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Legitimacy Maintenance After a Corporate Social Irresponsibility Scandal: Lessons From The Parmalat Case

(Submitted to subtheme n. 60- Rethinking responses to institutional complexity)

Setting the scene

The upsurge of ethical scandals that rocked the corporate world since the end of the twentieth century no doubt contributed to increase the relevance of the Corporate Social Irresponsibility (CSI) theme. Today, the time lag since the upsurge of CSI scandals allows to shift attention towards the post-scandal consequences and the factors that influence the capacity of badly behaved corporations to survive (Pfaffer et al., 2008). The relevance of firm survival goes beyond the direct interests of its primary stakeholders, as many of the organizations involved in irresponsible actions are significant economic players, and their survival or demise can modify the competitive landscape of the industries in which they operate and the economic wellbeing of entire territories. The comprehension of the factors and mechanisms underlying the possibility to successfully leverage the “healthy” parts of the organizations that have committed socially irresponsible actions is therefore of relevance.

Stating the problems

Studies regarding post-CSI scandals take for granted that the consequences for the corporation of being perceived as socially irresponsible is the loss of its legitimacy and, consequently, of the support of its main audiences (Ashforth & Gibbs, 1990; Lange & Washburn, 2012; Meyer & Rowan, 1977; Pfaffer et al., 2010; Pfarrer et al., 2008; Zimmerman & Zeitz, 2002). Indeed, the costs incurred, and at times the very demise, of corporations following CSI scandals are well known. Examples like those of Enron, WorldCom, Tyco, Nestlè, Nike, BP and its oil spill on the Gulf of Mexico in 2010, Ford Corporation’s Pinto “death trap”, Exxon’s Valdez accident are all cases to the point. However, what remains unexplained by legitimacy literature is how come there may be cases of severe social irresponsibility scandals which do not lead to the withdrawal of audience support and, then, firms maintain their legitimacy.

How Problem Tacked before in Literature and Research Gap

The extant literature, by emphasising adaptation and conformation as a solution to legitimacy challenges, falls short of analysing how the re-awakening of audience attention towards organizational characteristics *threatens its capacity to actually adopt* an adaptation strategy and conform to dominant institutional logics (Patriotta, Gond & Schultz, 2011; Scherer, Palazzo & Seidl, 2013). In other terms, it fails to take into account the fact that though organizations may intend or may try to adopt an adaptation strategy they may fail to maintain legitimacy sufficiently and audiences may withdraw their license to operate before they actually are able to adapt to societal requirements or, alternatively, that they may manage to maintain legitimacy only for parts of the organization.

Object of the research

This paper aim to recognize the dimensions/factors underlying the possibility for organizations to maintain their legitimacy following trigger events that challenge their status-quo in unitary and stable institutional environments requires the scrutiny of the audience evaluations and public

controversies that emerge as a consequence of such destabilizing moments. The analysis of such evaluations, controversies and public discourses should allow the identification of the logics that drive audience decisions regarding the maintenance or withdrawal of their implicit social contract with the transgressing organization.

Methodological issues

Our study is based on an inductive investigation of the Parmalat case. According to the basic principles of theoretical sampling (Pettigrew, 1990), the selection of our case study is motivated by its revelatory potential to the research question, rather than for statistical reasons:

- it represents one of the most relevant instances of social irresponsibility occurred in the world in the last decade (Grant & Visconti, 2006);
- although the widespread perceptions that Parmalat acted in a socially irresponsible manner, CSI did not cause problems in milk and food business' sustainability (Parmalat's core business). From this perspective, the methodological value of the case stems from its importance along the main dimension of interest (Gerring, 2007). It can advance our understanding on the effect of nuances between firm and business characteristics and their capacity to maintain legitimacy in one (or more) of the business(es) in which the firm operates.
- during the first weeks after Parmalat's accounting scandal, there was a slight increase in the sales of milk and food business. Italian national press baptized this increase in sales as a 'national solidarity effect'. In this perspective, it is 'polar case' (Pettigrew, 1990) because it disconfirms patterns from CSI literature (Lange and Washburn (2012).
- Parmalat supports a 'nested approach' to individual case investigation (Yin, 2009). The existence of different businesses within the firm at the moment of the CSI scandal allows to perform within case comparisons between them, enriching the number of similarities and differences that it is possible to identify and the hints that it is possible to gain from the empirical study.

Data sources

In order to answer our research question it is necessary to reconstruct the public discourses produced by stakeholders and the corresponding societal-level representation of the CSI scandal analyzed. We collected 12,235 articles published in the period between 1984 and 2005 in *Il Sole24Ore* (i.e. the most important Italian economic and financial newspaper) and in *la Repubblica* and *Corriere della Sera* (i.e. the most widely read newspapers in Italy). Specifically, we selected 6,740 articles published in *Il Sole24Ore* (1,398 articles between 1984 and 2002 - the year before the revelation of the accounting scandal -, and 5,342 articles in the period between 2003 and 2005); 2,248 articles published in *la Repubblica* (1,405 articles between 1984 and 2002, and 843 articles in the period between 2003 and 2005); 3,247 articles published in *Corriere della Sera* (1124 articles between 1992 and 2002 and 2123 articles in the period between 2003 and 2005).

In addition, in September 2005, we performed two semi-structured interviews to Mr. Francesco Potenza, the marketing manager of Parmalat since 1989. Essentially, the executive explained how Parmalat planned to solve the situation after the accounting scandal. The interviews joint with the presence of primary material, such as the statistics that Parmalat commissioned, offer a truly unique opportunity to understand how Parmalat was receiving and interpreted the feedback about its self.

Main insights

From the organizations' perspective, maintaining legitimacy in such contexts has been considered relatively unproblematic (Patriotta, 2011; Scherer et al., 2013) as it entails following adaptive strategies and conforming substantially (or even merely symbolically) to the dominant institutional logics (Suchman, 1995; Elsbach, 1994; Scherer et al., 2013).

Nonetheless, whilst the implementation of a adaptive strategy to maintain the corporation with its main audiences is a necessary phase, it cannot be considered sufficient to assure the maintenance of audience support. Audiences evaluate competitive advantage and other sources of reassurance that supporting the company is worthwhile from a rational perspective. This restoration process may be complemented by the corporations' power over resource dependent audiences. Independent audience decisions are based on the competitive advantage of firm in each business. When their are untouched, the adaptive strategy leads to audience support and successful business rehabilitation processes with all audiences, even with those that were initially harmed. However, if competitive advantage is feeble independent audiences will not sustain the weak business (or corporation) even if adaptive strategies have been implemented. The presence of an unharmed competitive strategy is crucial to the selection of which parts of an organization (or the organization as a whole) can be reintegrated with *all* the main audiences of the company after a CSI scandal, including the "harmed" audience.

The richness of the empirical setting allows us to highlight that a significant difference between firm characteristics that plays a crucial role in determining the reactions of the main constituent audiences and, consequently, the possibility for maintain the legitimacy. The post-crisis turnaround processes to succeed is the possession of sound source(s) of competitive advantage in one (or more) of the business(es) in which the firms operates.

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