. Increasingly, the perceived resource constraints in the world imply a need, increasingly turning into an obligation, to communicate the entity's responsible management to the internal and external environment.

The legitimacy theory has a very rich disciplinary background based on management theory, institutional theory, and stakeholder theory (Burlea and Popa, 2013, p. 1579). Therefore, it is used in many scientific studies, also by accounting researchers. The dominant status that legitimacy theory has attained in social accounting research has contributed to the understanding of the motives and the incentives that lead firms' managers to engage in social and environmental disclosure activities (Patten, 1991; Brown and Deegan, 1998; Wilmshurst and Frost, 2000; O'Donovan, 2002; Deegan, Rankin and Tobin, 2002; Deegan, 2007; Archel, Husillos, Larrinaga and Spence, 2009). Nevertheless, despite its widespread application, theory of legitimacy is still an underdeveloped theory and needs further refinements (Archel et al., 2009, pp. 1284–1285). There is very little scientific research using legitimacy theory in other areas influenced by sustainability, especially relating to management accounting. They are still in development and require further in-depth research.

According to the European Sustainability Reporting Association, “the profession needs to recognise the wider impact of sustainability which touches on many areas of its competence not only to financial reporting and assurance, but also corporate governance, management accounting, systems and controls” (Report by the FEE, p. 1). Furthermore, recent management accounting studies demonstrate the need for multi-dimensional performance, especially non-financial performance measures of CSR activities and the results (Husain, 2006, p. 129). To find a theoretical justification for the indicated trends observed in practice, in the economic world it is necessary to take into account the assumptions of the legitimization theory. The choice of legitimacy theory is based on the notion that accounting for

sustainable development and the associated role of the management accountant in sustainable development is used as a communication mechanism to inform and/or manipulate the perception of the entity's actions (Mistry, Sharma and Low, 2014, p. 112).

The author of this paper suggests that there are two dimensions of social accountability – internal, related to the resource management in an enterprise, and external, related to the reporting and communication of the results to the external auditorium. Each dimension serves the primary purpose of social responsibility accounting, i.e. forming the appropriate basis for enforcement of corporate social responsibility, based on internal and external accounting, to legitimize the status of a sustainable enterprise.

These two dimensions of social responsibility accounting in the light of the theory of legitimacy can be considered from the perspective of the division of legitimization into institutional legitimacy and strategic legitimacy. Institutional legitimacy determines external reporting, while strategic legitimacy determines the role of internal accounting. The strategic perspective of legitimacy assumes that legitimacy can be managed in order to achieve organizational goals. It means therefore adopting a management perspective. In scientific research (Pfeffer, 1981, p. 5), it is presented as an operating resource of an enterprise that is selected from the environment to pursue its goals.

3. Internal Accountability as a Tool to Legitimize a Sustainable Enterprise

The theory of legitimacy is relatively rarely applied to accounting solutions for internal management needs (Łada and Kozarkiewicz, 2013, p. 169). There is also little information about the importance of social responsibility accounting in the perspective of management legitimacy. Yet, as indicated by Burlea and Popa (2013), it is important to note that the long-term impact of legitimacy on the economic and financial performance of the organization will generate many internal conflicts of the multi-dimensional construct of legitimacy, which will influence the transition from legitimacy to illegitimacy and from illegitimacy to legitimacy. Therefore, it is so important to use internal tools for managing legitimacy in an enterprise, including management accounting. However, there are not many studies in this field in the literature. The analysis of Anglo-Saxon, German and Polish scientific literature allowed for indicating four dominant definitions of internal accounting of social responsibility:

1. Management Accounting for Sustainable Development (Birkin and Woodward, 1997; Mistry et al., 2014).
2. Sustainable/Sustainability Management Accounting (Petcharat and Mula, 2010; Arroyo, 2012; Owen, 2013; Zyznarska-Dworczak, 2015; Sands and Lee, 2015).

3. Managerial Social Responsibility Accounting, Social Responsibility Management Accounting (Hussain, 2006; Arroyo, 2008).
4. Environmental and Social Management Accounting (Bennett, Bouma and Wolters, 2006; Sands and Lee, 2015).
5. CSR-Controlling (Greiling and Ther, 2011; Gleich, Bartels and Breisig, 2012; Sailer, 2016).

An analysis of the forms and meaning of internal social responsibility accounting indicates that, despite the differences in names, its main idea is to enable accountability of the corporate activities undertaken for sustainable development. Therefore, the author proposes to harmonize the names of internal accounting of social responsibility and to adopt the term sustainable management accounting (SMA).

The form of strategic legitimization is the way in which a company use its “operational resource”. Therefore, the main goal of SMA is to support companies and organizations in assessing and managing their sustainability performance. According to Sands and Lee, there are five ways to achieve this goal (Sands and Lee, 2015, p. 2):

- SMA provides support to companies by quantifying environmental impacts and loads on the workers, community, and other stakeholders;
- SMA supplies sustainable performance measures for operational processes and reporting guidance;
- SMA offers businesses the opportunity to gather information that identifies costs and savings that will result in improved financial performance;
- SMA gives businesses a chance to recognize risks and opportunities related to their operations;
- SMA produces physical and monetary measurements that are vital in all efficient and effective sustainability management practices.

In this way, SMA becomes an instrument of legitimization of a sustainable enterprise. It legitimates the management actions that implement the corporate social responsibility strategy.

4. Main Directions for the Development of Sustainable Management Accounting in the Light of the Legitimacy Theory

Sustainable management accounting involves, at an early stage of development, both its theoretical and practical use. Its development has a significant impact on the legitimacy of sustainable aspirations of companies. It depends mainly on the research undertaken and also on the effectiveness of its practical implementation in the area of SMA. The reverse direction – practical knowledge in the use of sustainable management accounting in legitimizing the status of socially responsible business – can also be an inspiration for theoretical considerations.

The key factors determining the development of sustainable management accounting are the following:

- strengthening the role of the SMA in assessing and planning the implementation of social responsibility policies based on the combination of multidimensional financial and non-financial data indicating the degree of harmonization of economic, social, environmental and cultural objectives;
- use of SMA to measure the socio-economic potential of a socially responsible company and to anticipate its long-term change;
- use of SMA to communicate the achievements related to the realization of the strategic objectives of the social responsibility policy concerning internal and external environment of a socially responsible enterprise;
- adaptation of SMA to motivate employees of a socially responsible company to understand and respect social responsibility policies;
- selection of SMA instrumentation and its development in the field of financial and non-financial information integration;
- use of SMA to motivate companies to develop management accounting systems, and to exchange information from the management accounting system in interorganizational relationships.

The indicated possibilities for using sustainable management accounting to legitimize management activities in a socially responsible enterprise combine the main objectives of planning and controlling the actions for sustainable development targeted at the adopted social responsibility strategy. To assess the effectiveness of these activities, it is necessary to use the integrated financial and non-financial information generated in the framework of sustainable management accounting. Therefore, the most important challenge of SMA is the coupling of multidimensional data, forming the basis for rational management decisions in the legitimacy management in economic, social, environmental and cultural surroundings.

Furthermore, the ability to measure and anticipate one's own socio-economic and environmental potential can significantly help to assess the rationality of actions for sustainable development. Logical and transparent communication of an adopted and valid management approach to sustainable development can help to present the company's potential for better understanding both by external and internal stakeholders. SMA can also be a tool to motivate employees to take a responsible attitude at their workplace.

To fulfill the forecasted tasks of sustainable management accounting, it is necessary to reconstruct its existing system or to build a new one. To equip it with integrated instrumentation will be particularly important, allowing a multidimensional and multifaceted analysis of measurable and non-measurable information. Only in the initial stage of research and practical use do the tools integrate traditional accounting information systems with measurement of sustainable development. The most popular instruments are the following: *Activity-Based Responsibility Accounting*, *Sustainable Balanced Scorecard*, *Activity- and Strategy-Based Responsibility Account-*

ing, *Environmental and Life Cycle Costing*. They are usually supplemented with a problem analysis such as the production and financial management analysis, the economic analysis of an impact of product quality, the environmental costing.

Although the tools provide considerable support for a movement towards sustainable development, little empirical evidence exists regarding how extensive the roles of management accountants have become in accounting for sustainable development (Mistry et al., 2014, p. 113). With the construction of a new management accounting system, it is crucial that management accountants and managers consider sustainable development as an integral part of their decision-making. According to Albelda (2011), management accountants acted as facilitators of sustainable development. The role for the management accountant can be perceived as two-dimensional (Wilmshurst and Frost 2001, p. 136):

- 1) involvement in the company's internal operations, focusing upon performance and compliance concerns, and
- 2) in the external dimension, relating to the economic information disclosure to external report users.

Management accountants' engagement in legitimizing the status of a socially responsible company stems from the need for a comprehensive perception of the company's economic and socially responsible goals.

5. Conclusions

Social aspects in accounting research result from the search of legitimacy of a socially responsible business. The division of legitimacy into internal and external, presented in this paper, makes it possible to perceive the role of sustainable management accounting as a tool of legitimacy. SMA allows a socially responsible enterprise to manage strategic legitimacy, empowering it to act on the basis of harmonization of economic, social, environmental and cultural goals adopted in the corporate social responsibility strategy. SMA ensures the transparency of the accounting system data related to CSR and thus increases the credibility of CSR reports for external and internal stakeholders.

SMA belongs to the internal dimensions of social accountability, related to the resource management in a socially responsible enterprise. Therefore, SMA is complementary to the external dimension of social responsibility accounting, related to the reporting of results to the external auditorium. Both dimensions, complementing each other, serve the primary purpose of social responsibility accounting by forming the appropriate basis for CSR enforcement based on internal and external accountability.

The growing need to legitimize the socially responsible corporate status requires further in-depth scientific research which will create a theoretical framework for integrating multidimensional financial and non-financial data,

measuring the socio-economic potential of a socially responsible company, and using the results in management decision-making and communication with stakeholders. These are the key determinants of the effective use of SMA as a tool of legitimacy.

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