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Legitimacy strategies in the annual reports – what turn to social responsibility in post-privatization context

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Abstract: The present paper offers a narrative of the attempts of the privatized Romanian oil-company Petrom to assert its legitimacy in an environment characterized by global insecurity of the energy industry, instability of the political regime in Romania and an intensified all-levels fight with corruption, imposed by the EU integration process. The main interest was therefore to see how the changing environment and the need for legitimacy are affecting the financial communication of the company through the corporate annual reports. The case study is based on the content analysis of three consecutive post-privatization annual reports, explored in close connection with the changes in the social and political context.

KEY WORDS: legitimacy; corporate social responsibility; stakeholders; corporate communication; privatization


MOTS CLES : légitimité; responsabilité sociale de l’entreprise; parties prenantes; communication financière; privatisation
Introduction

The present research intends to build a global image of the strategies deployed by the privatized Romanian oil-company Petrom in order to acquire legitimacy in a complex environment characterized by global insecurity of the energy industry, the change of the political regime in Romania and an intensified fight against corruption. In this context, a better management of corporate legitimacy, through all means, including the annual reports appeared as a necessity. Our study reveals how the annual reports mirrored this sensitive context, and even more, they were used as an instrument of response to public pressure, through different legitimacy strategies.

The change is therefore implied at two levels in our study: the context – as change is the major characteristic of the environment we are dealing with, and the financial reporting – as CSR themes are at the core of the literature on recent evolutions in reporting practices. We identified three main sources of change in the environment: (1) the EU integration, which is the main achievement of the transition process to a market economy, with profound institutional transformations and increased public awareness and interest in the activity of large corporations, (2) the change of the political regime, and (3) the change of ownership and management as a result of privatization.

Corporate legitimacy is a key concept of the corporate social responsibility discourse. Suchman (1995) defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”.

The main purposes of pursuing legitimacy are to facilitate the attraction of economic resources and to gain social and political support (Suchman, 1995; Ogden & Clarke, 2004).

The reason for choosing Petrom as the object of our case study is given by several important characteristics: *The size*, as bigger companies are likely to have more transparent approach to disclosure and hence a increased possibility to find a wide variety of CSR elements. “The focus on the largest companies offers a better prospect of finding disclosures, since earlier research suggests that quality of corporate social disclosure is linked to firm size.”(Vuontisjarvi, 2006)
Petrom’s shares are being traded since September 2001 on the Bucharest Stock Exchange and it has a 19.93% weight in BET (Bucharest Exchange Trading) index and a 25.69% weight in ROTX (Romanian Traded Index) and with a market capitalization at December 31, 2006 of 9.077 mn EUR is one of the biggest and most influential in the Romanian economy.

The industry
The core activities of Petrom are the Exploration and Production of crude oil and natural gas, Refining of crude oil, production and sale of Petrochemicals and Marketing of petroleum products. The energy industry is a sensible domain with major implications on the national energetic security, so we expected the disclosures of Petrom to be more consistent than those of companies from other industries. Corporate social disclosure might occur as a response to media and external pressure, and is particularly related to environmentally sensitive industries (Deegan and Gordon, 1996, cited by Stanton and Stanton, 2002).

The privatization
Privatization is a major event in the existence of every company (Ogden & Clarke, 2004) and hence the increased necessity to demonstrate that the new organization of the company is “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995).

Romania provides a rich background for privatization studies, as all forms of privatization were used in the transition process towards a market economy (management and employees buyouts, mass privatization, initial public offering, direct sales to investors). “Privatization in Romania was a long and heterogeneous process…After all these transformations, several different stakeholder groups emerged, with specific capacities to restructure the companies, and with different means to control their resources“ (Miclea Pop, 2006, p. 8). The existence of different opposed groups interested in the future of the company and the intense change of the environment encouraged us to place our case study on the Romanian market, by using a so called “researcher (or methodological) opportunism”.

The present case study was chosen not for its representativity, but more importantly for its exemplarity which gives us the opportunity to analyse and document a unique situation. This study is intended to be a contribution to the research on the post-privatization behavior of multinational corporations in transition economies, and we argue that it transcends local importance, and reveals certain future research opportunities.
The interest of the present research is given by the possibility to study legitimacy theory in a challenging environment, which derives from a unique combination of factors – an unstable environment (post-privatization in a transition economy), and consistent reporting practices, as a result of knowledge transfer from the mother company. This provides the basis for a reliable and well documented case study, based on sound primary and secondary data.

The rest of the paper is organized as follows: the first part sets the context and introduces the legitimacy problems confronting Petrom, a second part sets the theoretical framework, emphasizing the relation existent between corporate legitimacy and corporate social responsibility. The third part presents the methodology of research and discusses the results and a final part allows us to draw the conclusions, to point out the limitations of the research and to suggest future directions of development.

1. **The legitimacy problems confronting Petrom**

   Petrom’s necessity to legitimate itself became stringent in the context following the privatization because of the important rise in the fuel and natural gas prices, in part demanded by the lining up of the prices with those in the EU. A further factor that demanded gaining legitimacy was the lack of support from the new political class which questioned the correctness of the privatization contract signed under the old rule and the profusion of mass-media articles criticizing the privatization process.

   Some authors propose that for stakeholder identification not only the power potential but also the legitimacy and urgency of the stakeholders’ claims should be taken into account (Agle, Mitchell, and Sonnenfeld 1999; Mitchell, Agle, and Wood 1997). However, Frooman (1999) insists that power dominates the other two factors. The consequence is that only the stakes of groups that are either useful or able to harm a company economically will be recognized (see also Phillips 2003). The principal advantages brought along by legitimacy are: the attraction of economic resources and the gain of social and political support. (Suchman, 1995; Ogden & Clarke, 2004)

   The next sections of the article depict the general context of our research focusing on the factors that explain the increased need of legitimacy, based on a comprehensive collection of articles from newspapers, economic, business reviews and electronic press.
1.1. Privatization

The privatization of Petrom, the biggest national oil company in Central and Eastern Europe, began in 1995 and was halted and resumed several times during the following years. The final round of the privatization took place in 2003 and the Austrian oil company OMV won the bid. In 2003 the Romanian Parliament, after only a day of deliberation, unanimously approved Petrom’s privatization contract. The contract was signed in a delicate moment, when Austria was preparing to take over the presidency of the EU. Starting with December 2004, Petrom is part of OMV Group, the leading oil and gas group in Central and Eastern Europe.

Prior to its sale to Austrian OMV in 2004, nearly all of the country’s oil assets came under control of the state-run Petrom. Valued at $2.7 billion, OMV/Petrom holds a monopoly on the country’s reserves, refineries and has the largest network of gas stations. Privatization of state-run companies has been regarded as a prerequisite for IMF loans as well as for joining the European Union, it is said in a Center for Public Integrity report.

Following the 2004 elections, which resulted in a change of the political regime in Romania, the new Government, as a result of suspicions expressed in the media, put forward the necessity to verify Petrom’s privatization process. In the context of a fragile political coalition represented by a liberal Prime Minister and a social-democrat President, the privatization contract became an instrument of political pressure.

In an attempt to legitimize the new organization of Petrom, the management of the company asserted in a press release that the signing of the privatization contract was done after open negotiations between specialists and closely watched by the International Monetary Fund, World Bank and the institutions of the European Union. The communicate went on saying that the privatization of Petrom took place in a time when Petrom needed investments badly in order to diminish its expenses, to offer better quality products and to protect the environment.

And what follows is an exchange of declarations:

The President of the State repeatedly alleged that in his opinion Petrom’s privatization contract revealed errors of vision concerning the control of resources and that the new strategy to

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2 Source: BBCRomanian.com, November 17, 2006 – “Prime Minister against the renegotiation of Petrom’s privatization contract”
be devised has to provide solutions to maintain and increase Romania’s energetic independence\(^3\). In response, the OMV officials state that the privatization will be beneficial for all stakeholders:

“The company’s economic development after privatization brought and will further bring substantial benefits to all stakeholders, including the Romanian state”, said Mariana Gheorghe, CEO of Petrom. (see note 2)

OMV mentions in their press release another benefit brought to Romania by the privatization of Petrom:

“The consolidation and the development of the company will bring about a better protection of the country’s energetic resources and will make them easily accessible to consumers.” (see note 2)

The privatization contract was a highly disputed document. One of the most contested aspects of the privatization contract was the price which was thought to be very low and in the detriment of the Romanian state.

“For the acquisition of 33.34% of Petrom’s shares, EUR 669 mn were paid to the Romanian privatization agency. Following an increase in Petrom’s share capital, OMV’s stake was raised to 51%. The funds from the increase in share capital amounting to EUR 830 mn have been injected into Petrom by OMV and will be used for future investments in Petrom.” (extract from OMV’s Annual report, 2004)

“The state obliged itself to pay on behalf of Petrom an ecological tax which in 12 years will amount to 600 million euros. As a matter of fact, the state is giving back OMV the first rate paid for the Petrom shares. The second rate didn’t even go to the Budget, being an increase in the capital.” (Gardianul, September 12, 2005)

Another disputed aspect of the privatization is that the level of oil royalties owed to the state by Petrom for exploiting the oil champs cannot be changed for 10 years. Also the Government does not have the right to interfere in the Petrom’s price policy. (Gardianul, September 12, 2005)

And another declaration follows, this time of a more nationalist color:

President Basescu: “No country privatizes its own oil. Romania has enough oil for internal consumption. We are extracting 6.5 billions tons of oil per year. By privatizing

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Petrom together with the oil champs, the owners of Petrom consider the oil shipped from the Gulf. And here we have a problem.” (Hotnews.ro, November 16, 2005)

“One of the notes to the contract breaks blatantly the Oil Law in act at the date of signing the contract: the total length of the 300 contracts of concession of 30 years can be extended until the resource is exhausted”. (Evenimentul Zilei, November 14, 2006-“Romanians pay for the profit of Petrom”)

1.2. The lack of transparency

The existence of secret clauses in the privatization contract of Petrom aggravated the situation giving birth to suppositions concerning the content of those clauses. It was only in November 2006, following the meeting of the Supreme Council of Defense that President Basescu decided to make the contract public.

At the end of the Supreme Council of Defense meeting, the President declared:

“It is obvious that there are sufficient contracts in which there were made errors concerning the guarantee of the population’s energetic security, and the most important conclusion is that such mistakes must not be repeated in the future processes.”

(Declaration of the Department of Public Communication of the Supreme Council of Defense, November 21, 2006)

As we can see from the above declaration, the mass-media and the government seek to de-legitimize Petrom, while Petrom’s management seeks the reverse. And this is done mainly by underlining the benefits brought along by the legal privatization of Petrom for a large mass of stakeholders and not only for its shareholders. So the main conclusion to be drown is that the company is trying to build a legitimacy strategy, through all means, including financial reporting.

1.3. Corruption and political power

"Whoever owns Petrom has an important word to say in the economy, and whoever has an important word to say in the economy also has an important word to say in politics,” Adrian Nastase, Romania's former PM, told the Mediafax news agency. (Ziarul Finaniciar, September 16, 2003)

In 2004, the international watchdog group Transparency International called Romania a country with "rampant corruption" and ranked it on the same level as the Dominican Republic
and Iran, slightly ahead of Russia, Albania and Sierra Leone. The report cites oil as one of the country's main corrupting factors. In fact, investigations into financial fraud and political corruption have exposed the involvement of several members of the post-communist government in the oil business.

After the 2004 elections which brought along a change of the political regime, the new government, in its declared open fight against corruption, expressed the wish to verify the correctness of Petrom’s privatization contract.

“Romania’s economy may be labeled in many of its areas as being an economy of privilege, an economy which permitted the access of the political clientele to the resources and normal people didn’t stand a chance because they weren’t acquainted to politicians”, accused the president. (Currentul, no. 36(3709), February 16, 2007)

1.4. The prices

The problem of the rising prices of fuels after the privatization was one of the main aspects that contributed to the de-legitimation of Petrom. Following the privatization, and OMV’s becoming the main stockholder, the Romanian State had no word to say in the price policy of the company.

The political power made pressures on the company to decrease prices either by making use of the privatization contract as an instrument of political pressure, either by inviting the main oil companies to build a group strategy to diminish the prices of the fuel and gas delivered to the population. The political power also argued that the prices should be reduced because of the fact that Petrom is extracting its oil in Romania and the extraction costs are lower than in other countries.

Due to the exclusive access of Petrom-OMV to the Romanian oil, the others operators in the market (Lukoil, MOL, Agip and Rompetrol) follow the decisions of the leader. Analysts consider that the position of unnatural domination of Petrom could only be ameliorated through encouraging the steps taken by the Romanian Commodities Exchange to establish and develop a regional oil market. (Evenimentul Zilei, September 14, 2005 –“ Petrom modifies chaotically the prices of petrol”)

The year 2005 could see a scenario as follows:
- September 5th - Petrom raises the price with 700 lei per liter of petrol
-September 7th – another raise in the petrol price – 900 lei/l
-September 9th – President Basescu intervenes to the Council of Competition. Petrom cancels the last raise of price
-September 13th – President Basescu announces that Petrom’s privatization contract (signed by the former Government) will be “studied”. Petrom decreases the price with another 800 lei/l

We could see from the above that following the privatization and the prices liberalization, Petrom had to face intense pressures coming from the political power and the mass-media, pressures that moved in the direction of the de-legitimacy of the company, thus increasing its need to legitimate itself.

1.5. Petrom and the strategy of national energetic security

The Romanian President demanded the management of the oil companies to search for solutions in order that the structure of sales of oil products on internal and external markets and their prices take into account the fact that Romania is a country which has internal oil resources with a low extraction cost. Additionally, the President stressed that oil groups could make a significant contribution in accomplishing objectives of the development program, such as reducing the inflation rate and decreasing the trade deficit, given the scale of the damage caused by floods and the unpredictable price hikes of oil on international markets. (Bucharest Daily News, February 5, 2006)

Due to the sensitivity of the energetic industry and the monopolistic position of Petrom concerning the oil extraction and the fact that it supplies 30% of the necessary of the Romanian market in gas, the political quarrels were often centered around the necessity to assure the energetic independence of the country and the “problem” Petrom frequently overlapped with the speech regarding the energetic security of the country.

As a result the management of the company had to recognize the strategic importance of Petrom for the Romanian national economy and to give assurances that the best interest of Romania is considered.

“Before the privatization, the lack of cash flow necessary for investments triggered a decline in the rate of replacement of reserves, costs and quality not competitive, utilization of old technologies which caused environmental problems and not even a concrete option of international expansion…The company’s performances are important
for Romania and for the Romanian economy. And with certainty, OMV as principal shareholder has the same strong interest. But it is more than that. It’s an obligation to the financial markets, our shareholders and Romania”, says Wolfgang Ruttenstorfer, the former president of the Petrom Board. Due to the fact that Petrom is a Romanian company, the company’s strategy of development envisages ensuring in the long term the security of the energetic resources. In order to implement this strategy, 3 billion euros will be invested till 2010, meaning the double of the sum agreed in the privatization contract”.

(source: www.SMARTfinancial.ro - “Petrom’s officials underline the benefits of Petrom’s privatization”)

Concerning the corporate social responsibility, it is notable the fact that Petrom’s management showed its disposition to contribute to the establishment of a special governmental fund which would subsidize the increase in the gas prices paid by the population. (Cotidianul, December 6, 2006 – “Romania is a winner after the privatization”)

The public releases of Petrom are focused toward underlining the company’s importance for the Romanian economy and of its significant contribution it will bring as a result of the privatization:

“At this moment I want to insist on the fact that Petrom is the largest Romanian company, has the greatest contribution to the Budget and the company’s economic development after privatization brought and will further bring substantial benefits to all stakeholders, including the Romanian state”, said Mariana Gheorghe, CEO of Petrom.

And in the same public release: “The company’s performances are important for Romania and for the Romanian economy. And with certainty, OMV as principal shareholder has the same strong interest. But it is more than that. It’s an obligation to the financial markets, our shareholders and Romania”, says Wolfgang Ruttenstorfer, president of the Petrom’s Board. Due to the fact that Petrom is a Romanian company, the company’s strategy of development envisages the security of energetic resources in the long term in Romania. In order to implement this strategy 3 billion euros will be invested till 2010, meaning the double of the sum agreed in the privatization contract”.

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4 Source: www.SMARTfinancial.ro - “Petrom's officials underline the benefits of Petrom's privatization”
The discourse of the management is ideologically tainted as the message could be read do not attack or harm Petrom because it is the milk cow of the Romanian economy. The management’s discourse implies the disputes surrounding Petrom will ultimately harm the general welfare of the Romanian people:

“...I am confident that all the disputes will take into account the welfare of the Romanian people, the same as my care is directed toward the employees and the stockholders of Petrom”, said Mariana Gheorghe, CEO of Petrom. (Curierul National, November 24, 2006, “Privatization with premeditation”)

The years 2005 and 2006 abound in declarations that underline the hiatus existent between the gloomy situation before privatization and the bright future Petrom will have as a result of the privatization:

“Before the privatization, the lack of cash flow necessary for investments triggered a decline in the rate of replacement of reserves, costs and quality not competitive, utilization of old technologies which caused environmental problems and not even a concrete option of international expansion...(www.SMARTfinancial.ro - “Petrom’s officials underline the benefits of Petrom’s privatization”)

Multiple declarations underline the advantages brought along by the privatization:

“All measures implemented aimed at improving the activities and the company’s competitiveness level through the implementation of international business standards, compliance with the norms of quality, environment and performance of the EU”, said Mariana Gheorghe, Executive CEO of Petrom. (www.SMARTfinancial.ro - “Petrom’s officials underline the benefits of Petrom’s privatization”)

In each of the next two years, OMV will invest in Petrom one billion euros and “not even a penny will leave the country, everything will be invested in the Romanian economy.”, said Ruttenstorfer.

“The consolidation and development of the company will bring along a better protection of the county’s energetic resources and will make them easier accessible to consumers (BBCRomanian.com, November 17, 2006 – “Prime Minister against the renegotiation of Petrom’s privatization contract”)


2. Corporate social responsibility and corporate legitimacy

By examining the specialty literature, we can easily observe how much ink has flown to write about subjects such as legitimacy and corporate social responsibility. There is also a rich scientific literature on corporate annual reports, which provide different research perspectives, and give various meanings and purposes to this financial document.

Corporate annual reports have been analyzed over time from several angles of view. Recent studies focused on (1) risk reporting (Linsley, 2006; Lajili, 2005); (2) intellectual capital reporting (Kaplan and Norton, 2004; Shiu, 2006); (3) environment reporting (Cormier, 2005; Thompson, 2004; Toms, 2002); (4) social responsibility reporting (Rahaman, 2004). These studies are important for their results, but also for setting methodologies to analyze narratives and annual reports (such as index analysis, content analysis and readability studies). From this point of view, the study of Beattie, McInnes and Fearnley (2004) represents a key reference.

Another significant study, which allows us to assess our place in the vast collection of research on corporate annual reports is the literature review provided by Stanton and Stanton (2002). Their literature review of empiric investigations on corporate annual reports, without being exhaustive, presents and classifies different views of researchers, and argues that few are the cases in which an overall approach on corporate annual report is revealed. More then talking about themes, the authors chose to talk about “perspectives”, as different ways to see the relationship between corporate annual reports, their parts and their context. The authors identify several major perspectives in research on annual reports: image management, marketing, legitimacy, political economy, and accountability. They also argue that in most cases corporate social responsibility disclosure is commonly treated as an element of the legitimacy process (Stanton and Stanton, 2002).

In our study we used the legitimacy framework, which relates the corporation to community interests. As community is a dynamic stakeholder in terms of mentalities and values evolution, we can argue that this perspective is particularly sensitive to changes.

2.1. Corporate Social Responsibility (CSR)

Having done a thorough review of the main articles treating of CSR, we could not help to notice that there is no definitive agreement concerning the limits or scope of corporate social responsibility.
The positions of the theorists of CSR range from denying that corporations have any social responsibility whatsoever (Friedman, 1970) to affirming that the corporation is actually made by society and for the common good of society and that it "exists by public license."(DeGeorge, 1990)

Friedman’s position is starkly affirmed from the title of his famous article: “The social responsibility of business is to increase its profits”. He totally denies that businesses have responsibilities affirming that only people can have responsibilities and that the role of businesses being the maximization of its profits should not be mistook by the role of Governments which is to serve the social interest.

Further away he calls CSR “a fundamentally subversive doctrine” and states in his book “Capitalism and Freedom” that in a free society “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” Friedman’s position on CSR was catalogued as a fundamentalist one (Klonosky, 1991). We argue that his position should be understood in its past context defined, as Friedman himself puts it, of “wide spread aversion to ‘capitalism’, ‘profits’, ‘the soulless corporation’ and so on“.

Taking an opposite position, DeGeorge (1990) asserts that: "society can legitimately demand that it [the corporation] do certain kinds of activities, even if the corporation itself, or those running it, do not wish to do those things.”

In the specialty literature, there are two types of arguments pro CSR: moral arguments and economic arguments.

The moral arguments contend that corporations rely on the society within which they operate and could not exist or prosper in isolation. Thus the society is for the corporation a provider of infrastructure, consumers and a source of employees. CSR is recognition of this interdependence and a means of settlement with the stakeholders.

The economic arguments assume that there are real economic advantages for a corporation pursuing CSR. In the today’s world where social constructions like brands and goodwill are becoming more and more important, building a positive image of the company has a decisive impact of selling the company’s goods or services.
Sparks R (2003) proposes a pragmatic approach to CSR. He takes the view that “CSR describes the practical reality that companies are increasingly being judged not just by the products and profits they make, but also by how these profits are made”. He also stresses that this definition is limited to the societal and environmental constraints put upon a company's core function of profit maximization.

In proposing this pragmatic approach he deliberately stripes off the concept of CSR of any ethical veneer, acknowledging that: “'socially responsible' simply means responsive to the concerns of society.” As a matter of fact companies’ response to society is modeled by the expectations of “the two classes of 'stakeholders' who really do matter to them: customers and shareholders.” The pursuit of CSR brings about, in the opinion of the author, the realization of the long-term profits.

Concerning corporate social responsibility, we take a middle position assuming that it is a concept that describes the fact that organizations, especially (but not only) corporations, have a moral obligation to consider the interests of its stakeholders within the strategic and day-to-day decision-making process. In this sense, we considered any action of the corporation that surpassed what was required by laws and regulations, as being an indicative of the corporation’s recognition of its moral responsibility towards its stakeholders.

Put it another way that means enterprises should make decisions based not only on financial factors such as profits or dividends, but also based on the social and environmental consequences of their activities. We agree with Sparks’s (2003) pragmatic approach to CSR, but we cannot agree to the avoidance of the ethical connotations of the CSR. We perceive the CSR as being synonym with “business ethics”.

Carroll’s (1979)2 widely cited CSR model conceptualizes four types of responsibilities for the corporation: (1) the economic responsibility to be profitable; (2) the legal responsibility to abide by the laws of society; (3) the ethical responsibility to do what is right, just, and fair; and (4) the philanthropic responsibility to contribute to various kinds of social, educational, recreational, or cultural purposes.

We take the view that these responsibilities should be judged bearing in mind that the main scope of a company’s activity is maximizing its profits.

“CSR attributes are like any other attribute a firm offers. The firm chooses the level of the attribute that maximizes firm performance, given the demand for the attribute and the cost
of providing the attribute, subject to the caveat that this holds true to the extent that managers are attempting to maximize shareholder wealth.” (McWilliams and Siegel 2001, p. 125)³

In the specialty literature it is acknowledged that corporations are increasingly taking on, beside their role as economic actors, roles of political actors (Palazzo& Scherer, 2006; Scherer et al., 2006).

By political we refer to “activities in which people organize collectively to regulate or transform some aspects of their shared social conditions, along with the communicative activities in which they try to persuade one another to join such collective actions or decide what direction they wish to take.” (Young, 2004, p. 377)⁴

However, the acts of self-regulation of the corporations (political activism, as Scherer et al., 2006) calls it) are facing growing suspicion after the thundering fall of Enron or Worldcom. Enron for example, had an extensive Code of Ethics and a system of management and control much praised by the connoisseurs and even so it violated the Code in almost every respect. So there is no wonder that the self-regulation of corporations is regarded with mistrust by the public. As Scherer et al. (2006) puts it:

“The self-imposed standards are often not the result of a broader and inclusive discourse with civil society. They are often implemented without any form of neutral third-party control. It is sometimes "business as usual" that takes place behind the veil of well formulated ethical rules (Rondinelli 2002).”

2.2. Corporate legitimacy

Initially the concept of legitimacy was used to characterize the political power, whether this is the king and his power was legitimated by the fact that he was God’s representative, or the state whose legitimacy is conferred by the democratic process of election.

“Globalization is changing the object of legitimacy questions (from state actors to private actors), the output of legitimacy (from "hard" national to "soft" transnational law), and the input (from national polity to transnational civil society). In the global context, with eroding state power and the emerging political authority of corporations and civil society associations, the legitimacy question addresses these new political actors instead of the traditional state actors.” Scherer et al. (2006)
Corporate legitimacy is a key concept of the corporate social responsibility discourse. Suchman (1995) defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”.

The main purposes of pursuing legitimacy are to facilitate the attraction of economic resources and to gain social and political support (Suchman, 1995; Ogden & Clarke, 2004). Different strategies of legitimacy can be identified, depending on the type of organization, environment characteristics, audience, and the nature of the conflicts. Suchman (1995) distinguishes three broad types of legitimacy, termed pragmatic legitimacy, moral legitimacy, and cognitive legitimacy.

The table below presents an adapted simplified form of Suchman’s framework, based on several criteria significant for our research.

**Table no 1 – Types of legitimacy (adapted from Suchman, 1995)**

<table>
<thead>
<tr>
<th>Legitimacy Criteria</th>
<th>Pragmatic</th>
<th>Moral</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audiences</strong></td>
<td>Mostly immediate audiences</td>
<td>All types off audiences</td>
<td>All types off audiences</td>
</tr>
<tr>
<td><strong>Validation criteria</strong></td>
<td>Usefulness</td>
<td>Normative evaluation</td>
<td>Coherence</td>
</tr>
<tr>
<td><strong>Sophistication of the social environment</strong></td>
<td>Less sophisticated environment</td>
<td>More sophisticated environment</td>
<td>More sophisticated environment, existing models to comply with</td>
</tr>
<tr>
<td><strong>Means of achieving recognition</strong></td>
<td>Exchange</td>
<td>Explicit public discussion</td>
<td>Adaptation</td>
</tr>
<tr>
<td><strong>Role of the organization</strong></td>
<td>Static Satisfies mostly direct expectations</td>
<td>Dynamic Responsibility Factor of social evolution</td>
<td>Static Conformity with abstract social predefined models</td>
</tr>
</tbody>
</table>

The audiences are represented by the stakeholders that is the categories likely to be influenced or affected by the decisions of the management of the company. They may be: shareholders, customers, suppliers, employees, governments, and the public at large.

**Pragmatic legitimacy**

Pragmatic legitimacy as a strategy is principally directed toward the closest audiences and tries to influence their level of welfare. This is achieved through exchange, each part benefiting
from the exchange. The validation criterion of the strategy of legitimacy is the usefulness of the activity for the respective audience.

This type of legitimacy is addressed to a less sophisticated audience, and the role of the organization is to satisfy principally the most immediate expectations of the audience, expectations that are generally of a pragmatic order.

**Cognitive legitimacy**

This strategy is oriented toward gaining legitimacy through realizing conformity with existed predefined social models as: laws, standards, norms. In this case the validation criterion is the adequacy and the conformity with the social models, legitimacy supposing adaptation to these standards that are exterior to the organization.

**Moral legitimacy**

This type of legitimacy is in our opinion the most elevated because it supposes that the organization surpasses the level of pragmatic legitimacy and that of cognitive legitimacy. The next level is that of morality, that is the actions of an organization go beyond the level imposed through law or other exterior regulations, they represent “the right thing to do”. The general perception of the audience will be, in this case of legitimacy, that the activity of the organization “effectively promotes societal welfare, as defined by the audience’s socially constructed value system”. Suchman (1995)

This type of legitimacy is constructed as an ongoing dialogue between the organization and its environment, a dialogue in which the company is sensible to the needs of the society and responds to them. This does not mean that the company should not pursue the maximization of its profit, but that this should go hand in hand with social responsibility.

In Suchman’s opinion, the legitimacy is built through objective means, but is assessed subjectively by each audience, as “…legitimacy affects not only how people act toward organizations, but also how they understand them. Thus, audiences perceive the legitimate organization not only as more worthy, but also as more meaningful, more predictable and more trustworthy.” Suchman (1995).

**3. Methodology**

Having set the context and the theoretical framework we will go on to explain the methodology and results of our study, focusing on the data sources, the method of analysis,
results and discussions. We will also highlight some of the difficulties we encountered in trying to operationalize Suchman’s framework.

3.1. Data sources

The main data source is constituted by Petrom’s post-privatization annual reports. We used the managements’ reports for the years 2004, 2005 and 2006 in order to highlight the strategies deployed to create and strengthen the company’s legitimacy.

The present paper draws also on parts of the vast collection of Petrom’s official reports, web sites, newspaper and magazine reports, journal articles, evidences from other privatizations and other data sources that are available regarding the recent post-privatization of Petrom. These sources were mainly used to set the context and explain the unique combination of factors which prompted us to choose Petrom for our study. We chose to draw extensively on newspapers’ and magazines’ articles because even if these sources are not always reliable and not always free of bias, they nonetheless influence highly the public opinion and represent stimuli and feed-back for Petrom’s strategies of legitimacy.

This case study intends to open the way for the content analysis of the Romanian companies’ annual reports which represent a rich and unexplored source of data for management research.

3.2. Data analysis. The results of the quantitative analysis.

We used the content analysis of the three post-privatization annual reports of Petrom SA in order to identify the use of pragmatic, cognitive and moral legitimacy strategies. The unit of analysis was the clause. These were grouped in 18 relevant topics. The clauses could be related to more than one topic and thus counted more than once. About 1,700 units of analysis were identified, following a cross-numbering protocol, and allocated to the corresponding topic.

According to Thietart et al. (2003), content analysis relies on the postulate that repetition of units of analysis (words, expressions, sentences, paragraphs) reveals the interests and the concerns of the authors. The text is split and organized according to the choice of research objectives, and following an accurate coding method. The following table illustrates the main steps of content analysis, adapted to our research.
Table no 2 – Main steps of the content analysis in our case study on Petrom SA (adapted from Thietart, 2003, p. 459)

<table>
<thead>
<tr>
<th>General steps</th>
<th>Particularization</th>
<th>Difficulties/Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Read the text according to the research perspective</td>
<td><strong>Our perspective:</strong> legitimacy strategies</td>
<td>Concept boundary</td>
</tr>
<tr>
<td>Establish the objectives of the content analysis</td>
<td><strong>Our objective:</strong> identify the use of legitimacy strategies in the corporate annual report, in relation with the context (privatization, EU accession, political and social pressure)</td>
<td>Company choice Topics</td>
</tr>
<tr>
<td>Split the text in units</td>
<td>The unit of analysis is the clause</td>
<td>Material of analysis</td>
</tr>
<tr>
<td>Establish numbering and coding rules</td>
<td>A clause can be numbered more than once</td>
<td>Coding reliability</td>
</tr>
<tr>
<td>Classify into categories</td>
<td>18 relevant topics, chosen a priori using Suchman legitimacy framework</td>
<td></td>
</tr>
<tr>
<td>Counting units and frequencies</td>
<td>More than 1700 units of analysis, classified in 18 topics through a cross-numbering protocol</td>
<td>Numbering and classification</td>
</tr>
<tr>
<td>Qualitative analysis</td>
<td>Taking into account the main factors of change (privatization and change in ownership and management, EU accession, change of the political regime, etc.)</td>
<td>Subjectivity</td>
</tr>
</tbody>
</table>

As we can see from the upper table, some choices were made in order to minimize the inconveniences of a content analysis. These are mainly concept boundary problems, coding reliability, use of searching techniques, the material of analysis, the numbering rules, the unit of analysis (Beattie & Thomson, 2007).

Therefore, we established from the beginning our approach on legitimacy, as well as a coherent classification, based on the literature review on legitimacy and CSR. We used a manual treatment for the classification of disclosures in the annual report, and a semi-manual treatment for the numbering (the filters, the subtotals and the grand total are automatically generated). The cross-numbering increases the reliability of our searching and classification. The material used is presented in table 3. The titles, tables, images, and graphics are not taken into account, nor the localization of the information. Clearly established rules are vital for a reliable research, but the choices made limit the extent of our results.
The starting point of our analysis was the structure of the corporate annual reports, which allowed us to observe the main evolutions (table no 3).

Table no 3 – Evolution of the structure of the corporate annual reports (CARs) of Petrom

<table>
<thead>
<tr>
<th>Chapters in the CARs</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Content</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Statement of the President of the Board of Directors</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Statement of the Chief Executive Officer of Petrom</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Petrom – Past and Present</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrom Vision for 2008</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Directors (*)</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Managing Committee (*)</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Our Strategy in Action / Petrom in 2005 and the Way Forward</td>
<td>5%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Organizational Structure</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Domestic and Foreign Participations</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Directors’ Report</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Investor relations</td>
<td>2%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>1%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Environment, Health and Safety</td>
<td>2%</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Petrom and the Community</td>
<td>2%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td>1%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Activity</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Macroeconomic Environment</td>
<td></td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Exploration and Production</td>
<td>7%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Refining and Marketing</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Gas</td>
<td>1%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doljchim</td>
<td></td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Financial Analysis (*)</td>
<td>5%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Subsequent Events (*)</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Outlook 2006/2007</td>
<td></td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Glossary</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Independent Auditors’ Report and Financial Statements for the years ended December 31st, 2004 and December 31st, 2003 (*)</td>
<td>50%</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

We highlighted in gray the chapters appearing in all of the three annual reports. The stars stand for the chapters that were considered irrelevant for the content analysis and thus omitted.

An immediate observation was that the relative space allotted to the narrative parts of the CAR increased, with special emphasis being given to “Environment, Health and Safety” and “Human Resources”.

## Results

**Table no. 4 – The results of the content analysis of the annual reports of Petrom**

<table>
<thead>
<tr>
<th>Topics</th>
<th>Legitimacy</th>
<th>Cognitive</th>
<th>Cognitive Total</th>
<th>Moral</th>
<th>Moral Total</th>
<th>Pragmatic</th>
<th>Pragmatic Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>-environmental issues</td>
<td>6</td>
<td>1</td>
<td>7</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>-compliance with group standards</td>
<td>25</td>
<td>5</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-compliance with national/international</td>
<td>8</td>
<td>38</td>
<td>27</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-development of the business</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>20</td>
<td>10</td>
<td>64</td>
<td>94</td>
</tr>
<tr>
<td>-disjunction with the past</td>
<td>1</td>
<td>11</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-employees' health &amp; safety</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>20</td>
<td>10</td>
<td>64</td>
<td>94</td>
</tr>
<tr>
<td>-improved corporate transparency</td>
<td>2</td>
<td>17</td>
<td>16</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-innovation</td>
<td>8</td>
<td>22</td>
<td>26</td>
<td>56</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-prices</td>
<td>10</td>
<td>12</td>
<td>4</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-quality improvement</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>-response to attacks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-self-confidence</td>
<td>6</td>
<td>2</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-community involvement</td>
<td>1</td>
<td>1</td>
<td>39</td>
<td>65</td>
<td>105</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>-statement of mission</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>-training &amp; career</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-weak points</td>
<td>21</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-restructuring, reorganization</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&amp;modernization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-economic &amp; financial performance</td>
<td>99</td>
<td>143</td>
<td>221</td>
<td>463</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.3. Discussion. Arguments for the choice of topics.

We will explain at this point the choice of topics in our analysis and discuss the advantages and limitations. We will provide examples from the text, for each category, and make steps towards a more qualitative approach, by relating the statements to a general type of legitimacy strategy for the company. The 18 topics were partly derived from the literature review, partly derived from the particular context (according to section 1).

The inclusion of an assertion in one particular type of legitimacy strategy was made using the Suchman framework presented in section 2.2. A particular attention was given to defining the topics, so as to increase the reliability of the content analysis. The process implied developing additional classification rules, when specific questions were raised, with a constant care for coherence in classification. A final general consensus between the two coders was achieved, but subjectivity remains the main limitation of this type of methods.

3.3.1. Environmental issues

The care for the environment and the prevention of environmental accidents is an important component of the corporate social responsibility, and as such, a powerful instrument of legitimacy towards the stakeholders.

“…the company tried to meet its own environment objectives, by implementing several measures in line with the EU requirements. These measures related to the production technologies as well as product distribution.” (AR 2004), strategy of a cognitive type.

“The economic growth of the company implies also a great responsibility for the employees’ health and safety and for the environment.” (AR 2005), strategy of a moral type.

“Petrom fully expects that in the coming years the amount of environmental expenditure will steadily increase in line with implementation of the overall investment program of EUR 3 bn by 2010...It is expected that this will reap significant environmental benefits, especially from 2007 onwards.” (AR 2005), strategy of a pragmatic type.

“Being a responsible industrial company, Petrom is committed to supporting efficient and well-managed utilization of energy sources and products, taking into account the needs of today’s consumers and the interest of future generations with respect to environmental protection.” (AR 2006), strategy of a moral type.
3.3.2. Compliance with group standards and compliance with national/international standards

Compliance with predefined, accepted standards whether this be with OMV’s standards or with the national or international regulations, is a powerful tool of legitimacy of a cognitive type. Compliance with group standards can be directly related to privatization and its benefits, as pressures coming from different categories of stakeholders increased the need to legitimize the new status (see the context analysis in section 1).

“During 2005, it was agreed that Petrom would be fully aligned with OMV Group targets and strategy for 2010.” (AR 2005), strategy of a cognitive type.

“…implementing security standards at OMV level is of great importance.” (AR 2006), strategy of a cognitive type.

3.3.3. Development of the business

In this topic we included the assertions regarding the expansion of the business, on the internal market as on the external market. This represents a way to obtain legitimacy based on the role of great corporations in the economic development of the region, and it can be related to general welfare.

”The privatization itself, through a significant capital increase and new forms of management, created the grounds of the most important growth of the company.” (AR 2004), strategy of a pragmatic type.

”The sustainable and profitable growth of our company is of benefit to our shareholders, clients, employees and the Romanian economy in general and is therefore at the focus of all our activities.” (AR 2005), strategy of a moral type.

3.3.4. Disjunction with the past

One of the strategies used by the management of Petrom in order to legitimate the company is through underlining the qualitative difference between ante and post privatization, the moment of the privatization being seen as the moment of a new beginning.

” The year 2005 marks a turning point in Petrom’s history. It is the first full year of Petrom since the company has been privatized and many initiatives have been started which are aimed to improve the company.” (AR 2005), strategy of a pragmatic type.
“Starting with December 2004, Petrom is part of OMV Group, the leading oil and gas group in Central and Eastern Europe.” (AR 2005), strategy of a pragmatic type.

3.3.5. Economic & financial performance

An important means of obtaining legitimacy, preponderantly used in the annual reports is to make use of numbers in order to show the evolution of the company’s financial and economic indicators. This is a pragmatic legitimacy strategy, which focuses on usefulness of the activities for immediate audiences, such as shareholders and customers.

“Petrom’s refineries will further increase efficiency and production to meet the rising market demand for petroleum products and the refineries will be in a position to fully process Petrom’s domestic oil production.” (AR 2004), strategy of a pragmatic type

“Two thirds of the amount invested in 2005 were directed towards Arpechim (RON 300 mn), while the rest was used for investment projects in Petrobrazi (RON 150 mn).” (AR 2005), strategy of a pragmatic type

3.3.6. Employees' health & safety

We included under this label the declarations of the management concerning the measures taken to increase the security and the health of its employees. The vast majority of assertions regarding health and safety is of a pragmatic type, as both parts (the company and its employees) benefit from increasing their level of health and security of the working environment, especially in hazardous industries, such as the oil industry.

“A series of actions were taken in order to improve personnel working conditions in order to maintain production without incidents. These covered all elements of the workplace system: operator / equipment / work task / work environment.” (AR 2004), strategy of a pragmatic type.

“Petrom attaches utmost importance to providing high-quality medical care to its employees. Thus, we aim at promoting the health of our staff, maintaining their capabilities and improving their general well being.” (AR 2006), strategy of a pragmatic type.
3.3.7. Improved corporate transparency

An improved corporate communication with all the stakeholders is an important means of building legitimacy. The statements were mainly related to corporate governance issues and the targets were the shareholders and the analysts and only in few cases the trade unions.

“Starting with 2005 the Investor Relations function was established, enlarging the scope of work of the existing office dealing with the large individual investors base.”, (AR 2006), strategy of a pragmatic type.

“Reorganization process – an open dialogue with the Trade Unions as well as with the employees, in view of finding the best solutions in line with the Labor Law both for the employees (case by case approach) and for the future well being of the company. All objectives set for 2006 were met.” (AR 2006), strategy of a pragmatic type.

3.3.8. Innovation

All that was new in terms of products, processes and organization was included here. Important for value creation, assertions on innovation for Petrom overpass a limited shareholders view and take the steps to a larger, stakeholder approach, in a CSR perspective.

“We successfully launched two new petroleum products, Top Premium 99+ and Top Nordic Diesel while our customers can enjoy the PetromV standards.” (AR 2005), strategy of a pragmatic type.

“A new IT communication system implementation was completed, connecting now all major E&P locations in Romania.” (AR 2006), strategy of a pragmatic type.

3.3.9. Prices

In this topic we included the declarations of the management, justifying the increase in the price and the assessment of its effects on the company’s results. In section 1.4. we presented that this is a highly sensitive issue, as prices liberalized following the privatization. Important pressure was placed upon the management of the company to also consider Romania’s economic and social situation in establishing the prices.

The strategies used are partly of cognitive legitimacy, partly pragmatic. That is the company tries to justify the increase in the prices on two basis – aligning prices to international quotations and increasing the profitability.
“In 2006, the international Platts quotations have registered big fluctuations. Acting according to its 2005 pricing policy, Petrom has adjusted its prices for terminal deliveries and retail pump sales to the price fluctuations at international level. The highest quotations in 2006 were registered in July, due to geo-political reasons (Iran and Middle East) and speculations on international commodity markets (there were fluctuations of USD 200 per ton in gasoline and USD 100 per ton in diesel).” (AR 2006), strategy of a pragmatic type.

3.3.10. Quality improvement

We included here the assertions which focus on the products’ quality and conformity with the standards. Statements on quality improvements shows an increased preoccupation with customer satisfaction, and are often related to innovation and modernization, as part of the new strategy. This throws a favorable light on the privatization process.

“As part of its newly defined strategy, the company aims to provide its customers with the best products and services available on the market.” (AR 2005), strategy of a pragmatic type.

“The quality of the remaining chemical products was improved to international standards allowing access to more international customers.” (AR 2006), strategy of a cognitive type.

3.3.11. Response to attacks

This topic appears for the first time in the AR of the year 2006, a year when the intensity of the attacks increased exponentially. The management of Petrom uses the annual reports to respond to these attacks. The use of this less common channel gives us a picture of the intensity of the pressure coming from the media and the political power.

“During the year 2006 Petrom and OMV were exposed for reasons beyond our control to a highly critical press and political environment in Romania. Let me assure you once more on this occasion as I have done already several times during the course of the last few months that Petrom’s privatization was not only a competitive process but also one handled in a very professional and transparent manner, being closely followed by various international institutions such as the European Union and the International Monetary Fund.” (AR 2006), strategy of a pragmatic type.
Petrom’s Privatization Contract has been in the meantime published on the website of the Ministry of Economy and Commerce and the substantial economic terms of the transaction have been published already in 2004 with Law nr. 555.” (AR 2006), strategy of a pragmatic type.

3.3.12. Restructuring, reorganization & modernization

This topic includes past accomplishments and future changes concerning the processes of restructuring, reorganization and modernization within the company. Restructuring, reorganization and modernization is a key process triggered by privatization and marks a fundamental change for the company. However, the management only presents the favorable aspects of the process, in a pragmatic legitimacy logic. For instance, since December 31st 2004 when Petrom had around 50,000 employees, the number of employees decreased to almost 33,000 employees due to the restructuring, and in consequence we would have expected more disclosure on this topic.

“2006 was a remarkable year for Petrom. The projects we implemented focused mostly on modernization, efficiency and profitability increase and on international expansion. ... The Service Center Petrom Solutions and the introduction of the most important enterprise resource planning system, SAP, are just two of the projects that will lead to efficiency increase and cost reduction. The year 2006 was a landmark with regards to company reorganization, which is on track.” (AR 2006), strategy of a pragmatic type.

“In 2007, the management will further continue to focus on efficiency improvement throughout the company by further implementing the modernization program that Petrom has embarked on during 2005.” (AR 2006), strategy of a pragmatic type.

3.3.13. Self-confidence

This topic includes the assertions expressing directly the strengths of the company, its potential and the confidence of the management in the potential of the company.

"Me and my colleagues in OMV have the strong conviction that we possess the necessary strategic resources to secure our position as a strong force in the oil and gas industry: modern structure of an integrated company, international know-how combined with the
experience of a company with a history that starts together with the history of oil in Romania.” (AR 2004), strategy of a pragmatic type.

“I am personally convinced that the track we are following will lead Petrom not only in the short term but also in the long term to become a more professional, efficient and better company which will remain a significant contributor to the Romanian economy and society.” (AR 2006), strategy of a pragmatic type.

3.3.14. Community involvement

This topic is concerned with the responsibility of the corporation towards society at large. In Carroll’s (1979) theorization of CSR, this topic is to be found in type four, that is the philanthropic responsibility of the company to contribute to various kinds of social, educational, recreational, or cultural purposes. Social responsibility is a major part of the legitimacy strategy of Petrom, as the amount of disclosure increases substantively over the three years, and is completed by a dedicated section in the company website, and of a department of CSR. This corresponds to the policy and structures of the OMV group.

“We want to become not only a role model for the business community but also a responsible “citizen” of the community we are living in.” (AR 2006), strategy of a moral type.

“As one of the largest companies in Romania we are aware of the impact of our activities on the Romanian society and we assume this important role by bringing our contribution to increasing the people’s confidence in the EU integration process, by applying high business standards, health and safety measures, both internally and externally, and by developing related projects.” (AR 2006), strategy of a moral type.

“Petrom is strongly committed to contributing to the health and safety of local communities, by means of its long term partnership with the Romanian Red Cross. “(AR 2006), strategy of a moral type.

3.3.15. Statement of mission

Stating the mission of the corporation is an important element of the strategy of legitimacy because it epitomizes the view of the management upon the future.
“Our strategy aims towards turning Petrom into a more profitable company through modernization and implementation of information technology.” (AR 2004), strategy of a pragmatic type.

“We committed ourselves to becoming the leading oil and gas company in South Eastern Europe, to investing in abating the effects of the natural decline and in stabilizing production in Romania.” (AR 2006), strategy of a pragmatic type.

3.3.16. Training & career

In this topic were included the affirmations about the training and career of the employees. Petrom addresses directly to the employees, as a special stakeholder category, recognizing their contribution to the prosperity of the company.

“One fundamental indicator of any company’s performance is the quality of its work force and the working conditions it provides its own employees. Petrom is a responsible employer committed to treating every employee with respect and dignity, providing a safe, hospitable and quality working environment, and to developing its management team through evaluation and definition of staff development measures, talent management programs, comprehensive training programs at European standards for all existing and future managers, as well as leadership and management programs. We recognize that a motivated, well-trained and diversified workforce represents a strong competitive advantage and a must have in the achievement of our target.” (AR 2006), strategy of a pragmatic type.

3.3.17. Weak points

The information classified under “weak points“ includes: environmental and work accidents, controllable or uncontrollable risks, lack of total compliance with international accounting standards. As a general trend, the amount of disclosure on weaknesses and mistakes decreases, and further analysis should be perform in order to discern what relation exists between declarations and actual facts.

“Among the main causes of the accidents were the inappropriate performance of operations, of actions, control and handling and not taking compulsory occupational safety actions in due time. “ (AR 2004), strategy of a pragmatic type.
“In 2005 there were a number of reported environmental incidents. These were mainly related to pipe leakages from old and corroded pipelines that affected primarily the soil and surface water. “(AR 2005), strategy of a pragmatic type.

“In addition, Petrom, like any other company in this line of business, is affected by the changes in demand and, more recently, by climate changes. Petrom’s risks in some cases differ from those of other integrated oil companies due to specific currency risks and to the fact that the gas market in Romania is not yet fully liberalized.” (AR 2006), strategy of a pragmatic type.

3.4. From topics to strategies – a qualitative approach

Suchman, 1995 categorizes the strategies of dealing with legitimacy in: gaining, maintaining and repairing.

The strategies deployed by Petrom in order to gain legitimacy are: conforming to preexistent audience and environment, selection among environments and manipulation of the environments. The main strategy adopted by Petrom to gain legitimacy is showing that it abides by the laws, regulations, national and international or group standards. The main actions taken to gain legitimacy are: “compliance with group standards” and “compliance with national/international standards”. Manipulation of the environment could also be identified, for example if we compared the declarations concerning environmental issues with the facts. For nine times in 2006 the maximum fine was imposed to Petrom for violation of the laws regarding the protection of the environment. (Curentul, October 20, 2006) and in May 2007 one of the two refineries of Petrom was temporarily closed down by the Romanian Authority of Environment Protection because of its lack of conformity with environmental standards.

In what maintaining legitimacy is concerned, Petrom tries to underline the past accomplishments and to announce the future changes.

The strategy to emphasize past accomplishments comprises the following topics: “environmental issues”, “development of the business”, “economic & financial performance”, "employees' health & safety”, “improved corporate transparency”, “prices”, “innovation”, “quality improvement”, “restructuring, reorganization & modernization”, “community involvement”, “training & career”. In the category of future changes, we integrated the following topics: “environmental issues”, “development of the business”, “economic & financial performance”, “employees' health &

In the case of repairing legitimacy, there are three kinds of strategies: taking normalizing actions, restructuring and don’t panic. Taking normalizing actions is an important strategy to be adopted and it means to try to normalize the situation and to repair the lost credit. We included here the following topics: “self-confidence”, “disjunction with the past”, “weak points”, “responses to attacks”.

The strategy of restructuring should be regarded as a re-conception of the business or of parts of it in order to repair legitimacy, so to say to mend what was broken. The following topics were included: “environmental issues”, “development of the business”, “economic & financial performance”, ”employees' health & safety”, “improved corporate transparency”, “prices”, “innovation”, “quality improvement”, “restructuring, reorganization & modernization”, “community involvement”, “training & career”.

Another tactic in order to repair legitimacy is in Suchman’s opinion “don’t panic” or to put it in another way, “don’t lose your head”. The following topics were included: “disjunction with the past”, “improved corporate transparency”, “responses to attacks”, “self-confidence”, “weak points”.

Conclusion

The present case study was chosen not for its representativity, but more importantly for its exemplarity which gives us the opportunity to analyse and document post-privatization disclosure behavior of multinational corporations in Romania.

Based on the analysis of three consecutive post-privatization annual reports (2004, 2005, and 2006) we obtained the following main results:

As the social conflict regarding the privatization of Petrom intensified, we noticed a greater focus on moral legitimacy strategies, covering topics such as: community involvement, environmental issues, employees' health and safety, though pragmatic and cognitive strategies remained dominant. Based on quantitative findings we could draw the conclusion that the company increased its involvement in the community. The obvious scope is to try to build a different, more “human” image of the company in stark contract with the image built by the
media, that of a foreign company, taking advantage of its customers and that of a privatization in the detriment of the Romanian state. The context is a context of change, of transition, of European integration and privatization, with important pressure coming from the political power, mass media and public.

Compliance with national/international standards and OMV standards in different domains represents an important source of legitimacy, of a cognitive type.

The interest of the present research resides in the possibility to study the legitimacy theory in a challenging environment, which derives from a unique combination of factors – an unstable environment (post-privatization in a transition economy), and consistent reporting practices, as a result of knowledge transfer from the mother company.

Based on our findings we argue that the present case study transcends local importance, and reveals certain future research opportunities. We envisage completing this research in the future by adding another privatized company from the oil business, Rompetrol, at least as controversial and contested as Petrom.

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1 Accounting articles published in refereed journals have relied on similar databases. Free and Macintosh (2006), Toms (2002), for example, relied extensively on sources such as newspaper articles.
2 Quoted in Matten &Crane(2005)
3 Quoted in Scherer et al. (2006)
4 Quoted in Scherer et al. (2006)