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DO MARKETS AND STAKEHOLDERS CARE ABOUT ETHICAL OPPORTUNISM?

THE CASE OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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Abstract

This paper assesses if a firm's ethical performance underlies its CSR disclosure practices as well as how ethical performance affects both the firm's legitimacy and its standing in financial markets. More specifically, we address the question: Does a firm's ethical lapses and issues undermine the credibility of its CSR disclosures in financial markets, either directly or through a firm's legitimacy? We rely upon a conceptual framework that weaves together social actor theory, information economics and institutional theory, leading ultimately to an examination of the company's legitimacy. Based on a sample of North American firms, our results suggest that a firm's ethical performance underlies its CSR disclosure practices and affects its legitimacy and its standing in financial markets, as proxied by financial analysts' forecasts. In other words, we provide evidence that ethical opportunism in CSR disclosures does not seem to pay.

Keywords:
Corporate social responsibility (CSR), legitimacy, social actors, institution, disclosure, financial analysts

Résumé

Cette étude évalue si la performance éthique d'une entreprise sous-tend ses pratiques de divulgation en matière de RSE ainsi que la façon dont la performance éthique affecte à la fois la légitimité de l'entreprise et sa position sur les marchés financiers. Plus précisément, nous posons la question suivante : Est-ce que les problèmes de comportement éthique d'une entreprise nuisent à la crédibilité de ses informations en matière de RSE sur les marchés financiers, soit directement, soit par le biais de sa légitimité ? Nous nous appuyons sur un cadre conceptuel qui emprunte à la théorie des acteurs sociaux, à l'économie de l'information et à la théorie institutionnelle. Basé sur un échantillon d'entreprises nord-américaines, nos résultats suggèrent que la performance éthique d'une entreprise sous-tend ses pratiques de divulgation RSE et affecte sa légitimité et sa position sur les marchés financiers. En d'autres termes, nous apportons la preuve que l'opportunisme éthique dans les communications de RSE ne semble pas payer.

Mots-clés :
Acteurs sociaux, analystes financiers, économie de l'information, légitimité, responsabilité sociale des entreprises (RSE), théorie institutionnelle.

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INTRODUCTION

A firm's Corporate Social Responsibility (CSR) strategy, as well as the resultant disclosures, reflect and are shaped by a socio-economic environment that is now global in scope and which offers both opportunities and challenges. Opportunities may present as participation in new markets and endeavors that previously were only available to domestically situated companies. Challenges come from a need to be seen as institutionally legitimate by meeting global guidelines and practices. Attempting to reconcile these opportunities and challenges, companies face new pressures as they work to meet the needs of competing stakeholders.

In this context, we examine whether companies' underlying ethical performance 1) validates or undermines the "informational" value content of CSR disclosures from an information economics perspective and/or 2) may reinforce or weaken the institutionalized process that underlies a firm's societal legitimacy with its key stakeholders. Our investigation as well as its conceptual underpinnings reflect the fact that firms now evolve in a business context in which they must reconcile imperatives imposed upon them by financial markets with the need to maintain their legitimacy among society`s stakeholders. Under such conditions, we argue that a firm's ethical performance underlies both how its Corporate Social Responsibility (CSR) disclosures are

used by financial markets and if it is able to build up legitimacy among various social stakeholders.

The motivation for our study rests on the advent of socially responsible investment (SRI) and enhanced concerns expressed by many stakeholders (e.g., customers, either consumers or corporate) about firms' social performance that underlies the demand for CSR disclosures. Such a trend is consistent with the emergence of sustainable development as an overarching societal objective where the attainment of social sustainability is deemed as critical as the environmental objective. Recent evidence indicates that CSR disclosures, especially environmental, conveys information that is 1) useful to financial markets (Dhaliwal et al. 2011), 2) related to economic performance (Clarkson et al. 2011, Al-Tuwaijri et al. 2004) and 3) conducive to raising a firm's social legitimacy as captured by the media (Cormier and Magnan 2014).

However, there is potentially a gap between a firm's CSR disclosures and the actual social sustainability of its underlying activities, as measured by ethical lapses and issues it faces, i.e., its ethical performance. In this context, our paper aims to answer the following question: Does the extent of the gap affect the appreciation of a company's CSR disclosures by its targeted audiences? In other words, does a company's underlying ethical performance influence how financial markets and other stakeholders view its CSR disclosures?

From a conceptual viewpoint these pressures represent the tension between two theories, information economics and institutional theory. In information economics it is posited that under some circumstances companies may want to convey useful and

relevant information voluntarily. This type of voluntary information disclosure primarily serves the needs of investors and other financial markets' participants. From an institutional theory perspective, companies work to legitimize their actions by making other voluntary disclosures whose economic pertinence is debatable since such information caters to a broader group of stakeholders' needs or expectations. Examples of voluntary disclosures include reporting on socially responsible, sustainability and environmental initiatives.

Social actor theory, or economic sociology, provides a way to link information economics and institutional theory in the circumstances described. That is, a company or organization faced with two, sometimes opposing, disclosure situations will take actions that may have opposite effects on investor groups and other stakeholders. In particular, we are interested in addressing whether market participants and other stakeholders care about ethical opportunism leading ultimately to an examination of the company's social legitimacy. Hence, an organization operates as a social actor that supplies information (e.g., CSR disclosures) to potential investors via the financial markets. Unfortunately for investors, voluntary disclosures do not hold the usual safeguards such as audits for required disclosures. One ramification of this situation is that for market transactions to occur, trust must exist between the buyers (investors) and suppliers (companies). Trust may be reinforced in two ways. First, market analysts filter the information supplied by companies, interpreting and assessing it for investors to use in making their decisions. Second, the information needs to adhere to institutional norms and practices. In a setting of large firms, these institutional norms

and practices come from a global capital market. For instance firms must be concerned about whether they are Global Reporting Initiative (GRI) compliant, meeting legal and societal calls to be socially responsible, being recommended as socially responsible investments (SRI), and receiving high corporate social responsibility (CSR) ratings (e.g., KLD rankings). In this context ethics becomes a critical issue since companies whose actions are deemed to be unethical or questionable may experience backlash from stakeholders that can affect their legitimacy status. In a situation where analysts forecast good news about a company and the company engages in CSR disclosures and acts ethically in the institutional context of expected norms and practices, then it is expected that the company will be seen as legitimate. In our model media coverage reflects a company's legitimacy standing.

Relying on a sample of North American firms, our results suggest that a firm's ethical performance underlies its CSR disclosures practices and does affect its legitimacy as well as its standing in financial markets. More specifically, a firm's ethical lapses and issues do undermine the credibility of its CSR disclosures in financial markets, either directly or through a firm's legitimacy.

Our study contributes to the literature in the following ways. First, while many studies (e.g., Dhaliwal et al. 2011, Richardson and Welker 2001) examine the impact of CSR disclosures from a unidimensional market-based perspective, our study weaves together different perspectives and assumes that information can serve various purposes and constituencies. For example in Dhaliwal et al. (2011), companies with high cost of equity capital that made voluntary CSR disclosures and showed superior CSR

performance subsequently experienced reductions in their cost of equity capital. However, how the ultimate reduction in the cost of equity capital is attained is somewhat uncertain. Cost of equity capital may reflect other effects from the underlying CSR performance and disclosures, such as broader and deeper acceptance by stakeholders or enhanced reputation for credibility among financial analysts. Our paper explicitly explores the means by which the underlying information maps into society. Second, most studies consider only the proximate or immediate determinants of CSR disclosures, often overlooking the examination of the underlying performance. This oversight has important implications because legitimacy is more than "words" and a company's legitimacy has value to the broader society. By examining companies' underlying performance, we take steps toward addressing this oversight. Third, prior CSR disclosure research typically considers conceptual perspectives in opposition (e.g., Clarkson et al. 2008). In contrast, we argue, and find evidence that is consistent with conceptual perspectives dovetailing one another and where their integration provides a more comprehensive understanding of corporate practices and their implications. Finally, our paper extends prior research on CSR disclosure by showing that it does matter to both financial markets and non-financial stakeholders.

Our paper is organized as follows. The next section outlines the institutional CSR setting in which the social actors (companies) are operating and which may affect voluntary CSR disclosures. The following section outlines our conceptual framework and the related literature. We follow this with the derivation of our hypotheses. We provide our results and discussion which are followed by our conclusions and limitations.

INSTITUTIONAL CSR SETTING

The 21st century institutional CSR setting has several aspects that affect companies as social actors as they conduct economic activities. These aspects include legal and societal calls for more CSR activities and disclosures, reporting frameworks and standards, socially responsible investing and CSR company rankings. All of these aspects may affect a company's CSR disclosures.

Legal and societal calls for companies to be more socially responsible have come from different groups. With respect to the law, the 21st century has brought some new legislation related to CSR broadly and the environment in particular. In North America both the state of California and the province of British Columbia introduced legislation concerning greenhouse gas emissions in 2008. In both cases the bills included sections related to companies providing transportation fuels by including requirements that there be minimum amounts of renewable fuel content (Blake, Cassels & Graydon LLP 2008). Sub-groups within the legal profession have also raised voices in support of sustainability. For example, the Oregon State Bar's Sustainable Future Section publishes a newsletter that recently examined such topics as climate change, biodiversity and endangered species (Sustainable Future Section 2013). Beyond sustainability, countries such as the United States and Canada have legislation that explicitly forbids bribes or other forms of payments to government officials and make such actions criminal offenses with severe penalties. Such laws typically are extra-territorial in their application.

Society`s expectations regarding CSR exist at the local, national and international levels. In British Columbia, the Kinder Morgan oil pipeline expansion near Vancouver and Enbridge's Northern Gateway pipeline have drawn the ire of First Nations and other groups (CBC 2013, Reuters 2013). Concerns over potential climate change have sparked protests in the US against the Keystone XL pipeline (Weil 2013). On an international level, the Rio+20 Earth Summit resulted in a document that outlined propositions for a more sustainable future (UN 2012) that included reaffirmation of human rights and a resolution to take actions to attain sustainability. The calls concerned with human rights continue to be seen in the protests of Cambodian garment workers and calls by Human Rights Watch for the Cambodian government to enforce its own legislation to allow the formation of unions and to garment companies to disclose the factories where their clothing originates (Human Rights Watch 2014). Another event that illustrates enhanced societal concerns is the aftermath from the collapse of a building in Bangladesh housing several garment manufacturing subcontractors to Loblaw's Joe Fresh fashion line, leading to the death of more than 1,000 people. In the wake of this tragedy, Loblaw`s Executive Chair, Galen Weston, spearheaded an initiative to improve safety and working conditions in subcontractors' factories (Shaw 2013).

Two frameworks serve as examples for CSR in the institutional setting. One CSR framework, initially issued in 2000, originates from the GRI. The GRI framework (2014a) has the purpose of working toward sustainability reporting by all organizations. As of 2014, 600 organizations are GRI stakeholders and represent more than 60 countries (GRI 2014b). A second "framework" is found in the standards published by the

International Standards Organization. The International Standards Organization (ISO) is composed of member groups interested in voluntary standards meant to provide some assurance to consumers that products are “safe, efficient and good for the environment” (ISO 2014). With respect to CSR, the ISO has published specific standards on the environment (ISO 14000), social responsibility (ISO 26000) and sustainable events (ISO 20121).

In the investment setting, we have seen the rise of socially responsible investments (SRI). SRI investors are assumed to be interested in trading some potential profit for stakes in companies that refrain from participating in certain activities (e.g., mutual funds that focus on socially responsible companies). For companies’ shares to be deemed as a SRI, the companies must promote sustainability by taking actions with respect to the environment, social concerns or governance (Knieriem et al. 2014). The needs expressed by SRI investors have led to the advent of sustainability market indices highlighting firms that are deemed to meet certain criteria (e.g., Dow Jones Sustainability Index).

Simultaneous to the rise of frameworks, calls for more CSR and the demand for SRIs, we have seen the appearance of CSR company rankings that provide information on the types of reports provided and the views of CEOs towards CSR disclosures. Two such rankings come from KLD and KPMG. The KLD (now MSCI/KLD) rankings examine companies’ performance in the social, environmental and governance domains and result in the publication of a list of the top 100 ranked companies. KPMG conducts a survey every two to three years. In its eighth report, 4,100 companies from 41 countries

were surveyed (KPMG 2014). By analyzing groups of companies such as the Global 250, KPMG provides average quality scores for these companies' reports and identifies where strengths and weaknesses exist in those reports.

The institutional setting that gives rise to CSR indices and rankings fails to address one important component, the actions undertaken by companies that may be deemed as unethical or at least of questionable ethics. Examples of such behaviours include companies that violate labour codes, engage in unfair trade practices or provide bribes to domestic or foreign officials. These ethical issues can take place at the same time a company is claiming to be socially responsible as seen in the case of Apple in 2014. Apple's website indicates that it is concerned with the social responsibility of its suppliers. However, Foxconn Technology, a key Apple supplier, has drawn, and continued to draw, negative attention as of January 2014. While earlier Foxconn's labour practices were questioned by the media, the more recent ethical issue relates to the possibility that former managers accepted bribes amounting to millions of dollars (Barboza 2014). Other ethical lapses have included the 1998-2005 hiring practices at Wal-Mart's distribution facility in Kentucky that discriminated against women (EEOC 2010) and Microsoft avoiding US taxes by shifting profits to a Puerto Rican subsidiary (Pagliery 2012). In all three of these cases, the companies promote their corporate social responsibility actions through their disclosures or statements (e.g., ethical conduct by Apple, good citizenship by Wal-Mart) for the same years in which questionable events occurred (Apple 2005 and 2014, Wal-Mart 2004, Microsoft 2012).

The described CSR institutional setting provides examples of the influences social actors (i.e., companies) encounter as they try to perform in socially responsible and sustainable ways. These social actors respond through actions that are then outlined in reports and other disclosures and may originate with the companies', governments' or media. However concurrently to undertaking CSR actions and disclosures, the social actors may be participating in other acts that can be deemed as unethical or of questionable ethics. The next section presents the conceptual background that forms the basis for our examination of the CSR disclosures-ethics environment, how companies act in this setting and how investors and society respond to the companies' actions.

CONCEPTUAL BACKGROUND

Social actor theory, otherwise labeled as economic sociology, has been defined as "the application of the sociological perspective to economic phenomena" (Mandjak & Szanto 2010, 203). Social actor theory sees the company as an actor in an economic setting. To be an actor, a company must perform and exist meaning that "[o]rganizations are actors because society, not only legally but also practically and linguistically, grants them that status" (King et al. 2010, p. 292). In this context social actors are seen as being capable of decision-making and being held accountable for their decisions. Additionally, social actors are capable of taking actions that are deliberate and meant to achieve goals (King et al. 2010).

The economic sociology perspective applies models to the actions normally construed as market (i.e., producing, distributing, exchanging and consuming) activities (Swedberg 2003, p. 58; Smesler & Swedberg 1994, p. 3). When a company is the social actor, it undertakes actions in an "economic field" that is considered to be roughly its industry. As Mandjak and Szanto (2010, 204) indicate, each "economic field has been created and structured in [a] historical and social context." For the purpose of our paper, we interpret the economic field more broadly as the capital market or the industry of capital (i.e., resource) placement. In this setting the company (social actor) becomes the supplier (receiving cash or capital for investment) and the investor (social actor) becomes the buyer (receiving an intangible interest in the company).

In the business realm, social actors interact with other social actors. These interactions may take many forms including buying (selling) goods and services as well as supplying or buying capital in the market place. In such settings there is always the possibility that power issues arise (King et al. 2010, p. 297). In the case of capital markets power issues may occur and depend on which party in a transaction has more information. Where the company is one of the social actors in the transaction and is selling investments in its capital, agency theory posits that the company (or management of the company) holds the information advantage over the investor. For a transaction to occur between two social actors some level of trust needs to exist. Trust may come from many sources (e.g., regulations, conventions, other social actors). One source that may promote trust in the market is financial analysts through information gathering or analysis.

Information economics

In the agency theory context, information asymmetry exists between companies and potential, or existing, investors as well as other stakeholders. There are several means a company (or social economic actor) may use to address this asymmetry. The social actor may provide more information by making voluntary disclosures with respect to CSR or signaling the market through actions such as adopting more conservative accounting policies. Another means of lessening agency conflicts is through the action of financial analysts covering a company (Jiraporn et al. 2012, p. 3091). By bringing superior assessment skills to the examination of publicly available information or by ferreting out private information (Lepone et al. 2013), analysts are able to assist other social actors (stakeholders) in their decisions (e.g., investment). That is, analysts may "facilitate more effective monitoring of firms' activities and, thereby, decrease agency costs and increase shareholder value" (Jung et al. 2012, p. 61).

Companies' analyst following has been examined in relation to disclosures over the past two decades (e.g., Botosan 1997, Botosan & Harris 2000, Botosan & Plumlee 2003). With respect to voluntary disclosures, Healy et al. (1999) find that increases in disclosure ratings are accompanied by increases in analyst following. In an environment where companies' earnings are more dependent on company specific factors, Gong et al. (2013) find that a positive relationship exists between these companies' earnings and the tendency of management to provide earnings forecasts. This relationship is stronger

when the companies have larger analyst followings. These findings seem to indicate that financial analysts' play a role in the market with respect to voluntary disclosures.

In this paper the social actors (companies) have information about their CSR and ethics actions that other social actors (investors and other stakeholders) do not necessarily possess. This information asymmetry represents a power imbalance that may undermine investors' and other stakeholders' trust in companies. Voluntary disclosure of a company's CSR and ethics actions may enhance trust between the two parties. However, voluntary disclosures fail to carry the same level of assurance that required disclosures have. Financial analysts are intermediary third-parties who assist the market (via interpretation and assessment) as information is disseminated from companies to investors.

Institutional theory

In an institutional theory context companies seek legitimacy by following the norms of their industry or country. In a global setting this norm-setting dimension is expanded and companies face a need to follow recognized global practices/norms (e.g., GRI). Such global norms reside outside national or industry cultures. For example the world is now characterized by global capital markets, analysts and disclosure norms. Following global institutionalized practices such as GRI and ISO 26000 helps legitimize a company's decisions.

As noted by King et al. (2010), social actors interact with other social beings (e.g., individuals, other organizations including governments). For such interactions to be

meaningful, judgments are made regarding the social actor's dealings to determine whether these are congruent with society's goals. Congruency of a social actor's actions and decisions with society's goals provides evidence of the actor's legitimacy. Communication with other social beings provides the social actor with the opportunity to present evidence of its actions and commitment to the social contract or to attempt to change the social contract (Dowling and Pfeffer 1975). The actions a company takes provide a measure of its legitimacy.

The following section uses the conceptual background and institutional environment to develop our hypotheses. In particular we examine the relationship between CSR disclosures and ethical issues, as well as how CSR disclosures and ethical issues affect legitimacy, dispersion of analyst forecasts and market valuation.

HYPOTHESES DEVELOPMENT

Our conceptual background points toward a system of actions by some social actors and reactions by other social actors. These actions and reactions play out in the market place where information economics or institutional theory may inform us as to how the actions/reactions are viewed. In particular we examine several relationships that involve a company's CSR voluntary disclosures, ethical issues, social legitimacy and analyst forecasts. These relationships are complex and each factor may influence the other factors.

Given the conceptual background of the setting, we develop six hypotheses that indicate where information economics and institutional theory seem to work together and where financial analysts serve as intermediaries. Our first hypothesis allows examination of how a social actor's (company) involvement in ethical issues is related to its level of voluntary CSR disclosure. In this setting, a company faced with a violation of ethics will likely disclose more about its CSR activities. CSR disclosures are meant to explain the negative and positive activities undertaken by a company. Where ethical issues arise, a company will wish to illustrate that it is still meeting its social contract, remains legitimate and follows best practices as anticipated by institutional theory. An example of this may be seen when companies in so-called "sin industries" (alcohol, gambling and tobacco) provide CSR disclosures (Cai et al. 2012). From an information economics perspective, a company that knows its ethical issues have been disclosed in the market will wish to influence other social actors' perceptions of its activities. One method of influencing perceptions is to provide voluntary CSR disclosures that may mitigate negative judgments about, or increase trust in, the company (Fisman et al. 2008). Based on both information economics and institutional theory, our expectations are that ethical issues will cause a company to increase its CSR disclosure activity. This leads to our first hypothesis:

Hypothesis 1: A firm's involvement in ethical issues will positively affect its level of CSR disclosures.

When companies are supposed to be following best practice and ethical issues arise, we expect to see a negative effect on those companies' social legitimacy. However where companies provide CSR voluntary disclosures, from an institutional theory view we expect that these disclosures will lessen the effect of those ethical issues. From an information economics approach, the disclosure of information that either partially explains the ethical situation or explains a social actor's other socially responsible actions will influence the market's response and other stakeholders' response to the ethical issue. In this setting, we form two expectations: First, the existence of ethical issues will negatively affect a social actor's legitimacy and second, where voluntary CSR disclosures are made, these disclosures mediate the effect of ethical issues on social legitimacy. This leads to our second set of hypotheses:

Hypothesis 2a: A firm's involvement in ethical issues will negatively affect social legitimacy.

Hypothesis 2b: The impact of ethical issues on social legitimacy is mediated by CSR disclosures.

Our third hypothesis examines the influence of CSR disclosures on social legitimacy. From institutional theory, we expect that CSR disclosures will normally increase social legitimacy. That is, a social actor attempting to meet its social contract by following best CSR practices will be seen as legitimate by other social actors. For example Kuo and Chen (2013) find that companies operating in environmentally sensitive industries improve their perceived legitimacy by reporting on CSR. We also

expect the relationship between CSR disclosure and social legitimacy will be tempered if other information about ethical issues facing the social actor exists and is known. This effect can be traced to information economics where even if the social actor (company) only discloses positive CSR, further information will be sought out by other social actors (stakeholders) and incorporated into their decision-making. From these theories, we anticipate that companies providing CSR disclosures will experience an increase in their social legitimacy but that in situations where other information is available concerning ethical issues consistent with information economics, the effect of CSR disclosures on social legitimacy will be lessened. This leads to our third set of hypotheses:

Hypothesis 3a: CSR disclosures increase social legitimacy.

Hypothesis 3b: The impact of CSR disclosures on social legitimacy is mediated by ethical issues.

Our next three hypotheses relate to the role of analysts in the financial market. Where social actors (i.e., companies) attempt to maintain their legitimacy through following institutional best practices, financial analysts will try and seek out other information for analysis and dissemination. For analysts to be seen as a necessary component of the market, they need to be trusted by stakeholders (other social actors). Where the analysts are functioning well in their social role, we anticipate certain reactions to analysts' forecasts. From an information economics perspective, we expect that a firm with ethical issues will see an increase in analyst forecast dispersion and a decrease in market value as other social actors react to the ethical issues. In an

environmental disclosure setting, Aerts et al. (2008) find that disclosures affect analysts' earnings forecasts by making the forecasts more precise. As well Berthelot et al. (2012) find that voluntary disclosures made in sustainability reports are valued by stock markets. From an institutional perspective, we also expect that CSR disclosures and a company's social legitimacy will lessen the increase in forecast dispersion and the decrease in stock market valuation due to ethical issues.

Specifically with respect to our fourth hypotheses and for companies with ethical issues, we predict that analyst forecast dispersions will increase but stock market valuation will decrease. Additionally, we expect that the effect of ethical issues on analyst forecast dispersion and market valuation is lessened by both a company's social legitimacy and its CSR disclosures.

Hypothesis 4a: A firm's involvement in ethical issues will increase (decrease) analyst forecast dispersion (stock market valuation).

Hypothesis 4b: The impact of ethical issues on forecast dispersion (stock market valuation) is mediated by CSR disclosures and social legitimacy.

Further as would be expected from an information economics perspective, CSR disclosures will not be ignored and that these disclosures will affect analyst forecasts and stock market valuations. Again, we think that any effect of CSR disclosures will be lessened given the existence of ethical issues. That is, showing best practices from an institutional theory viewpoint will not entirely overcome any ethical issues. Thus, we expect that CSR disclosures will decrease analyst forecast dispersion and increase stock

market valuation. However, ethical issues will mediate the effects of CSR disclosures on both analyst forecast dispersion and stock market valuations. This leads to our fifth set of hypotheses:

Hypothesis 5a: CSR disclosures decrease (increase) analyst forecast dispersion (stock market valuation).

Hypothesis 5b: The impact of CSR disclosures on analyst forecast dispersion (stock market valuation) is mediated by ethical issues.

Our sixth set of hypotheses examines how social legitimacy influences analyst forecast dispersion (or stock market valuation) and how ethical issues affect this relationship. From institutional theory we expect that companies perceived as socially legitimate by other social actors will decrease the dispersion of the analysts' forecasts and increase the stock market valuation. However, social actors in the market will not ignore ethical issues and this information will mediate both the analyst forecast dispersion and stock market valuation. We therefore predict that social legitimacy will decrease analyst forecast dispersion and increase stock market valuation. However, we further anticipate that ethical issues will temper the effect of social legitimacy on analysts' forecasts and other social actors' market decisions. Our hypotheses are:

Hypothesis 6a: Social legitimacy decreases (increases) analyst forecast dispersion (stock market valuation).

Hypothesis 6b: The impact of social legitimacy on analyst forecast dispersion (stock market valuation) is mediated by ethical issues.

METHOD

Sample

Following the selection criteria of Aerts et al. (2008), our initial sample is 632 non-financial North American firms (216 from S&P/TSX for Canada and 416 from S&P 500 for the U.S.). The final sample numbers 589 due to a lack of forecast dispersion for 43 firms in 2009. The sample firms operate in the following industries (S&P classification): Consumer discretionary, consumer staples, energy, real estate, industrials, health care, information technology, telecom & media, materials (resources), and utilities.

Models

To test our hypotheses, the following regression models are estimated. Beta coefficients are used to further test mediating different effects presented in path analyses.

LEGI = Lag LEGI + ***CSRD*** *+ Ethical Issues* (1)

FORDIS = BETA + NEGEPS + ANFOLL + ***LEGI*** (2)

FORDIS = BETA + NEGEPS + ANFOLL + ***Ethical issues*** (3)

FORDIS = BETA + NEGEPS + ANFOLL + ***CSRD*** (4)

PRICE = EQPS + EPS + ***LEGI*** (5)

PRICE = EQPS + EPS + ***Ethical issues*** *(6)*

PRICE = EQPS + EPS + ***CSRD*** (7)

Our dependent variables represent social legitimacy (LEGI), analyst forecast dispersion (FORDIS) and share price (PRICE). Our independent variables indicate CSR disclosures (CSRD), negative earnings per share (NEGEPS), analyst following (ANFOLL), equity per share (EQPS), and earnings per share (EPS). Next, we provide detail on the justification of the choice of variables and on how these variables are measured.

Dependent variables

LEGI. Based on media coverage content, LEGI is a direct measure capturing the impact of legitimization activities by a firm via its environmental disclosure. Studies of societal legitimacy perceptions have employed media coverage as a relevant and important information source. Social media coverage allows direct assessment of corporate environmental communication effectiveness by serving as an organizational perception management tool that enhances an organization's perceived environmental legitimacy (Elsbach 2003). That is, social media coverage is used to infer a firm's legitimacy. This variable is constructed by coding (i.e., neutral, negative, or positive) each article in terms of its effect on a firm's social legitimacy. For example bad news stories convey a firm's lack of social commitment and emphasize the negative

characteristics of a firm's actions. A social legitimacy score is calculated for each firm. Cronbach's alpha (alpha= 0.74) based on the classification good/bad/neutral news) indicates high intercoder reliability (Weber, 1990) and that the variance is systematic. Coding disagreements between the coders were reconciled by one of the researchers.

The Janis-Fadner coefficient of imbalance (Bansal and Clelland, 2004; Janis and Fadner, 1965) is used to calculate the social legitimacy score. The Janis-Fadner coefficient provides a number for each firm between -1.0 to +1.0. If the articles are primarily positive (negative), this yields a value closer to +1.0 (-1.0). The Janis-Fadner formula is:

$$\text{Janis-Fadner coefficient} = \frac{(e^2 - ec)}{t^2} \text{ if } e > c$$

$$\frac{(ec - c^2)}{t^2} \text{ if } c > e$$

Where "e" is the number of favourable CSR articles in a given year, "c" is the number of unfavourable CSR articles in a given year and "t" is the sum of "e" and "c". News media content is extracted from the ABI/Inform Global database and from three distinct sources: (1) Business, Economics: local and regional business publications; (2) Business, Finance, Economics: journals, company profiles, *Wall Street Journal*; (3) Canadian Newsstand, which offers broad access to the full text of Canadian newspapers (*Montreal Gazette*, *National Post* and *Toronto Star*). We extracted articles using a firm's name and the keywords based on our CSR disclosure grid. (See Appendix 1.)

FORDIS. The dispersion in forecasts is the standard deviation of EPS forecasts for 2009 scaled by the absolute value of reported EPS for 2009.

PRICE. Stock market price at year-end and measures the stock market valuation of a company.

Independent variables

BETA. Patton and Verardo (2010) observe that the increase in systematic risk is greater for earnings announcements with larger positive or negative surprises, and with greater analyst forecast dispersion. We expect a positive association between *BETA* and *FORDIS.*

ANFOLL. Analyst forecast precision is likely to improve as more information about a company is processed and disclosed by analysts (Alford & Berger, 1999). Hope (2003a) documents a negative relationship between the number of analysts following a firm and forecast error. Thus, a negative association is expected between *FORDIS* and *ANFOLL*.

NEGEPS. Hope (2003a) documents that negative earnings are associated with more forecast error, suggesting that earnings are more difficult to predict for companies that experience losses. Consistent with Hope (2003a, b), an indicative variable for negative earnings is used (equal to 1 if negative EPS and 0 otherwise). We anticipate a positive relationship between this binary variable and *FORDIS*.

CSRD. Prior research documents a negative relationship between the level of corporate disclosure and analyst forecast dispersion (e.g. Hope 2003a). To the extent that disclosure increases the analyst's ability to forecast earnings, a positive association (negative) association is expected between *CSRD* and *FORDIS*. CSR disclosures comprise 35 items (see Appendix 1). The grid is a combination of elements suggested in the Global Reporting Initiative (GRI) and ISO 26000. Elements are grouped into four categories: Labour protection and decent work, Human rights, Society, and Consumer and product responsibility. The rating is based on a score from one to three, three points are awarded for an item described in monetary or quantitative terms, two when an item is described specifically, and one for an item discussed in general. Disclosure is collected from corporate Internet sites, i.e. the annual report and the sustainability reports. We eliminate any overlap in disclosure. Internal consistency estimates (Cronbach's alpha) show that the variance of components is quite systematic (alpha= 0.78)

Ethical issues. We posit that ethical issues alter a firm's legitimacy among stakeholders and affect strategically voluntary CSR disclosures. We measure ethical issues based on a grid comprising 13 items (see Appendix 2). Information is collected from the ABI/Inform Global database**.** Key words used are based on the ethical issues grid. Internal consistency estimates (Cronbach's alpha) show that the variance of components is quite systematic (alpha= 0.74).

RESULTS

Univariate analyses

Table 1 presents descriptive statistics for CSR disclosures (CSRD), Ethical issues and Social legitimacy (LEGI). Labour practices and decent work (18.59) and Society (16.10) account for close to 90% of the CSR disclosure score. On average, firms are identified as having 0.29 distinct ethical issues (ranging from 0 to 7 issues) and a total average ethical issue of 0.70 cases. From Appendix 2, we observe that four categories represent the bulk of specific ethical issues: unfair competition and fines for non-compliance (0.22), violation of labour code (0.13), discrimination based on race and gender (0.11), and fraud (0.09). Finally, on average, firms exhibit a neutral social legitimacy at 0.02 with almost as many firms exhibiting positive and negative social legitimacy.

Table 1
Descriptive statistics
CSR disclosures, Ethical issues and Social legitimacy

	Mean	Median	Std. Dev.	Min.	Max.
CSR disclosures (CSRD)					
Labour practices and decent work	18.59	12	20.62	0	126
Human rights	2.02	0	5.10	0	49
Society	16.10	9	20.73	0	147
Consumer and product responsibility	2.65	0	6.30	0	47
Total	38.99	27	43.68	0	228
Ethical issues					
Number of different ethical issues*	0.29	0	0.70	0	7
Total ethical issues	0.70	0	4.04	0	90
Social legitimacy (LEGI)	0.02	0	0.39	-1	1

*Based on the presence or absence of the element (not more than one point for an element)

Table 2 presents descriptive statistics for the financial variables used in our models. Sample firms are followed by twelve analysts on average. *BETA* (or systematic risk) is slightly higher than the stock market risk, averaging 1.21 (median = 1.08), suggesting that our sample is a good representation of the stock exchanges.

Table 2
Descriptive statistics
Financial variables

	Mean	Median	Std. Dev.	Min.	Max.
FORDIS	0.34	0.08	1.18	0.01	15.75
BETA	1.21	1.08	1.65	-2.11	3.88
NEGEPS	0.19	0	0.39	0	1
EPS	1.86	1.30	10.84	-11.17	253.49
EQPS	14.28	11.19	19.24	-141.24	350.35
PRICE	25.70	22.00	28.83	1.00	316
ANFOLL	12.47	12.00	6.95	2.00	42

FORDIS: Analyst forecast dispersion; *NEGEPS*: Negative earnings per share; *ANFOLL*: Analyst following; *EQPS*: Equity per share; *PRICE*: Stock price at year-end; *EPS*: Earnings per share.

Multivariate analyses

We use the OLS regression models (robust estimators and beta adjusted coefficients) explained in the previous section (numbered 1 to 7) to compute path analyses and to assess different mediating effects. These models are provided in four figures (1a, 1b, 2a and 2b) and allow analysis of our hypotheses.

Impact of CSR disclosures on social legitimacy (Figures 1a and 1b)

LEGI = 0.212 *Lag LEGI* + **0.129** *CSRD* **-0.199** *Ethical Issues* (1)
(0.021) (0.065) (0.030)

R-squared = 8.11%, F = 2.73 (0.04) N = 632

Consistent with hypothesis 2a, we observe a negative relationship between ethical issues and social legitimacy (-0.199; $p < 0.03$). Consistent with hypothesis 3a, CSRD is positively associated with social legitimacy (0.129; $p < 0.05$).

To test the impact of CSR disclosures on social legitimacy considering ethical issues, we add an interaction term, *CSRD*Ethical issues.*

LEGI = 0.037 *Lag LEGI* + **0.135** *CSRD*
(0.516) (0.069)
– 0.198 *CSRD* Ethical issues* -0.015 *Ethical Issues*
(0.087) (0.906)

The impact of CSR disclosures on social legitimacy in the presence of ethical issues is assessed by the sum of -0.198 + 0.135 = -0.063. The impact of CSR disclosures on social legitimacy in the absence of ethical issues is captured by the coefficient 0.135.

Hence, our results suggest that the positive impact of CSR disclosures on social legitimacy is reduced in the presence of ethical issues.

Impact of social legitimacy on forecast dispersion (Figure 1a)

FORDIS = 0.244 *BETA* + 0.354 *NEGEPS* – 0.175 *ANFOLL* **-0.039** *LEGI* (2)
(0.000) (0.000) (0.000) (0.070)

R-squared = 26.9%, F = 23.3 (0.00) N = 589

Consistent with hypothesis 6a, results show a negative relationship between social legitimacy and forecast dispersion (-0.039; $p < 0.07$).

To test the impact of social legitimacy on forecast dispersion considering ethical issues, we add an interaction term *LEGI* Ethical issues.*

FORDIS = 0.292 *BETA* + 0.425 *NEGEPS* – 0.215 *ANFOLL* **-0.053** *LEGI*
(0.000) (0.000) (0.000) (0.070)
+**0.036** *LEGI*Ethical issues* – 0.014 *Ethical issues*
(0.110) (0.537)

The impact of social legitimacy on forecast dispersion in the presence of ethical issues is assessed by the sum of -0.053 + 0.036 = -0.017. The impact of social legitimacy on forecast dispersion in the absence of ethical issues is -0.053.

Impact of ethical issues on forecast dispersion (Figures 1a and 2a)

FORDIS = 0.237 *BETA* + 0.327 *NEGEPS* – 0.146 *ANFOLL* + **0.049** *Ethical issues* (3)
(0.000) (0.000) (0.000) (0.098)

R-squared = 26.0%, F = 41.8 (0.00) N = 589

Consistent with hypothesis 4a, the coefficient on Ethical issues is positively related to FORDIS (0.049; $p < 0.098$).

Impact of disclosure on forecast dispersion (Figures 1a and 2a)

FORDIS = 0.274 *BETA* + 0.309 *NEGEPS* – 0.173 *ANFOLL* - **0.043** *CSRD* (4)
(0.000) (0.000) (0.000) (0.054)

R-squared = 25.7%, F = 17.6 (0.00) N = 589

Consistent with hypothesis 5a, the coefficient on *CSRD* is negatively related to *FORDIS* (-0.043; $p < 0.054$).

To consider the impact of CSR disclosures on forecast dispersion taking into account ethical issues, we add an interaction term *CSRD* Ethical issues.*

FORDIS = 0.301 *BETA* + 0.305 *NEGEPS* – 0.140 *ANFOLL* - **0.092** *CSRD*
(0.000) (0.000) (0.000) (0.007)
+**0.110** *CRSD*Ethical issues* – 0.106 *Ethical issues*
(0.009) (0.018)

The impact of CSR disclosures on forecast dispersion in the presence of ethical issues is assessed by the sum of coefficients -0.092 + 0.110 = 0.018. The impact of social legitimacy on forecast dispersion in the absence of ethical issues is captured by the coefficient on *CSRD* -0.092

Impact of social legitimacy on stock price (Figure 1b)

PRICE = 0.695 *EQPS* + 0.288 *EPS* + **0.077** *LEGI* (5)
(0.000) (0.000) (0.000)

R-squared = 67.8%, F = 241.5 (0.00) N = 589

Consistent with hypothesis 6a, social legitimacy is positively associated with stock price (0.077; p < 0.000).

To test the impact of social legitimacy on stock price considering ethical issues, we add an interaction term *LEGI* Ethical issues.*

PRICE = 0.701 *EQPS* + 0.141 *EPS* + **0.094** *LEGI*
(0.000) (0.000) (0.000)
-**0.039** *LEGI*Ethical issues* + 0.141 *Ethical issues*
(0.080) (0.000)

The impact of social legitimacy on stock price in the presence of ethical issues is assessed by the sum of coefficients 0.094 - 0.039 = 0.055. The impact of social legitimacy on stock price in the absence of ethical issues is 0.094.

Impact of ethical issues on stock price (Figures 1b and 2b)

PRICE = 0.671 *EQPS* + 0.119 *EPS* - **0.027** *Ethical issues* (6)
(0.000) (0.000) (0.049)

R-squared = 95.0%, F = 72.8 (0.00) N = 589

Consistent with hypothesis 4a, we observe a negative relationship between ethical issues and stock price (-0.027; p 0.049).

Impact of disclosure on stock price (Figures 1b and 2b)

PRICE = 0.719 *EQPS* + 0.275 *EPS* + **0.182** *CSRD* (7)
(0.000) (0.000) (0.000)

R-squared = 68.9%, F = 118.1 (0.00) N = 589

Consistent with hypothesis 5a, we observe a positive relationship between *CSRD* and stock price (0.182; p 0.000).

To test the impact of CSR disclosures on stock price considering ethical issues, we add an interaction term *CSRD* Ethical issues.*

PRICE = 0.753 *EQPS* + 0.205 *EPS* + **0.212** *CSRD*
(0.000) (0.000) (0.000)
-**0.099** *CSRD*Ethical issues* + 0.109 *Ethical issues*
(0.009) (0.000)

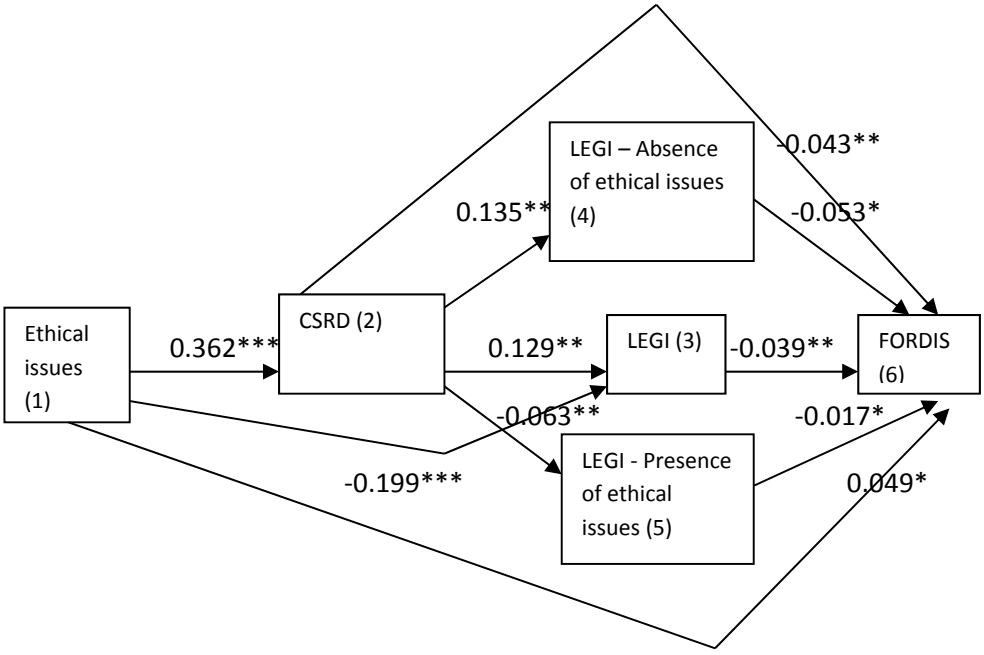
The impact of CSR disclosures on stock price in the presence of ethical issues is captured by the sum of 0.212 -0.099 = 0.113. The impact of social legitimacy on forecast dispersion in the absence of ethical issues is 0.212.

Path analysis

Figures 1a and 1b present results of the path analyses for analysts' forecast dispersion (*FORDIS*) and stock market valuation (*PRICE*). Path standardized coefficients are taken from the above regressions.

Figure 1a

Path Analysis
Ethical issues, social disclosures, social legitimacy and analyst forecasts



*: p < 0.10; **: p < 0.05; ***: p < 0.01 two-tailed.
We use standardized regression coefficients (Beta) as path coefficients.

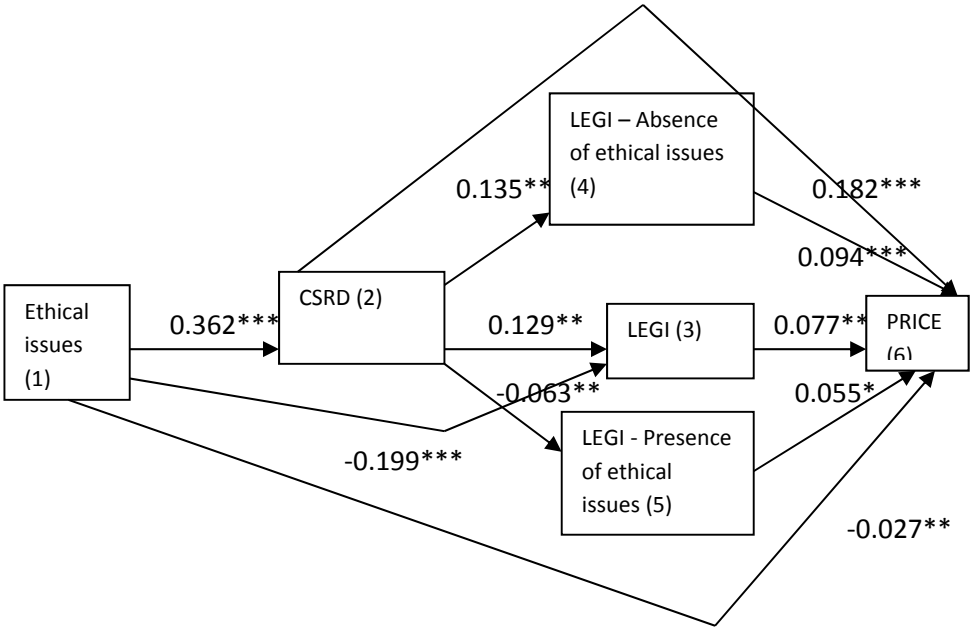
Path decomposition

Direct effect

(1)(2)	0.362	= 0.362 Ethical issues / CSRD	**(H1)**

	Total effect	***Indirect effect***		
(1)(3) -0.199+0.362*0.129	= -0.152 Ethical issues / LEGI	through CSRD: 0.362*0.129	= 0.047	**(H2b)**
(1)(6) 0.049+0.362*0.129*-0.039 +-0.199*-0.039	= 0.039 Ethical issues/ FORDIS	through LEGI and CSRD: 0.362*0.129*-0.039 +-0.199*-0.039	=-0.010	**(H4b)**
(2)(3) 0.129+0.362*-0.199	= 0.057 CSRD / LEGI	through Ethical issues: 0.362*-0.199	=-0.072	**(H3b)**
(2)(6) -0.043+0.049*0.362	=-0.025 CSRD / FORDIS	through Ethical issues: 0.362*0.049	=0.018	**(H5b)**
(3)(6) -0.039 +0.129*-0.199	= -0.065 LEGI / FORDIS	through Ethical issues and CSRD: 0.129*-0.199	=-0.026	**(H6b)**
(4)(6) -0.053+0.135*-0.199	= -0.079 LEGI / FORDIS	through Ethical issues and CSRD: 0.135*-0.199	=-0.024	**(H6b)**
(5)(6) -0.017+-0.063*-0.199	= -0.005 LEGI / FORDIS	through Ethical issues and CSRD: -0.063*-0.199	=0.012	**(H6b)**

Figure 1b
Path Analysis
Ethical issues, social disclosures, social legitimacy and stock price



*: p < 0.10; **: p < 0.05; ***: p < 0.01 two-tailed.
We use standardized regression coefficients (Beta) as path coefficients.

Path decomposition

Direct effect

(1)(2) 0.362 = 0.362 Ethical issues / CSRD **(H1)**

	Total effect	***Indirect effect***		
(1)(3) -0.199+0.362*0.129	= -0.152 Ethical issues / LEGI	through CSRD: -0.362*0.129	= 0.047	**(H2b)**
(1)(6) -0.027+0.362*0.129*0.077 +0.199*0.077	= -0.039 Ethical issues/ PRICE	through LEGI and CSRD: 0.362*0.129*0.077 +0.199*0.077	=-0.012	**(H4b)**
(2)(3) 0.129+0.362*-0.199	= 0.057 CSRD / LEGI	through Ethical issues: 0.362*-0.199=-0.072		**(H3b)**
(2)(6) 0.182+-0.027*0.362	=0.172 CSRD / PRICE	through Ethical issues: 0.362*-0.027=-0.010		**(H5b)**
(3)(6) -0.039 +0.129*-0.199	= -0.065 LEGI / PRICE	through Ethical issues and CSRD: 0.129*-0.199	=-0.026	**(H6b)**
(4)(6) -0.053+0.135*-0.199	= -0.079 LEGI / PRICE	through Ethical issues and CSRD: 0.135*-0.199	=-0.024	**(H6b)**
(5)(6) -0.017+-0.063*-0.199	= -0.005 LEGI / PRICE	through Ethical issues and CSRD: -0.063*-0.199	=0.012	**(H6b)**

The direct effect of ethical issues on CSR disclosures is represented by the path coefficient between CSR disclosures and ethical issues (0.362). This positive relationship is consistent with hypothesis 1.

The total effect of ethical issues on social legitimacy through the relationship with CSR disclosures is obtained by multiplying the paths together. Consistent with hypothesis 2b, the impact of ethical issues on social legitimacy is mediated by CSR disclosures. The correlation for the total effect of ethical issues on social legitimacy through CSR disclosures is -0.152. Hence, CSR disclosures attenuate to a certain extent the negative impact of ethical issues on social legitimacy.

Consistent with hypothesis 3b, the impact of CSR disclosures on social legitimacy is mediated by ethical issues. The correlation for the total effect of CSR disclosures on social legitimacy through ethical issue is 0.057.

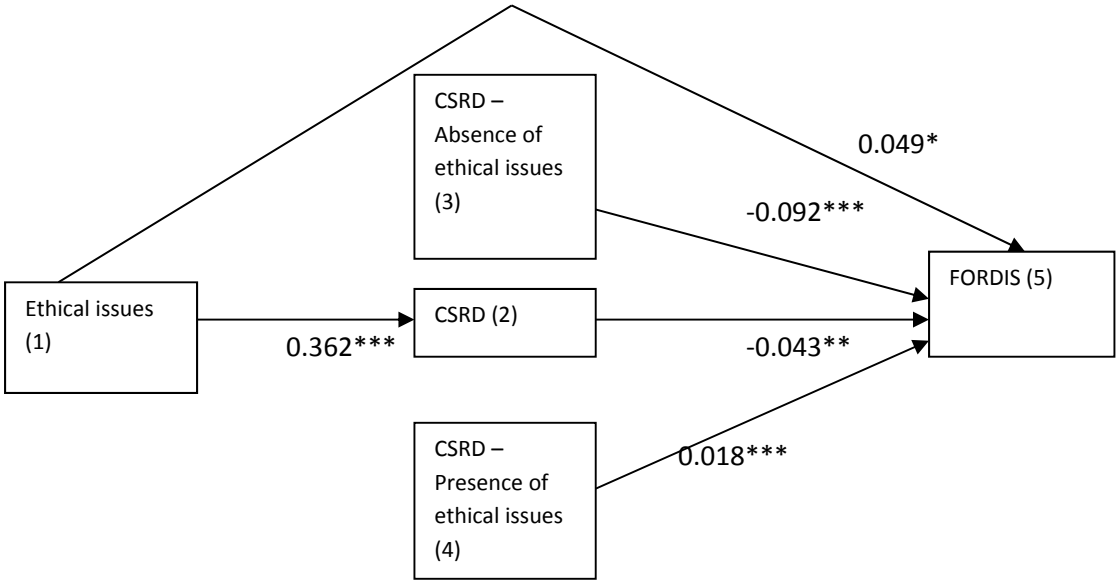
Consistent with hypothesis 4b, the impact of ethical issues on forecast dispersion (stock market valuation) is mediated by CSR disclosures and social legitimacy. The correlation for the total effect of ethical issues on forecast dispersion (stock market valuation) through indirect effects of CSR disclosures and social legitimacy is 0.039 (-0.039). Hence, CSR disclosures and social legitimacy reduce the negative impact of ethical issues on forecast dispersion and stock price.

The impact of CSR disclosures on forecast dispersion (stock market valuation) is mediated by ethical issues consistent with hypothesis 5b. The correlation for the total effect of CSR disclosures on forecast dispersion (stock market valuation) through the

indirect effect of ethical issues is -0.025 (0.172). Hence, ethical issues reduce the positive impact of CSR disclosures on forecast dispersion and stock price.

Consistent with hypothesis 6b, the impact of social legitimacy on forecast dispersion (stock market valuation) is mediated by ethical issues and CSR disclosures. The correlation for the total effect of social legitimacy on forecast dispersion (stock market valuation) through CSR disclosures and ethical issues is -0.065 (0.051). Hence, ethical issues reduce the positive impact of social legitimacy on forecast dispersion and stock price. When focusing only on firms involved in ethical issues, the correlation for the total effect of social legitimacy on forecast dispersion (stock market valuation) goes from -0.065 to -0.079 (0.051 to 0.067). This highlights the negative impact that ethical issues have on social legitimacy and in turn on stock markets. In the same vein, as we can observe from figures 2a and 2b, when focusing only on firms involved in ethical issues, the correlation for the total effect of CSR disclosures on forecast dispersion (stock market valuation) goes from -0.025 to 0.036 (0.172 to 0.103). This highlights the negative impact that ethical issues may have on the way stock markets assess CSR disclosures.

Figure 2a
Path Analysis
Ethical issues, social disclosures and analyst forecasts

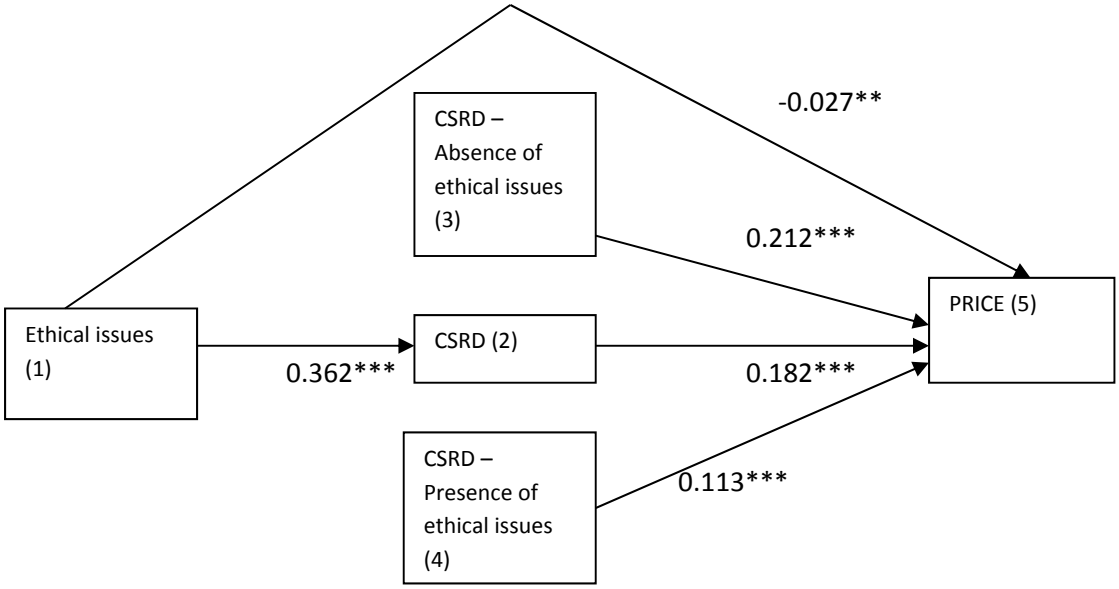


*: p < 0.10; **: p < 0.05; ***: p < 0.01 two-tailed.
We use standardized regression coefficients (Beta) as path coefficients.

Total effect

(2)(5) -0.043 +0.362*0.049	= -0.025	CSRD / FORDIS (indirect effect through Ethical issues)	**(H5b)**
(3)(5) -0.092+0.362*0.049	= -0.074	SOCDISD / FORDIS (indirect effect through Ethical issues)	**(H5b)**
(4)(5) 0.019+0.362*0.049	= 0.036	CSRD / FORDIS (indirect effect through Ethical issues)	**(H5b)**

Figure 2b
Path Analysis
Ethical issues, social disclosures and stock price



*: p < 0.10; **: p < 0.05; ***: p < 0.01 two-tailed.
We use standardized regression coefficients (Beta) as path coefficients.

Total effect

(2)(5) 0.182 +0.362*-0.027	= 0.172	CSRD / PRICE (indirect effect through Ethical issues) **(H5b)**
(3)(5) 0.212+0.362*-0.027	= 0.202	CSRD / PRICE (indirect effect through Ethical issues) **(H5b)**
(4)(5) 0.113+0.362*-0.027	= 0.103	CSRD / PRICE (indirect effect through Ethical issues) **(H5b)**

Finally, considering indirect effects, we observe that social legitimacy has a larger impact on forecast dispersion than on CSR disclosures (-0.065 versus -0.025) while we find the opposite for the impact on stock price (0.172 versus 0.051). However, these results suggest that both CSR disclosures and social legitimacy lead to a reduction in information asymmetry between managers and stock market participants.

DISCUSSION AND CONCLUSION

Our findings provide evidence consistent with all six of our hypotheses. In terms of our conceptual background, the evidence supports our argument that information economics, social actor theory and institutional theory help us to understand the actions of a company and the market's reaction to ethical issues.

In particular and based on both information economics and institutional theory, we posit that where ethical issues arise, companies (social actors) will make voluntary CSR disclosures. Institutional theory leads us to expect that when faced with ethical issues, social actors will wish to preserve their societal legitimacy by following institutionalized processes including making CSR disclosures. Information economics supports the idea that in the presence of negative, publicly available information (e.g., ethical issues), a social actor will provide other inside disclosures to lessen the impact of negative information. Thus our broadest hypothesis (**1**) resting on both information economics and institutional theory predicted a company confronted by ethical issues will increase its CSR disclosure activity in a positive way. Our findings support this hypothesis.

Consistent with both institutional theory and information economics, our results support our second hypothesis. That is, a social actor's legitimacy is negatively affected by the presence of ethical issues (**2a**) but where voluntary CSR disclosures are made these disclosures mediate the effect of ethical issues on social legitimacy (**2b**).

As we expected from institutional theory, our evidence supports the idea that companies providing CSR disclosures experience an increase in their social legitimacy (**3a**). However, where other information is available concerning ethical issues consistent with information economics, we see that the effect of CSR disclosures on social legitimacy is lessened in the presence of ethical issues (**3b**).

We anticipated that ethical issues would increase analyst forecast dispersion (**4a**), whereas CSR disclosures (**5a**) and social legitimacy (**6a**) would decrease analyst forecast dispersion. With respect to stock market valuation, we predicted that ethical issues would decrease (**4a**), while CSR disclosures (**5a**) and social legitimacy (**6a**) would increase, this valuation. All of these predictions are consistent with information economics where negative information (ethical issues) will affect analysts' forecasts and this will filter into the market decisions of other social actors (investors and other stakeholders). However, from an institutional theory perspective, we anticipated and found evidence that the effect of ethical issues on analyst forecast dispersion and market valuation is lessened by both a company's social legitimacy and CSR disclosures (**4b**). As well ethical issues mediate the effects of both CSR disclosures (**5b**) and social legitimacy (**6b**) on analysts' forecasts and other social actors' market decisions as anticipated.

Our multidimensional perspective allows us to contribute to the understanding of markets and market participants (social actors) while examining the complex relationship between ethics issues, CSR disclosures and social legitimacy. By merging different perspectives and assuming that information serves multiple purposes and constituencies, we study how the ethical issues a company encounters are tempered by social legitimacy and CSR disclosures. The role of social actors that imbue the markets with trust (financial analysts) is also seen to affect legitimacy and other actors' market actions.

The study is subject to some limitations. First, alternative ways do exist to measure the constructs being used, i.e., ethical performance, legitimacy and market appreciation. However, we think that the measures we use are reasonably objective. Second, the measurement of CSR disclosure itself is subject to some discretionary choices. However, the approach we take is consistent with prior work and does provide a comprehensive score. Further analyses could consider various dimensions of CSR, e.g., environment, society and workforce. Third, the study focuses on Canada and the United States and its results, therefore, may not be generalizable in other countries. However, we consider that North America's developed press, extensive CSR-related regulations and sizable stock markets combine to offer an environment that is conducive to active monitoring by stakeholders and financial markets.

In terms of future research, it would be interesting to consider an international setting comprising countries with different institutional backgrounds or practices. While the current study encompasses firms from the United States and Canada, the addition

of firms with different legal, regulatory and market regimes would allow an assessment of whether institutionalization forces are at play on a broader scale in driving CSR disclosure strategies. Another potential research avenue would be to investigate the determination of CSR disclosure policies within firms through a qualitative approach that would allow more specific identification of the key decision-makers in terms of disclosure.

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Appendix 1
CSR Disclosures Grid

Labour practices and decent work
Employment opportunities
Labour rights / Job creation
Equity programs
Human capital development / training
Accidents at work
Health and safety programs
Social activities
Diversity and equal opportunity: Gender; cultural; corporate governance bodies
Human rights
Management: Investment; procurement practices; supply chain
Social rights: risk; violation; discrimination; promotion
Freedom of association and collective bargaining
Abolition of child labor: ILO Code
Prevention of forced and compulsory labor
Complaints and grievance practices
Security practices
Indigenous rights
Civil and political rights
Society
Regional, educational, and cultural development
Gifts and sponsorships and philanthropy
Bribery and Corruption
Wealth and income creation
Respect for property rights
Public Policy: Political lobbying and contributions
Business ethics /Anti-Competitive behavior
Promoting social responsibility in the sphere of influence
Community: Involvement; development; investment representation (board committees)
Consumer and product responsibility
Purchases of goods and services
Customer health and safety: Complains; code compliance
Product-related-incidents
Products development and environment: Access to essential services; sustainable consumption
Consumer service, support, and dispute resolution
Product Information Labeling: Complaints; consumer satisfaction
Marketing Communications (Advertising): Standards and code
Education and awareness
Customer Privacy

Rating scale:
3: Item described in monetary or quantitative terms; 2: Item described specifically; 1: Item discussed in general

Appendix 2
Ethical grid

	Average ethical issues
Violation of labour code	0.13
Discrimination based on race and gender	0.11
Non-compliance with trade laws on pricing	0.04
Exploitation of child labor	0.01
Unfair competition, fines for non-compliance	0.22
Products: management of health and human security	0.04
False advertising	0.02
Industrial spying	0.01
Influence peddling	0.01
Fraud	0.09
Corruption	0.02
Illegal financing of political parties	0.00
Bribes	0.01
Total score	0.70