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The institutionalisation of mining company sustainability disclosures

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ABSTRACT

This paper reports the analyses of the social and environmental disclosures of listed South African mining companies and compares the disclosures of larger companies with those of smaller companies using several different categories of comparison. The prior literature suggests that larger companies almost invariably disclose more social and environmental information due to their greater visibility. The expected differences are found in social disclosures, but not in environmental disclosures. An institutional theory framework explains these unexpected environmental disclosure findings. Specifically, normative isomorphism, usually driven by professionalization, becomes more prominent when a field reaches maturity and the field of corporate environmental disclosures among mining companies has reached a level of maturity and professionalization causing disclosures to be similar. These similarities have now reached the stage where small companies disclose the same amount of environmental information, in the same general format, as large companies.

1. Introduction

This paper uses an institutional theory framework to examine the maturity of the corporate sustainability disclosure field. The examination entails comparing the social and the environmental reporting of large and small listed South African mining companies. Although social and environmental disclosures have been studied from a number of perspectives, e.g., the influence of stakeholder groups (Deegan and Blomquist, 2006) and media attention (Brown and Deegan, 1998) on disclosure, as far as could be ascertained, the maturity of the sustainability field has yet to be the subject of examination.

A major aspect of a mining company's sustainability agenda is its reporting. This reporting provides a platform for stakeholder engagement. Sustainability disclosure has its roots in the corporate social and environmental reporting that commenced during the 1960s/70s. Since then, both the extent and number of companies disclosing sustainability information have increased (Gray et al., 1996; KPMG, 2011). Initially, reporting was prompted by pressures stemming from changing societal expectations. Society (read stakeholders) questioned whether companies had the right to ignore the social and environmental consequences of their activities.

Organisations that are perceived by society as being legitimate are able to more easily access vital resources (DiMaggio and Powell, 1983; Scott, 2008a; Heugens and Lander, 2009), including finance, custom, and labour. Organisations demonstrate this legitimacy through adopting rules and structures society deems necessary (Deephouse, 1996).

As societal norms evolve, so do pressures on companies, sometimes leading to the development of a new field, e.g., sustainability disclosure. Managers are typically uncertain how to deal with new pressures and do not know which rules and structures to respond with in order to maintain the appearance of legitimacy. One of the strategies managers adopt is to mimic successful competitors, which over time results in rules and structures converging (DiMaggio and Powell, 1983; Tuttle and Dillard, 2007). As a field, for example, sustainability disclosures, develops, matures and becomes widely accepted, it increasingly becomes the subject of regulation and/or increased stakeholder pressure. This coerces more companies into adopting these legitimising rules and structures (Deephouse, 1996). As a field matures, consulting practices are set up to assist companies to implement these innovations (Mizruchi and Fein, 1999) while professional bodies are formed to regulate practice. As the new field and its associated rules and structures become accepted, they become incorporated into the formal education system. Corporate managers and consultants

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attend seminars and continuing education courses at universities, while the newly graduated join the professional bodies. At this stage in the development of a field, a consensus develops among professionals about the normatively appropriate forms of practice (DiMaggio and Powell, 1983). At this mature stage in the development of a field, the rules and structures adopted by organizations occupying the same position in the field have converged even further (Tuttle and Dillard, 2007). These generalised notions around the development of a new field apply to sustainability disclosure.

Voluntary disclosure of social and environmental information is an example of rules and structures implemented by companies when responding to societal pressures. Initially disclosures were innovative and varied. However, benchmarking led to some convergence, while disclosure rules were promulgated. Additionally stakeholder pressure, coupled with an increasing acceptance of disclosure frameworks (such as the Global Reporting Initiative (GRI)), encourages more companies to undertake sustainability disclosure. Consultants assist companies with the form, content, and assurance of their sustainability disclosures. As a discipline, sustainability disclosure is now widely incorporated in university curricula and the subject of extensive academic research. There is thus a growing consensus that sustainability disclosure the right thing to do.

Or is the view that sustainability disclosure should be undertaken only a minority view? Large companies are subject to greater scrutiny and pressure around the social and environmental impacts of their activities. This is consistent with both survey and empirical findings showing that large companies are more likely to disclose sustainability information (Gamble et al., 1996; Neu et al., 1998; Wong and Fryxell, 2004; Hasseldine et al., 2005; KPMG, 2011). Legitimacy theory is often used in these studies to explain companies' reaction to the pressure to disclose sustainability information (e.g. Pellegrino and Lodhia, 2012). According to this view, larger companies are subject to more pressure and react with larger amounts of sustainability disclosures in order to maintain legitimacy. However, if sustainability disclosure has reached the level of maturity associated with professionalization and the view that disclosure is the right thing to do, then it would be expected that all companies, including large and small companies, would undertake equal amounts of sustainability disclosure. Employee health and safety can be taken as an example of a field first taken seriously by larger companies, but that is now taken-for-granted by large and small companies. Similar developments can be seen in the field of sustainability disclosure assurance services (O'Dwyer et al., 2011).

This paper posits that if sustainability disclosure has not reached the level of maturity associated with professionalization, and a taken-for-granted view that such reporting should be undertaken, then, in a view consistent with legitimacy theory,[1] large companies will disclose more information than small ones. However, because smaller companies are also managed and advised by professionals, if sustainability disclosure has reached the level of maturity associated with professionalization and taken-for-grantedness, in a view consistent with institutional theory, equal amounts of information will be disclosed regardless of size. By contrasting two theoretical views, we follow the approach of, e.g., Cho et al. (2012), Lanis and Richardson (2013), and Lodhia and Jacobs (2013).

Drawing on Tilt (2008), De Villiers and Van Staden (2011a,b), and Lodhia (2012) in terms of including disclosure media other than the annual report, this paper examines the maturity of the field of corporate sustainability disclosure. This is achieved by comparing the social and the environmental disclosures made by large and small companies in their annual reports and on their websites. To ensure that the companies are comparable in all other respects, e.g., the same industry and the same country, South African mining companies were used. To ensure data availability, the companies are all listed and to ensure that they are subject to the same societal and institutional pressures, they are only listed on the Johannesburg Stock Exchange, that is, they are not cross-listed on another stock exchange where different rules and pressures may apply. The content analysis is comprehensive in the sense that it includes both annual report and website disclosures. As standalone sustainability reports are generally disclosed on websites they are included as part of the website disclosure content analysis.

The paper compares social and environmental disclosures separately. While the study found that large companies disclosed more social information, environmental disclosures were found to be similar. From this analysis, it was concluded the field of environmental disclosures in the mining industry has reached a level of maturity where they area taken-for-granted requirement by large and small company managers. Therefore, the level of conformance has now reached the stage where a company's environmental disclosures reveal little about the company's environmental commitment, because disclosures are provided in an accepted or uniform way. Social disclosures, however, do not appear to have reached this level of professionalization and taken-for-grantedness yet.

The next section provides background to the mining industry and social issues in South Africa. This is followed by the theoretical perspective, method, findings, and concluding remarks.

2. Background

Since 1994, South Africa has been a democracy with freedom of expression and a free media. Despite a highly sophisticated corporate and financial sector, the 2006 gross national income per capita of US$5,410 means that South Africa is classified as an "upper middle income" country (World Bank, 2009).

South Africa does, however, possess a number of Third World characteristics. Life expectancy at birth is 50.7 years, while the infant mortality rate is 49.6 per 1000 live births. The low life expectancy is, among other reasons, attributable to HIV/AIDS, with 5.2 million people living with HIV/AIDs, including almost one-third of women aged 25–29, and over a quarter of men aged 30–34. Over 250,000 South Africans died of AIDS in 2008, leaving many orphaned children without assets or incomes, and causing 20% of the 1.4 million AIDS orphans not attend school (Avert, 2009). On a population-wide basis, HIV prevalence is estimated at 18.2%in South Africa (Avert, 2009). These infection rates among the working age population have major social and economic impacts.

The employment status of individuals influences their social well-being. South Africa has high rates of unemployment. During the second quarter of 2009, the official unemployment rate was 23.1% (Statistics South Africa, 2009). However, closer inspection shows that only 44.7% of 15–64 year olds were employed and categories such as "discouraged work seekers" were not included in the unemployment percentage. Of those classified as "employed 17.0% are in the "informal sector", implying that they do not have regular jobs with regular incomes.

The South African mining industry has been implicated in these social concerns. It attracts thousands of male workers from poor, remote regions where unemployment rates are high. In many cases,

[1] We refer to the reactive view of legitimacy theory here, i.e. companies react to pressure with additional disclosure. This view (which is most commonly used in the literature) differs from the proactive view. We also acknowledge that legitimacy theory can be seen as a simplified version of institutional theory, given that institutional theory posits that managers conform in terms of structures and rules *in order to maintain legitimacy*. However, note that in this paper, we contrast a particular conception of legitimacy theory with a particular conception of institutional theory.

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