

Oil company annual report disclosure responses to the 2010 Gulf of Mexico oil spill

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Abstract

This paper analyses the annual report disclosures of the other six largest oil companies in reaction to the 2010 Gulf of Mexico oil spill. It focusses on changes in disclosures that can be ascribed to the oil spill. The companies all increased their environmental disclosures, with positive disclosures increasing most. It shows the use of an image enhancement disclosure strategy and a (partial) disclaiming of responsibility disclosure strategy, but do not find evidence consistent with a deflection of attention disclosure strategy, probably due to the high profile of the incident. It is found that BP's strategy of repeating disclosures about remedial activities several times in different parts of the annual report ensures: an emphasis on the positive, that all stakeholders regardless of their area of focus are likely to notice this disclosure, an increase in the volume of environmental disclosure, and that less detail can be disclosed, reducing litigation-related risks.

Key words

Environmental accounting, environmental reporting, legitimacy theory, legitimisation strategies

1. Introduction

Environmental issues have become an increasingly important matter for companies to manage as various stakeholder groups continue to put pressure on companies to accept accountability for the environmental impact of their operations (Deegan, Rankin & Voght 2000). These stakeholder groups demand that companies minimise the negative environmental impacts of their operations. Under these conditions, legitimacy theory predicts, a company will use various disclosure strategies to preserve an image of a socially responsible corporate citizen

to ensure continued access to the resources needed for businesses success (Lindblom 1993).

Companies with bad environmental news have been shown to react by ignoring the negative and disclosing more positive environmental information (Deegan & Rankin 1996). Patten (1992) showed that companies facing an environmental crisis will increase the environmental disclosures within their annual report in an attempt to regain their legitimacy. By doing this, companies can use disclosures to manage society's perceptions about their crisis, legitimise their operations, and ensure their continued success (Deegan, Rankin & Voght 2000). However, to maximise the potential of these companies to regain their legitimacy, O'Donovan (2002) shows that they will use different disclosure strategies. According to Cho (2009), companies facing an environmental crisis are most likely to undertake an image enhancement strategy where they attempt to restore their image through increased self-praising environmental disclosures. Companies may also disclaim responsibility and/or attempt to deflect attention away from the event (Cho 2009).

In spite of the insights provided in the prior literature, disclosure decisions can be complex and are still not fully understood. For example, Wilmhurst and Frost (2000) highlight the need for research into the trade-off that occurs when companies facing a crisis have competing strategic requirements for information to include in their annual reports. Given the increasing public awareness of and concern about environmental issues, stakeholders increasingly challenge companies to respond with appropriate disclosure trade-offs (Manning 2004). An examination of the disclosures following a significant social or environmental crisis that affects a variety of stakeholders can therefore potentially provide further insights into these disclosure decisions and disclosure strategies.

This paper examines the disclosure patterns and strategies used by oil companies in response to the Gulf of Mexico oil spill. It focusses on the annual report, because despite recent research attention to websites (e.g. Barac 2004), stand-alone reports, and media release disclosures, managers still use the annual report in unique ways within their overall corporate communications strategies (De Villiers & Van Staden 2011). BP's first annual report after this crisis, their 2010 report, was published on 5th March 2011. Therefore, this is one of the first papers to investigate the reactions of the oil companies to the Gulf of Mexico oil spill. The crisis conditions are unique because of the scale of the crisis, the setting of the crisis as it affected a highly populated area in an OECD country, and because of the increased environmental awareness after the oil spill that had not accompanied many prior environmental crises. These extreme conditions make this an ideal case to examine for the purpose of extending existing theory. The Gulf of Mexico oil spill raised questions about the extraction methods used by the entire oil industry. Therefore, not only BP's annual reports analysed, but also those of the five largest oil

companies other than BP, namely, Total, Shell, ExxonMobil, Chevron and ConocoPhillips, before and after the Gulf of Mexico oil spill. Among other analyses, the research followed Hackston and Milne (1996) in counting environmental disclosures sentences and classifying them into positive, negative and neutral categories. Analysis of all environmental disclosures was performed, but oil spill related disclosures were kept separate in the case of BP. Cho (2009) was also used in identifying whether the oil companies adopted image enhancement, disclaimer and/ or deflection disclosure strategies. These strategies are discussed in detail below, but a glance at Table 1 would answer any questions the reader may have at this stage. Finally, disclosures are appraised for any other prominent characteristics.

The findings show that the overall environmental disclosures of the oil companies increased after the oil spill. Disclosures that reflect positively on the company increased more than negative or neutral disclosures. It is also find that an image enhancement disclosure strategy was mainly chosen by all of the major oil companies, not just BP, to regain legitimacy. Further, the paper makes a contribution to the understanding of disclosure strategies following a crisis by showing that BP repeated exactly the same remedial action information over and over, sometimes within the same section and also in different sections in their annual report, in each instance without further elaboration. Interpretation of this strategy is made as an attempt to ensure that all relevant publics, independent of their areas of interest, were likely to get the positive information regarding BP's remediation without BP incurring the risk of providing additional information that may be useful to future litigants.

These results and insights will be of potential interest to investors, accountants, managers of crisis hit companies, regulators, environmental groups, the research community, and individuals with a specific interest in the Gulf of Mexico oil spill. Additional disclosure insights will potentially allow: investors in future to make better risk assessments based on disclosures, managers and accountants to better understand the legitimising strategies usually used in response to a crisis, regulators to identify if there is a need for regulatory intervention, environmental groups to improve their assessments of corporate environmental responsibility based on disclosures, and the research community to have a more comprehensive understanding of the legitimising disclosure strategies managers use following an environmental crises.

The remainder of this paper proceeds as follows. The next section discusses theoretical perspectives on legitimacy theory, the disclosure decisions of crisis affected companies, and expectations regarding the disclosure decisions of all the major oil companies after the Gulf of Mexico oil spill. Next, background information about the Gulf of Mexico oil spill is provided, before discussion of the methods of data collection and analysis. This is followed by the results section, a discussion that provides

an explanation for the results in relation to prior literature and an analysis of the implications of these results. The paper then concludes with a summary, limitations, and suggestions for potential future research.

2. Literature review and expectations

2.1 Legitimacy theory

Legitimacy theory is based on the concept of a social contract whereby companies are in need of a positive relationship with society in order to ensure access to resources (Shocker & Sethi 1974). Companies seek congruence between perceptions of outsiders of the company's social values and society's conception of acceptable organisational conduct (Mathews 1993). A perceived disparity between a company's values and societal values represents a threat to the company's legitimacy and a breach of their social contract (Dowling & Pfeffer 1975). A legitimacy threat can be serious, even endangering continued survival, because stakeholders can withdraw support and limit resources (Parsons 1960; Pfeffer & Salancik 1978). This threat to resource access can take many forms, such as government increasing regulations and reporting requirements, decreased customer demand for the companies' products, decreased interest in employment in the company by sought after candidates, or shareholders and lenders disinvesting from the company (Deegan, Rankin & Voght 2000). Therefore, it is important for companies, not only to do the *right thing*, but also to manage the perceptions of their various relevant publics, otherwise known as their stakeholders (Oliver 1991).

2.2 Perception management through disclosure

Perception management can be difficult as legitimacy is dynamic and a company can lose legitimacy due to shifts in the interests of their relevant publics or the composition of their relevant publics (O'Donovan 2002). Disclosure provides a relatively cost effective means of influencing opinion and reducing any legitimacy gap (Cormier & Gordon 2001). It can also be argued that remedial action without disclosure is not enough to repair legitimacy, because relevant publics need to be informed about actual changes before their perceptions can change. Therefore, corporate disclosure strategies are important legitimising/perception management tools.

2.3 Disclosures after a legitimacy crisis

Legitimacy crises can be precipitated by sudden revelations of new information about a company that differs from prior perceptions (Sethi 1977). An environmental accident event linked to a company can lead to such a legitimacy crisis (Elsbach 1994). Many studies have investigated how a crisis can affect a company's legitimacy, the effect of industry on

legitimacy (Doppegieter & De Villiers 1996; De Villiers & Lubbe 2001), trends over time (Antonites & De Villiers 2003), and the disclosure patterns of the companies in reaction to a legitimacy threat (Sutton & Callahan 1987; Patten 1992; Elsbach 1994; Deegan & Rankin 1996; Walden & Schwartz 1997; Deegan, Rankin & Voght 2000). Studies focussing on legitimacy following ExxonMobil's 1989 Alaskan oil spill caused by the *Exxon Valdez* are particularly relevant here (e.g., Patten 1992; Deegan, Rankin & Voght 2000). Patten (1992) shows that this oil spill was followed by increased self-laudatory environmental disclosures by all of the oil companies. Walden and Schwartz (1997) demonstrate that these increased environmental disclosures were made in response to increased public policy pressure. Oil companies responded immediately to the legitimacy threat (Walden & Schwartz 1997). Deegan, Rankin and Voght (2000) extended these studies by showing that the annual reports of oil companies two years subsequent to the Exxon Valdez oil spill, contained information about the preventative methods and emergency response procedures undertaken in response to the spill. Deegan, Rankin and Voght (2000) also investigated the reactions of oil companies to BHP's Iron Baron oil spill. Oil companies responded to the Iron Baron incident by increasing incident related social disclosures two years subsequent to the spill in an attempt to regain legitimacy (Deegan, Rankin & Voght 2000).

An increase in positive disclosures has been identified as the most prevalent way to manage relevant publics' perceptions (Deegan 2002). Further examination of disclosure strategies following a legitimacy threat will potentially provide further insights (Dowling & Pfeffer 1975; Ashforth & Gibbs 1990; Oliver 1991) and information about the company's motivations for disclosing environmental information (O'Donovan 2002).

Dowling and Pfeffer (1975), Lindblom (1993) and O'Donovan (2002) each developed categories of disclosure strategies that companies trying to repair their legitimacy will adopt. Cho (2009) synthesises and reclassifies these prior classifications into three disclosure strategies. Suchman (1995) also identifies three disclosure strategies that companies dealing with a legitimacy threat could implement. Prior classifications are shown in Table 1 to facilitate comparison. Note that because Suchman's (1995) strategies are all legitimacy repairing strategies, his classifications are somewhat different. Nevertheless, similarities emerge as explained below.

According to Disclosure Strategy 1, the disclosure of self-laudatory environmental information can increase the appearance of legitimacy (Cho 2009). Disclosures under this strategy are aimed at enhancing the image of the company by either, reiterating past achievements (Lindblom 1993), emphasising current positive environmental activities (Dowling & Pfeffer 1975; O'Donovan 2002; Cho 2009), or framing the actions taken in regards to the activity that was a threat to their legitimacy in a positive

manner (Suchman 1995). Also by changing the focus towards positive activities, a company is able to symbolically fulfil its social contract, whilst not actually altering activities or methods (Buhr 1998; Neu, Warsame & Pedwell 1998).

Table 1: Legitimising disclosure strategies

	Disclosure Strategy 1 -Image Enhancement	Disclosure Strategy 2 - Disclaim Responsibility	Disclosure Strategy 3 - Deflect Attention
<i>Dowling and Pfeffer (1975, p.127)</i>	<u>Adapt</u> – change outputs, goals and methods of operation to conform to prevailing definitions of legitimacy	<u>Alter</u> – change the definition of social legitimacy so that it conforms to the organisations present practices, output and values	<u>Identification</u> – become identified with symbols, values or institutions which have a strong base of social legitimacy
<i>Lindblom (1993, pp.13-16)</i>	<u>Educate</u> – inform the relevant public about recent organisational actions that remedy previously perceived deficiencies	<u>Alter</u> – change the perceptions of external parties	<u>Deflection</u> – deflect attention from the perceived problem areas by changing the focus of external parties
<i>Suchman (1995, pp.598-599)</i>	<u>Restructure</u> – selectively confess that limited aspects of organisations operations were flawed (Second in process)	<u>Avoid panic</u> – use a mixture of gain (intense activity) and maintain (sensitivity to environmental reactions) in order to repair legitimacy (Third in process)	<u>Normalise</u> – separate threatening revelation from larger assessments of organisation as a whole (First in process)
<i>O’Donovan (2002, pp.359-360)</i>	<u>Conform</u> – change to conform to what society expected	<u>Alter</u> – shape the social perceptions of the corporation	<u>Avoidance</u> – make no disclosures about the negative event
<i>Cho (2009, pp.37-38)</i>	<u>Image Enhancement</u> - appear legitimate by linking itself to positive social values by disclosing self-praising information	<u>Disclaimer</u> – appear legitimate by issuing disclaimer statements denying its responsibilities	<u>Deflection</u> – appear legitimate by redirecting attention from specific social and environmental concern

An oil company trying to regain legitimacy might make symbolic disclosures that announce an immediate inquiry into the cause of the spill and assure the public that any measures necessary to prevent a similar future accident will be undertaken (O'Donovan 2002, p.348). Therefore, in using the first disclosure strategy, labelled "image enhancement", the company makes symbolic, selective, positive, self-laudatory disclosures aimed at repairing image and legitimacy (Deegan & Gordon 1996).

The second disclosure strategy involves disclosures that change the expectations of the companies' relevant publics, so that the company is not held responsible for the event which threatens their legitimacy (Lindblom 1993; Cho 2009). In undertaking this strategy a company attempts to redefine its legitimacy so that no changes have to be made to their environmental activities (Dowling & Pfeffer 1975). It is only the perceptions of the external parties about the company that will be changing (Lindblom 1993; O'Donovan 2002). Suchman (1995) maintains that companies adopt this strategy in an attempt to alleviate the concerns of their relevant publics due to the high remediation costs attached to a crisis. In denying responsibility, the company gains time to plan and manage any remediation they may be forced into (Suchman 1995). Therefore, disclaiming responsibility can be a valuable strategy that is commonly used by companies for disclosures in their annual reports (Preston, Wright & Young 1996). Companies can claim that they are not responsible and that it is unfair to expect companies like themselves to be held responsible.

In the final disclosure strategy, companies use their disclosures to deflect attention away from the crisis that has caused the threat to their legitimacy (Cho 2009). This is done by identifying with symbols or values seen as legitimate (Dowling & Pfeffer 1975), and/or by making no disclosures about the event (Neu, Warsame & Pedwell 1998; O'Donovan 2002). The company typically keeps information about the threatening event separate from information about general operations in order to normalise and lend legitimacy to the company (Suchman 1995). Companies thus repair their legitimacy by challenging the link between the crisis and the company (Stephens, Malone & Bailey 2005). Companies often use this deflection disclosure strategy in conjunction with the first, image enhancement, where positive environmental disclosures are used to enhance the company's image and to divert attention away from the environmental crisis (Cho 2009).

Cho (2009) examines the disclosure strategies of the oil company Total after two major environmental crises, namely the sinking of a tanker that caused an oil spill and an explosion at a chemical plant. After both crises the main disclosure strategy adopted was an image enhancement strategy (Cho 2009). Total was attempting to restore image and reputation and regain legitimacy (Cho 2009). However, after the second crisis, Total shifted towards using deflection and disclaimer strategies, leading Cho

(2009) to conclude that when a company faces major and multiple crises, there is an increasing need to use deflection and disclaimer disclosure strategies to manage their relevant public's perceptions to regain their legitimacy. It is suspected that a particularly high profile single crisis event, such as the Gulf of Mexico oil spill, is enough to require the increased use of deflection and disclaimer strategies.

In summary, after a legitimacy threatening crisis, a company is likely to attempt to regain legitimacy with disclosures aimed at image enhancement, disclaiming responsibility, and/or deflecting attention from the crisis. Companies attempt to enhance their image by increasing positive, self-laudatory disclosures. Companies attempt to disclaim responsibility by altering their relevant publics' expectations through these positive disclosures. When repairing legitimacy, companies are most likely to use symbolic disclosures that conform to social values, and alter the expectations of their relevant publics, rather than using disclosures that avoid the event, because companies are thus able to portray themselves as being proactive and repentant without actually apologising, allowing them to decouple their actions from the event (O'Donovan 2002). Companies will also sometimes use positive disclosures to deflect attention away from the crisis event, making no attempt to change the expectations of their relevant publics (Cho 2009), but according to O'Donovan (2002), completely ignoring a high-profile crisis event is not feasible. The size of the Gulf of Mexico oil spill and the extent of the media attention it generated probably mean that oil companies were not able to ignore the incident in their disclosures. Therefore, deflecting attention should not be a viable option here. Therefore, it is expected that BP and other major oil companies to have reacted to the Gulf of Mexico oil spill with image enhancing and disclaiming responsibility disclosures, but not deflection disclosures.

2.4 Annual report disclosures

Annual report disclosures are commonly used by companies to manage their relevant public's perceptions and to regain legitimacy after a crisis (O'Donovan 2002) and studies have shown that many different stakeholders call for the disclosure of environmental information in annual reports (De Villiers 1998; De Villiers & Vorster 1995) and that the managers who make the disclosure decisions are aware of it (De Villiers 1999). Being a major public document ensures that the annual report is influential in relevant publics' perceptions (Andersen & Epstein 1995). By increasing the environmental disclosures within these reports, companies that have directly caused an environmental crisis, or that operate within the crisis industry, are able to convey an image of ethical responsibility and accountability (Deegan, Rankin & Voght 2000). The Gulf of Mexico oil spill was an environmental crisis of unprecedented proportions. Therefore it impacted severely on BP's legitimacy. The extent of the crisis also raised the question whether similar disasters could be expected in future.

In this way, it also impacted on the image and legitimacy of other oil companies. Therefore, it is expected that all of the major oil companies responded with annual report disclosures.

2.5 BP's legitimacy crisis versus the other oil companies

Prior research show that all companies in a crisis industry respond with additional disclosures (Patten 1992; Deegan, Rankin & Voght 2000). We expect BP, who caused the crisis, to have perceived their legitimacy questioned most, because the crisis made BP appear less responsible than the rest of the industry, making it harder for them to regain their legitimacy (Deegan, Rankin & Voght 2000). Therefore, BP would have had to increase environmental disclosures more than the other companies in the industry in order to regain legitimacy (O'Donovan 2002; Patten 1992).

3. Background: Gulf of Mexico Oil Spill

On April 20th 2010 an explosion and fire occurred on the Deepwater Horizon oil rig at the Macondo well just off the coast of Louisiana, which eventually sank the vessel on April 22nd 2010 (BP 2010). During that time and in subsequent months until the well was permanently plugged with cement on September 19th 2010 (Det Norske Veritas 2011, p.2), a total of 4.9 million barrels of oil were discharged from the Macondo well into the Gulf of Mexico (Schaaf & Apple 2010). The event caused the death of 11 people, serious injury to 17 others, and the greatest environmental disaster in the United States' history (Bryant & Hunter 2010). The oil spill caused permanent ecological, environmental and economic destruction to the Gulf of Mexico area (Gore 2010). There was damage to the coastline, unsightly pollution, the death of fish and wildlife, and the elimination of jobs that were the livelihood of many people including fishermen, and restaurant and hotel owners (Lee 2010). For example, the Gulf of Mexico fishing industry, which in 2008 supported over 213,000 workers was prohibited from fishing in the Gulf until November 15th 2010, causing workers to be dismissed and sales to decrease as customers became concerned about the safety of Gulf seafood (Upton 2011).

BP made many attempts to stop the discharge of oil before succeeding. The successful method was to drill two relief wells and to seal the Macondo well with a static-kill procedure (Det Norske Veritas 2011). The depth of the well added to the complexity and cost of these methods. According to BP's 2010 Income Statement, the cost of sealing and the clean-up and remediation costs totalled \$40.9 billion. This cost was expected to increase considerably as BP faces future litigation and remediation expenses (BP 2010). Although payment of such costs will impact significantly on BP's operations, they expect to recover some of these costs from Transocean who own the site of the oil spill, the

Deepwater Horizon rig, which BP had leased from March 2008 until September 2013 (Det Norske Veritas 2011).

4. Method

This study examined oil company annual report disclosure responses to the 2010 Gulf of Mexico oil spill. This research focussed on two issues, namely changes in the volume of environmental disclosures, and the disclosure strategy used (image enhancement, disclaimer, and/or deflection). In addition, disclosures were reviewed for any other prominent characteristics. Environmental disclosures in the annual reports of BP, Total, Shell, ExxonMobil, Chevron, and ConocoPhillips, being the largest oil companies by market capitalisation (Fortune 2010) for 2009 (before the crisis) and 2010 (after) were compared and the 2010 reports further examined in light of our legitimacy theory derived expectations. These oil companies frequently benchmark against each other (BP 2010; Total 2010). According to the legitimacy derived expectations, it is likely that a major environmental crisis in one of these companies will impact the legitimacy of the other companies.

The annual reports were chosen as the basis of analysis because, as shown by Warsame, Neu and Simmons (2002), they are the primary source of information for institutional investors (Hutchins 1994), individual investors (Epstein & Freedman 1994) and environmental groups (Patten 1992). So annual reports are used by many different relevant publics and managers can be expected to use annual reports to attempt to manage the perceptions of these relevant publics. Annual reports are perceived as highly credible due to the considerable amount of regulations monitoring its preparation including the financial audit (Warsame, Neu & Simmons 2002). These regulations cause some uniformity across companies, facilitating comparison and increasing reliability of comparison (Neu, Warsame & Pedwell 1998).

Changes in the environmental disclosures of the six oil companies' 2009 (BP 2009; Chevron 2009; ConocoPhillips 2009; ExxonMobile 2009; Shell 2009; Total 2009) and 2010 (BP 2010; Chevron 2010; ConocoPhillips 2010; ExxonMobile 2010; Shell 2010; Total 2010) annual reports, were examined initially by way of sentence counts, a method used extensively in environmental reporting research (e.g., Hackston & Milne 1996; De Villiers & Van Staden 2011). This method allowed qualitative information to be divided into different categories to facilitate an analysis of the increases in the types of environmental disclosures made (Abbott & Mosen 1979). The primary interest was in changes in volume of environmental disclosures from 2009 to 2010, making this sentence count method appropriate. Also, Hooks and Van Staden (2011) demonstrate that volume counts and quality scores of environmental disclosures yield highly correlated results, providing further support for our method. This

volume measure has the added advantage that it can be more reliably coded, because it is less likely that coders disagree on coding categories than with other methods (Milne & Adler 1999; Hooks & Van Staden 2011).

Following Wiseman (1982), disclosures were regarded as environmental if it relates to environmental regulations or requirements, actions taken to alleviate an environmental issue; environmental policies, efforts to reduce environmental impact; expenditures on environmental activities, or litigation for environmental actions. Prior research was followed and disclosures were categorised on the basis of whether the disclosures reflect positively, negatively, or neutrally on the company (Hackston & Milne 1996; Cormier & Magnan 1999). A separate category for information in BP's 2010 annual report was created which directly relates to the Gulf of Mexico oil spill. This category includes any information that would not have appeared in the annual report had the oil spill not occurred. This category allows for more comparisons and additional analyses.

Percentage increases/decreases were calculated between 2009 and 2010 for all the categories of disclosure mentioned above. Percentage changes are deemed appropriate, because the annual report lengths range from 40 to 320 pages, arguably rendering direct comparisons less effective. We expect a relatively large increase in disclosure from 2009 to 2010 for each of the companies, with BP showing the largest increase. Such a finding would be consistent with legitimising disclosure behaviour.

The disclosure strategies used were also examined. This was undertaken to learn more about the disclosure patterns, motivations, and strategies companies use to regain legitimacy. These disclosure strategies are image enhancement, disclaimer, and deflection strategies aimed at regaining legitimacy. Better understandings of disclosure strategies following a known environmental disaster will potentially enhance our ability to interpret disclosures in general, e.g., when there is no known environmental disaster.

5. Results

5.1 BP disclosures

5.1.1 Sentence count comparison

Table 2, Panel A shows the percentage change from 2009 to 2010 for the number of sentences of environmental disclosures in BP's annual reports. As expected, there was an increase in the overall amount of environmental information that BP disclosed from 2009 to 2010. Specifically, BP provided 43% more positive disclosures in their 2010 annual report than in their 2009 annual report. Negative (27%) and neutral (5%) disclosures also increased, but by smaller proportions than positive disclosures. These large increases in disclosure show that BP felt the need to provide more

information to their relevant publics about their environmental activities. These increases were interpreted as a need to regain legitimacy after the oil spill, a strategy that takes more disclosure than to maintain legitimacy (O'Donovan 2002).

Table 2: Comparison of BP annual reports – environmental disclosures

	Percentage Change (2009 – 2010)			Sentence Count
	Positive	Negative	Neutral	Gulf Spill
PANEL A - Total for Report	+43.31%	+26.89%	+5.26%	958
Total for Sections	Section Percentage of Total for 2009^B			
PANEL B - Section Percentage of Total for 2009^A	Positive Total = 254	Negative Total = 119	Neutral Total = 304	
Business Review (Total)	75.98%	66.39%	65.46%	
Corporate Responsibility	34.65%	42.86%	32.89%	
Directors and Senior Management	0.00%	0.00%	0.00%	
Corporate Governance	12.60%	5.04%	11.51%	
Directors' Remuneration Report	5.91%	0.00%	3.95%	
Additional information for shareholders	2.36%	19.33%	8.88%	
Financial Statements	3.15%	9.24%	10.20%	
	100.00%	100.00%	100.00%	
	Section Percentage of Total for 2010			Sentence Count
PANEL C - Section Percentage of Total for 2010	Positive Total = 362	Negative Total = 151	Neutral Total = 320	Gulf Spill
Business Review (Total)	78.57%	70.86%	64.38%	450
Corporate Responsibility	34.89%	12.25%	28.43%	77
Directors and Senior Management	0.00%	0.00%	0.00%	0
Corporate Governance	9.62%	0.66%	7.81%	149
Directors' Remuneration Report	6.32%	1.32%	1.56%	8
Additional information for shareholders	3.02%	22.52%	15.62%	116
Financial Statements	2.47%	4.64%	10.63%	235
	100.00%	100.00%	100.00%	

Notes:

^A As the structure of the annual reports was different, the sections for the 2009 annual report were amended to correlate with the structure of the 2010 sections to facilitate comparison.

^B Calculations were done as follows: Total positive environmental disclosures for Business Review for 2009 were 193 and total positive environmental disclosures in 2009 annual report were 254 so $193/254 = 75.98\%$.

Table 2, Panels B and C show the proportion of the total environmental disclosures contained within the various sections of the 2009 and 2010 annual reports for each disclosure category. The table shows that although BP increased their total environmental disclosures in 2010 (Panel A), the

proportion of these disclosures contained within the various sections of their annual reports remained very similar to 2009. There is a difference between the proportions of environmental disclosures in the *Additional Information for Shareholders* section for the neutral disclosure category. There were 9% of the neutral disclosures in that section in 2009 and 16% of the neutral disclosures in that section in 2010. A possible explanation for this difference that is consistent with Neu, Warsame and Pedwell (1998), is that BP sees the provision of environmental information to shareholders as more important because of shareholders' significant power over the company. Another difference was identified with the proportion of total environmental disclosures in the *Corporate Responsibility* section of BP's annual reports for the negative disclosure category. There were only 12% of the negative disclosures in that section in 2010, but 43% in 2009. This large difference must be due to the imperative of trying to manage relevant publics' perceptions regarding the oil spill.

Table 2, Panel C also provides information about the number of sentences contained within the different sections of the 2010 annual report pertaining to the Gulf of Mexico oil spill. Every section in BP's annual report apart from *Directors and Senior Management* contained some information about the oil spill. The dispersion of this information was quite even across the different sections. This dispersion was interpreted as an indication that BP recognised the importance of signalling to all stakeholders that the company was taking responsibility, that the damage was under control, and that future surprises would be unlikely.

5.1.2 Disclosure strategies

The above results show that BP increased their environmental disclosures and provided information about the oil spill to regain their legitimacy. Further insights can now be gained by examining the strategies undertaken by BP to communicate with their relevant publics.

Image enhancement strategy

In a similar response to Total after their environmental crises, BP used the image enhancement strategy most extensively to regain their legitimacy after the Gulf of Mexico oil spill. They undertook two different methods when using this strategy. Both methods involved making self-praising disclosures about the company to deflect attention away from the negative aspects of the oil spill, and to show their relevant publics that they were committed to being environmentally and socially responsible. Firstly, BP reiterated their commitment to undertake all actions to remedy any damage caused by the incident.

[BP] have set up a \$20-billion fund to show our willingness and capacity to pay all legitimate claims for compensation. [...] [BP] have committed \$500 million to a 10-year independent research programme that will examine the environmental impact of the oil spilled and dispersants used. [...] Having taken a total pre-tax charge of \$40.9 billion in relation to the accident and oil spill, we

announced our intention to sell up to \$30 billion of assets. [...] changes we have made following the Gulf of Mexico incident [...] creating an enhanced, independent Safety and Operational Risk function (BP 2010, pp.6-14).

In making these disclosures BP also demonstrated how important they felt those actions were to assist in regaining their legitimacy. This is illustrated in Table 3 showing the number of times information about significant actions taken in response to the oil spill appeared in different sections of BP's 2010 annual report.

Table 3: Number of sentences in sections of BP annual report 2010 containing information about the Gulf of Mexico oil spill

Section	Issue mentioned			
	\$20bn Oil Spill Fund	\$500m Research Programme	\$30m Asset Disposal	Safety & Operational Risk Function
<i>Business Review</i>				
Chairman's letter	1	1	1	
Group Chief Executive's letter	1	1		1
Progress in 2010	1			
Group Overview	1		3	4
Gulf of Mexico Oil Spill	3	1		
Exploration and Production				1
Refining and Marketing				1
Liquidity and Capital Resources	1		1	
Corporate Responsibility				
Safety				1
Environment		2		
Employees				1
Research and Technology		1		
<i>Corporate Governance</i>				
Board Performance Report	2	1	1	1
<i>Directors' remuneration report</i>				
Part 2 Executive Directors' remuneration				1
<i>Additional information for shareholders</i>				
Critical accounting policies	1			
Legal proceedings	1			
<i>Financial Statements</i>				
Notes on financial statements	5	2	1	

BP repeated this commitment to remedial activities without elaborating on them. Information about these remedial activities was sometimes repeated more than once within one subsection, e.g., the creation of the safety and operational risk function was mentioned twice in the *Group Overview* subsection. The fact that BP repeated the same remedial information in different sections shows an attempt to regain legitimacy from different relevant publics, because different relevant publics would be focussed on different sections in the annual report. The most disclosures about the \$20 billion oil spill fund were made in the *Financial Statements* section indicating that BP views this information as valuable for their financial stakeholders. Also, two disclosures were made about the \$500 million research programme in a relatively small section, *Environment* indicating that BP wanted any environmental groups to know about their commitment to repairing any long term damage caused by the oil spill.

The second method BP adopted in using an image enhancement strategy involved attempts to use positive disclosures to divert their relevant public's attention away from the oil spill.

BP will continue to be a leader of high-quality hydrocarbons today, while developing the intelligent options we will all rely on tomorrow. Lower-carbon resources remain central to this long-term strategy [...] To achieve this, we must ensure that safety and responsibility are at the heart of everything we do (BP 2010, p.7).

Although this statement can be seen as largely symbolic, it nevertheless associates BP with positive imagery and appears to commit the company to eventually exit the oil business while presumably remaining in the energy business.

Disclaimer strategy

A disclaimer strategy was used by BP to ensure they were not seen as totally responsible for the actions that caused the oil spill.

BP holds a 65% interest in the Macondo well, with the remaining 35% held by two joint venture partners. While BP believes and will assert that it has a contractual right to recover the partners' shares of the costs incurred, no recovery amounts have been recognized in the financial statements (BP 2010, p.38).

By disclaiming total responsibility BP attempts to lessen the negative association their relevant publics might harbour. This facilitates the framing of BP's actions in response to the oil spill in a positive and proactive manner as might be expected of a responsible corporate citizen.

Deflection strategy

There was no indication of BP solely using a deflection strategy after the Gulf of Mexico oil spill. This strategy may not have been possible due to the high profile of the oil spill and the established public perception that BP was to blame (Dittrick 2010). However, aspects of a deflection strategy

can be discerned. A deflection strategy was used in conjunction with an image enhancement strategy to divert attention away from the oil spill through the use of positive disclosures.

In summary, this analysis shows how BP provided information to their relevant publics about the oil spill in a way that optimised any legitimacy regaining possibilities. This was done through positive disclosures that were aimed at enhancing their image, while simultaneously deflecting attention away from the negative consequences of the oil spill, and also by disclaiming some of the responsibility for the oil spill.

5.2 Major oil companies' disclosures

5.2.1 Sentence count comparisons

Table 4 provides the percentage change from 2009 to 2010 for the total number of sentences of environmental disclosures made in the annual reports of BP, Shell, Total, Chevron, ConocoPhillips, and ExxonMobil for each disclosure category. The BP disclosure information is repeated here to facilitate comparison.

Table 4: Comparison of oil companies annual reports 2009 and 2010 – environmental disclosure

	Positive Sentence Count		
	Total – 2009	Total – 2010	Positive % Change
BP	254	364	+43.31%
Shell	84	128	+52.38%
Total	132	192	+45.45%
Chevron	32	48	+50.00%
ConocoPhillips	40	65	+62.50%
ExxonMobil	41	67	+63.41%
Mean excluding BP			+54.75%
Mean including BP			+52.84%
	Negative Sentence Count		
	Total – 2009	Total – 2010	Negative % Change
BP	119	151	+26.89%
Shell	43	68	+58.14%
Total	99	96	-3.03%
Chevron	63	66	+4.76%
ConocoPhillips	0	1	+100.00%
ExxonMobil	5	5	0%
Mean excluding BP			+31.97%
Mean including BP			+31.13%
	Neutral Sentence Count		
	Total – 2009	Total – 2010	Count
BP	304	320	+5.26%
Shell	77	112	+45.45%
Total	189	218	+15.34%
Chevron	96	166	+72.92%
ConocoPhillips	15	13	-13.33%
ExxonMobil	35	33	-5.71%
Mean excluding BP			+22.93%
Mean including BP			+19.99%

As expected, there is an increase in the environmental disclosures for all of the major oil companies. This is most pronounced for the positive environmental disclosures with all of the oil companies showing an increase. Four of the six oil companies also increased their negative and neutral environmental disclosures.

It was expected that BP would increase their disclosures by more than the other oil companies, because BP had a greater need to regain legitimacy. However, Table 4 shows that when BP is excluded, the mean increase is larger (54.75% for positive, 31.97% for negative and 22.93% for neutral) than when BP's disclosures are included (52.84% for positive, 31.13% for negative and 19.99% for neutral). These results show that the Gulf of Mexico oil spill affected all of the major oil companies. They all felt the need to increase in their environmental disclosures in 2010. The legitimacy theory framework leads to a belief that this was in order to ensure legitimacy under conditions where the oil spill made it likely that oil company legitimacy would be questioned and that oil companies could suffer due to the withdrawal of resources.

5.2.2 Disclosure strategies

Image enhancement strategy

An image enhancement strategy was mostly used by the major oil companies to try to regain oil industry legitimacy. By making disclosures that emphasised their commitment to help repair any damage from the oil spill and prevent any future incidents, the oil companies could ensure that their relevant publics recognised their efforts and rewarded them with legitimacy. Here are some disclosure examples:

The Macondo incident in the U.S. Gulf of Mexico underscored that safe operations are fundamental to our ability to operate. Following Macondo, we led the industry in working with regulators to enhance operating standards in the Gulf (Chevron 2010, p.2).

Since April 2010, public discussions about safety in the oil industry have been dominated by the Deepwater Horizon incident in the Gulf of Mexico. This tragic incident reflects poorly on our industry. It will take a lot of effort to re-establish trust in our industry. Drilling responsibilities at our rigs are clear, and we assure both ourselves and regulators that all necessary safety measures have been put in place (Shell 2010, p.6).

Following BP's accident in the Gulf of Mexico in 2010, TOTAL geared up to learn lessons from the disaster, analyze the potential risks for its operations in the light of these events and make recommendations to improve safety in deep-offshore environments, leading to a creation of three task forces (Total 2010, p.303).

We were saddened by the tragic oil spill in the deepwater Gulf of Mexico this past summer, and assisted in response efforts (ConocoPhillips 2010, p.4)

The majority of these disclosures were made in the Chief Executive Officer's letters allowing the oil companies to convey to their relevant publics the importance of this information to them. They could also convey to their relevant publics the significant effect that their remedial actions would have by making them more socially and environmentally responsible. The oil companies also assured readers that a similar disaster would be unlikely to occur in their company. They tried to show that they are already operating in a way that ensures the protection of the environment. Here are some examples:

The company's performance was grounded in a strong safety culture, which resulted in our safest year ever (Chevron 2010, p.2).

Our good safety record shows that we have the capability to access oil and gas safely and responsibly. [...] The number of operational oil spills was down significantly from 2009 (Shell 2010, p.6).

In 2010, Total reasserted the priority on safety and the environment as part of its operations and investments throughout its business (Total 2010, p.52).

[...] recording our safest year since the inception of ConocoPhillips in 2002 (ConocoPhillips 2010, p.2).

We continued our industry-leading safety performance achieving our best ever lost-time incident rates in 2010 (ExxonMobil 2010, p.2)

Disclaimer strategy

There were no direct disclaimers in the annual reports of the other oil companies. However, as mentioned above, they made a point of mentioning the actions they had undertaken to remedy the damage caused by the spill and prevent any future disasters. Therefore, the oil companies were able to indirectly disclaim responsibility for the oil spill, while also portraying themselves as responsible corporate citizens and fixing problems caused by others.

Deflection strategy

There was no evidence of a deflection strategy being used by the other oil companies in their environmental disclosures. The likelihood of their relevant publics knowing that BP is responsible and the amount of publicity about the oil spill would have made a deflection strategy ineffective.

In summary, the other oil companies mainly used an image enhancement strategy to regain their industry's legitimacy after the oil spill. They used positive disclosures about the oil spill and the state of their current operations to make themselves appear socially and environmentally

responsible, while also allowing them to indirectly disclaim responsibility for the oil spill. Due to the fact that the oil spill was a high profile known event, the oil companies did not try to deflect attention away from the oil spill. Instead they emphasised their own superior controls that would prevent such spills in their firms and the actions they had undertaken to remedy the damage caused by the spill.

6. Discussion

The preceding analyses show that oil companies' annual report reactions to the 2010 Gulf of Mexico oil spill are consistent with legitimacy theory explanations. In the case of BP, the amount of environmental information they disclosed, the sections in their annual report in which this information was disclosed, and the strategies used to convey that information are all consistent with a strategy to regain legitimacy. BP increased the amount of environmental disclosures for all disclosure categories after the oil spill, but particularly for the positive disclosures, demonstrating their desire to repair their threatened legitimacy.

The method BP used to attempt to repair this legitimacy was to adopt disclosure strategies that framed their increased environmental disclosures in a way that attempts to manage their relevant publics' perceptions (Dowling & Pfeffer 1975). BP predominantly used an image enhancement strategy when making disclosures. This is consistent with Cho (2009), who found Total using this strategy after their Erika oil spill. The disclosures were made in several sections in the annual report. We interpret this as an attempt by BP to ensure that different relevant publics, who focus on different sections, all got the image enhancing message they were trying to send. For example, BP made more neutral disclosures in 2010 within the *Additional Information for Shareholders* section, typically aimed at financial stakeholders, but made less negative disclosures within the *Corporate Responsibility* section, likely to be more important to environmental groups. In doing this, and by keeping the proportion of the total environmental disclosures within the sections of the annual report similar to 2009, BP could ensure their relevant publics received information that would reflect more positively on their environmental responsibility, thereby facilitating the regaining of legitimacy.

The image enhancement strategy also allowed BP to respond to the negative publicity about the oil spill (Douglas 2010). As environmental issues are becoming increasingly important (Manning 2004) and there is a heightened emergence of ethical investors (Bauer, Derwall & Otten 2007), any events that negatively impact on the environment are now likely to receive much media attention (Deegan, Rankin & Tobin 2002). Therefore, it is not surprising that BP chose to disclose positive information to put a positive spin on the negative media attention (Deegan & Rankin 1996). The combination of using an image enhancement strategy with a partial

disclaimer strategy meant BP could provide their relevant publics with information that challenged the negative publicity from the media. They could show that they recognised their part in the oil spill through their significant remedial activities, while also showing that they were maintaining their other social and environmental responsibilities.

The remedial activities disclosures show that BP found it important to manage the perceptions of all of their relevant public groups. This is contrary to the findings of Oliver (1991) and Neu, Warsame & Pedwell (1998), who showed that companies are likely to privilege their most important relevant publics, such as shareholders, whilst ignoring or paying only symbolic attention to less important ones, such as environmental groups. This may be due to the well-known, high profile nature of the Gulf of Mexico oil spill, where a concerted effort targeting all of the relevant publics were deemed necessary. The constant repetition of the same remedial activities information throughout all sections of the 2010 annual report was an interesting approach. This strategy is interpreted as an attempt to increase the volume of environmental disclosure without providing any additional information that may lead to further litigation against the company. An example of this repetition is information about the \$20 billion oil spill trust fund, which was disclosed five times in the “Financial Statements” section, a section that is of interest to financial stakeholders. Also, information about the \$500 million research programme was disclosed two times in the relatively short “Environment” section. Environmental groups would be interested in BP’s commitment to fix the damage caused by the oil spill and are likely to refer to this section. These examples show BP attempting to positively influence different relevant publics’ perceptions by repeating positive aspects such as remedial actions without further elaboration. The bad news regarding the oil spill was common knowledge and could not be denied. The only credible positive spin BP could put on it was the fact that they were paying for the remediation. The fact that they had no choice in the matter, that they were forced to take remedial action (Juhasz 2011), was not mentioned in the annual report. This is an important finding as it extends prior literature such as Patten (1992) and Cho (2009) by showing that BP attempted to ‘pad’ the volume of their environmental disclosures by repeating the same information without elaborating. This could have been driven by the fears of disclosing additional information that could lead to further claims. As a result, the annual report actually provides very little information to BP’s relevant publics about the oil spill.

The disclosures of the other major oil companies suggest they were also affected by the Gulf of Mexico oil spill. These oil companies also attempted to regain their legitimacy through increases in environmental disclosures in their 2010 annual reports. This is consistent with Patten’s (1992) finding that an environmental crisis affects the legitimacy of the entire industry, not just the responsible company. Apparently companies

respond to this challenge more noticeably when a company's industry experiences an environmental crisis.

When increasing these disclosures the oil companies mainly used an image enhancement strategy to manage their relevant publics' perceptions. They provided information about their preparedness to assist in repairing the damage of BP's accident and to claim a high level of safety for their own operations. Whilst using this image enhancement strategy, they could simultaneously disclaim responsibility for the oil spill, while also proclaiming that a similar incident would be unlikely to occur within their companies (Suchman 1995). Disclosing information about their remedial activities is an attempt to manage relevant publics' perceptions that could lead to access to resources withdrawn from BP (Bryant & Hunter 2010).

Cho (2009) shows that there is an increased need for various disclosure strategies when a company faces a sequence of multiple crises. The findings show that companies also require the use of various disclosure strategies when faced with a single major crisis characterised by negative media attention. This is true even for other companies in the same industry as the crisis company.

7. Conclusion

The purpose of this paper was to assess the disclosure patterns and disclosure strategies used by the major oil companies in response to BP's Gulf of Mexico oil spill in order to develop a better understanding of disclosure decisions and strategies made under crisis conditions. The findings show that after the oil spill there was an increase in the amount of positive, negative, and neutral, environmental disclosures made by BP and the other major oil companies in their 2010 annual reports. In BP's case, the proportion of these disclosures contained within the various sections of their annual report appeared to remain similar to the proportion used by them in 2009.

According to our analyses, image enhancement was the most common disclosure strategy. In addition, BP disclaimed total responsibility but claimed partial responsibility for the oil spill. The other major oil companies used remedial activity disclosures to demonstrate their innocence in the events surrounding the oil spill. No evidence of a deflection strategy was found and put this down to the fact that this crisis was too large and well known to ignore.

These findings are generally consistent with our legitimacy theory expectations. The increase in the disclosure of positive environmental news that was identified in all of the major oil company's environmental disclosures after the oil spill shows that when their legitimacy is threatened by a crisis they will use their disclosures to manage their relevant publics' perceptions in an attempt to regain that legitimacy. They

will also use disclosure strategies that are suited to their operating environment and that will enable them to manage perceptions most effectively. This was shown by the use of image enhancement and partial disclaimer disclosure strategies but not a deflection strategy, the latter probably due to the extensive media attention surrounding the spill.

By way of extension, it was evident that BP made an effort to increase environmental disclosures whilst limiting the content of the disclosures. Specifically, information about certain significant remedial activities is repeated various times in the annual report, often verbatim, and sometimes within the same section, but often between the different sections. This information was given without further elaboration. This strategy ensured that readers of the annual report were likely to encounter these positive disclosures independent of the readers' particular focus or interests. These disclosures ensure that relevant publics could obtain (and could hardly miss) positive remedial activity disclosures, as well as about other positive environmental activities.

This research contributes to the understanding of corporate disclosure strategies aimed at regaining legitimacy after an environmental crisis by identifying that:

- companies within an industry are likely to use the same annual report disclosure strategies to regain legitimacy after a crisis, namely an increased volume of environmental information that reflect positively on the company, along with disclaiming responsibility for the crisis, either in full or partially, depending on the extent to which the company can credibly disclaim responsibility;
- the company responsible for the crisis is likely to disclose a large volume of information about the crisis, especially given a significant amount of negative media attention;
- the disclosures are likely to provide information that is largely already known, in order to minimise the risk of providing information that could be useful to potential litigants against the crisis company;
- the company is likely to achieve larger volumes of disclosure without providing additional information by duplicating the same remedial activity information (including impressive sounding dollar amounts) over and over again, both within the same sections and between sections in the annual report; and
- if the crisis company was forced into remedial actions (such as in this case by the US Government), the company is unlikely to disclose this fact in the annual report.

These disclosure strategies puts the best spin on a negative situation and managers see this as providing the best likelihood of appeasing corporate relevant publics.

The findings have implications for the interpretation of environmental disclosures by annual report users and by researchers. Regulators may also factor these findings into their decisions regarding possible future disclosure regulations. In addition, although the use of these disclosure strategies is not advocated, the possibility that managers may find these disclosure strategies of interest cannot be ruled out.

Some possible limitations need to be mentioned. Firstly, the extent to which the findings can be generalised can be questioned, because the research examined disclosures in an environmentally sensitive industry and the response to a very high profile environmental crisis. As a result, the reactions examined may have been exaggerated and may not be evident in other industries and under conditions of lesser legitimacy threats. However, it is believed that this high profile case makes the reactions easier to identify and this could improve the understanding of reactions to lesser incidents.

Taking these limitations into account, there are various issues that could be addressed by future research to help further explain the reactions of companies to a crisis, e.g. examining corporate disclosure reactions to other social or environmental crises in different industries, a longitudinal study on the disclosure decisions of the oil companies after the oil spill, and a longitudinal study of other industries after social or environmental crisis. Such studies could provide additional insights useful in further theory development.

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