CORPORATE ENVIRONMENTAL DISCLOSURE AND LEGITIMACY THEORY: AN EUROPE PERSPECTIVE**

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Abstract

Given the scenario of conflicting evidence found in previous literature with respect to the best Theory to explain the relationship between Environmental Disclosure and Environmental Performance, in this study we have tested Legitimacy Theory by using a time series structure for DJS Europe Index and controlling for the kind of industry. We have used Panel Data Methodology to eliminate the individual heterogeneity and Generalized Method of Moments (GMM) to control for problems of endogeneity by using instruments. We have found that Legitimacy Theory explains the relationship between the quantity of environmental information disclosed and the environmental performance in non-environmentally sensitive industries. The quality of environmental disclosures increases whether the firm is better environmental performer.

Key words: environmental disclosure, environmental performance, legitimacy theory, panel data

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