

Impact of Legitimacy Sources on Sustainability Disclosure

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ABSTRACT

Utilizing legitimacy theory, this research investigates the intricate relationship between sustainability disclosure and the acquisition of legitimacy from various sources, specifically regulatory, normative, and cognitive. The study quantifies the regulative, normative, and cognitive dimensions of legitimacy through CSR performance, media exposure, and the mimetic effect, respectively. A two-way fixed effects panel regression analysis is employed to examine the underlying dynamics, utilizing a dataset comprising 1,810 firm-year observations from 243 distinct firms listed on the NIFTY 500 over the period from 2015 to 2022. The findings reveal a non-significant inverse relationship between CSR performance and sustainability disclosure. Conversely, both media exposure and the mimetic effect demonstrate a significant positive correlation with sustainability disclosure. The robustness of our results is confirmed through a series of rigorous tests. This study contributes to the existing body of literature on sustainability disclosure and offers practical implications for organizations and policymakers.

Keywords: Sustainability disclosure, legitimacy, CSR performance, mimetic effect, media exposure, fixed effects

1. Introduction

There has been a growing interest in sustainability disclosure in recent years, as it is recognised as an important medium for firms to convey their environmental, social, and governance (ESG) performance to their stakeholders (KPMG, 2022). With the growing global concerns regarding corporate social responsibility (CSR), firms face increasing pressure to demonstrate their

commitment to sustainable practices. However, the decision to engage in sustainability reporting and the extent to which organisations disclose their sustainability efforts are influenced by various factors, with legitimacy playing a pivotal role (Archel et al., 2009; Hahn et al., 2021; Hahn & Kühnen, 2013).

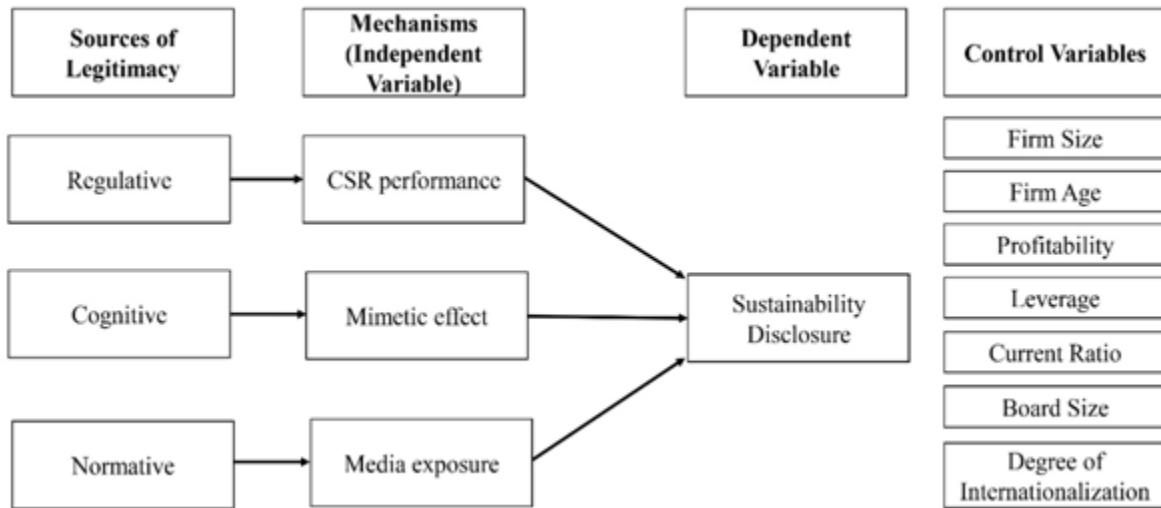
Legitimacy encompasses the perception of being valid, suitable, and following societal norms and values (Hrasky, 2012; Zimmerman & Zeitz, 2002). It is an essential asset that organisations strive to obtain and uphold to secure their stakeholders' acceptance, support, and trust. According to Scott (1995), legitimacy can originate from regulatory frameworks, cognitive influences, and social norms. Within sustainability reporting, legitimacy is crucial in shaping firms' disclosure practices (Al-Tuwaijri et al., 2004; Patten, 2002).

However, prior literature has primarily focused on examining the influence of financial performance (Giannarakis, 2014), governance mechanisms (Hu & Loh, 2018), and other firm characteristics (Kumar et al., 2021) on sustainability disclosure. While some studies have explored sustainability disclosure as a means of legitimisation, their primary focus has been examining the impact of environmental performance (Cho & Patten, 2007; Clarkson et al., 2011) or regulatory aspects (Archel et al., 2009) on sustainability disclosure. To fill this void in existing literature, our study examines the influence of various sources of legitimacy on the disclosure of sustainability practices.

This research examines the impact of regulative, cognitive, and normative legitimacy on the disclosure of sustainability practices. Our dataset comprises 1810 observations of firm-year data, encompassing 243 distinct firms, from 2015 to 2022. Regulative legitimacy is assessed based on CSR performance, cognitive legitimacy is evaluated through the mimetic effect, and normative legitimacy is gauged by media exposure. Figure 1 shows the basic model and the variables involved in the study. Our findings indicate a negative, albeit non-significant, association between CSR performance and sustainability. However, this study demonstrated a significantly positive relationship between sustainability disclosure and the mimetic effect and media exposure.

Through this research, we make several contributions. By studying the impact of regulative (CSR performance), cognitive (mimetic effect), and normative (media exposure) as distinct sources of legitimacy, this research contributes empirical evidence and strengthens the theoretical framework. It highlights the importance of considering multiple dimensions of legitimacy in the context of sustainability disclosure. Also, this study is significant for investors as it provides insights into the varying levels of impact that different sources of legitimacy have on sustainability disclosure.

Figure 1. Model design and variables involved



Source: Created by authors.

The rest of this article is organised as follows. Section 2 presents the theoretical framework and research hypotheses of the study. Section 3 describes the sample, measurement of variables, and statistical models used. The study results are presented in Section 4, Section 5 discusses the results and theoretical and practical implications. Lastly, section 6 includes concluding remarks, limitations of the study, and suggestions for future research.

2. Theoretical framework and hypotheses development

2.1 Sources of Legitimacy

According to Scott (1995), legitimacy can originate from regulatory frameworks, cognitive influences, and social norms. Regulative legitimacy pertains to the legitimacy of a firm's operations concerning regulations, rules, standards, and expectations established by various entities such as governments, credentialing associations, professional bodies, and influential organisations (Scott, 1995). It encompasses a broad perception that a firm is conducting its activities in compliance with the specific requirements and intentions of laws and regulations, thereby acknowledging the firm as a responsible and law-abiding entity (Scott, 1995; Zimmerman & Zeitz, 2002). According to DiMaggio and Powell's (1983) typology, coercion is the principal means of control.

Normative legitimacy refers to recognising and accepting a firm's actions and behaviours as appropriate and desirable within the societal context (Scott, 1995). This legitimacy is derived

from the alignment of the firm's practices with society's prevailing norms and values or from its adherence to the standards set by a specific segment of the societal environment that is relevant to the firm. A firm can acquire normative legitimacy by actively addressing and incorporating these norms and values, such as prioritising profitability, ensuring fair treatment of employees, and establishing endorsements and networks. This legitimacy, in turn, enables the firm to access valuable resources and opportunities.

From the cognitive perspective, social systems encompass the roles and rules of action, akin to the laws in a game, which define the essence of the system and outline the expectations for individuals participating within it (Scott, 1995). Through engagement with these ongoing systems, actors acquire knowledge about their identities and the roles they are expected to fulfill. These identities and roles are filters determining the range of actions deemed suitable and pragmatically advantageous. DiMaggio and Powell (1983) emphasise how organisations strive to align their structures and activities with cultural patterns in their external environments. They identify imitation, specifically mimetic processes, as the primary mechanism that effectively captures the cognitive aspect of isomorphic processes.

2.2 CSR performance and sustainability disclosure

The Companies Act (2013), specifically Clause 135, enacted by the Indian Parliament in 2013, mandates that companies meeting specific criteria must allocate 2% of their average net profits from the preceding three years towards CSR initiatives. A firm seeking to comply with this regulation is assumed to seek regulative legitimacy. As a result, we assess the impact of regulative legitimacy through CSR performance.

In the context of CSR performance and sustainability reporting, the legitimacy theory posits that companies that are not meeting societal expectations and are at risk of losing their legitimacy may opt to disclose sustainability information selectively. This strategic choice is made to mitigate the negative consequences of inadequate social performance on their reputation and legitimacy (Boiral, 2013; Brammer & Pavelin, 2006). Moreover, companies subject to greater public scrutiny and monitoring may strategically utilise sustainability reporting to manage risks and enhance the perception of their commitment to and responsibility for sustainable development (Cho & Patten, 2007; Luo et al., 2012). Consequently, sustainability reporting enhances perceived company legitimacy and helps the company maintain its "public license to operate" (Deegan, 2002).

In light of the pertinent discussions in the scholarly discourse on international corporations and their relationship with the environment, Aragón-correa *et al.* (2016) inferred that prominent multinational enterprises tend to adopt a legitimation strategy rather than opting for alternative

approaches such as strategic environmental leadership, quiet environmental leadership, or the utilisation of pollution havens. Their research findings indicate that these firms seek to offset their pollution levels by being transparent about their actions. Rather than concealing their activities, they aim to make their environmental impact more socially acceptable by openly reporting it.

Clarkson *et al.* (2011), for a sample of Australian firms, observed that companies with higher emissions, indicating a greater tendency to pollute, tend to provide more environmental disclosures. Thus, when social contracts are breached, and legitimacy gaps arise, firms are expected to engage in disclosure practices to cultivate a positive public image and align with societal norms.

Similarly, empirical evidence provided by Orij (2010) and Young and Marais (2012) supports the notion that stakeholder pressure plays a significant role in determining the extent of CSR disclosure. Contrary to the belief that sustainability disclosure primarily aims at capital market participants, the legitimacy viewpoint argues that corporations' primary objective is to engage in greenwashing and enhance their public image (Kim & Lyon, 2015).

Hence, existing research indicates that firms, in line with legitimacy theory, tend to react to situations that could potentially jeopardise their legitimacy by taking actions to maintain their social contracts. Consequently, keeping in mind the arguments above, this study states the following hypothesis:

H1: There exists an inverse relation between the CSR performance and the sustainability disclosure of a firm.

2.3 Mimetic effect and sustainability disclosure

The mimetic effect is a phenomenon that arises when organisations encounter cognitive uncertainty, as described by DiMaggio and Powell (1983). Cognitive uncertainty occurs when organisations are confronted with conflicting institutionalised rules or myths, as explained by Meyer and Rowan (1977). Organisations adopt a mimetic behavior in such circumstances by emulating other organisations perceived as more legitimate or successful (DiMaggio & Powell, 1983) and replicating their routine behaviours (Scott, 1995). Therefore, the mimetic effect is deployed to proxy for cognitive legitimacy.

Scholarly literature indicates that companies are often influenced by mimetic pressure from their respective industries (Depoers & Jérôme, 2020; Fernandez-Feijoo et al., 2014; Moseñe et al., 2013). The industry functions as a reference group due to the fact that firms with comparable attributes and organisational frameworks possess shared goals, confront similar uncertainties and

institutional pressures, interact with similar stakeholders, and comply with identical regulations (Cubilla-Montilla et al., 2020; Depoers & Jérôme, 2020). Consequently, research demonstrates that the sector in which a company operates plays a significant role in determining its performance in terms of sustainability disclosure (D. Cormier & Gomez-Gutierrez, 2018; Martínez-Ferrero & García-Sánchez, 2017; Posadas et al., 2022; Shabana et al., 2017).

Martínez-Ferrero and García-Sánchez (2017) – for an international sample of 696 firms from 2007-2014-conceived the industry as a usual factor affecting sustainability reporting. They concluded that this behavior seemed driven by the desire to emulate successful competitors and mitigate the potential negative consequences of negative publicity. Also, they suggested that the firms that operate under heightened scrutiny from stakeholders are more inclined to disclose reliable sustainability information to legitimise their actions and avoid detrimental media coverage resulting from the absence of such assurances.

Furthermore, Posadas *et al.* (2022) found that firms operating in environmentally sensitive industries are more likely to disclose sustainability information of higher quality through the mimetic mechanism. They proposed that firms frequently opt to disclose information of superior quality to mitigate any apprehensions regarding the consequences of their actions. This approach enables them to bolster or regain their legitimacy.

Finally, Shabana *et al.* (2017) demonstrated the progression of organisations' reporting stages. In the final phase of imitative diffusion, it was observed that CSR reporting is not primarily driven by goal-oriented motives but rather by a desire to align with and emulate firms the manager perceives as peers or aspires to be associated with. Consequently, the underlying mechanism in this third stage can be attributed to mimetic isomorphism.

Based on the studies above, this study proposes the following hypothesis:

H2: There exists a positive association between the mimetic effect and the sustainability disclosure of a firm.

2.4 Media exposure and sustainability disclosure

According to Scott (1995), the behavior of firms is influenced by normative appropriateness within society. Arias (2019) conducted an experimental study that revealed the influence of media on social norms. Additionally, Borg *et al.* (2022) demonstrated the role of news exposure in shaping norms, specifically concerning plastic avoidance. Consequently, media exposure is utilised as a proxy for normative legitimacy.

Media exposure pertains to the level of recognition a specific entity, such as a corporation, receives from the media. This recognition is typically measured by the number of news stories or coverage dedicated to the entity in newspapers, television news, and other media outlets (Cormier and Magnan, 2007; Gamerschlag *et al.*, 2011). Several studies have investigated the influence of media exposure on the sustainability initiatives of firms.

In their study, Maistriau and Bonardi (2014) discovered a positive correlation between media exposure and CSR performance. By examining a sample of British companies, the researchers observed a correlation between negative news coverage and increased managers' investment in CSR initiatives. Furthermore, their study findings indicate that the impact of CSR is influenced by country-specific factors, and media exposure can serve as a mechanism for highlighting concerns related to CSR.

Furthermore, Nikolaeva and Bicho (2011) discovered that the extent of media coverage, as measured by the number of news stories, plays a crucial role in influencing the voluntary adoption of the more rigorous CSR disclosure principles advocated by the Global Reporting Initiative (GRI). In other words, companies that comply with GRI standards tend to have higher levels of media exposure.

Moreover, Bansal and Clelland (2004) examined the influence of media information on the public's perception of a company's environmental performance. Their research revealed a positive correlation between media exposure and the perceived legitimacy of a company's environmental practices. This finding holds significant implications for the valuation of firms, as Bansal and Clelland (2004) demonstrate that companies with a strong environmental legitimacy experience reduced financial risk.

H. M. D. Wang (2010) presents indirect evidence about the media's influence on CSR initiatives. The research findings indicate that CSR activities have a favorable effect on the financial worth of firms. However, it is also acknowledged that for CSR endeavours to be effective, they must be observable and publicly known, underscoring the significant role played by the media within the CSR ecosystem. Finally, El Ghouli *et al.* (2019) concluded that the media can influence a company's reputational capital. Therefore, it can be inferred that the level of media freedom impacts a firm's motivation to partake in expensive CSR endeavours. Taking into account the studies mentioned above, this study states the following hypothesis:

H3: There exists a positive association between media exposure and the sustainability disclosure of a firm.

3. Research design

3.1 Data and sample

The dataset utilised in this study comprises information related to sustainability disclosures and the financial characteristics of firms listed on the NIFTY 500 Index. Including all firms listed in a benchmark index addresses the issue of potential sample selection and composition bias (DasGupta, 2021).

To assess the extent of a firm's sustainability disclosure, this study utilises the Bloomberg ESG disclosure score. The utilisation of this metric has been prevalent in scholarly investigations and is widely acknowledged as an objective indicator of ESG disclosure (e.g., Fatemi *et al.*, 2018; Wang *et al.*, 2018; Zhang *et al.*, 2021). The score measures the amount of non-financial information a firm publicly discloses, encompassing voluntary and mandatory disclosures accessible to all relevant stakeholders. A higher ESG disclosure score indicates more significant non-financial details being disclosed. The Bloomberg database comprehensively evaluates a firm's ESG disclosure, providing composite and individual scores for each category. This allows for a detailed assessment of the firm's strengths and weaknesses in each area.

Firm-level financial data is fetched from the Prowess database, developed by the Centre for Monitoring Indian Economy (CMIE), which is a highly regarded resource utilised by researchers (e.g., Manchiraju and Rajgopal, 2017; Shankar Shaw *et al.*, 2021) for conducting comprehensive studies on Indian firms. Consistent with prior studies, firms operating in the financial industry (NIC codes 64 and 65) are not considered in our analysis due to their distinct regulatory framework compared to other industries.

After merging the two datasets and removing any observations with missing values for the regression variables, the resulting sample size consists of unbalanced panel data comprising 1810 firm-year observations. This sample represents 243 firms and spans the period from 2015 to 2022 since 2015 marks the initial year for which CSR expenditure data is available.

Table 1 presents the distribution of the sample according to the year and two-digit National Industrial Classification (NIC-2008) code provided by the Ministry of Statistics and Programme Implementation (MoSPI). Panel A demonstrates a gradual increase in the number of firm-years throughout the sample period, starting from 208 in 2015 and reaching 241 in 2022. Panel B reveals a relatively even distribution of the sample across various industries, with only one industry accounting for more than 10% of the observations.

Table 1. Sample distribution

Panel A: By year			
Year	N	Percentage	
2015	208	11.49	
2016	211	11.66	
2017	215	11.88	
2018	228	12.60	
2019	230	12.71	
2020	236	13.04	
2021	241	13.31	
2022	241	13.31	
All years	1810	100	

Panel B: By Industry			
Industry	nic_code	N	Percentage
Manufacture of food products	10	77	4.25
Manufacture of beverages	11	34	1.88
Manufacture of tobacco products	12	16	0.88
Manufacture of textiles	13	16	0.88
Manufacture of paper and paper products	17	12	0.66
Manufacture of coke and refined petroleum products	19	56	3.09
Manufacture of chemicals and chemical products	20	243	13.43
Manufacture of pharmaceuticals, medicinal chemical and botanical products	21	167	9.23
Manufacture of rubber and plastics products	22	56	3.09
Manufacture of other non-metallic mineral products	23	117	6.46
Manufacture of basic metals	24	88	4.86
Manufacture of fabricated metal products, except machinery and equipment	25	16	0.88
Manufacture of computer, electronic and optical products	26	10	0.55
Manufacture of electrical equipment	27	69	3.81
Manufacture of machinery and equipment	28	106	5.86
Manufacture of motor vehicles, trailers and semi-trailers	29	86	4.75

Manufacture of other transport equipment	30	32	1.77
Other Manufacturing	32	609	33.65
	All years	1810	100

Notes: This table presents the sample distribution by year (Panel A) and industry according to MoSPI's two-digit NIC-2008 code (Panel B). The sample comprises 1810 observations representing 243 unique firms over the 2015–2022.

Source: Authors' calculations

3.2 Variables measurement

3.2.1 Dependent variable

Sustainability Disclosure Score (SDS) refers to the volume of sustainability-related information firms disclose. In line with the studies conducted by Wang and Sarkis (2017) and Nirino *et al.* (2022), we consider the scores assigned to the Environmental and Social pillars in the Bloomberg database to measure sustainability disclosure. These scores are commonly seen as the results of CSR strategies and are widely recognised as reliable indicators for assessing firms' sustainability performance. On the other hand, the governance score reflects the disclosure of a firm's policies and its internal governance structure. Therefore, the mean of the environmental and social scores is computed as a representation of SDS.

3.2.2 Explanatory variables

Mimetic effect (MIME). Similar to prior literature (Singh *et al.*, 2021; Zamponi *et al.*, 2023), we quantify the mimetic effect of industry peers by calculating the average SDS value across all firms within the peer group except for the focal firm in a particular year. In this research, the firms considered industry peers were part of the NIFTY 500 index and operated within the same two-digit National Industrial Classification (NIC) code as the focal firm. To illustrate, if there are five firms (X1, X2...X5) operating in industry Y during a specific year T, the following formula quantifies the mimetic effect on firm X1:

$$MIME_{X1, Y, T} = \sum_{i=2}^5 SDS_{Xi, Y, T} / (n-1)$$

This variable is lagged by one year because firms observe the SDS of their peers in the previous period (t-1) and subsequently use this information to determine their SDS for the current period (t).

Media exposure (MEXP). Normative appropriateness can be challenging to determine. However, previous research by Deegan and Rankin (1996) indicates that media coverage can be a suitable

substitute for gauging societal norms and concerns. Following previous research (Cho & Patten, 2007; Gamerschlag et al., 2011) to evaluate the extent of media exposure, this study utilised the ABI/Inform database to retrieve news articles about each firm yearly. To address the issue of extreme values, this study applied a natural logarithm transformation to the count of news articles about a specific firm during a given year.

CSR performance (CSR_perf). In India, the Companies Act of 2013 requires firms that meet specific financial criteria to allocate 2% of their net profits towards CSR. However, the act also allows companies to provide explanations for instances where they are unable to meet the mandated CSR spending requirements. This study uses a dummy variable, "CSR_perf," to assess CSR performance. This variable denotes the proportion of actual corporate social responsibility (CSR) expenditure to the CSR expenditure required by legislation. It assumes a value of 1 if the ratio is equal to or greater than 1 and 0 otherwise. A value of 1 signifies firms that fulfill their CSR obligations, while 0 indicates firms that do not engage in CSR activities.

3.2.3 Control variables

In line with previous research, this study incorporates a range of financial and governance control variables that are commonly used in regression analysis of corporate disclosure. The inclusion of these variables serves the purpose of separating potential confounding effects and reducing the possibility of bias resulting from omitted variables.

In corporate operations, larger companies generate more significant effects, gain prominence, and consequently encounter heightened stakeholder scrutiny and pressure (Gallo & Christensen, 2011; Hahn & Kühnen, 2013). Additionally, smaller companies may experience comparatively higher costs associated with disclosing information. This study measures the firm size (FSIZE) as the natural logarithm of total assets. To distinguish themselves from less profitable counterparts, financially prosperous firms are more inclined to disclose a greater amount of sustainability information (Kouloukoui et al., 2019; Nuskiya et al., 2021). Profitability (NP) is assessed using the net profit margin, the ratio between net income after taxes and net sales. To mitigate agency costs, companies with high leverage levels implement more comprehensive disclosure practices (Karaman et al., 2018). This study quantifies leverage by assessing the proportion of total debt to total equity (LEV). Studies often contend that favorable financial performance affords companies surplus resources, enabling them to allocate investments toward CSR initiatives (Chin et al., 2013; McGuire et al., 1988). Therefore, this study gauges unabsorbed slack, as indicated by the current ratio (CR) computed by dividing current assets by current liabilities, which pertains to the unutilised liquid resources of a company. Higher internationalisation levels, marked by increased export volumes, produce a more favorable CSR rating (Attig et al., 2016). The degree of internationalisation (DOI) is quantified by determining

the ratio of foreign exchange earnings to total income. Previous research has demonstrated that the size of a company's board of directors can significantly and positively impact the extent and quality of sustainability reporting (Hu & Loh, 2018). Board size (BSIZE) is a numerical variable representing the total number of directors sitting on the board. We also include, firm age (FAGE) calculated as the number of years since incorporation of a firm. Finally, the results are controlled by year-fixed effects.

3.3 Empirical model

$$SDS_{it} = \beta_0 + \beta_1 LEGIT_{it} + \sum_{k=1}^7 \alpha_k CONTROL_{kit} + \mu_i + \mu_t + \varepsilon_{it}$$

The variable i represents the indexes of firms, while the variable t represents the indexes of years. The variable SDS denotes sustainability disclosure, while LEGIT is one of the three sources of legitimacy discussed above (CSR_perf, MIME, MEXP). The variable CONTROL includes factors such as firm size, firm age, net profit, board size, current ratio, leverage, and degree of internationalisation. μ_i represents firm fixed effects, μ_t represents time-fixed effects, and ε_{it} is an error term.

To mitigate concerns regarding endogeneity arising from omitted variables that may be correlated with SDS and LEGIT, this study adopts the approach used by El Ghouli *et al.* (2017) and Servaes and Tamayo (2013) and estimate the above model with two-way fixed effects panel regression. Additionally, this study employ robust standard errors clustered by the firm to account for heteroskedasticity and autocorrelation in our panel data set.

4. Results and discussion

4.1 Descriptive statistics

Table 2 presents the descriptive statistics for the variables examined in the analysis. Concerning the primary variables, the mean for SDS is 23, with a standard deviation (SD) of 15. Similarly, the means (SD) for MIME and MEXP are 23 (8) and 4.6 (1.6), respectively.

Table 3 shows the distribution of CSR_perf, which reveals that most of the observations (54.38%) have adhered to the compulsory CSR legislation.

Table 2. Descriptive Statistics

Variables	Observations	Mean	SD	LQ	Median	UQ
SDS	1810	23	15	10	20	33
MIME	1810	23	8	17	23	29
MEXP	1795	4.6	1.6	3.5	4.5	5.7

NP	1810	0.07	0.4	0.036	0.086	0.1
CSR_perf	1758	0.54	0.5	0	1	1
LEV	1810	0.91	5.5	0.04	0.29	0.9
DOI	1810	0.18	0.26	0.007	0.053	0.3
FSIZE	1810	8.8	1.4	7.9	8.6	9.5
FAGE	1808	44	24	26	38	59
BSIZE	1749	13	3.7	11	13	15
CR	1810	1.7	1.4	0.99	1.4	1.9

Notes: SD: standard deviation; LQ: lower quartile; UQ: upper quartile.

Source: Authors' calculations

Table 3. CSR performing firms' distribution

CSR_perf	Frequency	Percent
1	956	54.38
0	802	45.62
Total	1758	100

Source: Authors' calculations

4.2 Correlation analysis

Table 4 displays the Pearson correlation coefficients, which indicate the relationships between SDS, legitimacy sources, and various control variables. The results reveal that SDS positively correlates with all three legitimacy sources at a less than 1% significance level. These findings suggest that firms are inclined (at the univariate level) to disclose more information to enhance their legitimacy.

Furthermore, SDS exhibits significant positive associations with NP, FSIZE, FAGE, and BSIZE, while it demonstrates a significant negative association with CR and DOI. LEV is the only control variable that is not significantly associated with SDS. Most of the control variables also exhibit relationships with each other, with the highest coefficient of 0.67 observed between MEXP and FSIZE. However, the associations among the independent variables do not suggest the presence of multicollinearity, as the bivariate correlation does not surpass the threshold of 0.8 (Gujarati, 2004)

Table 4. Pearson correlations

Variables	1	2	3	4	5	6	7	8	9	10	11
(1) SDS	1										
(2) MIME	0.223***	1									
(3) MEXP	0.450***	0.171***	1								
(4) NP	0.048**	-0.014	-0.001	1							
(5) CSR_perf	0.109***	0.033	0.114***	-0.079***	1						
(6) LEV	0.01	0.017	0.014	-0.204***	0.06**	1					
(7) DOI	-0.105***	-0.104***	-0.145***	0.092***	-0.071***	-0.044*	1				
(8) FSIZE	0.511***	0.245***	0.663***	-0.026	0.167***	0.078***	-0.150***	1			
(9) CR	-0.054**	-0.057**	-0.057**	0.129***	-0.127***	-0.093***	0.207***	-0.201***	1		
(10) BSIZE	0.164***	0.041*	0.260***	-0.02	0.094***	0.022	-0.068***	0.390***	-0.120***	1	
(11) FAGE	0.143***	0.094***	0.068***	0.035	0.070***	-0.054**	-0.120***	0.095***	-0.024	0.077***	1

*, **, *** Indicate significance at the 0.10,0.05, and 0.01 levels, based on two-tailed tests.

Source: Authors' calculations

4.3 Multivariate (regression) results

The analysis results to test the hypotheses are presented in Panel A, B, and C of Table 5. The variables CSR_perf, MIME, and MEXP represent different sources of legitimacy (LEGIT). The findings indicate that the coefficient on the variable LEGIT aligns with the expected direction in all hypotheses. However, it is not statistically significant across all dimensions.

When examining the regulative source of legitimacy, specifically CSR_perf, the coefficient on LEGIT is negative (-0.15), suggesting an inverse relationship between CSR_perf and SDS. This implies that firms that comply with mandatory CSR expenditure legislation tend to disclose less information than those that do not. However, this effect is not statistically significant (t = -0.32), therefore Hypothesis 1 is not supported.

On the other hand, when considering the cognitive source of legitimacy, namely MIME, the coefficient on LEGIT is positive (0.248) and statistically significant at a 5% level (t = 2.45). This indicates that firms operating in the same industry influence the extent of sustainability disclosure of each other. Therefore, Hypothesis 2 is supported. Regarding economic significance, a one standard deviation change in MIME (8) can lead to a change of 1.984 in SDS.

Lastly, in investigating the normative source of legitimacy, MEXP, the coefficient is positive (0.994) and statistically significant at a 5% level ($t = 2.34$). This suggests that firms face pressure to conform to societal norms, and higher media exposure increases the pressure to adhere to these norms. Thus, Hypothesis 3 is also supported. Regarding economic significance, a 1 percent increase in MEXP results in a positive change of 0.001 in SDS.

The coefficients of the control variables exhibit a consistency comparable to previous research findings. Nevertheless, none of the control variables related to general financial and governance factors demonstrate statistical significance in the regression analyses for either source of legitimacy. Notably, the sole control variable consistently exhibiting statistical significance across all regression models is FAGE, with a positive coefficient as anticipated.

Table 5 Sources of legitimacy and sustainability disclosure

Legitimacy:	Panel A			Panel B			Panel C		
	CSR_perf			MIME			MEXP		
	Estimate	Std. error	t-value	Estimate	Std. error	t-value	Estimate	Std. error	t-value
LEGIT	-0.15	0.464	-0.32	0.248	0.101	2.45**	0.995	0.425	2.34*
NP	0.305	0.183	1.67	0.279	0.189	1.47	0.463	0.302	1.53
LEV	0	0.016	0.01	-0.004	0.01	-0.43	0.002	0.018	0.13
CR	0.296	0.333	0.89	0.182	0.379	0.48	0.191	0.342	0.56
FSIZE	1.949	1.25	1.56	1.696	1.32	1.28	1.856	1.286	1.44
FAGE	1.996	0.165	12.06**	1.165	0.31	3.76**	1.888	0.168	11.25**
BSIZE	-0.121	0.075	-1.61	-0.06	0.07	-0.86	-0.122	0.076	-1.6
DOI	1.765	1.596	1.11	0.775	1.378	0.56	1.249	1.513	0.83
Intercept	-82.04	8.1	-10.13**	-48.24	11.21	-4.3**	-81.286	8.176	-9.94**
Year effects	Yes			Yes			Yes		
Firm effects	Yes			Yes			Yes		
Observations	1701			1513			1734		
R ²	0.466			0.415			0.465		

Notes: This table reports results from regressing sustainability disclosure score (SDS) on different sources of legitimacy, namely CSR performance (CSR_perf), mimetic effect (MIME), and media exposure (MEXP). All models include two-way fixed effects. t-statistics are based on robust standard errors clustered by firm. * and ** denotes significance at the 0.05 and 0.01 levels based on two-tailed tests.

Source: Author's calculations

4.4 Additional tests

Our findings indicate a negative association between SDS and CSR performance and a positive association between SDS and MIME and MEXP. However, it is important to acknowledge the potential endogeneity among the measures, which could introduce bias into our results. To address this concern, this study conducted additional tests (untabulated) to verify the robustness of our findings.

Firstly, to mitigate concerns related to reverse causality and simultaneity bias, this study employed a technique of lagging the right-hand-side variables by one period. This method allowed us to obtain results that were in line with our primary findings.

Secondly, this study employed alternative metrics to measure certain control variables to mitigate measurement error. For instance, we used return on assets (RoA) and return on equity (RoE) as proxies for profitability. The results obtained using these alternative metrics were consistent with our main findings.

Thirdly, the study included additional control variables in the primary model to address potential omitted variable bias. Specifically, we incorporated absorbed slack, calculated as the ratio of selling, general, and administrative expenses to sales. Additionally, this study included the quick ratio, calculated as the ratio of cash to current liabilities. Once again, the results obtained were consistent with our main findings.

5. Discussion

5.1 Discussion of the results

The findings of this study present an analysis of the relationships between CSR performance, mimetic effect, media exposure, and sustainability disclosure within the framework of legitimacy theory. Within this framework, legitimacy is crucial to organisations' sustainability disclosure practices. Three distinct sources of legitimacy were examined: regulative (CSR performance), normative (media exposure), and cognitive (mimetic effect).

Contrary to initial expectations, the analysis revealed a negative but non-significant relationship between CSR performance and sustainability disclosure. Although unexpected, this finding suggests that firms may not primarily rely on their CSR performance alone to enhance legitimacy through sustainability disclosure. Instead, other factors such as mimetic effect and media exposure appear to play more influential roles, as indicated by the positive and significant relationships observed.

The positive and significant relationship between the mimetic effect and sustainability disclosure provides evidence of the importance of social influence in shaping firms' disclosure decisions. Firms may align their disclosure practices with their industry peers, seeking legitimacy by imitating prevailing reporting norms and practices. This finding reflects the role of mimicry as a strategy for legitimisation through conformity.

Furthermore, the positive and significant relationship between media exposure and sustainability disclosure highlights the significance of media attention in driving disclosure practices. Organisations may view media coverage as an opportunity to enhance their legitimacy by amplifying their sustainability efforts and gaining stakeholder visibility. This finding underscores the power of media as an influencer and information disseminator, shaping the legitimacy-seeking behavior of firms through sustainability disclosure.

These findings provide insights into the interplay between legitimacy sources and sustainability disclosure. They suggest that firms' motivations to engage in sustainability disclosure may extend beyond their CSR performance alone, as the pursuit of legitimacy appears to be influenced by other sources, such as mimetic effect and media exposure. This emphasises the multifaceted nature of legitimacy and the complexity of the relationships between different sources of legitimacy and disclosure practices.

5.2 Theoretical and practical implications

Our research contributes to the theoretical understanding of legitimacy theory by demonstrating how NIFTY 500 firms strategically utilise sustainability disclosure to seek legitimacy from different sources. By identifying regulative (CSR performance), cognitive (mimetic effect), and normative (media exposure) as distinct sources of legitimacy, our study highlights the importance of considering multiple dimensions of legitimacy in the context of sustainability disclosure.

Also, the finding of a non-significant negative relationship between CSR performance and sustainability disclosure challenges conventional assumptions regarding the direct link between CSR performance and disclosure. This suggests that firms may rely more on mimetic effects and media exposure to enhance their legitimacy through disclosure rather than solely depending on their CSR performance.

Finally, our research provides empirical evidence supporting the positive and significant effects of mimetic effect and media exposure on sustainability disclosure. This highlights the role of social influence and information diffusion in shaping firms' disclosure decisions, indicating that mimicking peers and gaining media attention can be effective strategies to enhance legitimacy through sustainability disclosure.

Regarding practical implications, first, firms can leverage the findings of this research to enhance their strategic decision-making about sustainability disclosure. By comprehending the impact of regulative, cognitive, and normative legitimacy, firms can customise their disclosure strategies to align with their objectives. Second, firms should be aware of the mimetic effect and consider the practice of benchmarking their sustainability initiatives against industry frontrunners and colleagues. By drawing lessons from those who have effectively established credibility through transparent disclosure, firms can enhance their sustainability reporting efforts. Third, policymakers should not restrict the impact of sources of legitimacy only to sustainability disclosure. It should be recognised that the behavior of firms about other social innovations can also be influenced by legitimacy-seeking behavior. Lastly, investors should consider factors besides CSR performance when interpreting sustainability information firms disclose. Consequently, investors should interpret these disclosures in a comparative manner rather than an absolute one.

6. Concluding remarks

6.1 Contributions

This study makes valuable contributions to the existing knowledge of legitimacy theory by conducting an empirical investigation into the strategic utilisation of sustainability disclosure by NIFTY 500 firms from 2015 to 2022.

First, while prior research has recognised the importance of legitimacy in sustainability disclosure, our study contributes to the existing literature by offering empirical evidence on the specific sources that Nifty 500 firms utilise to enhance their legitimacy. By establishing a link between legitimacy seeking and sustainability disclosure, this research sheds light on the motivations and practices of firms in the context of sustainability reporting.

Second, by differentiating between regulative, cognitive, and normative sources of legitimacy, the research surpasses a general conceptual comprehension of legitimacy and offers a detailed examination of how firms actively pursue and react to various sources of legitimacy. This enhances understanding of the specific factors and processes influencing sustainability disclosure practices.

Lastly, this study contributes to the existing body of knowledge on sustainability disclosure by offering novel theoretical and empirical perspectives. Previous research has predominantly examined firm characteristics and financial performance as determinants of sustainability disclosure. In contrast, we provided empirical support to the theoretical framework that elucidates the influence of legitimacy-seeking behavior on sustainability disclosure. Drawing from legitimacy theory, this study hypothesised that the mimetic effect and media exposure

positively impact sustainability disclosure, while CSR performance has a negative effect. The empirical findings support this proposition.

6.2 Limitations and future direction of research

Despite the valuable contributions made by this study, it is essential to acknowledge its limitations. Firstly, using a sample consisting solely of NIFTY 500 firms may restrict the generalisability of the study's findings to larger Indian firms. Future researchers could enhance the robustness of the evidence by employing a larger sample size, extending the period under investigation, and incorporating data from a more geographically diverse range of firms. Secondly, while the study only utilised one variable for each source of legitimacy (regulative, cognitive, and normative), future research could explore alternative measures for these sources. For instance, cultural factors such as stakeholder or shareholder orientation could be employed to measure normative legitimacy. Finally, in addition to examining the connection between sustainability disclosure and sources of legitimacy, it is essential to consider how a firm's ownership structure may moderate this relationship. For instance, a firm predominantly owned by the government may not prioritise seeking legitimacy from regulatory sources. Likewise, a firm owned by foreign institutional investors may exhibit different behaviours than domestic ones. Consequently, it is recommended that researchers investigate the moderating influence of ownership in this particular relationship.

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