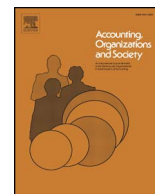




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Social movement NGOs and the comprehensiveness of conflict mineral disclosures: evidence from global companies

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ABSTRACT

Conflict minerals refer to raw materials associated with conflicts and human rights violations in conflict zones around the world. Concern about the lack of transparency in the mineral supply chains of global corporations has led to increased stakeholder concern and pressure through protest action. In particular since 2009, numerous public-private collaborations, including collaborations with NGOs and industry-led initiatives, have sought greater transparency in companies' sourcing from conflict mineral zones. This has led to the enactment of the 'Dodd-Frank Act' in the US to regulate the disclosure of involvement in conflict minerals. This requirement suggests that corporate obligations now go beyond their own operations and that companies are held accountable for the actions of their suppliers with regards to their supply chains.

While the act requires minimum disclosure by companies, we hypothesise that companies' collaboration with social movement NGOs and activist protests against companies will influence the comprehensiveness of their conflict mineral disclosures. Our hypothesis is grounded in social movement theory and the theory of collaboration. We test our hypothesis by focusing on a sample of global electronic reliant companies from 20 countries. Consistent with our expectations, we find that collaboration with NGOs (as social movement organizations) and activist protest lead to more comprehensive, and therefore more transparent, disclosures. Our findings suggest that in the presence of activist protest, NGO collaboration with corporations has a higher impact on the comprehensiveness of conflict mineral disclosures. Furthermore, the marginal effects on disclosure are more strongly driven by NGO collaboration than activist protest. Our findings have practical and policy implications in that improved corporate transparency is the result of social movement actions via NGOs, i.e., regulation on its own may not result in comprehensive disclosures.

1. Introduction

Across different industries and countries, there is widespread stakeholder concern over human rights violations in the supply chains of multi-national corporations sourcing from overseas, including in the conflict zones of Africa. Electronic reliant industries attract more attention, as their supply chains often include conflict minerals (Lezhnev & Hellmuth, 2012).¹ In particular, lack of transparency about the origin of many consumer products sold has fuelled opposition to economic globalization and to present accountability practices (Mansfield & Mutz, 2013; Bregman, Peng, & Chin, 2015). There is pressure from stakeholders, including Non-governmental Organizations (NGOs), for more transparent supply chains (Chen & Slotnick, 2015). In particular since 2009, numerous public-private collaborations, including

collaborations with NGOs and industry-led initiatives, have sought greater transparency from companies who are sourcing from conflict mineral zones (Lezhnev & Hellmuth, 2012; New, 2010; Reinecke & Ansari, 2016). At a broader level, NGO collaborations with corporations appear to have a significant impact on solving particular social or environmental problems, and research focusing on NGO-Corporation collaboration within the domain of the management and social science literature is growing (Austin, 2000; Mandell, 1999; Rondinelli & London, 2003). However, the collaborative role of NGOs with the aim to influence corporate human rights (social) transparency, and associated disclosures, remains under investigated (e.g., Deegan & Blomquist, 2006; O'Dwyer & Unerman, 2016; O'Sullivan & O'Dwyer, 2015).

Human rights violations in supply chains range from human

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¹ The term 'Conflict Minerals' refers to raw materials that come from a particular part of the world where conflict is occurring that affects the mining (in that mining conditions are inhuman and life threatening) and trading (in that returns are used to finance conflicts) of those materials.

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trafficking, child and slave labour, to lack of transparency in supply chains (Grootaert and Patrinos, 1999; Psacharopoulos, 1997; Kolk & Van Tulder, 2002; Haltsonen, Kourula, & Salmi, 2007; World Bank, 2009; UN, 2008; Moodie, 2014) and have caused broad community concern (see for example, Compact, 2011; Kettis, 2009; Kolk & Van Tulder, 2002; Shelton & Wachter, 2005; UN Global; Verbruggen, Franco, & Cuvelier, 2011). Our investigation deals with a new regulatory dimension of corporate responsibility, the 'Dodd-Frank Act' and in particular section 1502 of this act, which requires US listed companies to file an annual conflict mineral report with the Securities Exchange Commission (SEC). This act suggests that the obligation of corporations goes beyond their own operations and they are held accountable for the actions of their suppliers with regards to their supply chains. In this paper we are particularly interested to understand the influence of social movement actions on the comprehensiveness of corporate disclosures to the SEC in relation to conflict minerals.² While we specifically examine the influence of NGO collaboration on the comprehensiveness of conflict mineral disclosures, we also investigate whether activist protests influence disclosure practice in this area and interact with NGO collaboration to influence conflict mineral disclosure practices. Prior research found that legitimacy threatening incidents (see for example, Patten, 1992; Milne & Patten, 2002; Coetzee & Van Staden, 2011), stakeholder concerns, including protests (e.g., Deegan & Islam, 2014; Islam & Deegan, 2008), and media pressures (Aerts & Cormier, 2009; Brown & Deegan, 1998), influence corporate responsiveness, including disclosure responsiveness. Our focus on NGO protest (King, 2008; Kneip, 2013) is in line with research that consider the relationship between broader stakeholder concerns and corporate disclosures. While prior social movement and organizational research have focussed on how NGOs influence companies through protest as well as collaboration (see for example, De Bakker, Den Hond, King, & Weber, 2013; King, 2008; King & Soule, 2007; Kneip, 2013; Soule & King, 2006), NGOs' roles to improve corporate social transparency and disclosures have received little attention. Whether and how corporate transparency and disclosure practices is influenced by the interaction between NGO collaboration and activist protest remains the most neglected part of the research.

Since the enactment of the Act, debates over disclosure have ensued (Taylor, 2014). At the heart of the arguments is the question of what information matters to investors and what mechanism is best suited to ensure that the right 'mix' of information is provided at the least cost to the system (Taylor, 2014). However, this is a unique situation as this appears to be the first Act in the US history that marks a major shift in the SEC's traditional role as a market regulator of financially material information (Nelson, 2014). Despite criticism from industry representatives, section 1502 requires disclosure regardless of materiality to the shareholders (Nelson, 2014). The rise of socially responsible stakeholders (including NGOs) has resulted in a significant paradigm shift away from accounting only for financial information, to more transparency on issues of human rights and social responsibility (Nelson, 2014). This also gives researchers a platform to reinforce the application of socially driven theoretical frameworks in explaining corporate disclosures (see for example, Cannizzaro & Weiner, 2015; Cho & Patten, 2007; Cho, Laine, Roberts, & Rodrigue, 2015; Deegan & Blomquist, 2006) rather than conventional market based or shareholder driven theoretical models (e.g., Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012).

Our study is motivated by the debate over the comprehensiveness and transparency of corporate disclosures. Even if a disclosure is mandated by law, management still has discretion on how comprehensively it will be addressed (see for example, Criado-Jiménez, Fernández-Chulián, Larrinaga-González, & Husillos-Carqués, 2008; De

Villiers & Van Staden, 2011; Wallace & Naser, 1996). In the case of conflict mineral disclosures, the Act requires minimum mandatory disclosures in relation to conflict minerals. In relation to the comprehensiveness of the disclosures, the Act largely remains silent, which raises questions about the comprehensiveness of the resulting disclosures. We take the view that while the act requires minimum disclosure, NGO activities are influencing the comprehensiveness of corporate disclosure responses. We therefore expect (and find) variations in the disclosures between companies. We find that collaboration with NGOs (as social movement organizations) and activist protest lead to more comprehensive, and therefore more transparent, disclosures. We also find that the interaction between NGO collaboration and protest action has a significant effect on disclosure. Our findings suggest that both collaboration and protest influence disclosure, but, after taking into account the scale of the two influences, collaboration tends to be more important. Our findings therefore suggest that social movement actions (collaboration and protest) through NGOs, improve corporate transparency and accountability.

The paper provides a valuable contribution by using both social movement theory (King & Soule, 2007) and collaboration theory (Wood & Gray, 1991) to examine influences on conflict mineral disclosures. While prior accounting studies have examined social disclosures, they relied on legitimacy theory and stakeholder theory and tend to be mostly qualitative (see, reviews within Deegan, 2002; Deegan & Blomquist, 2006; De Villiers & Van Staden, 2006; Deegan, 2014). Consequently, prior studies produced case based descriptive results that are mostly not generalizable. Given the lack of sufficient explanatory power in stakeholder theory (Deegan & Blomquist, 2006; King, 2008), and the lack of specificity of legitimacy theory (O'Dwyer & Unerman, 2016) we use social movement theory and collaboration theory to develop expectations about the influence of protest and collaboration on the comprehensiveness of corporate conflict mineral disclosures. Based on the joint consideration of social movement theory and collaboration theory, our contribution to the literature is the notion that in an attempt to create social accountability, collaboration with NGOs (Rondinelli & London, 2003) occur as a response to stakeholder pressures or extra institutional forces such as 'protest' towards the companies, and such collaboration in turn influence corporate social transparency and disclosures.

Within the social science literature, prior research investigated social movements as non-market forces (e.g., Davis, Morrill, Rao, & Soule, 2008) or as collaborations contributing to influence state policy and corporate policy and procedures. Despite the significant roles of NGOs in creating corporate human rights accountability, there is a lack of studies within the accounting literature that investigate and explain the influence of NGOs on corporate human rights transparency and associated disclosure practices (Deegan & Blomquist, 2006; O'Dwyer & Unerman, 2016; O'Sullivan & O'Dwyer, 2015). We respond in particular to the call by O'Dwyer and Unerman (2016) for further research to investigate corporate reporting on human rights. We are motivated by the findings of O'Sullivan and O'Dwyer (2015) that the NGO movement evoked a progression in social responsibility reporting in the banking sector. Despite the more prevalent and ongoing NGO involvement in the electronic reliant sector, there is so far little academic attention to address corporate responsiveness in this sector.

Improved transparency regarding conflict minerals can play an important role in reducing human rights violations in supply chains. We use US listed companies since this is the only jurisdiction at the time of our study where conflict mineral disclosures are required. However, we do not present this as a US centred study and include companies from a number of other countries that are listed in the USA. We are of the opinion that our results could apply to any country that implement similar legislation, e.g., the UK Modern Slavery Act of 2015 and the EU Conflict Minerals regulation of 2017. In this regard we show that our results are generalizable across countries.

The paper is laid out as follows. In the next part conflict minerals

² In this paper we refer to NGOs as social movement organizations and therefore our focus is social movement NGOs working in the area of conflict minerals.

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