

# Disclosure of socio-environmental scandals and corporate reputation

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## ABSTRACT

This research aimed to investigate the use of neutralization of disclosure of socio-environmental scandals and its relationship with corporate reputation. No studies were found observing the strategies and motivations of socio-environmental disclosure from a theoretical lens like the literature on neutralization techniques. This study sought its relevance by investigating the disclosure and reputation maintenance strategies used by companies involved in national socio-environmental scandals, identifying various paths for information neutralization, guided by the origin of each case and business motivations, in addition to highlighting empirical findings that stimulate the advance in research on neutralization techniques in corporate reports. The aim is to assist students and researchers by providing new evidence for corporate processes that involve socio-environmental disclosure strategies and reputational management. As well as contribute to ensuring that stakeholders see voluntary socio-environmental information better and in a well-founded manner, seeking to qualify decision-making. Corporations involved in the main national socio-environmental scandals between 2014 and 2021 were analyzed. This is an exploratory and quali-quantitative study, with content analysis and statistical tests to investigate socio-environmental scandals. Neutralization techniques were identified in information from voluntary corporate reports by companies involved in socio-environmental scandals. In addition to finding a positive correlation between neutralized disclosure and the reputation of these companies in the year the scandal took place and in the year after, there was also an increased use of techniques after the event. We hope to contribute to the literature by proposing the insertion of neutralization techniques in the investigation of strategies involving voluntary disclosure and corporate reputation. With a practical approach, we seek to build a rather critical view regarding voluntary reports and business mechanisms that may disqualify the information contained in them.

**Keywords:** socio-environmental disclosure, corporate reputation, neutralization techniques, socio-environmental scandals.

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## O disclosure de escândalos socioambientais e a reputação corporativa

### RESUMO

*Esta pesquisa teve por objetivo investigar o uso da neutralização no disclosure de escândalos socioambientais e sua relação com a reputação corporativa. Não foram identificados estudos que fizessem a observação das estratégias e motivações do disclosure socioambiental a partir de uma lente teórica como a literatura sobre técnicas de neutralização. Este estudo buscou sua pertinência ao investigar as estratégias de divulgação e de manutenção reputacional utilizadas por empresas envolvidas em escândalos socioambientais nacionais, identificando direcionamentos distintos de neutralização informacional, guiados pela origem de cada caso e pelas motivações empresariais, além de evidenciar achados empíricos que estimulam o avanço de pesquisas sobre técnicas de neutralização nos relatórios corporativos. Almeja-se auxiliar estudantes e pesquisadores fornecendo novas evidências para os processos corporativos que envolvam estratégias de divulgação socioambiental e gerenciamento reputacional. Bem como contribuir para que os stakeholders compreendam melhor e de maneira fundamentada as informações voluntárias socioambientais, buscando a qualificação da tomada de decisão. Foram analisadas as corporações envolvidas nos principais escândalos socioambientais nacionais, entre os anos de 2014 e 2021. Trata-se de um estudo exploratório e qualiquantitativo, com análise de conteúdo e testes estatísticos para investigação dos escândalos socioambientais. Foram identificadas técnicas de neutralização nas informações de relatórios corporativos voluntários de empresas envolvidas em escândalos socioambientais. Além de verificar uma correlação positiva entre o disclosure neutralizado e a reputação dessas empresas no ano do escândalo e no posterior, verificou-se também um aumento do uso das técnicas após o evento. Espera-se contribuir com a literatura pertinente propondo a inserção de técnicas de neutralização na investigação das estratégias que envolvam a divulgação voluntária e a reputação corporativa. Com a prática, busca-se a construção de uma visão mais crítica a respeito dos relatórios voluntários e os mecanismos empresariais que possam desqualificar as informações contidas neles.*

**Palavras-chave:** disclosure socioambiental, reputação corporativa, técnicas de neutralização, escândalos socioambientais.

### 1. INTRODUCTION

Attention to social and environmental issues has become more frequent in recent decades. As an example, in 20 years there was a 900% increase in the number of US sustainable investment funds and an increase in movement of 11.536 billion dollars in liquid assets (Eccles et al., 2020). The growth of socio-environmental disclosure is evidenced by the number of companies that disclose voluntary socio-environmental reports, covering more than 15,000 organizations on a global scale in 2021 (GRI, 2021).

This is due to the escalating demand from investors and other stakeholders to understand not only business interactions with the economic, but also with the social and environmental domains. In Brazil, much of such disclosure occurs through socio-environmental reports which, in addition to demonstrating the company's view on sustainability, can also be a tool for safeguarding corporate image (Costa et al., 2018; Oliveira & Cintra, 2019). Many studies in the area investigate the relationship between voluntary socio-environmental disclosure and economic-financial performance. This line of studies is observed both nationally and internationally (Alsaifi et al., 2020; Costa et al., 2018; Degenhart et al., 2017).

Some papers, in turn, are based on understanding business motivations and strategies for carrying out

voluntary disclosure, with corporate reputation and reputational risk management appearing as motivators (Ardiana, 2019; Hawn, 2020; Oliveira & Cintra, 2019) and neutralization techniques as strategic mechanisms adopted by organizations to achieve the company's goal of showing a good corporate reputation before stakeholders (Fooks et al., 2013).

In this sense, neutralization techniques are conceptualized as cognitive devices that seek to justify, excuse, or even rationalize negative information arising from situations that contradict or disrespect social or legal norms (Fooks et al., 2013) and can be observed in some studies on voluntary disclosure. There is research that seeks to observe socio-environmental disclosure as a form of response or justification for negative situations that may affect organizational reputation, namely: self-regulation of sensitive sectors (Fooks et al., 2013); impacts on biodiversity (Chassé & Boiral, 2017); and accusations of crimes against human rights (Maher et al., 2021).

In this way, a new theoretical lens is highlighted among international studies in the area of business, based on attention to neutralization techniques observed as strategies during socio-environmental disclosure, a perspective that has not yet been investigated. So, this

study aimed to investigate the use of neutralization in the disclosure of socio-environmental scandals and its relationship with corporate reputation.

To achieve this goal, we analyzed reports by corporations involved in the main national socio-environmental scandals identified in the ten years prior to the research, which focuses on neutralization techniques based on the Theory of Delinquency (Sykes & Matza, 1957), and this is justified, above all, by the lack of studies in the accounting area that follow this path and its classification categories.

As theoretical contributions, we seek to go beyond the mainstream literature on socio-environmental disclosure as a theme. With this in mind, this study is not only guided by the relationship between disclosure and economic performance (Alsaifi et al., 2020; Degenhart et al., 2017), as is the case in many studies that deal with disclosure, but considers business motivations and strategies adopted for disclosure, in order to deepen the understanding of the role of voluntary disclosure in the relationship between organizations and stakeholders. The aim is to understand, above all, how the ways of thinking embodied in the justifications, excuses, and rationalization of acts contrary to social and legal norms can shape and mean socio-environmental disclosure

and corporate reputation. As for corporate reputation, this study not only observes the benefits linked to it (Szwajca, 2018), it also reveals mechanisms adopted in reputational management, poorly explored in the existing literature. Additionally, this research helps to introduce the discussion on neutralization techniques in accounting studies on the national scene, as well as advances the growing investigation on the theme on the international scene.

Furthermore, practical contributions seek to assist investors and other stakeholders in developing a rather critical view regarding socio-environmental disclosure and reputational management in companies. The identification of socio-environmental disclosure management through the results of prior studies, the present study, and further studies can have an effect on engagement practices of parties interested in this information, which begin to better understand the constraints on social responsibility and socio-environmental disclosure, especially in the behavior of corporate actors who can use strategic devices to distort information and reduce litigation risks. It is also expected to alert organizations and drafters of socio-environmental reports about factors that may disqualify the information contained in these documents as neutralizing mechanisms.

## 2. THEORETICAL BACKGROUND

### 2.1 Disclosure Theory and Socio-Environmental Disclosure

Prior studies have identified the potential of voluntary socio-environmental disclosure for organizations, whether reflected in operational results, the stock market, or the generation of reputation (Degenhart et al., 2017; Luo et al., 2019). However, there are caveats to this positive relationship when the disclosure is based on negative socio-environmental issues, such as the emission of polluting gases, since causing environmental and social damage requires expenses and repair investments that overlap with the possible positive results arising from such damage. Thus, the market tends to react negatively, predicting low returns (Alsaifi et al., 2020).

In this way, voluntary disclosure can be conceptualized as the set of information disclosed in order to foster company operation (Costa et al., 2018). However, evidencing brings costs to the organization, either due to drafting or potential negative effects stemming from its disclosure. With this in mind, voluntary disclosure needs to be balanced with possible associated costs (Cahan et al., 2016).

The disclosure theory explains that corporate disclosure needs a certain level of information symmetry to generate value for its target user (Verrecchia, 1983). However, this same theory warns of an increased 'ownership cost' associated with voluntary disclosure of negative information, when compared to positive information (Verrecchia, 1983). Just like what is observed in the disclosure theory, studies highlight how international companies with negative socio-environmental performance invest more in voluntary disclosure and have higher costs associated with disclosure (Aragón-Correa et al., 2016).

However, findings such as those of Martínez-Ferrero et al. (2019) demonstrate how increased socio-environmental disclosure is not always associated with symmetrical and clear information, and in some cases information that is not favorable to the company may be smoothed out. Furthermore, these corporate smoothing mechanisms can be observed in reports in several aspects, not only in textual information, but in the form of submission of illustrations (García-Sánchez, & Araújo-Bernardo, 2020).

Based on this, research studies investigate the mitigation of harm associated with negative disclosure

through impression and reputational risk management and neutralization techniques as tools for such management (Oliveira & Cintra, 2019; Talbot & Boiral, 2018). However, it is worth highlighting that neutralization techniques based on the Theory of Delinquency (Sykes & Matza, 1957), just as in Fooks et al. (2013), were used in this research. Therefore, it is necessary to observe the consequences that negative socio-environmental information may have on corporate reputation and the mechanisms adopted to manage this association.

## 2.2 Corporate Reputation

Corporate reputation functions as a type of intangible asset for organizations. It can be built through favorable interactions with the social, environmental, economic, and political domains. Thus, a good reputational image is associated with several positive factors, such as those related to financial performance, but it can also help maintain the economic value of companies in critical situations, preventing possible losses due to negative cases (Godfrey, 2005; Patten, 2008).

Corporate reputation provides a strategic advantage for the entity by allowing it to show itself favorably to various stakeholders (whether internal or external) based on its past actions and results (Arora & Lodhia, 2017).

Despite the benefits identified in corporate reputation, studies like Muller and Kräussl (2011) highlight the complexity of overcoming histories of bad actions in the process of building or repairing reputation. Furthermore, they point out how companies with poor corporate reputation tend to be rather active in their interactions with the socio-environmental domain during periods of crisis. In this way, the reputational asset in risk management stands out, serving not only as insurance for economic value, but also in the economic recovery of companies affected by harmful events (Xia et al., 2019). It is worth noticing that reputational risk is seen as the fact that the company coexists with factors (whether internal or external) that can cause damage to company reputation (Gonçalves et al., 2013).

It is hard to measure business reputation and reputational risk, despite being important for organizations

(Eckert, 2017; Oliveira & Cintra, 2019). Prior studies were guided by the investigation of ways to qualify and manage corporate image, whether through social responsibility practices that are positively associated with increased reputation (Sirly & Lvina, 2019) or stakeholder management by means of socio-environmental disclosure, with the goal to avoid possible social sanctions, increase market share, and control possible threats linked to reputation (Ardiana, 2019).

The literature points out a positive relationship between company size and concern about reputational risk (Szwajca, 2018). Furthermore, questions are raised about the subjectivity inherent in an organization's reputation, since it is built through the perception of its stakeholders, and the number of them may vary depending on size and business sector (Szwajca, 2018). In this sense, recent studies verified the use of usual risk management systems for other types of operational risks and the influence of the independent audit committee in the reputational preservation process (Cornejo et al., 2019).

Furthermore, in relation to negative information, such as that related to a crisis, findings from prior studies demonstrate how corporate reputation is less affected or better managed when the organization speaks out or seeks to justify its actions. On the other hand, the lack of response can create a negative perception on the part of information users regarding the company (Nazione & Perrault, 2019). Also, business responses may be better accepted when they do not seek to hostilely deny responsibility, but rather justify it through rational explanations and excuses and based on solution plans (Koch et al., 2019; Theiss et al., 2022).

## 2.3 Neutralization Techniques Derived from the Theory of Delinquency

The literature on neutralization techniques is derived from the Theory of Delinquency, proposed by Sykes and Matza (1957) and expanded by Minor (1981), who originally studied how young delinquents justify their actions deviating from moral and legal conduct. The techniques identified by the two studies are displayed in Table 1.

**Table 1**  
*Neutralization techniques*

Technique	Interpretation
Denial of responsibility	The social actor indicates that their delinquent behavior is the result of factors over which he has no control;
Denial of injury	The social actor claims that their deviant attitudes are not harmful or disputes the level of harm caused;
Denial of the victim	The social actor indicates that the victims 'deserve it,' or that they are physically absent or unknown;
Condemnation of the condemners	The social actor changes the focus of their delinquent attitudes by contesting the morality or motivations of actors who disapprove of their behavior;
Appeal to higher loyalties	The social actor claims that the behavior was necessary to conform to the norms of other groups that have priority over the rules of society;
Defense of necessity	The social actor should not feel guilty about their deviation because they see that it was necessary.

**Source:** Adapted from Sykes and Matza (1957) and Minor (1981).

The literature has the perspective of customer behavior, as in Fukukawa et al. (2019), where the divergence between the attitudes that social actors defend stands out. In this study, the actions they actually take are explained by a rationalization of decision-making, using convenient means of neutralization. In the professional ethics scenario, such as information security, neutralization techniques appeared as a determining factor for violations of information security policies (Vance et al., 2020). However, regarding themes that have greater collective appeal, such as climate change or sustainable consumption,

studies identify a reduced counterargumentation level (less use of neutralization) on the part of consumers (Lasarov et al., 2019).

In the field of organizational studies, techniques have been improved to investigate companies as main players in delinquent action, no longer seeing neutralization as a possible cognitive device, but as a corporate strategy (Fooks et al., 2013; Meyer & Höllerer, 2016). Thus, new neutralization techniques emerged in the business context, based on Fooks et al. (2013) (Table 2).

**Table 2**  
*Neutralization techniques for the corporate scenario*

Technique	Interpretation
Misrepresentation/denial of the evidence	The corporate actor refutes evidence justifying a regulatory intervention;
The defense of legality	To excuse their harm to public welfare, the corporate actor attempts to prove the legitimacy of their actions/products;
For the good of the cause/for the greater good	The corporate actor claims that their actions are for a 'greater good' that produce long-term consequences justifying their actions;
Expression of right	The corporate actors justify their behavior based on the universal rights that permeate commercial freedom;
Protection of the weak	The corporate actor justifies their behavior as defending less powerful groups;
Assertion of rationality	When asked about their actions, the corporate actor puts the accuser's morality into question;
The world has moved on	The corporate actor claims condemnation of their behavior is driven by changes in public behavior.

**Source:** Adapted from Fooks et. al. (2013).

The adoption of neutralization techniques is still limited in business studies. National papers on the theme are scarce, however, some international articles were collected (Table 3).



**Table 3**  
Prior studies on neutralization techniques

Author	Synthesis
Boiral (2016)	They sought to highlight the use of neutralization techniques in the process of legitimizing actions against biodiversity. Among the research results, the strategies used by companies in the mining sector when put into question regarding their responsibility for the environment were highlighted. These strategies include: claiming a positive or neutral impact on biodiversity; deny the impact by stepping out from the case and minimizing responsibility.
Chassé & Boiral (2017)	They aimed to grasp the relationship between lack of commitment of managers, of small and mid-sized enterprises (SMEs), with social and environmental issues, and the use of rationalization to explain this lack of commitment. Among study findings, the positive relationship between the use of neutralization techniques and the justifications on the part of managers to explain organizational behavior regarding themes such as sustainability stands out, in addition to raising questions about the use of institutional resistance strategies ( <i>institutional resistance</i> ).
Talbot & Boiral (2018)	They investigated the quality levels of climate information in standard GRI reports, and how companies used tools to manage the impression of negative impacts. The study identified impression management strategies, both to hide negative impacts and to justify them, highlighting neutralization techniques among strategic justifications.
Talbot & Barbat (2020)	They investigated the relationship between neutralization techniques and themes related to Corporate Social Responsibility (CSR). The authors evaluate the credibility of corporate reports, in terms of CSR, as well as the business justifications found to explain their performance in this respect. The findings point out a relationship between the use of neutralization techniques and impression management strategies.
Siebert et al. (2020)	They observed the rhetorical strategies of employees in the British banking sector, when accused of immoral or illegal conduct, during the 2007 financial crime. Based on the study, the authors built a typology of legitimation strategies, identifying the use of neutralization techniques among strategic argumentation.
Maher et al. (2021)	They investigated the neutralization techniques in corporate responses to accusations of Human Rights crimes. The observation is carried out based on business documents present at the Business and Human Rights Resource Center. Among the research results, the presentation of new 'sub-techniques' stands out, emerging from observation and literature, such as 'evasion' when the defendant (company) refuses to participate in the discussion regarding the accusation.

**Source:** Prepared by the authors.

The related papers exposed converge with ideas brought in this study, such as the presence of neutralization techniques in the interaction between corporations and stakeholders, including the approach to socio-environmental issues. However, the articles found are guided by the investigation of neutralization techniques from the perspective of legitimacy, i.e. they identified the use of neutralization as a way of promoting the legitimization of their activities, and no studies were found linking the use of neutralization techniques with corporate reputation, i.e. the use of techniques as a strategic mechanism for reputational management.

## 2.4 Construction of Hypotheses

As noticed by Koch et al. (2019) and by Blanc et al. (2019), organizations seek mechanisms to safeguard their image when faced with a critical event, and these mechanisms can be used as justifications that aim to rationalize business attitudes (Boiral, 2016; Fooks et al., 2013). Furthermore, prior studies have identified how voluntary socio-environmental disclosure (i.e. disclosure in the social scenario and in the environmental scenario without separation by origin of scandal) can be correlated with the company's reputational image (Etxeberria,

& Odriozola, 2018). So, the statistical hypothesis  $H_1$  emerges:

**$H_1$ :** There is a positive correlation between neutralized socio-environmental disclosure and corporate reputation.

Neutralization techniques have already been identified in the literature both in the social scenario, through the observation of justifications for crimes against Human Rights (Maher et al., 2021), and in the environmental scenario, with the use of neutralization in climate reports (Talbot & Boiral, 2018). Thus, prior studies provide the basis for an observation of the reputation-neutralization relationship separated by origin of the scandal (between social and environmental), and the hypotheses  $H_2$  and  $H_3$  were formulated:

**$H_2$ :** There is a significant association between neutralized disclosure of social scandals and corporate reputation.

**$H_3$ :** There is a significant association between neutralized disclosure of environmental scandals and corporate reputation.

Besides, Lasarov et al. (2019) identified how the neutralization of environmental issues with popular appeal can be less efficient and, thus, less common in organizations, causing the use of techniques to be greater

in the context of social scandals. So, the hypothesis  $H_4$  is highlighted:

**$H_4$ :** The proportion of neutralization of disclosure of social scandals is greater than the proportion of neutralization of disclosure of environmental scandals.

Also, prior studies observed how companies in sensitive economic sectors, such as mining or gas and oil, may have a greater frequency of use of neutralization in their voluntary reports (Fooks et al., 2013). However, in a negative situation, such as a socio-environmental scandal, companies look for ways to safeguard or recover their reputation (Muller & Kräussl, 2011) and, thus, the neutralization level may increase after this event. It is worth noticing that companies can maintain the custom of using neutralization techniques or even start using

them to justify, excuse, or rationalize behavior before the scandal happens (e.g. start justifying the emission of pollutants even before these pollutants cause large-scale environmental damage). So, the statistical hypothesis  $H_5$  emerges.

**$H_5$ :** The use of neutralization in socio-environmental scandals is greater after the event.

As a result, based on the theoretical basis raised in the section theoretical background, the problem exposed in this study and the need to investigate the possible neutralization of negative socio-environmental disclosure and its relationship with corporate reputation are confirmed, potentially contributing to the accounting literature and the organizational practices in the area.

### 3. METHODOLOGY

#### 3.1 Type of Research and Presentation of Cases

To achieve the goal of this study, a deductive approach was adopted, in addition to exploratory research. This is a quali-quantitative approach, since both interpretative content analysis and empirical tests are needed.

The observed population consists of corporations involved in the main national socio-environmental scandals, identified in the 10 years prior to the research, namely: (i) in the social sphere, Operação Lava Jato, between 2014 and 2021 (Braskem, BTG Pactual, Eletrobras, Gol Linhas Aéreas, Hypera Pharma, JBS, Oi, and Petrobras); and (ii) in the environmental sphere, the fire that hit the Port of Santos, in 2015 (Ultracargo), the collapse of the Mariana dam, in 2015 (Samarco Mineração), and the collapse of the Brumadinho dam, in 2019 (Vale S.A.).

It is worth highlighting that the division of scandals into social and environmental was carried out taking into account the origin of the scandal. In the case of Operação Lava Jato, the origin was a practice of corruption, a problem that occurs when private wealth and public power overlap, causing decreased public spirit (Rose-Ackerman, 2006), so it is seen as a social problem, as public resources are wasted on bribes and other illicit practices instead of being used for legitimate demands. In cases in the environmental sphere, the origin was environmental accidents, such as the collapse of dams and fires. It is understood that both cases (social and environmental) resulted in financial losses, but the origin of the scandals

in the eyes of information users was considered, i.e. the outbreak of corruption and environmental accidents.

The choice of cases is justified because they are corporate scandals with national and international repercussion and involve problems related to economic, social, and environmental aspects that violate the principles of sustainable development. Besides, the four cases have listed companies as participants, and this requires constant interaction with their stakeholders through official channels, such as annual socio-environmental reports.

#### 3.2 Data Collection

Data were obtained from corporate reports, such as the *Annual Sustainability Report*, for the current period to the case, as well as the previous and the following. These documents are collected via the B3 website, as well as each company's official website. And the adoption of documentary research using content analysis techniques (Bardin, 2000) is justified by the textual and discretionary essence of the information contained in these reports, in addition to its wide use in organizational studies, such as in Boiral (2016), Fooks et al. (2013), and Maher et al. (2021).

To collect cases of voluntary disclosure in documents, the coding stage was carried out, identifying keywords that relate to the themes of each scandal, based on preliminary analyses and existing literature.

After identifying a keyword, the paragraph or section in which it is inserted was cut. Then, the textual passage

was transposed into an electronic spreadsheet, where the disclosure was interpreted and categorized by having the central ideas of each passage as a basis. In the next step, the 13 neutralization techniques found in the literature (Fooks et al., 2013; Minor, 1981; Sykes & Matza, 1957) were used as categories (listed in tables 1 and 2), each with its respective central idea. Thus, the cases of neutralized disclosure identified were grouped by category and the passages in which no neutralization was observed were discarded.

To observe the correlation between the neutralization of socio-environmental information and the reputation of companies involved in the scandals investigated, secondary data were collected from sources usually used by studies in the area to estimate corporate reputation (Góis & Soares, 2019; Lopes et al., 2017; Pinto & Freire, 2020). Namely: (i) the Ranking MERCO Brazil (Pinto & Freire, 2020); (ii) the Ranking Melhores e Maiores, by the magazine *Exame* (Lopes et al., 2017; Pinto & Freire, 2020); (iii) the Troféu Transparência, given by the ANEFAC and FIECAFI (Góis & Soares, 2019); and (iv) the Índice de Sustentabilidade Empresarial, by B3 (ISE B3) (Pinto & Freire, 2020). It is worth highlighting that measuring business reputation is considered laborious, despite being important, for entities (Eckert, 2017) and that there are controversies regarding the most appropriate proxy given a diversity of possibilities (Pinto & Freire, 2020). So, it is understood that there may be limitations in defining the proxy representing corporate reputation in this study, however, we chose to define it using bases that were nationally recognized, with less possibility of bias, and that had already been used in prior studies on the theme to thus align with the objective of this research.

### 3.3 Data Measurement and Statistical Tests

After the interpretative observation of cases of disclosure, an indicator was created by having the quantification of findings as a basis, it is named 'neutralization level.' To do this, the text passages where

the use of neutralization was identified were turned into absolute frequency (total number of times that the neutralization category appears) and relative frequency (total number of times that the neutralization category appears/total number of times that all categories appear x 100), with the relative frequency used only for the chi-square test and the absolute frequency for the others.

To quantify corporate reputation, company participation in each source of reputation used in the study was adopted. Thus, a score was created for each company included in the population, where 1 point was added for each participation in one of the reputation sources, and 0 point was added for each non-participation (with the minimum range being 0 and the maximum being 4 points).

Next, a summary of the findings had descriptive statistics as a basis. It is worth noticing that for all statistical tests, as well as for analyzing the results, nominal significance levels of 1%, 5%, and 10% were considered. Furthermore, as a period of analysis, the year of the scandal was adopted (named 'Year'), the year before the scandal (named 'Year -1'), and the year after the case (named 'Year +1'). Thus, despite the observed cases occurring in different periods, it was possible to standardize the analysis interval.

To observe a possible correlation between neutralized socio-environmental disclosure and corporate reputation highlighted in the hypothesis H<sub>1</sub>, Spearman's correlation test was used. Furthermore, taking into account the hypotheses H<sub>2</sub> and H<sub>3</sub>, cases of neutralized disclosure were investigated by using the Mann-Whitney-Wilcoxon test for two independent samples, separated by origin of the scandal (social or environmental).

In addition, the chi-square test was adopted in order to verify the proportion of neutralization categories between social and environmental scandals, thus testing hypothesis H<sub>4</sub>. Also, the statistical hypothesis H<sub>5</sub> emerges to verify the use of neutralization of voluntary disclosure before and after social and environmental scandals, using the paired Wilcoxon test.

## 4. RESULTS

### 4.1 Neutralization Techniques and Voluntary Disclosure in a Social Scenario

The companies observed in a social context were those involved in the police investigation named Operação Lava Jato. This unfolded between 2014 and 2021 and involved

several listed Brazilian companies. The focus of research lied on the 8 companies mentioned in the investigation up to its 37<sup>th</sup> phase.

The mechanisms that emerge from the literature on neutralization techniques can be divided into two lines of interpretation. While the techniques introduced by Sykes



and Matza (1957) and Minor (1981) had the delinquent actor seeking to deny their actions, or involvement in a negative situation, the techniques introduced in the business area demonstrate how organizations try to rationalize their deviant attitudes based on the affirmation

of operational legitimacy (Fooks et al., 2013). Table 4 displays the arguments related to social scandals, found in accounting reports and coded for neutralization techniques.

**Table 4**

*Codification of neutralization techniques in social scenario arguments in company reports*

Argument	Technique Codification	Interpretation
"[...] there were no public legal proceedings related to corruption filed against Braskem or its Members in 2015" (Braskem, 2015, p. 25, our translation).	Denial of the victim	It sought to deny involvement in the case. There were no legal accusations against it until the given year (which were confirmed by the company the following year).
"On the date the financial statements were issued, the investigation is ongoing [...]. The Special Committee and the Legal Advisors had indications that, based on activities carried out to date, no evidence was found that the Group, its Management, or any of its employees were involved in corruption or fraud activities among other breaches of the law. The investigation is ongoing and is expected to be completed in April 2016" (BTG Pactual, 2015, p. 11, our translation).	Denial of injury	The aim is convincing that its possible deviant act is not so serious or that its harms have not yet been identified (Sykes & Matza, 1957). In the section at stake, the company BTG Pactual anticipates outcomes of the ongoing operation by means of an internal investigation, to highlight the non-existence of suspected crimes of corruption or fraud.
"Since November 25, 2015, the Group has been hit by a series of news related to Mr. André Esteves, and since then has taken measures, described below, to guarantee the normal functioning of the Companies. Although the Group is not part of any investigation or prosecution [...]" (BTG Pactual, 2015, p. 10, our translation).	Denial of responsibility	The organization claims that the deviant acts pointed out are not its responsibility, in other words, it is a denial of involvement in the scandal. Negative events can be better accepted, and less damaging to business reputation, when disclosure is accompanied by reasoned explanations and a repair action plan (Koch et al., 2019; Theiss et al., 2022).
"The presence in the new ISE and Dow Jones portfolios reflects the commitment of Eletrobras companies and their professionals to continually foster the improvement of their business practices, guided by ethics, transparency, and social and environmental responsibility" (Eletrobras, 2015, p. 6, our translation).	Appeal to higher loyalties	It can be interpreted not as a form of denial, but as a justification of rationality, since the corporate actor tries to follow the standards of a legitimized group. It seeks to rationalize a person through an association with a prestigious group, in this case, in the socio-environmental and governance spheres.
"We are committed to clarifying the facts and taking the necessary measures. To this end, we activate our control mechanisms, reinforce our standards, and have effectively collaborated with the work of public authorities. In parallel, we will keep on working so that Petrobras continues to operate with excellence, increasingly stronger, and more profitable" (Petrobras, 2014, p. 4, our translation).	For the good of the cause	It is possible to verify how the company Petrobras takes several actions, internal and external, with the aim of resolving the case for the sake of the continuity of its operation.

**Source:** *Prepared by the authors.*

## 4.2 Neutralization Techniques and Voluntary Disclosure in an Environmental Scenario

In the environmental context, this study sought to delve deeper into three national environmental scandals with great repercussion for their damage to ecosystems and local communities. Thus, the companies involved in the fire that hit the Port of Santos (Ultracargo), in 2015, in the collapse of the Mariana dam (Samarco Mineração), also in the year 2015, and in the collapse of the Brumadinho dam, in 2019 (Vale S.A.) were observed.

Unlike what was observed in the results of Boiral (2016), where organizations adopted symbolic environmental disclosure, favoring a positive discourse, the companies investigated in this study, with some caveats, took a position of responsibility for the scandals. In this sense, prior studies have already observed how the information neutralization is less effective when related to issues with great popular repercussion (Lasarov et al., 2019), such as the cases investigated herein. Table 5 displays the arguments related to social scandals, found in accounting reports and coded for neutralization techniques.

**Table 5***Codification of neutralization techniques in environmental scenario arguments in company reports*

Argument	Technique Codification	Interpretation
“Ultracargo started the Safe Attitude Program in July, with the aim of improving operational and safety processes. The initiative emerged as a learning and reflection process after the fire that hit the Santos terminal in April 2015 (read more about this on page 58), and aims to identify and promote continuing improvements, implement new procedures, and minimize vulnerability factors in operations. To achieve the goal of reaching a new level of excellence in safety management, Ultracargo relies on the support of a specialized consultancy, which supports the company in defining a future vision in safety, health, and the environment” (Ultracargo, 2015, p. 29, our translation).	The world has moved on	It occurs when the corporation seeks to strengthen its rationality by focusing on its future objectives, to meet the desires of external users. As seen in the company's corporate report, there is a distinction between the facts that were occurring during the year (year of the scandal) and the practices cited during the document. This contradiction observed in voluntary disclosure between speech and actions can be explained by the external pressures exerted on the company, to disclose positive information that can generate more benefits in the long term (Alsaifi et al., 2020).
“[...] At the same time, we began negotiations to seek the resumption of Samarco's operations, considering our current capacity. Within this plan, maximum security is an essential premise for us to continue generating jobs and income for the populations of Minas Gerais and Espírito Santo, putting into practice the lessons learned after the dam collapse. Our goal is to work towards safer and lower risk mining” (Samarco, 2016, p. 7, our translation).	Protection of the weak	The corporate actor seeks to justify its legitimacy by defending less favored groups, such as local communities and their workers as a whole. The increased volume of voluntary socio-environmental disclosure may also be related to other factors, such as the search for greater credibility with investors to reduce financing costs (Luo et al., 2019).
“It was also a year of resumption of operations affected by the fire in Santos, in 2015 [...]. Today, the company is the sector leader, with 24% of the capacity offered in independent terminals in the country and, by the end of 2017, with the resumption of operations in Santos, it returns to 28%. In 2016, Ultracargo moved 20 million tons of products on the Brazilian coast” (Ultracargo, 2016, p. 67, our translation).	Expression of right	It demonstrates how corporations use commercial freedom to justify their actions. Therefore, the neutralization of negative information and the promotion of commercial information favorable to the company can facilitate the process of interaction with shareholders.
“The damage caused by the collapse of Dam I at the Córrego do Feijão mine, in Brumadinho (Minas Gerais), reinforced the importance and brought urgency to the need to continually improve our relationship processes and seek greater alignment with market standards and investor expectations generated by the ESG agenda” (Vale, 2020, p. 54, our translation).	For the good of the cause	The social actor tries to rationalize their actions based on future goals that can qualify the operation and ensure its continuity.
“The dam had Stability Condition Statements issued by TÜV SÜD do Brasil, a company specialized in Geotechnics, dated June 13 and September 26, 2018, referring to the Periodic Dam Safety Review and Regular Dam Safety Inspection processes” (Vale, 2018, p. 11, our translation).	Appeal to higher loyalties	The company did not target prestigious groups/bodies (such as in the social sphere), but supported its rationality based on certificates of stability conditions from a specialized company.
“Since I took over leadership of Vale, a few months after the tragedy caused by the collapse of the dam in Brumadinho, I have emphasized the company's three priorities: people, safety, and repair. These three words inspired us to follow the path that we believe is crucial to building a better Vale” (Vale, 2020, p. 3, our translation).	The defense of legality	The neutralization techniques that have emerged in the corporate area aim to justify business interests to the detriment of the collective good through information neutralization.

**Source:** Prepared by the authors.

Therefore, it is needed to grasp whether neutralization is less used in environmental scandals when compared to social scandals, since there are studies that highlight its lower efficiency in this scenario (Lasarov et al., 2019).

#### 4.3 The Relationship between Neutralized Disclosure and Corporate Reputation

During the interpretative analysis of cases of socio-environmental disclosure, the strategies adopted by companies to neutralize negative information contained in corporate reports were observed. Given this, prior

studies highlight how organizations adopt reputational risk management mechanisms (Blanc et al., 2019; Koch et al., 2019), and how neutralization techniques can be used as devices to rationalize harmful attitudes that can influence corporate reputation (Boiral, 2016; Fooks et al., 2013).

So, to verify a possible positive correlation between the practice of neutralizing socio-environmental information and corporate reputation, Spearman's correlation test was performed (for variables without normal distribution). The test results are displayed in Table 6, by year of observation and indicating the correlation coefficient.

**Table 6***Neutralization level and reputation score correlation matrix*

	Neutralization (Year-1)		Neutralization (Year)		Neutralization (Year+1)	
	C.C. <sup>1</sup>	P value	C.C. <sup>1</sup>	P value	C.C. <sup>1</sup>	P value
<b>Reputation (Year-1)</b>	0.4569597	0.15765717	-	-	-	-
<b>Reputation (Year)</b>	-	-	0.59740951	0.05027887	-	-
<b>Reputation (Year+1)</b>	-	-	-	-	0.6775122	0.02198837

<sup>1</sup> Spearman's Correlation Coefficient.

Source: Prepared by the authors.

Based on test results, a correlation was not identified between the neutralization level and the reputation score in the year previous to the case, thus rejecting the hypothesis  $H_1$  for this period. Hence, although neutralization techniques were present among the cases of socio-environmental disclosure before the scandal, they may not be used for reputational management (Fooks et al., 2013; Minor, 1981; Xia et al., 2019).

For the year of the negative event and the year after, the hypothesis  $H_1$  was met, since a moderate positive correlation was identified between the neutralization levels of socio-environmental information and company reputation. Based on this, it is observed that when exposed to a situation of external pressure, due to negative performance, it is suggested that entities tend to take measures to rationalize their attitudes and achieve a consequent informational neutralization (Boiral, 2016; Maher et al., 2021; Talbot & Barbat, 2020; Talbot & Boiral, 2018). This neutralization movement aims to manage stakeholders and achieve a consequent preservation or recovery of corporate reputation (Etzeberria, & Odriozola, 2018; Martínez-Ferrero et al., 2019; Muller & Kräussl, 2011; Szwajca, 2018).

So, based on the results of the correlation test, the relationship between neutralization techniques and corporate reputation in critical periods, such as after socio-environmental scandals, is clear. As observed by Muller and Kräussl (2011), companies are looking for ways to recover their corporate image after a period of crisis, being the qualification of their relationship with stakeholders the best way to achieve their goals of safeguarding reputation (Ardiana, 2019).

As identified by Chassé and Boiral (2017), where managers sought ways to justify their poor concern with socio-environmental issues, the companies investigated herein may be using neutralization to rationalize their harmful actions to society and the environment, thus managing the ownership cost related to negative information arising from the scandal (Cahan et al., 2016).

Thinking of additional analyses, the Mann-Whitney-Wilcoxon test was also adopted for two independent variables, in order to observe the neutralization levels in the social scenario, where the companies involved in Operação Lava Jato are investigated. So, Table 7 displays the test results, based on  $p$  values.

**Table 7***Neutralization level average test and reputation score (Social Scenario)*

P value	Year-1	Year	Year+1
<b>99% confidence</b>	0.000815	0.000875	0.000875
<b>95% confidence</b>	0.000815	0.000875	0.000875
<b>90% confidence</b>	0.000815	0.000875	0.000875

Source: Prepared by the authors.

The findings in the social scenario demonstrate a statistically significant association between the variables 'neutralization level' and 'reputation score' for the three years observed. With this, the hypothesis  $H_2$  is validated. As reported by the literature, when faced with negative social information, corporations seek ways to deny their actions, victims, or offense severity (Maher et al., 2021; Sykes & Matza, 1957).

For the environmental scenario, where the study investigated three scandals, namely the fire that hit the Port of Santos, the collapse of the Mariana dam, and the collapse of the Brumadinho dam, a possible statistically significant association was also observed between neutralization of voluntary environmental information and reputational image. In this sense, the Mann-Whitney-Wilcoxon test was used for two independent variables (Table 8).

**Table 8***Neutralization level average test and reputation score (Environmental Scenario)*

P value	Year-1	Year	Year+1
<b>99% confidence</b>	0.100000	0.100000	0.076523
<b>95% confidence</b>	0.100000	0.100000	0.076523
<b>90% confidence</b>	0.100000	0.100000	0.076523

**Source:** Prepared by the authors.

Based on the findings, the statistical hypothesis  $H_3$  must be partially rejected, since an association between the variables was only observed when a 90% confidence level was adopted. Therefore, as already mentioned in prior studies, negative environmental disclosure carries a higher cost than positive disclosure (Alsaifi et al., 2020) and the neutralization of such disclosure is less effective when compared to social disclosure due to the popular

appeal of issues related to environmental issues (Lasarov et al., 2019).

In order to verify whether the socio-environmental scandals addressed may have a statistically significant association with increased levels of neutralization, the paired Wilcoxon test was adopted for dependent samples (with non-normal data distribution). Table 9 displays the test results.

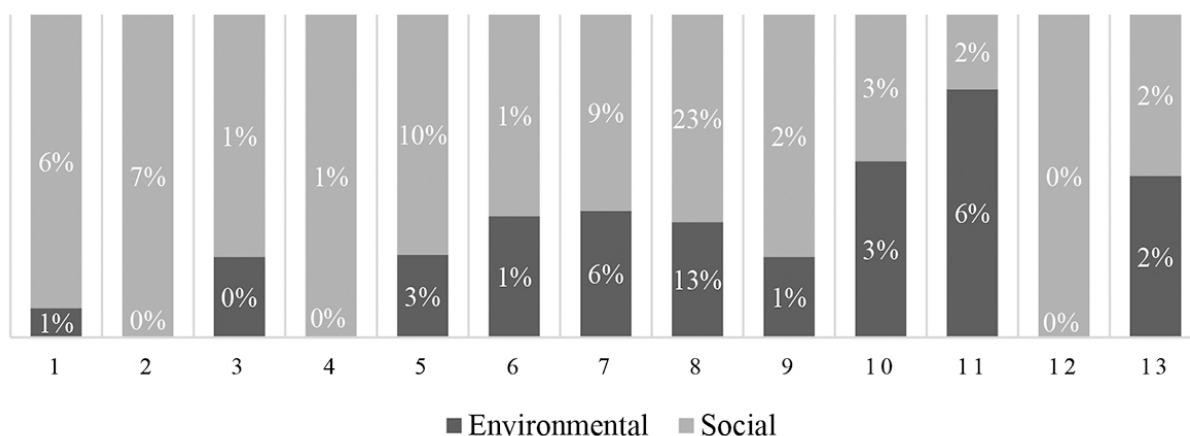
**Table 9***Paired test of increased post-scandal neutralization*

	P value
<b>99% confidence</b>	0.002913
<b>95% confidence</b>	0.002913
<b>90% confidence</b>	0.002913

**Source:** Prepared by the authors.

The findings of the paired test show a statistically significant association between the variables, confirming that the increases in neutralization levels after Year-1 are related to the socio-environmental scandal in which the company is involved – validating the hypothesis  $H_5$ . With this in mind, the findings of Xia et al. (2019) confirm how companies adopt information management mechanisms when faced with an event that could

damage their reputational image. The intensification of neutralization may also be related to an attempt to reduce the costs of negative information that make up socio-environmental scandals (Aragón-Correa et al., 2016). In relation to disclosure neutralization in a social and environmental scenario, Figure 1 illustrates the composition of neutralization categories by scenario under observation.

**Figure 1** Proportion of neutralization between the social and environmental scenario by category

**Note:** Category 1: Denial of responsibility; Category 2: Denial of injury; Category 3: Denial of the victim; Category 4: Condemnation of the condemners; Category 5: Appeal to higher loyalties; Category 6: Defense of necessity; Category 7: Misrepresentation/denial of the evidence; Category 8: The defense of legality; Category 9: For the good of the cause/for the greater good; Category 10: Expression of right; Category 11: Protection of the weak; Category 12: Assertion of rationality; Category 13: The world has moved on.

**Source:** Prepared by the authors.

Based on the analysis of the graph, there is a greater concentration of techniques originating in corporate studies, categories 1 to 6 (Fooks et al., 2013) in the environmental scenario, while in the social domain, techniques belong the classic approach are observed in the categories 7 to 13 (Minor, 1981; Sykes & Matza, 1957). These findings confirm the results of the first part of this section, which makes it clear how cases of neutralized social disclosure seek to deny negative information and,

on the other hand, environmental cases aim to rationalize operational activities.

To identify the validity of the statistical hypothesis  $H_4$ , the chi-square test was performed to verify whether there is a significant association between the proportion of neutralization in social and environmental scenarios (as observed in Figure 1). Based on the test result,  $p$  value was 0.000002, which means that the identified association and the higher proportion of neutralization in a social scenario in the previous figure are statistically validated.

## 5. FINAL REMARKS

This research aimed to investigate the use of neutralization in the disclosure of socio-environmental scandals and its relationship with corporate reputation. Therefore, among the main results of the study, in the interpretative phase of corporate reports, we have the evidence of neutralization techniques among voluntary corporate reports. This finding was already expected, since prior literature on socio-environmental disclosure already addressed mechanisms of informational selectivity that were capable of reducing the capital cost of negative information, as an example in the literature on impression management, which is another theoretical lens.

Among the quantitative results, the correlation between socio-environmental disclosure neutralization and corporate reputation became clear both in the year of the scandal and in the year after the scandal. Based on this, it can be interpreted that neutralization techniques are actually used as reputational risk management tools during a critical event. However, at times prior to the negative case, there is no correlation between the variables, which may indicate that neutralization has been used for another purpose, such as reducing the organization's capital costs.

As contributions, this study helps scholars by providing new explanations and evidence for corporate processes that involve voluntary socio-environmental disclosure strategies and the management of reputational risks. In this vein, it also contributes to society as a whole, to shareholders, and to drafters and reviewers of voluntary reports by demonstrating the relationship between this neutralization and corporate reputation, in individual (social and environmental) scenarios. Based on these findings, the aforementioned stakeholders will be able to build a rather grounded understanding in relation to voluntary socio-environmental information, see the possible limitations of cases of socio-environmental disclosure, observe how justifications for behaviors contrary to social and legal norms can shape this

information and serve as devices to reduce reputational risks and thus qualify their decision-making.

As a limitation, this research study was not guided by the verification of the perception of various stakeholders, such as the society as a whole, regarding information contained in corporate reports, since other factors not contained in these reports (such as the repercussion of scandals in press vehicles, or the interaction of companies via the issuance of Relevant Facts) can influence stakeholders' perception of the corporate image. Therefore, it is understood that there is subjectivity inherent to the method used, resulting mainly from the analysis and attribution of arguments contained in the reports to neutralization techniques, and a direct approach to the perceptions of individuals was not carried out.

Two other limitations identified consist in the number of scandal cases addressed and the lack of control variables in the observation between neutralized disclosure and corporate reputation. As for the size of the sample analyzed, it is understood that the cases selected were in fact cases of scandals that took place during the period under investigation, in addition, there is no attempt to generalize the findings. Regarding the control variables, as this is an exploratory study, prior literature is still scarce in terms of control variables and, furthermore, it is expected that further studies are able to verify such a relationship with greater robustness based on the findings shown herein.

In this way, some proposals for further studies emerge. Verifying the perception of stakeholders as a whole, through interviews or questionnaires, regarding the use of neutralization in corporate information could deepen the understanding of the external pressures exerted on organizations. Furthermore, observing the perception of information users more interested in the economic performance of entities, such as managers or market analysts, could help improving the approach to neutralized disclosure cases and improve their understanding by the financial market.



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