

“Effects on social and environmental disclosure – a comparative study of Chinese foreign direct investment and domestic acquisitions in the Australian mining industry”

A thesis submitted for the award of Master of Research
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Bachelor of Education (Secondary)

Master of Business Administration (Professional Accounting)

Submitted on 9 October 2015

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Declaration

I, Veronica Norman, hereby certify that this thesis, entitled “Effects on social and environmental disclosure – a comparative study of Chinese foreign direct investment and domestic acquisitions in the Australian mining industry”, submitted for examination in the degree of Master of Research, is the result of my own original work and that where reference is made to the work of others, acknowledgement is duly given. This thesis has not been submitted for a higher degree to any other university or institution.

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ABSTRACT

This thesis focuses on the impact of Chinese foreign direct investment on the voluntary social and environmental reporting (SER) of Australian mining companies. The study is motivated by the speed, extent and nature of Chinese foreign direct investment (FDI) in Australia and the resulting negative media reports and governmental attitudes. This research uses content analysis of annual reports and corporate websites to observe changes in SER after Chinese acquisition, in comparison to disclosure changes in a similar group of Australian domestic acquisitions. A thematic checklist of SER indicators is developed to identify and code disclosures related to environmental management, health and safety, employment diversity and community involvement. A sentence count identifies differences in the volume of disclosures, and the nature of the disclosures is evaluated qualitatively using an interpretive framework based on Suchman's (1995) model of legitimacy. It is found that Chinese targets have a greater propensity to disclose information that is aligned with societal values (moral legitimacy), while domestic targets disclose information that appeals to specific stakeholder constituents (pragmatic legitimacy). The differences in legitimization strategies are consistent with the greater legitimacy threat faced by Chinese targets. This has implications for legitimacy theory, Chinese FDI literature, and Australian foreign investment policy.

1. INTRODUCTION

Over the last decade, there has been a dramatic increase in China's foreign direct investment into Australian corporations making Australia the second highest recipient, ranked after the U.S.A, for Chinese outbound direct investment. China's recent economic development has been remarkable, with growth far in excess of the average growth for OECD countries (Ferguson & Hendrischke, 2011). Total Chinese outbound direct investment increased by 16.8% in 2013, and according to Chinese Premier, Li Keqiang at the 2013 World Economic Forum, there will be global foreign direct investment (FDI) exceeding USD 500 billion over the next 5 years (Ferguson & Hendrische, 2014a). A continued high level of FDI is thus expected in Australia, particularly taking into account the proximity between the two countries and strategic advantages for China (Ferguson & Hendrische, 2014a). China is interested in securing high quality, stable supplies of natural resources, technology and new brands and accessing new markets, leading to significant investment in Australian mining companies (Ferguson & Hendrische, 2014b).

Foreign direct investment is particularly important in Australia's economy, enhancing productivity and competitiveness. Chinese FDI in Australia's mining industry currently provides increased capital and strategic links to growing markets (Drysdale & Findlay, 2009). Chinese investors, however, are becoming increasingly aware of negative sentiment exhibited by sectors of the community as well as restrictions imposed by foreign investment policy. Ferguson and Hendrische (2014a p.4) surveyed Chinese investors in Australia and found that they are "acutely aware that they are not fully integrated into Australia's public and private sector landscape, and that this lack of integration impacts their business performance". The survey highlighted Chinese investors' concerns about negative media coverage and discrimination and unfair treatment in the foreign investment approval process. The barriers to investment posed by negative sentiment and restrictive foreign investment policy threaten the important relationship between Australia and China.

Media reports pertaining to Chinese investment are largely negative (Zhu & McKenna, 2012), reflecting perceived differences in the business culture of China and Australia, particularly in the areas of corporate governance, disclosure and transparency (Ning et al., 2014). The polarising effect on society attitudes (Mendelsohn and Fels (2014) motivates this study to investigate the stakeholder accountability effects of Chinese acquisition. The literature finds that disclosure of social and environmental performance is an indicator of stakeholder accountability (Jenkins, 2004; Pellegrino & Lodhia, 2012; Wheeler et al., 2002).

This influences the choice within this thesis to observe changes in social and environmental disclosure after Chinese acquisition, in comparison to disclosure changes in a comparable group of Australian domestic acquisitions, addressing the question of whether the cultural and political background of the acquirer has an observable impact on corporate social responsibility in line with societal and government expectations.

Mining companies are generally perceived by society as having little regard for the environment and the communities in which they operate (Jenkins & Yakovleva, 2006). This thesis considers the strategies that may be used by mining companies to repair or maintain a 'social licence to operate' following Chinese acquisition, given the existing poor regard in which the industry is held by society. In order to gain the acceptance of key stakeholders and society as a whole, it is generally accepted that legitimisation attempts must involve some form of disclosure (O'Donovan 2002), and for mining companies, this disclosure usually pertains to social and environmental performance (Jenkins & Yakovleva, 2006; Peck & Sinding, 2003). Prior sustainability literature has predominantly focused on environmental issues, but this study answers the call for a more detailed consideration of the social effects of mining operations, given the marked effect of these operations on areas such as community development and health and safety (Lodhia & Hess, 2014).

The framework that has been used extensively in the literature to interpret social and environmental reporting (SER) is legitimacy theory, which examines the congruence of company activities with the broader values, norms and beliefs of society (Lodhia & Hess, 2014; Pellegrino & Lodhia, 2012). The use of this theory, however, has been subject to recent criticism (for example Deegan, 2014), due to its "fuzziness" and lack of specificity. It has also been questioned as the sole driver of SER (Mahadeo, Oogarah-Hanuman, & Soobaroyen, 2011; Tilling & Tilt, 2010). These researchers suggest that stakeholder theory is a complementary framework that may be used in the interpretation of voluntary disclosures. According to stakeholder theory, SER is a mechanism to manage those stakeholders who control critical resources of the company.

In response to criticisms of the sole use of legitimacy theory, this study will utilise a model developed by Suchman (1995) which combines stakeholder and legitimacy theories. This is also in accordance with suggestions in the literature that a multi-theoretical approach is seen to be more appropriate than a single theory when attempting to evaluate wider influencing factors in real-life complex organisational settings (Christopher, 2010).

Data collected for this research is unique in that it focuses on Australian mining companies that have been subject to a substantial investment by Chinese enterprises resulting in greater than ten per cent ownership and representation on the Board of Directors. To my best knowledge, this is the first such study to identify changes in the nature of social and environmental reporting in this setting. A comparative data set of Australian mining companies undergoing domestic acquisition over the same period will provide a contrasting group against which to observe the significance of the acquirer's national and cultural background. While the focus is quite specific, the findings may add to existing research on cross-border acquisitions by emerging economies generally.

The following research questions are asked:

1. To what extent does social and environmental reporting change after Chinese foreign direct investment in Australian mining companies?
2. To what extent does post-acquisition social and environmental reporting differ between Chinese acquisition and domestic acquisition?

The thesis is structured as follows. Chapter 2 provides further background on Chinese FDI and the mining industry in Australia. It also reviews key literature linking corporate social responsibility (CSR) and social and environmental reporting (SER) with legitimacy theory. Chapter 3 describes the research methods to be used. Chapter 4 reports the findings and Chapter 5 provides a discussion and analysis of the findings. Chapter 6 concludes the study.

2. LITERATURE REVIEW

2.1 Introduction

This study spans several areas of research and is thus informed by a wide range of existing scholarly literature as well as recent reports and media publications. Section 2.2 gives an overview of the nature and extent of Chinese FDI in Australia, particularly in the mining industry, and highlights the polarising effect that this has had on community attitudes. This is largely due to differences in business culture and CSR between China and Australia and these are explored in section 2.3. Section 2.4 considers the need for CSR in the mining industry and section 2.5 discusses the various theories relating to motivations for disclosing CSR information, including legitimacy and stakeholder theories. The regulatory environment is outlined in section 2.6, highlighting the voluntary nature of SER. Section 2.7 then gives a brief introduction to the content analysis method to be employed in analysing changes in the SER of Australian mining companies after acquisition.

2.2 Chinese foreign direct investment

Foreign investment is essential for the stability and growth of the Australian economy, as outlined in the *Australia in the Asian Century White Paper* commissioned by the Federal Government:

“Foreign investment supplements domestic savings and provides additional capital for economic growth, supports existing jobs, and creates new opportunities. It helps boost productivity by introducing new technology, providing capital for infrastructure, supporting global value chains and markets, and enhancing Australia’s skill base through greater knowledge transfer and exposure to more innovative work practices.”
(Australia in the Asian Century Implementation Task Force 2012, 199, as cited in Mendelsohn and Fels (2014))

Australia’s mining industry in particular has historically benefitted from FDI, firstly by the British, followed by the United States and later with significant involvement by Japan. More recently, China has emerged with remarkable swiftness as Australia’s largest trading partner (Ferguson & Hendrischke, 2011).

In 2001, the Chinese Government developed a ‘go abroad’ strategy for State owned enterprises (SOEs), requiring increased outward foreign direct investment. Hu and Cui (2014) identify two main objectives of the state in undertaking this strategy: to gain foreign knowledge, increasing productivity and competitiveness; and to help China increase its economic and political influence in a global context. Privately owned Chinese firms have

also seen FDI as a way to remain competitive in their domestic markets as well as covering the additional costs of foreign operations (Ning, Kuo, Strange, & Wang, 2014).

For the period from 2005 to 2013, China has undertaken foreign direct investment¹ worth USD\$57,250 million in Australia (KPMG, 2014). Table 2.1 shows the value of Chinese foreign direct investment approvals by the Foreign Investment Review Board (FIRB) by industry from 1998 to 2013. While investment proposal approvals do not necessarily equate to closed deals, this table clearly indicates the rapid increase in Chinese interest in resource sector investment since 2005 in comparison to earlier years, and also to other industry sectors. It can be seen that in 2005-2006, approvals were made for investments of AUD\$6,758 million in the mineral exploration and resource processing industry, compared to AUD\$39 million in 2004-2005 and AUD\$971 million in 2003-2004. Prior to that, investment approvals were sporadic, with zero investment in four of the years under observation. From 2005, approvals have had values that were consistently higher than AUD\$1,000 million, with investment peaks in 2008-2009 (\$26,254 million), 2009-2010 (\$12,186 million) and 2011-2012 (\$10,505 million). The value of investment approvals since 2003 has been substantially higher in mineral exploration and resource processing than other industries, attracting more than 50% of Chinese investors' funds each year from 2005 as a proportion of total investment across all industries (with the exception of 2006-2007 which was 46%).

Table 2.1: Chinese investment approvals in Australia by industry 1996-2013

Year	Number of approvals	Agriculture, forestry and fisheries (A\$ million)	Finance and insurance (A\$ million)	Manufacturing (A\$ million)	Mineral exploration and resource processing (A\$ million)	Real estate (A\$ million)	Services and tourism (A\$ million)	Total (A\$ million)
1996-97	102	10	0	3	5	176	17	210
1997-98	0	0	0	0	0	0	0	0
1998-99	0	0	0	0	0	0	0	0
1999-00	259	35	0	5	450	212	10	720
2000-01	0	0	0	0	0	0	0	0
2001-02	237	0	0	47	20	234	10	311
2002-03	0	0	0	0	0	0	0	0

¹ The Foreign Investment Review Board defines direct investment as providing the investor with potential influence or control over the entity. This is usually the case where there is an acquisition of 10% interest or more (FIRB 2015). The Organisation for Economic Co-operation and Development (OECD 2009) differentiates this from portfolio investment, where there is no management influence.

2003-04	170	0	0	2	971	121	5	1 100
2004-05	206	2	0	0	39	181	42	264
2005-06	437	0	0	223	6 758	279	0	7 259
2006-07	874	15	0	700	1 203	712	11	2 640
2007-08	1 761	0	420	0	5 311	1 491	121	7 479
2008-09	57	0	43	82	26 254	0	59	26 599
2009-10	1,766	0	0	198	12 186	2 421	717	16 282
2010-11	5,033	4	558	416	9 758	4 093	16	14 976
2011-12	4,752	27	60	538	10 505	4 187	634	16 190
2012-13	6,102	328	23	957	8 273	5 932	291	15 803

Source: Foreign Investment Review Board, *Annual Report* (various years)

While the benefits of foreign investment are well-recognised, Mendelsohn and Fels (2014) observed that Chinese FDI in Australia has the potential to be polarising. Australia's citizens as well as policy makers, including former Prime Minister Tony Abbott (Crowe, 2013), and more vehemently, National Party Leader Warren Truss (Mendelsohn & Fels, 2014) have expressed concern about the transfer of valuable strategic resources into the hands of foreign entities. This causes particular unease when the acquirer has ties with the Chinese State (Lamberton, 2011). Community fear is often exacerbated by media reports which focus on the negative aspects of these investments. For example Hunter (2013) refers to Hanlong Mining's troubled acquisition in 2011 of Sundance Resources as "teaching Australian industry a painful lesson in the risks of negotiating with Chinese firms". Similarly, there was significant negative sentiment expressed by the media, in political discussion and among parts of Australian society in 2009 surrounding the proposed acquisition by Chinalco of a substantial interest in mining company Rio Tinto. Much of this controversy focused on Chinalco's status as a Chinese SOE, sparking a senate enquiry (Mendelsohn & Fels, 2014).

2.3 Corporate social responsibility in China

Concerns regarding Chinese FDI partly relate to the significant differences in business culture, legal systems and corporate governance regimes which could negatively impact upon post-acquisition stakeholder protection. Business dealings in China are underpinned by Confucian values, utilising human wisdom, rather than adherence to strict laws. Hierarchical structures are evident in Chinese business entities, demanding unquestioning obedience by subordinates (Miles, 2006). The desire for harmony in business relationships has led to tightly knit business groups known as "*guanxi*" wherein strong links with trusted corporate insiders result in a lack of transparency to outsiders (Ning et al., 2014; Yeung, Tung, Yeung, & Tung, 1996). In practice, the application of Confucian values has led to weak legal protection of minority shareholders (Ning et al., 2014) and a reliance on insiders on the Board of Directors (Miles, 2006). This is in contrast to the Anglo-American principles of corporate

governance to which Australian companies subscribe, emphasising shareholder protection, transparency and independence of directors whose duties are governed by strict and detailed laws and guidelines (Miles, 2006). Given the existing weaknesses in shareholder protection, it seems logical to further surmise that the broader needs of stakeholders are likely to be ignored by Chinese enterprises, and that the effectiveness of environmental and social regulation and norms of the host country will be compromised (Deng, 2013)

A review of the literature in this area, conducted by Moon and Shen (2010), found that while corporate social responsibility (CSR) is relatively underdeveloped, increased globalisation has led to the recognition by Chinese government and businesses of the link between CSR and long-term success. This has been ascribed to the privatisation of many SOEs which has led to a profit motive, as well as increased public scrutiny of environmental pollution and social negligence (Kuo et al., 2012; Young & MacRae, 2002). Increased CSR activity is seen to be motivated by a need for governments and businesses in China to rebuild social legitimacy (Moon & Shen, 2010).

Recent research has investigated voluntary disclosure of environmental information by Chinese listed companies in their home country. Kuo et al. (2012) and Zeng, Xu, Yin, and Tam (2012) undertook content analysis of CSR reports which are published on the China Corporate Governance Website. It was found that firms that are more likely to disclose this type of information have the following characteristics: they operate in environmentally sensitive industries (Kuo et al., 2012; Zeng et al., 2012); their peers within that industry also engage in environmental reporting (Zeng et al., 2012); they enjoy a favourable reputation (Zeng et al., 2012) and they are state owned (Kuo et al., 2012). Kuo et al. (2012 p.275) state, *“for certain benefits such as better corporate image or legitimacy, some Chinese firms have been motivated to introduce and fulfil CSR”*. Zeng et al. (2012) also found that increased disclosure is strongly related to organisational image and reputation. The researchers theorise that, given the weak governmental enforcement of environmental regulations in China, increased disclosure indicates a response to stakeholder influence in their home country. There is little evidence of research however regarding CSR activities or SER disclosure by Chinese enterprises subsequent to outward FDI.

This study will focus on Chinese acquisition of Australian mining companies as not only is this industry the target of the greatest amount of Chinese FDI as shown in Table 2.1, but also the environmental performance of the resources industry is subject to significant media

attention and social concern. It provides a useful study for post-acquisition effects on stakeholder accountability as the industry is identified as being environmentally sensitive (Deegan & Gordon, 1996; Frost & English, 2002), and combined with the political and social sensitivity of Chinese acquisition, is likely to provide rich observations.

Corporate social responsibility is seen as an appropriate construct for evaluating the attitude of companies towards stakeholders (Jenkins, 2004; Wheeler et al., 2002). Environmental and socially responsible activities must be undertaken in such a way as to balance the diverse needs of the community with the need to make a profit (Jenkins, 2004). Reporting has the effect of making the company accountable to stakeholders for its environmental impacts (Pellegrino & Lodhia, 2012).

2.4 Corporate social responsibility in the mining industry

There are several reasons why mining companies need to embrace voluntary environmental initiatives. The mining of natural resources is found to cause the most environmental and social disruption out of all business activities (Jenkins & Yakovleva, 2006; Peck & Sinding, 2003). It is an industry that is perceived as showing inadequate regard for stakeholders leading to high profile community activism by environmental and indigenous groups as well as NGOs such as Oxfam and Friends of the Earth (Jenkins & Yakovleva, 2006). Poor social responsibility often leads to the exclusion of mining companies from increasingly popular Socially Responsible Investment (SRI) funds (Clarkson, Overell, & Chapple, 2011; Jenkins & Yakovleva, 2006).

In order to demonstrate accountability to stakeholders, including affected communities and the general public, it is important for mining companies to disclose information about their environmental performance (Jenkins & Yakovleva, 2006; Peck & Sinding, 2003). Tilt and Symes (1999) studied 70 Annual Reports from companies in five different industries and found that companies in the extractive industries exhibit more SER than others. Peck and Sinding (2003) noted that the richness of the data supplied by some of these companies entail significant cost and company resources, prompting curiosity about the motivations behind it.

2.5 Motivations for social and environmental reporting

A substantial body of research has considered possible drivers for the reporting of environmental performance. A dominant theme of this research is the use of SER as a tool of legitimization (Branco & Rodrigues, 2006; Brown & Deegan, 1998; Brown, Beekes, & Verhoeven, 2011; Cho, Michelon, Patten, & Roberts, 2015; Cho & Patten, 2007; Deegan,

2002a; Patten, 1991, 1992). This theory is based on the notion of a 'social contract' between the organisation and its constituents, as recognised by mining company Gindalbie Metals Ltd in its 2009 annual report:

“Managing stakeholder interactions during development is critical because it is stakeholder opinion, as well as technical merit, that determines the project’s social licence to operate. Gindalbie plans to ensure that key stakeholders understand how their issues have been addressed, and how the opportunities emanating from the project can be delivered to maximize their benefits” (Gindalbie Metals Ltd, 2009, p.13).

Society will allow organisations to continue their operations only if those operations are congruent with its expectations and values (Branco & Rodrigues, 2006; Deegan, 2014; O'Donovan, 2002). If an organisation fails to undertake activities that meet society's expectations, it will no longer be considered legitimate and its social licence will be revoked, threatening its ability to survive (Deegan, 2014; Gray, Kouhy, & Lavers, 1995). It becomes increasingly difficult for mining companies to maintain a 'licence to operate' when local communities are negatively affected by operations. This has occasionally led to suspension of operations (Jenkins & Yakovleva, 2006).

O'Donovan (2002) states,

“the greater the likelihood of adverse shifts in the social perceptions of how an organisation is acting, the greater the desirability on the part of the organisation to attempt to manage these shifts in social perceptions”(p.345)

In order to manage these adverse shifts and remain legitimate, an organisation may either conform with society's expectations or alternatively utilise a number of strategies to attempt to alter society's perceptions or values (Lindblom, 1993). Whether a company attempts to effect change in its own operations or instil alterations in societal perceptions of its operations, these attempts must be evident in disclosures to be effective (O'Donovan, 2002). The choice of legitimisation strategies and associated voluntary disclosures is based on whether the firm is trying to gain, maintain or repair legitimacy (Suchman, 1995). It is generally found that maintaining legitimacy is much easier than either gaining or repairing it (O'Donovan, 2002).

Deegan and Gordon (1996) undertook the first Australian study of environmental disclosure practices (Overell, Chapple, & Clarkson, 2008). The 1996 study found that companies in politically sensitive industries provide the most positive disclosures, indicating that the use of

environmental reporting may represent an attempt to alleviate community concern and political pressure. Subsequent research has also found that disclosure is used by politically and environmentally sensitive companies in an attempt to reduce exposure (Branco & Rodrigues, 2006; Deegan, 2002a; Patten, 1991). Industries with high public visibility, more significant environmental impact or less favourable public image have greater volume of disclosure (Branco & Rodrigues, 2006; Deegan & Gordon, 1996; Patten, 1992).

Brown and Deegan (1998) utilised media agenda setting theory in conjunction with legitimacy theory to contend that negative media attention drives community concern, stimulating greater environmental reporting by the company in response. Their study found that higher levels of media attention are significantly associated with higher levels of environmental disclosures in annual reports.

Legitimacy theory has been questioned, however, as the sole driver of environmental reporting practices (Mahadeo et al., 2011; Tilling & Tilt, 2010). A rebuttal of the theory is provided by Guthrie and Parker (1989) who use a longitudinal study of major Australian mining company, Broken Hill Proprietary Company (BHP) to observe the relationship between annual report disclosure of social information and major events in the history of the company. They find marginal support for legitimacy theory in environmental disclosures, but not for other forms of social disclosure. However, the researchers note a level of secrecy and conservatism in BHP's reporting during some years under observation as well as some level of immunity to social pressures which may have caused a limitation in data collection rather than in the theory itself. Deegan et al (2002b) note the possibility that Guthrie and Parker (1989) may have excluded some important historical events due to a deficiency in their measure of community concern, and there may also have been timing issues in the testing of reactions to those events.

The use of legitimacy theory in studies of social and environmental reporting has recently been criticised by Deegan (2014). He points to some studies which provide a tenuous and unsupported link between adverse events and diminished legitimacy. This study responds to that criticism by considering a well-documented threat to legitimacy in the form of Chinese acquisition, as evidenced by media reports and government policy, in addition to the often-cited poor environmental and social track record of the mining industry. The study is therefore based on a clear and novel example of a legitimacy threat which provides a solid

basis against which to observe possible legitimising reporting activities. A comparison of these reporting activities with a size-matched set of domestically-acquired mining companies will highlight any differences that may be due to differing levels of threat to legitimacy.

In response to the lack of specificity of legitimacy theory (Deegan, 2002a; Tilling & Tilt, 2010), and the opportunity for further refinements (Pellegrino & Lodhia, 2012), it is prudent to consider a theoretical framework which incorporates both legitimacy and stakeholder theories to understand changes in environmental reporting (Mahadeo et al., 2011). The overlap between the two theories is considered by a number of researchers (de Villiers & van Staden, 2006; Tilling & Tilt, 2010); however, Mahadeo et al. (2011) observe a lack of detailed consideration of this overlap in prior literature, apart from Tilling and Tilt (2010) who argue that the influences of important stakeholders must be considered in effective models of legitimacy.

Stakeholder theory is seen to be similar to legitimacy theory in that both are concerned with the interrelationship between the company and its stakeholders in terms of a social contract (O'Donovan, 2002). There are differences however in how the company's audience is viewed and addressed under each approach. Stakeholder theory emphasises the need to manage stakeholders who have "*a direct and critical impact on the company*" (Mahadeo et al., 2011 p.160). Careful management of these stakeholders is required to avoid the withdrawal of resources and subsequent damage to the operations of the company. SER is seen in this context to be a means to influence or distract this target audience (Mahadeo et al., 2011). Islam and Deegan (2008) for example, found that the SER practices of a Bangladeshi garment manufacturer trade association were changed to placate a critical stakeholder, namely multinational buying corporations. A common thread in stakeholder theory research is the demonstration of "*a calculated and focused responsiveness of companies to a defined audience of stakeholders*" (Mahadeo et al., 2011 p.160).

Legitimacy theory differs from stakeholder theory in that it is less concerned with specific critical constituents of the company. Suchman (1995) states that legitimacy involves company actions which are perceived to be "*...desirable, proper or appropriate within some socially constructed system of norms, beliefs and definitions*" (p. 574). SER is likely to be used to demonstrate alignment with the values and norms of society (rather than to manage specific factions of stakeholders) to ensure continued support (Mahadeo et al., 2011).

A useful model has been developed by Suchman (1995) who distinguishes between the need for companies to demonstrate an affiliation to pro-social objectives (moral legitimacy) and the need to manage specific stakeholders (pragmatic legitimacy) (Mahadeo et al., 2011). Through the use of an interpretive theoretical framework based on Suchman's (1995) conceptualisations of legitimacy, this study incorporates stakeholder theory as well as legitimacy theory in the analysis of empirical data. This addresses concerns about use of an explanatory framework solely based on legitimacy theory. The model will be used to evaluate the observations of any changes in Australian mining companies' environmental disclosure following direct investment by Chinese and domestic acquirers. Based on the findings of prior literature, it is expected that Chinese targets will be more likely than domestic targets to use SER as a legitimisation strategy to temper the negative effects of greater negative media coverage and community concern. Suchman's model will enable an assessment to be made of the difference in the nature of that strategy compared to that of domestic targets.

2.6 Social and environmental reporting regulation

As the focus of this study is on CSR disclosure, it is relevant to consider the current legal environmental reporting requirements in Australia. In 1998, the Corporations Law was amended to include s. 299(1)(f) which requires disclosure of "performance in relation to environmental regulations" in the Directors' Report. It is argued, however, that this section leaves scope for the company to use its discretion in determining the quality of disclosure (Overell et al., 2008). Any environmental disclosure in excess of this prescription is voluntary in nature and this has been described as "soft law" (Lee, 2007). The ASX Principles of Good Corporate Governance and Best Practice Recommendations (ASX Corporate Governance Council, 2003) introduced the concept of timely and balanced disclosure which demonstrated a link between good governance and the concept of CSR and affected subsequent disclosures of CSR activities in annual reports.

Gibson and O' Donovan (2007) and Frost and English (2002) examined environmental disclosure practices of Australian firms from before and after the introduction of s. 299(1)(f), noting a significant increase in the volume of information reported after the amendment. Gibson and O' Donovan (2007) observe a "levelling off" of this increased volume in 2004. In order to preclude effects of the introduction of this legislation, as well as any possible impact of the 2003 introduction of the ASX Corporate Governance Council Guidelines, this study

proposes to examine acquisitions made on or after 2005. This is to ensure that any observed changes in the volume of reporting can be ascribed to post-acquisition decision making, rather than changes in the legal environment. The choice of this starting year is also influenced by the marked increase in Chinese acquisition of Australian mining companies in 2005, as illustrated in Table 2.1.

2.7 Analysis of social and environmental reporting

Content analysis is undertaken in this study to examine annual reports and stand-alone environmental reports for each target company. This research technique has been widely used in prior literature to measure environmental disclosure, and is particularly suited to the application of legitimacy theory (Guthrie, Petty, Yongvanich, & Ricceri, 2004).

The focus of this research is on both volume and nature of environmental disclosures after Chinese and domestic acquisition to illustrate differences in legitimization strategies. This study will therefore use a volumetric sentence count based on a thematic checklist of SER indicators based on an industry-wide checklist developed by Hackston and Milne (1996) which is refined to apply to the specific CSR issues pertaining to the mining industry as outlined by Azapagic (2004). A detailed list of SER indicators is provided in Appendix A and discussed in further detail in Chapter 3. An analysis of the nature of the disclosures will add depth to the evaluation. It will aid in identifying not only whether there is a difference in volume of reporting but also whether there are different types of disclosures by Chinese-acquired companies as opposed to domestically acquired companies.

The remainder of this thesis provides further detail regarding the data collection undertaken and research methods utilised to compare the SER of Chinese and domestic targets. Any post-acquisition changes in disclosure will be analysed according to Suchman's (1995) model of legitimacy to observe whether the foreignness of the acquirer has an effect on legitimating tactics.

3. RESEARCH METHODS AND THEORETICAL FRAMEWORK

3.1 Introduction

The focus of this study is the extent of social and environmental reporting (SER) before and after a substantial change in ownership in Australian mining companies. Firstly, it observes the extent to which SER changes following Chinese foreign direct investment (FDI), and secondly, whether those changes differ between Chinese acquisition and domestic acquisition. The study thus highlights whether the “foreignness” of the acquirer is an important issue. The following section outlines the research methods undertaken in performing an analysis of archival data before and after acquisition.

3.2 Data collection

The mining companies observed in this study are involved in the extraction of metallic minerals (for example iron, copper and zinc); construction minerals (for example natural stone and sand); and industrial minerals (for example borates, calcium carbonates and kaolin), according to the main subsectors of the mining industry outlined by Azapagic (2004). A fourth subsector, energy minerals (for example coal, oil and gas), is excluded in this study due to a key difference identified by Azapagic (2004). While there are common social and environmental issues associated with each subsector, the mining of energy minerals involves the depletion of non-renewable resources, while other minerals are not technically depleted, but rather have the ability to be recovered and reused. This affects the common sustainability indicators that can be used in this content analysis.

The selection criteria are as follows: the companies selected must have been subject to substantial investment by the acquirer; the acquirer must have gained representation on the Board of Directors; the targets must have had principle operations within Australia following acquisition; they must have remained listed on the Australian Securities Exchange (ASX) following acquisition; and the acquisition must have been completed between the years of 2005 and 2013.

An investment is deemed to be substantial if it exceeds 10% ownership of the ordinary shares of the company as specified in the FIRB definition of direct investment (Foreign Investment Review Board, 2015). In addition to the ownership criteria, an investment was also deemed relevant for this study if it resulted in representation of the acquirer on the Board of Directors. Board involvement gives the acquirer the opportunity to participate in voluntary disclosure decisions.

The S&P Capital IQ and Heritage Foundation (The Heritage Foundation, 2014) commercial databases were used to identify Australian mining companies that were acquired by Chinese organisations as well as those that were acquired by domestic Australian organisations. Domestic acquisitions were used as a basis for comparison to observe whether the origin of the acquirer is a differentiating factor in subsequent changes in voluntary disclosure of social and environmental information.

The study focuses on acquisitions completed between the calendar years of 2005 and 2013. 2005 is chosen as the earliest date to coincide with the largest influx of Chinese investments as shown in Table 2.1, as well as to preclude the effects of two significant regulatory events. The first is the ASX Corporate Governance Council Guidelines which were introduced in 2003, requiring increased timely and balanced disclosure. This demonstrated a close link between good governance and the concept of CSR and subsequent disclosures of CSR activities in annual reports (Gibson & O' Donovan, 2007).

The second is the exponential increase in disclosure between the years of 1998 and 2003 as observed by Gibson and O' Donovan (2007) which appeared to be due to the 1998 introduction of s.299(1)(f) in the Companies Law (now the Corporations Act (2001)) which requires disclosure of “performance in relation to environmental regulations”.

The dataset for this study only includes acquisitions that were completed prior to the end of 2013 to enable post-acquisition observations of any subsequent disclosures in the following year.

The S&P Capital IQ platform is well-respected and widely used by financial practitioners and researchers. Its charting function allows screening of merger and acquisition transactions.

The following criteria are nominated for both Chinese and domestic acquisitions:

- 1) Industry Classifications (Target/Issuer): Metals and Mining
- 2) Geographic Locations (Buyers/Investors): China and Australia
- 3) Country of Incorporation (Target/Issuer): Australia
- 4) Transaction Status: Closed
- 5) Merger/Acquisition Features: Merger of Equals OR Majority Shareholder Increasing Ownership Stake OR Majority Shareholder Purchasing Remaining Shares

OR Minority Shareholder Gaining Majority Control OR Minority Shareholder
Increasing Ownership Stake OR Minority Shareholder Purchasing Remaining Shares
OR Cash Merger OR Acquisition of Majority Stake OR Acquisition of Minority Stake

6) Announcement Date: 31 December 2004 to 31 December 2013

In addition to 24 cases identified through the S&P IQ software, a further 13 cases were found in a comprehensive database of large Chinese investments and contracts worldwide which has been compiled by the American Enterprise Institute and The Heritage Foundation (The Heritage Foundation, 2014). It was possible to filter the database for Australian mining targets.

After investigating the target companies on Datanalysis premium, it was necessary to eliminate 20 cases due to the unavailability of publicly available annual reports following acquisition. Many of these companies were private companies or were delisted after acquisition. Perusal of both databases thus yielded 17 results for Chinese acquisitions.

From the combined set of 17 Australian ASX listed mining companies, two were deemed to be inappropriate for this study due to the fact that their main operations were in Asia and South America. It is possible that any changes in CSR reporting in those cases could be in response to legitimacy threats that are outside the scope of this study. This study focuses on potential responses to legitimacy threats associated with the Australian social and political environment.

One company was eliminated from the data set due to the fact that its social and environmental reporting was largely determined by its joint venture partner, a large US multinational, and therefore any changes in SER were unlikely to be due to Chinese acquisition. One further company was eliminated as the acquisition did not result in the appointment of a Chinese director.

Three companies were excluded due to involvement in gas and coal extraction (energy minerals) which may distort the analysis, as outlined by Azapagic (2004), explained earlier in this chapter.

Table 3.1 lists the final dataset of 10 Australian mining companies operating in Australia that have been subject to a greater than 10% foreign direct investment by Chinese acquirers, have remained listed on the ASX and have Chinese representation on the Board of Directors. It

represents all publicly available cases in this category according to two major databases, and thus sample bias is avoided.

As displayed in Table 3.1, acquisitions varied according to company size, with total assets prior to acquisition ranging from A\$5.7million to A\$6,093.1 million. The percentage share ownership obtained by the Chinese investor ranges from 12% to 97%. The number of board representatives appointed by the acquirer ranged from one to five directors.

Table 3.1: Chinese acquisition of Australian mining companies

Target company	Mining industry subsector	Acquirer	Date of Acquisition	Total book value of assets prior to acquisition (AUD million)	Share ownership	No. of Board representatives
Anchor Resources Ltd	Metallic minerals	Sunstar Capital Ltd (China Shandong Jinshunda Group Co., Ltd.)	Dec 2010	\$5.7	97%	5
Centrex Metals	Metallic minerals	Wuhan Iron and Steel	Nov 2009	\$27.7	15%	1
Energy Metals Ltd	Industrial minerals	China Uranium development company	Dec 2009	\$16.2	65%	3
Focus Minerals	Metallic minerals	Shandong Gold	Dec 2012	\$478.4	51%	4
Fortescue Metals	Metallic minerals	Hunan Valin	Feb 2009	\$6,093.1	17%	1
Gindalbie Metals	Metallic minerals	Ansteel	Sept 2007	\$62.2	50%	3
Grange Resources	Metallic minerals	Jiangsu Shagang and RGL Group	Sept 2008	\$100.9	47%	2
Metro Mining (changed name to Cape Alumina Ltd)	Metallic minerals	DADI Engineering Development Group Co Ltd	Sept 2011	\$20.1	15%	1
Moly Mines	Metallic minerals	Sichuan Hanlong	April 2010	\$311.1	55%	2
Mount Gibson	Metallic minerals	Shougang	Dec 2008	\$894.04	14%	1

A significantly larger sample of 51 Australian domestic acquisitions remaining publicly listed post-acquisition was identified on S&P Capital IQ. Most of these cases were, however, excluded from the study for various reasons. Eighteen of the companies had primary operations in overseas locations and a further 12 were excluded due to a lack of Board representation by the acquirer. Four of the acquirers ceased their shareholding shortly after acquisition, and two companies underwent significant changes to the Board of Directors due to foreign direct investment by other acquirers. Two further companies were excluded due to

operations in energy minerals, namely oil and gas, making them inappropriate for this study according to the previously discussed distinction guided by Azapagic (2004). One company ceased mining activities altogether following acquisition, moving into the health care sector.

A total of 12 suitable companies remained after these exclusions. In order to facilitate comparison between the two datasets and minimise selection bias, a sample of 10 domestic acquisitions from the 12 has been chosen with a similar distribution of characteristics such as target size and percentage ownership in an attempt to leave the “foreignness” of the acquirer as the principle factor in the observation.

The size of mining companies has been found to affect the level of disclosure. Larger companies are subject to more social and political scrutiny, leading to a greater volume of SER (Mahadeo et al., 2011; Pellegrino & Lodhia, 2012). Percentage ownership is likely to have an impact as a higher level of foreign ownership is expected to increase the legitimacy threat to which the company may respond with higher SER disclosures.

The set of 12 domestic acquisitions had a similar spread of percentage share ownership to the Chinese acquisitions, ranging from 13% to 82%. The size of the companies as measured by total assets prior to acquisition, however, displays a marked difference in scale. While Table 2.1 shows a range from A\$5.7million to A\$6,093.1million, the 12 Australian domestically acquired companies range from A\$0.8million to \$71.8million. Given the relevance of size to the concept of legitimacy, it was decided to omit the two smallest companies from the list of Australian domestic acquisitions, with total assets of A\$0.8million and \$4.0million respectively. This resulted in a dataset with total assets ranging from A\$4.4million to \$71.8million, as shown in Table 3.2.

Table 3.2: Domestic acquisition of Australian mining companies

Target company	Mining industry subsector	Acquirer	Date of Acquisition	Total book value of assets prior to acquisition (AUD million)	Share ownership	No. of Board representatives
Activex Limited	Metallic minerals	ASF Gold & Copper Pty Limited	Dec 2010	\$6.2	43%	2
Archer Exploration Limited	Metallic and industrial minerals	Raffles Equities Limited	Jan 2010	\$9.4	18%	2
Bass Metals Ltd	Metallic minerals	Metals Finance Limited	Nov 2008	\$15.0	20%	1
BCD Resources NL	Metallic minerals	Webb Mining services	Feb 2011	\$71.8	44%	1
Cannindah Resources Limited	Metallic minerals	Metallica Minerals Limited	April 2009	\$6.0	13%	2
Falcon Minerals Ltd	Metallic minerals	JubileeX Pty Ltd	Jan 2005	\$4.4	18%	2
Haoma Mining NL	Metallic minerals	Leaveland Pty Ltd	Nov 2010	\$8.0	69%	1
MZI Resources Ltd	Construction minerals	Stirling Zircon Pty. Ltd	May 2009	\$17.6	82%	3
Redbank Copper Limited	Metallic minerals	Stirling Resources Limited	April 2009	\$9.0	30%	1
Summit Resources Limited	Industrial minerals	Paladin Energy Ltd	April 2007	\$37.3	48%	2

3.3 Research method

A content analysis was undertaken to identify changes in environmental disclosure in annual reports and company websites before and after acquisition. This required thematic coding of archival material. Content analysis was chosen for this investigation as it allows systematic analysis of unstructured datasets (Hackston & Milne, 1996; Islam & Deegan, 2008; Krippendorff & Klaus, 2004). It is “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use” (Krippendorff, 2013 p.24)

The current study utilised a deductive approach starting with categories or themes derived from existing literature. Its aim is to explore existing theory. Content analysis is suited to this approach as it is “a method for systematically describing the meaning of qualitative material” (Schreier, 2012 p.1). Content analysis focuses on extracting categories from the data, rather than finding relationships among those categories (Cho & Eun-Hee, 2014).

Content analysis has historically been used in quantitative research where it has been criticised for simplifying and distorting meaning through the dissection of text into measurable units (Cho & Eun-Hee, 2014). Cho and Eun-Hee (2014) describe the development of a qualitative approach to content analysis in response to critiques, in which more meaningful insights may be gained from the data through the use of a category system. It enables the analysis of the latent as well as the manifest content of disclosures. Manifest content refers to the “visible and surface content of text”, while latent content refers to the “underlying meaning of text” (Cho & Eun-Hee, 2014 p. 4)

3.4 Data sources

Annual reports are the main instrument used by corporations to communicate information to their stakeholders. It is widely agreed that users rely on these reports for information about environmental performance (Branco & Rodrigues, 2006; Gibson & O' Donovan, 2007). Some researchers contend that the annual report is more credible than other communication sources in creating a positive image of the firm. This credibility arises from the proximity of the material to the audited financial statements, and the associated knowledge that the auditor has viewed the material (Neu, Warsame, & Pedwell, 1998).

The use of the annual report as the sole reference for SER disclosures, however, has been criticised for ignoring other forms of communication (Branco & Rodrigues, 2006). A growing number of researchers are considering internet communication as a means of communicating SER information (Branco & Rodrigues, 2006; Lodhia, 2012; D. Patten, 2002; Williams & Pei, 1999). Advantages of internet disclosure over traditional print media include the cost effectiveness of transmitting large amounts of information, the ability to target different types of stakeholders, and the interactive nature of the medium which enables feedback from users (Branco & Rodrigues, 2006) as well as immediacy (Lodhia, 2012). Williams and Pei (1999) found that Australian and Singaporean companies provide more SER on their websites than in their annual reports.

It is also becoming increasingly common for companies to communicate SER in stand-alone reports. In 1996, the Mineral Council of Australia released ‘The Australian Minerals Industry Code for Environmental Management’ which required signatories to report environmental performance in an annual stand-alone report from 1998 (Brown & Deegan, 1998).

In order to overcome the limitation of ignoring communication media other than annual reports, this study examined social and environmental disclosures in annual reports and any associated stand-alone reports of Australian mining companies before and after acquisition. Website material that has an indication of a date close to and after the time of acquisition was also considered.

It was important to carefully consider the timing of the published material before and after acquisition to ensure that any SER changes can be attributed to the acquisition event. The pre-acquisition disclosure must be dated prior to any announcement of a planned acquisition, that is, before a perceived legitimacy threat exists. In order to observe post-acquisition effects, it was necessary to consider SER disclosures that were published at least six months after the acquisition. Some companies did not complete Board changes until one year after acquisition, and this lengthened the time between pre- and post-acquisition disclosures considered. This gave sufficient time for management decision-making to reflect any effects of the acquisition.

3.5 Content analysis procedures

Content analysis involves a measurement of the volume of disclosures categorised into themes. A sentence count gives an indication of the importance attached to SER themes by management (Milne & Adler, 1999). Qualitative analysis further helps to identify the nature of the disclosure, for example, whether the disclosure is portraying positive, negative or neutral information (Gray et al., 1995; Hackston & Milne, 1996), and whether the information is monetary, quantitative or declarative, or a combination thereof (Mahadeo et al., 2011) (see Appendix B).

The first step in content analysis is the selection of a “recording unit” to measure the volume of disclosure (Chu, Chatterjee, & Brown, 2013). Three types of recording unit are utilised in the literature, including words (Deegan & Gordon, 1996; Mahadeo et al., 2011); sentences (Tilt & Symes, 1999) and the proportion of a page (Gray et al., 1995). There is some debate in the literature regarding the three choices. Milne and Adler (1999) critique the use of words and page area as being unreliable and meaningless without the context of sentences. The number of words is dependent on whether a writing style is verbose or concise (Tilt & Symes, 1999) while page area is dependent on font size, margins and graphics (Chu et al., 2013).

Sentences are seen to be the most reliable measurement unit as they involve less subjective judgement compared to words and page area (Chu et al., 2013; Deegan, 2002a; Milne & Adler, 1999). Milne and Adler (1999) observe evidence of coding disclosures by sentences in most previous studies, even when measurement is made by words or pages. A volumetric sentence count was therefore used in this study to reflect the importance that companies attach to SER themes.

The disclosures can be assessed qualitatively to provide meaningful insights. SER themes for this study were based on the classification scheme devised by Hackston and Milne (1996). This classification scheme is widely used in content analysis as it enables disclosures to be analysed in terms of “dimensions of theme, evidence and news to be used interactively or conditionally” (Milne & Adler, 1999 p.242) and provides a structure that is replicable (Hackston & Milne, 1996).

Dimensions of disclosure theme were limited to environmental management, human resources and community involvement as these have been the main focus of Australian and international research covering CSR issues in the mining industry.

The environmental impact of the Australian mining industry has been singled out as a CSR factor requiring particular attention in a number of studies, covering issues such as pollution minimisation policies (Driussi & Jansz, 2006); the effectiveness of environmental legislation (Lee, 2007); climate change and environmental disclosure (Pellegrino & Lodhia, 2012); and motivations for environmental disclosures (Tilt & Symes, 1999). Zeng et al. (2012) examine factors driving the disclosure of environmental information by Chinese companies, pointing out increasing concern about environmental degradation in China.

Mining companies’ engagement with communities is another theme that has been explored in the literature, often in the context of broader social responsibility. Jenkins (2004) uses a case study approach to focus solely on conflict resolution between mining companies and community groups in Australia, particularly indigenous groups. Community engagement is treated as a single important CSR factor in this study.

Other studies focus solely on the health and safety of mining company employees. Lenné, Salmon, Liu, and Trotter (2012) identify factors responsible for mining accidents. Aickin, Shaw, Blewett, Stiller, and Cox (2012) investigate the occupational health and safety

practices of ten mining sites in a report commissioned by the New South Wales Mine Safety Advisory Council, indicating the importance placed on safety in this industry.

Most research of CSR performance and reporting in the mining industry, however, place equal importance on all three themes: environment, community engagement and employee health and safety. Lodhia and Martin (2014) for example, find support for the use of indicators covering all three areas in providing meaningful information to stakeholders. The three CSR factors are used as the basis for analysing SER of the world's top mining companies by Peck and Sinding (2003), Guthrie and Parker (1989) and Jenkins and Yakovleva (2006).

A theme that has been recently considered in the context of the globalisation of Chinese state owned enterprise is employment diversity. While not specifically covered in the literature relating to the mining industry, it is recognised as an important issue in the changing workplace of China in human resources literature, particularly in the context of a wide disparity in the level of skills of the workforce during a period of transition from state socialism towards capitalism (Blecher, 2013). This theme will therefore be included in this study as a social issue that may be given particular attention following Chinese acquisition.

This study firstly considered the abovementioned categories in the classification scheme developed by Hackston and Milne (1996). Factors relating to energy consumption, employment training and benefits and product development and quality were omitted from the checklist due to their lack of coverage in mining literature. The scheme was further refined to apply specifically to the mining industry, taking into account sector-specific SER indicators developed by Azapagic (2004).

In line with reliability procedures outlined by Mahadeo et al. (2011) and Hackston and Milne (1996) the classifications, coding and counts were pretested. A number of disclosures were found to relate to the establishment of an environmental management department or policy, so this was also incorporated as a theme despite its absence in the checklists developed by Hackston and Milne (1996) and Azapagic (2004). After the coding for Chinese acquisitions was completed according to the thematic checklist, the codes and sentences counts were verified by two experienced senior academics with a high level of reliability. Coding was then continued for the domestic acquisitions.

The following themes were used in this study: environmental management; employee health and safety; employment diversity; and community involvement. Appendix A illustrates the individual indicators that have been adopted within each theme, showing a comparison between the cross-industry CSR factors identified by Hackston and Milne (1996) and Azapagic (2004).

Evidence of disclosures relates to whether there is monetary quantification, non-monetary quantification or a declaration. This study adopted a coding system developed by Mahadeo et al. (2011) identifying various combinations of these three types of evidence (see Appendix B).

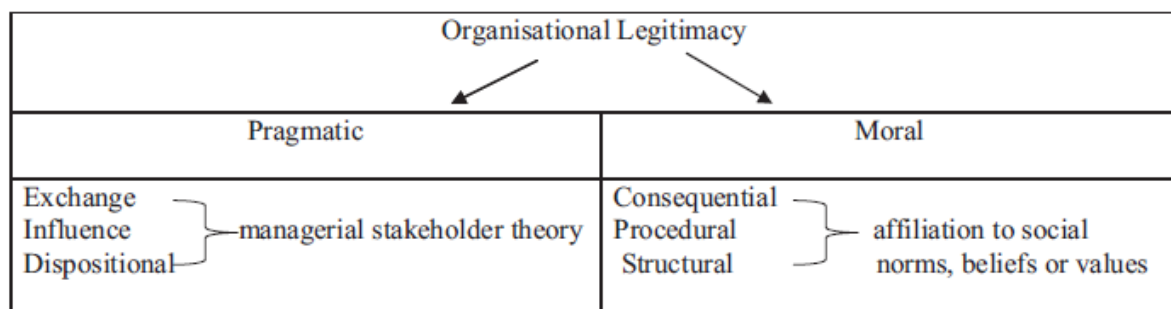
The disclosures per theme were further categorised according to whether they reflect neutrally, positively or negatively on the company, using the guidance provided by Hackston and Milne (1996) and Gray et al. (1995).

The decision rules for coding developed by Hackston and Milne (1996) provided guidance for classification where more than one theme was identified in a sentence, or if a theme was repeated. The rules also clarify the treatment of Tables and figures, as well as how to distinguish between good, bad and neutral news. Appendix C lists the decision rules that applied to the themes adopted by this study.

3.6 Theoretical framework

The findings were analysed through the lens of Suchman's (1995) conceptualizations of legitimacy. This analytical framework combines legitimacy and stakeholder theories to understand changes in social and environmental reporting practices (Mahadeo et al, 2011). Figure 3.1 illustrates the two types of legitimacy outlined in Suchman's model and as interpreted by Mahadeo et al. (2011).

Figure 3.1: Suchman's model of legitimacy



Source: (Mahadeo et al., 2011 p.161)

The themes, evidence and news identified in the coding process were analysed according to the types of legitimacy illustrated in Suchman's model. The following explanations of each factor are based on the interpretation of the model by Mahadeo et al. (2011).

Pragmatic legitimacy is closely aligned with stakeholder theory as it relates to company actions in response to its closest stakeholders who control critical financial or non-financial resources of the company. It involves dependence between the organisation and its audience. The three sub-concepts are exchange, influence and dispositional legitimacy. Exchange legitimacy is demonstrated where a company supports a policy based on the expected value to a specific stakeholder group who in turn are expected to provide resources to the company. Influence legitimacy involves a response to an audience's interests, for example employee health and safety disclosures. Dispositional legitimacy is evident where the organisation demonstrates affiliation with the values of its targeted audience.

Moral legitimacy, on the other hand, does not consider particular audiences, but represents communication of a desire to promote the welfare of society at large. This can be evaluated in terms of consequences, for example society's positive judgement of charitable donations (consequential legitimacy). Moral legitimacy could be demonstrated via procedures, for example, practices adopted to support underprivileged communities (procedural legitimacy). The final sub-concept in this category is structural legitimacy where the organisation's structure is seen as morally acceptable by default, for example a charitable institution.

The use of this framework enables observations not only of the volume of disclosure within each theme, but also the type of legitimacy demonstrated by the disclosures. This will help to

identify any differences in SER before and after acquisition as well as any differences related to the background and identity of the acquirer.

3.7 Alignment with research questions

The research questions considered in this study relate firstly to the extent of SER changes following Chinese FDI and secondly to whether SER changes following Chinese acquisition differ from SER changes following Australian domestic acquisition. Content analysis of annual reports, stand-alone reports and company website disclosures enables a deductive approach wherein existing theory is explored in a systematic attempt to explain the meaning of changes in disclosure.

The literature has discovered strong links between SER and the existence of legitimacy threats. As the focus of this study is on powerful threats to legitimacy in terms of politically and socially sensitive Chinese FDIs, legitimacy theory forms an appropriate interpretive framework. The theoretical framework will also consider stakeholder theory utilising Suchman's conceptualisation of legitimacy (Suchman, 1995). A multi-theoretical approach addresses concerns expressed by some researchers regarding legitimacy theory as the sole driver of SER.

4. FINDINGS

4.1 Introduction

The content analysis of annual reports and related corporate websites revealed some noteworthy differences between the SER of companies after Chinese acquisition and the disclosure of those after domestic acquisition. Table 4.1 displays the total sentence count devoted to the various SER disclosures both before and after Chinese and domestic acquisitions. At the most basic level of analysis, it can be seen that total SER disclosures by the targets of Chinese acquirers increased from 393 to 1,019 sentences (an increase of 159%), while the increase for targets of domestic acquirers increased from 118 to 167 (an increase of 42%). This alone indicates a heightened importance placed on SER after Chinese acquisition. An initial cursory examination of these results also indicates that there was a difference in the themes that were emphasised by Chinese and domestic targets.

Table 4.1 Sentence count

	Total Results for Chinese acquisitions		% change	Total Results for domestic acquisitions		% change
	pre	post		pre	post	
Indicators						
Environmental management						
Pollution control in the conduct of the business operations.	9	115	1178%	2	1	-50%
Statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations.	30	23	-23%	11	16	45%
Statements indicating that pollution from operations has been or will be reduced.	0	7		0	0	
Prevention or repair of damage to the environment resulting from operations.	21	70	233%	9	16	78%
Conservation of natural resources, e.g. recycling glass, metals, oil, water and paper.	27	53	96%	1	2	100%
Efficiently using materials resources in the manufacturing process.	0	4		0	0	
Waste disposal.	4	11	175%	0	0	
Receiving an award relating to the company's environmental programmes or policies.	0	0		0	0	
Preventing waste.	2	0	-100%	1	1	0%
Nuisance to neighbouring communities.	0	7		1	0	-100%
Environmental performance and quality of suppliers and contractors.	0	3		0	0	

Description of current and planned developments on environmentally protected or sensitive areas.	20	128	540%	23	15	-35%
Conservation of flora and fauna.	21	74	252%	1	2	100%
Establishing an environmental management department/ committee/ policy	52	77	48%	15	28	87%
Total environment	186	572	208%	64	81	27%
Employee health and safety						
Reducing or eliminating pollutants, irritants, or hazards in the work environment.	1	2	100%	0	0	
Promoting employee safety and physical or mental health.	21	29	38%	2	6	200%
Disclosing accident, fatality and occupational disease statistics.	15	8	-47%	4	7	75%
Complying with health and safety standards and regulations.	1	8	700%	0	3	
Receiving a safety award.	0	0		0	0	
Establishing a safety department/committee/policy	24	30	25%	5	10	100%
Conducting research to improve work safety.	1	1	0%	0	0	
Total employee health and safety	63	78	24%	11	26	136%
Employment Diversity						
Recruiting or employing racial minorities (e.g. indigenous people) and/or women.	10	39	290%	7	3	-57%
Disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels.	1	19	1800%	3	4	33%
Establishing goals for minority representation in the workforce.	0	10		4	4	0%
Programme for the advancement of minorities in the workplace.	1	2	100%	0	0	
Employment of other special interest groups, e.g. the handicapped, ex-convicts or former drug addicts.	0	0		0	0	
Disclosures about internal advancement statistics.	0	0		0	0	
Total diversity	12	70	483%	14	11	-21%

Community involvement						
Donations of cash, products or employee services to support established community activities, events, organizations, education and the arts.	0	2		0	0	
Sponsoring public health projects.	0	0		0	0	
Aiding medical research.	0	0		0	0	
Sponsoring educational conferences, seminars or art exhibits.	0	0		0	0	
Funding scholarship programmes or activities.	0	1		0	0	
Other special community related activities, e.g. opening the company's facilities to the public.	2	2	0%	6	6	0%
Supporting national pride/government sponsored campaigns.	0	0		0	0	
Supporting the development of local industries or community programmes and activities.	13	27	108%	1	1	0%
Summary of the policies for liaison with local communities and stakeholder involvement, including the mechanisms by which stakeholders can participate in decision-making on the issues that concern them.	34	115	238%	0	4	
Health and safety complaints from local communities.	0	0		0	0	
Resettlement of communities due to proposed developments.	0	0		0	0	
Providing jobs for local communities.	11	20	82%	1	1	0%
Community project participation.	5	7	40%	0	0	
Awards received for social and ethical behaviour in relation to local communities.	0	0		0	0	
Summary of the policy for protection of land rights and for land compensation (for non-indigenous land-owners).	0	0		0	0	
Managing impacts on communities in areas affected by its activities during the mine operation and post-closure.	3	67	2133%	0	0	
Addressing indigenous rights.	28	44	57%	12	15	25%
Disclosing/reporting to groups in society other than shareholders and employees, e.g. consumers; any other information that relates to the social responsibility of the company.	35	30	-14%	9	22	144%
Total community involvement	131	315	140%	29	49	69%
Totals	393	1019	159%	118	167	42%

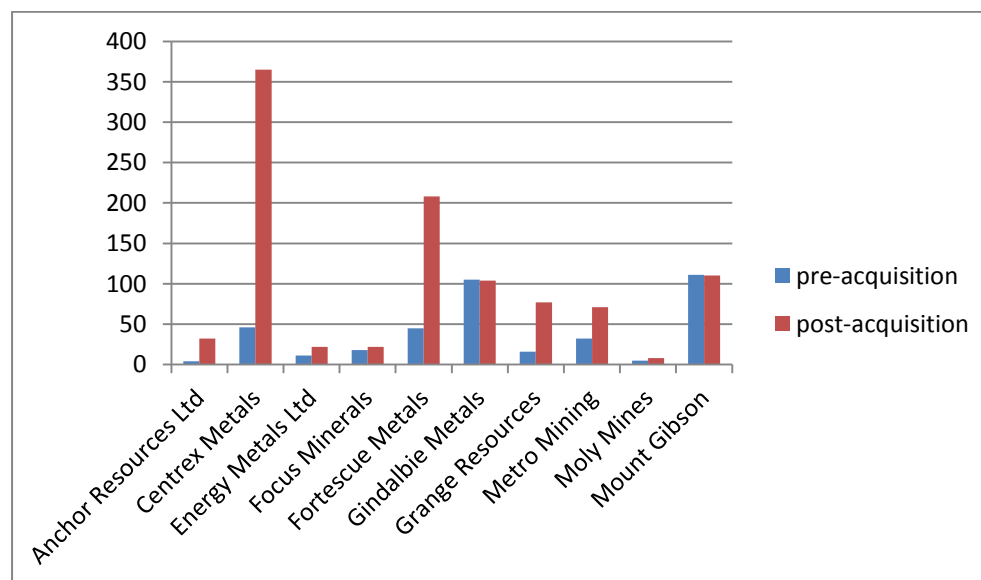
This chapter will further investigate the composition of the overall increased disclosures in terms of their nature (whether they are related to environmental management, health and safety, employment diversity or community involvement); the type of disclosure (declarative,

quantitative or monetary); and whether the disclosure represents good or bad news. In Chapter 5, Suchman's model of legitimacy will be used to explain whether the disclosures may be an attempt to garner either the support of key resource providers (pragmatic legitimacy) or society as a whole (moral legitimacy) (Suchman, 1995).

4.2 Overview of SER by Chinese-acquired and domestically-acquired companies

Figure 4.1 shows that most Chinese targets increased the number of SER sentences disclosed except for Gindalbie Metals and Mount Gibson, where the disclosure remained constant. It is worth noting that these two companies had a high level of disclosure prior to acquisition at over 100 sentences relating to SER, compared to the other Chinese targets which ranged from 4 to 46 sentences prior to acquisition. Those with the largest increases (Anchor Resources Ltd, Centrex Metals Ltd, Fortescue Metals and Grange Resources) started reporting social and environmental information on their corporate websites for the first time after acquisition. The website disclosures were in the form of signed and dated policy documents. Each company uploaded the documents in different years, so it could be inferred that the catalyst for the new website information was acquisition rather than a response to any regulatory requirement or other external event that was common to those companies.

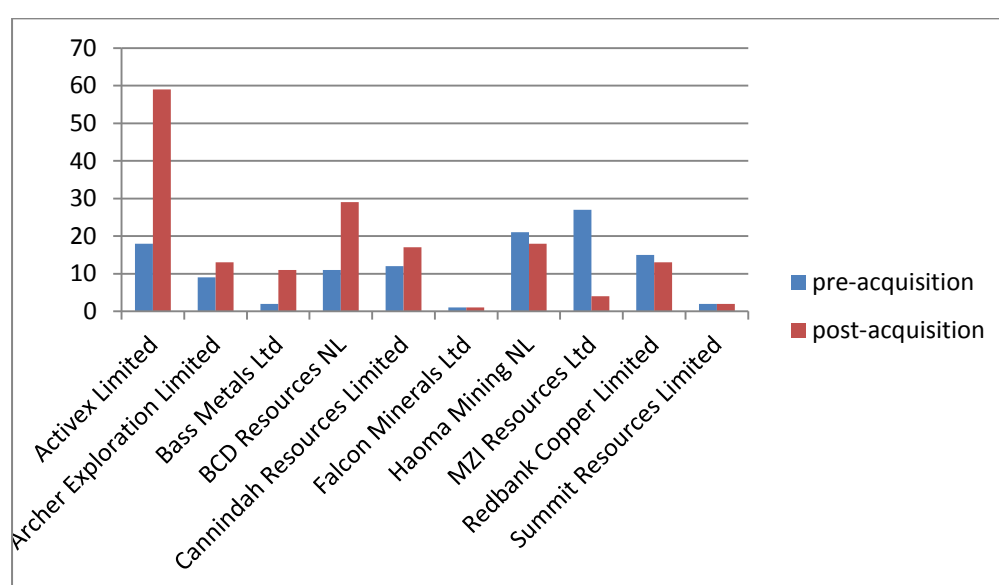
Figure 4.1: Total SER disclosures by Chinese-acquired companies



The changes to SER disclosure for domestically-acquired companies are shown in Figure 4.2. Five of the ten companies increased SER. Similarly to the Chinese acquisitions, the two largest increases represent companies reporting social and environmental information on their websites for the first time immediately after acquisition (Activex Ltd and BCD Resources

NL). Two companies maintained low levels of reporting, while three showed a reduction in SER. Those three companies (Hoama Mining Ltd, MZI Resources Ltd and Redbank Copper Ltd) had relatively high levels of SER prior to acquisition. The inconsistency in the changes could be seen to represent a normal fluctuation in disclosure in response to internal company-specific factors. This provides a backdrop against which to further study the noteworthy increases in disclosure demonstrated by the Chinese acquisitions, and to consider whether that disclosure may represent a response to a larger legitimacy threat posed by the foreignness of the acquirer.

Figure 4.2: Total SER disclosures by domestically-acquired companies



4.3 Differences in reporting across SER themes

There are some stark differences in the percentage changes in disclosures, both across SER categories and also according to whether the acquirer is Chinese or domestic. The results in Table 4.1 demonstrate an overall percentage increase in SER disclosures following Chinese acquisition in all four areas: environmental management (208%); health and safety (24%); employment diversity (483%); and community involvement (140%). Domestic targets on the other hand, demonstrate substantially smaller increases in environmental management (27%) and community involvement (69%), a decrease in disclosure relating to employment diversity (-21%), and conversely a comparatively higher increase in disclosure relating to health and safety (136%) relative to the Chinese targets.

Figure 4.3 illustrates the comparative increases in SER volume (in terms of number of sentences) before and after acquisition across the four categories. The diagram highlights the dramatic increase in disclosures regarding environmental management, diversity and community involvement after Chinese acquisition in comparison to the domestic acquisition group.

Figure 4.3: Comparative volume of SER information

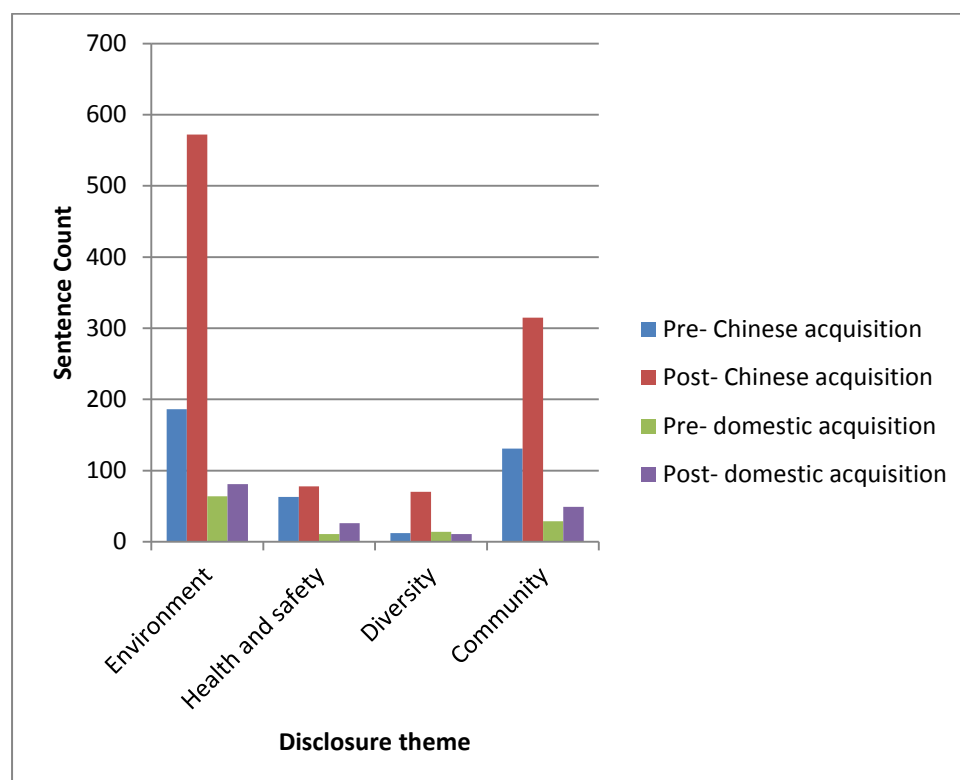


Table 4.2 is an extract from Table 4.1, showing those aspects of SER that were the subject of substantially increased disclosure by Chinese targets, both in comparison to pre-acquisition disclosure, as well as in comparison to increases by domestic targets. A common feature of many of these themes is the broad alignment with societal expectations in terms of environmental management, employment diversity and a strong regard for the needs of communities. While these are responses to general community concerns about the mining industry as a whole, it is noteworthy that those mining companies that were domestically acquired did not choose to emphasise these same SER themes.

Table 4.2 SER themes emphasised after Chinese acquisition and comparison with domestic acquisitions

	Total Results for Chinese acquisitions		% change	Total Results for domestic acquisitions		% change
	pre	post		pre	post	
Indicators						
Environmental management						
Pollution control in the conduct of the business operations.	9	115	1178%	2	1	-50%
Statements indicating that pollution from operations has been or will be reduced.	0	7		0	0	
Prevention or repair of damage to the environment resulting from operations.	21	70	233%	9	16	78%
Waste disposal.	4	11	175%	0	0	
Conservation of flora and fauna.	21	74	252%	1	2	100%
Employee health and safety						
Reducing or eliminating pollutants, irritants, or hazards in the work environment.	1	2	100%	0	0	
Complying with health and safety standards and regulations.	1	8	700%	0	3	
Employment Diversity						
Recruiting or employing racial minorities (e.g. indigenous people) and/or women.	10	39	290%	7	3	-57%
Disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels.	1	19	1800%	3	4	33%
Establishing goals for minority representation in the workforce.	0	10		4	4	0%
Programme for the advancement of minorities in the workplace.	1	2	100%	0	0	
Community involvement						
Supporting the development of local industries or community programmes and activities.	13	27	108%	1	1	0%
Summary of the policies for liaison with local communities and stakeholder involvement, including the mechanisms by which stakeholders can participate in decision-making on the issues that concern them.	34	115	238%	0	4	
Providing jobs for local communities.	11	20	82%	1	1	0%
Community project participation.	5	7	40%	0	0	
Managing impacts on communities in areas affected by its activities during the mine operation and post-closure.	3	67	2133%	0	0	
Addressing indigenous rights.	28	44	57%	12	15	25%

Table 4.3 exhibits those SER themes that were increased after domestic acquisition. Preliminary observations indicate that those disclosures that increased relate to direct relationships with stakeholders who control critical resources, particularly in terms of employees. While Chinese targets tended to emphasise diversity in employment in line with societal values, domestic targets emphasise a commitment to employee health and safety, often co-opting employees in this process.

Table 4.3 SER themes emphasised after domestic acquisition and comparison with Chinese acquisitions

	Total Results for Chinese acquisitions		% change	Total Results for domestic acquisitions		% change
	pre	post		pre	post	
Indicators						
Environmental management						
Statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations.	30	23	-23%	11	16	45%
Establishing an environmental management department/ committee/ policy	52	77	48%	15	28	87%
Employee health and safety						
Promoting employee safety and physical or mental health.	21	29	38%	2	6	200%
Disclosing accident, fatality and occupational disease statistics.	15	8	-47%	4	7	75%
Establishing a safety department/committee/policy	24	30	25%	5	10	100%
Community involvement						
Disclosing/reporting to groups in society other than shareholders and employees, e.g. consumers; any other information that relates to the social responsibility of the company.	35	30	-14%	9	22	144%

4.4 Types of disclosure

It is important to observe whether post-acquisition disclosures represent positive, neutral or negative news from the stakeholders' perspective in determining whether those disclosures could be attempts at improving corporate image. An insight into the level of substantiation for positive claims can be gained through an investigation of whether statements are solely declarative, quantitative or monetary or a combination thereof (Hackston & Milne, 1996).

As can be seen in Table 4.4, the increased disclosures were generally positive or neutral after both Chinese and domestic acquisitions, showing a greater increase than negative statements.

This is consistent with the findings of prior literature which suggests that SER disclosure may be used by politically or environmentally sensitive companies to alleviate community concerns or avoid regulatory interference (Branco & Rodrigues, 2006; Deegan & Gordon, 1996; Hackston & Milne, 1996). Chinese targets showed substantial increases in all three types of news, while domestic targets showed a decrease in negative news. Table 4.5 indicates an overall increase in solely declarative disclosures across all categories after Chinese acquisition along with a preference for quantitative rather than monetary information in support of those declarations. The targets of domestic acquisitions, however, show an overall increase in all three types of disclosure. These findings will be further discussed in terms of the four social and environmental themes.

Table 4.4: Classification of news (number of sentences)

	Chinese acquisitions			Domestic acquisitions		
	Pre	Post	% change	Pre	Post	% change
Environment						
positive	172	426	148%	40	55	38%
neutral	11	115	945%	19	26	37%
negative	3	30	900%	4	0	-100%
Health and safety						
positive	48	78	63%	10	22	120%
neutral	5	0	-100%	0	0	
negative	10	0	-100%	1	1	0%
Employment diversity						
positive	12	66	450%	10	22	120%
neutral	0	11		0	0	
negative	10	0	-100%	1	1	0%
Community involvement						
positive	114	266	133%	26	46	77%
neutral	11	41	273%	1	2	100%
negative	5	8	60%	2	1	-50%

Table 4.5: Types of disclosure (number of sentences)

	Chinese acquisitions			Domestic acquisitions		
	Pre	Post	% change	Pre	Post	% change
Environment						
Solely declarative	172	523	204%	50	61	22%
Declarative & monetary	3	1	-67%	0	2	
Declarative & quantitative	10	47	370%	1	0	-100%
Declarative, quantitative & monetary	0	0		0	0	
Health and safety						
Solely declarative	54	72	33%	6	18	200%
Declarative & monetary	3	0	-100%	1	0	-100%
Declarative & quantitative	7	6	-14%	4	8	100%
Declarative, quantitative & monetary	0	0		0	0	
Employment diversity						
Solely declarative	13	54	315%	12	9	-25%
Declarative & monetary	0	0		0	0	
Declarative & quantitative	9	15	67%	2	2	0%
Declarative, quantitative & monetary	0	0		0	0	
Community involvement						
Solely declarative	118	292	147%	22	39	77%
Declarative & monetary	0	0		0	0	
Declarative & quantitative	11	24	118%	5	6	20%
Declarative, quantitative & monetary	0	1		3	3	0%

4.5 Types of disclosure across SER themes

4.5.1 Environmental management

Positive and neutral environmental management disclosures increased after both Chinese and domestic acquisitions. Negative statements were reduced to zero after domestic acquisition. However, Chinese targets disclosed bad news in two main aspects of environmental management: Pollution control in operations and description of current and planned developments on environmentally protected or sensitive areas. Bad news about pollution control in operation was reported by two Chinese targets: Fortescue Mineral and Grange Resources. There was an increase in negative statements made by only one company, Centrex Metals, when describing its impact on environmentally sensitive areas. The negative statements however were outweighed by positive statements and much of the bad news was excused and explained. These negative statements are discussed in terms of legitimization in Chapter 5.

An observation of the changes in types of disclosure in Table 4.5 reveals that while there was an increase in declarative and quantitative environmental information after Chinese acquisition, there was a decrease in monetary information. As the volume of disclosures increased, the disclosures became broader and more general. This seems to suggest an interest in describing positive environmental activities, rather than considering the economic effects of those activities.

Positive and neutral environmental disclosure by domestically acquired companies increased, along with a decrease in negative comments. This may indicate a desire to portray a favourable image of the companies, but a perusal of the type of disclosure in Table 4.5 indicates an increased willingness to measure the claims in monetary terms compared to Chinese acquisitions. This meets the needs of that segment of their audience with an interest in the economic costs and benefits of environmental activities, that is, those stakeholders with whom the companies may have a mutual resource dependency. This is aligned with stakeholder theory in which the company perceives the need to control stakeholders whose actions may have a critical impact on the company (Mahadeo et al., 2011).

4.5.2 Employee health and safety

Increased disclosures relating to employee health and safety were consistently positive in both groups, with Chinese targets reducing both neutral and negative statements to zero. The Chinese targets attempted to portray their activities in the most positive light with an increase

in broad and non-specific statements, reducing the number of statements supported by quantitative or monetary data. Domestic targets however showed an increase in quantitative information to support the increase in declarative comments after acquisition. Activex and Bass focused on the fact that there were no lost time injuries, and BCD provided a medically referred injury frequency rate. BCD also provided a positive slant on the lost time injury rate, citing a “300 day lost time injury-free period” rather than stating the number of lost days (BCD Resources NL, 2012a p.2). Cannindah provided negative quantitative information prior to acquisition, citing two lost time accidents (Cannindah Resources Ltd, 2008), but this information disappeared from the annual report after acquisition. It appears that the domestic targets only included statistical information about health and safety if it could be perceived as good news, again managing the expectations of critical stakeholders.

4.5.3 Employment diversity

Of the four SER themes considered, the background of the acquirer (that is, whether Chinese or domestic) appears to make the most difference in employment diversity. While seven of those companies subject to Chinese investment showed an increase in disclosure after acquisition, only one domestically acquired company reported diversity information at all, and this was reduced after acquisition. Surprisingly, the decrease occurred in the positive statements showing a lack of importance placed on this area by the newly formed Board of Directors.

Employment diversity appears to be regarded by Chinese targets to be an important area of disclosure, with substantial increases in both positive and neutral statements, and a smaller increase in negative statements. Four of the ten Chinese acquired companies (Centrex, Focus, Metro Mining and Moly Mines) started reporting a diversity policy for the first time immediately after acquisition. For example, Centrex stated:

“The Group formally adopted a diversity policy during the reporting period. The Company is committed to providing an inclusive workplace and recognises the value that a workforce made up of individuals with diverse skills, values, backgrounds and experiences will bring to the Company” (Centrex Metals Ltd, 2011a p.31).

Policies of the Chinese-acquired companies typically related to the training and recruitment of local indigenous people as well as the advancement of women in management positions. Fortescue described its training program for local Aborigines prior to acquisition (Fortescue Minerals Ltd, 2008), but included substantially more detail afterwards about the same program, increasing the number of sentences from 7 to 18 (Fortescue Minerals Ltd, 2010).

There was an increase in both declarative and quantitative disclosure after Chinese acquisition. Quantitative data were provided disclosing statistics on the employment of women and/or indigenous people. This was usually accompanied by positive declarative statements, as in the following disclosure by Fortescue after acquisition,

“The Summit 300 program commits Fortescue to employing an additional 300 Aboriginal people by 30 June 2011. In June 2010, we were well on our way to achieving that target with 193 Aboriginal employees part of our team across all sections of the business.” (Fortescue Minerals Ltd., 2010 p.2)

Quantitative data provided by the domestic targets tended to be accompanied by neutral statements and little discussion, for example Activex simply stated, *“As at the date of this Annual Report, 50% of Board, 20% of employees and 50% of senior executives are women”* (Activex Ltd, 2014a p.16) . It appears that disclosure about diversity was not emphasised by those companies acquired domestically.

4.5.4 Community involvement

Both sets of companies disclosed substantially larger numbers of positive statements regarding community involvement after acquisition. Of the Chinese acquisitions, two companies (Anchor Resources and Focus Minerals) started reporting on community involvement for the first time after acquisition. These two companies focused mainly on policies for liaison with local communities and general statements regarding responsibility for stakeholders. Most other Chinese acquisitions showed modest increases in positive and neutral statements, apart from Centrex which increased the number of positive sentences from 12 to 112 and neutral statements from 3 to 30. Centrex had large amounts of disclosure in various documents posted on their website relating to community consultation for new projects, with one document outlining all questions and answers in public meetings (Centrex Metals Ltd, 2011c), two community project updates (Centrex Metals Ltd, 2011b, 2011d) and a public environment report (Centrex Metals Ltd, 2012). These reports first appeared on the Centrex website following acquisition and indicate the importance placed on community engagement by the new Board of Directors. Centrex was also the only Chinese target increasing negative information about community relations. This mainly involved the visual impact of planned projects, but these statements were usually immediately followed by the description of a strategy to minimise any adverse effects.

Community involvement disclosures by Chinese targets were largely declarative with general statements about liaison with local communities, supporting the development of local

industries, providing jobs for local communities, addressing indigenous rights, and managing impacts on communities in areas affected by its activities during mine operations. A slight increase in quantitative data was used to describe the number of Native Title Agreements made and the number of community programs in which they participated.

Most of the domestically acquired companies showed small increases in positive statements. Activex and Canninadah were the most prolific in this area, making overarching statements regarding general responsibility to stakeholders, rather than specific details of community involvement as observed in the Chinese acquisitions. For example, Activex made general statements in its Website Community Engagement policy such as “*ActivEX Limited is committed to achieving an excellent level of engagement and co-operation with the communities where it explores and operates*” and “*ActivEX will foster a community engagement conscious culture at its workplaces*” (Activex Ltd, 2014b).

4.6 Summary

Both Chinese and domestic targets favoured declarative disclosures emphasising good news after acquisition, suggesting the use of SER as a legitimating strategy. As the volume of disclosures by Chinese targets increased, the disclosures became broader and more general. Monetary information was reduced in the reporting of environmental management and employee health and safety, suggesting an emphasis on “doing the right thing” rather than disclosing the economic effect of their activities. Domestic targets, on the other hand, demonstrated an increased tendency to disclose monetary information, especially in the area of environmental management. This indicates an awareness of the information needs of specific audiences, possibly motivated by the need to protect the critical resources provided by stakeholders.

The disclosure of employment diversity and community involvement was positive and rich in declarative and quantitative detail after Chinese acquisition, compared to the neutral and general nature of reporting by domestic targets. This also gives a general impression of the importance of alignment with societal values to the directors of Chinese targets.

5. DISCUSSION

5.1 Introduction

The observed SER changes after both Chinese and domestic acquisition are consistent with prior literature which finds that the environmental and social sensitivity of the mining industry can result in the use of legitimization strategies to maintain a licence to operate (Jenkins, 2004; Jenkins & Yakovleva, 2006; Peck & Sinding, 2003; Tilt & Symes, 1999).

The differences in emphasis by Chinese and domestic targets suggests that each group may have differing motivations and objectives to guide their legitimization strategies. This may be explained with reference to Suchman's model of legitimacy which considers activities in terms of pragmatic and moral legitimacy² (see figure 3.1).

Pragmatic legitimacy relates to the actions taken by the company to benefit those stakeholders who control resources that are essential to its operations (Suchman, 1995). It is argued by Mahadeo et al. (2011) that this type of legitimacy is closely aligned with stakeholder theory in that careful management of these groups is required to avoid the withdrawal of critical resources. As these stakeholders are likely to scrutinise a company's actions to determine the practical ramifications on their own wellbeing, the company may attempt, through SER, to convince these audiences that its activities are worthy of their continued support.

Moral legitimacy is based not on the benefits bestowed by the company on its immediate stakeholders, but rather it appeals to a broad socially constructed value system to indicate that the company is 'doing the right thing' (Suchman, 1995). SER may be used to communicate the desire to promote the welfare of society generally, and to demonstrate alignment with social norms, beliefs and values (Mahadeo et al., 2011). Chinese enterprise has a reputation of weak corporate governance and a lack of transparency (Deng, 2013), so post-acquisition SER may serve to create an image of affiliation with society's ethical expectations. In my view, the SER of Chinese targets exhibited characteristic that are consistent with moral legitimacy, while the SER of domestic targets were more consistent with pragmatic legitimacy.

² A third type of legitimacy, cognitive legitimacy is discussed by Suchman, but as found by Mahadeo et al. (2011), this relies on "some taken-for-granted cultural account" (Suchman, 1995 p.582) which is not significantly under the control of management and is therefore excluded from this analysis.

5.2 Pragmatic legitimacy

As illustrated in figure 3.1, Suchman (1995) identified three sub-concepts of pragmatic legitimacy: exchange, influence and dispositional legitimacy. Each of these sub-concepts are discussed below in terms of SER disclosures after Chinese and domestic acquisition.

5.2.1 Exchange legitimacy

Exchange legitimacy is demonstrated when there is a direct exchange of financial or non-financial resources between the company and specific stakeholders. In this situation, the organisation relies upon the support of its audience to provide resources and in exchange must support a policy that has value to that group.

A clear example of this exchange is the reliance of mining companies on the support of indigenous communities for access to land. Both Chinese and domestic targets exhibited an increase in disclosures addressing indigenous rights (57% and 25% respectively). Most of these disclosures related to the successful signing of Native Title Mining Agreements or expressing confidence in the progress made in negotiations with traditional land owners. This provides an indication of the importance of these negotiations to successful operations.

Chinese targets tended to emphasise respect for indigenous culture and the desire to grant indigenous communities social and economic independence and prosperity. These disclosures were often couched in terms of community engagement and are thus examples of attempts at moral legitimacy which will be discussed later in this chapter. However, when a direct link was made between giving jobs or cash in exchange for land access, then this is an example of exchange legitimacy, and can therefore be regarded as pragmatic, rather than moral legitimacy.

Cannindah, a domestic target, gave details of the exchange both prior to and after acquisition, stating:

“During the financial year the Company cleared the following commitments to the Djungan People:

- \$100,000 upon the signing of the compensation agreement, and*
- \$1,000,000 on the grant of the mining leases.*

The Company is also required to make annual payments of \$80,000 commencing on the fifth anniversary date and continuing for fifteen years thereafter.” (Cannindah Resources Ltd, 2008 p.39)

Chinese targets were less direct in describing the terms of negotiations. Mount Gibson Iron, in its post-acquisition annual report stated:

“Mount Gibson’s strong links with the traditional owners throughout all its sites are formalised through agreements that clearly describe the mutual obligations of Mount Gibson and the traditional indigenous owners. At Talling Peak, the company continues to work closely with both the Mullewa Wadjari and Wajarri Elders, and has established funds to assist the advancement of aboriginal law and culture, and the training and education of local indigenous people.” (Mount Gibson Iron Ltd, 2009 p.13)

It may be assumed from this statement that the assistance provided to the community is a formal requirement of land access agreements, although this was not explicitly stated.

Similarly, Fortescue expanded on its pre-acquisition disclosure to state the following after Chinese acquisition:

“Aboriginal people who belong to the native title groups with which Fortescue has formal agreements will be the primary target of the 300 jobs. Fortescue has recognised their desire to secure good jobs in exchange for supporting Fortescue’s mining operations on their land. This is one of the ways in which we are helping our communities to gain workforce skills for the long term.” (Fortescue Minerals Ltd, 2010 p.13)

Again the statement demonstrated a link between the employment of indigenous people and the granting of land access, but it was also framed in terms of a community service, blurring the lines between pragmatic and moral legitimacy.

While both groups recognised the need for a financial or non-financial exchange with indigenous communities, the method of disclosure differed. Companies subject to domestic acquisition were clear and direct about the fact that negotiations have taken place, and some provided monetary details about the exchange. However, Chinese targets were less direct about the conditions of negotiations and preferred to express their support of the land owners in terms of the broader values of society.

5.2.2 Influence legitimacy

Suchman describes influence legitimacy as arising when the relevant stakeholders perceive the company as being responsive to their broader interests in the long term. This is particularly effective where the specific stakeholder group is given some role in the policy-making process or if those policies reflect the stakeholders’ standards of performance (Suchman, 1995). Information about the protection, training and involvement of employees

in health and safety issues falls into the category of influence legitimacy, in that it is a response to the employees' need to work in a safe environment (Mahadeo et al., 2011).

Those companies subject to domestic acquisition showed a considerable increase in health and safety disclosures compared to the Chinese acquisitions (see Table 4.3). The most dramatic increase (200% compared to Chinese acquisitions at 38%) was in the area of promoting employee safety and physical health.

In Anchor Resources' Occupational Health and Safety Policy, which was published on their website immediately after domestic acquisition, there was a clear indication of meeting employees' broader interests as well as co-opting their participation in decision-making in their goals and objectives by committing to:

- *“Provide safe plant and systems of work;*
- *Provide instruction, training and supervision to employees and contractors to ensure their safety;*
- *Provide opportunities to employees to be involved in consultation on safety issues.”*
(Anchor Resources Ltd, 2012d)

Similarly, Activex published an Occupational Health and Safety policy on its website after acquisition, making the following commitments:

- *“ActivEX will seek to have work activities carried out safely, with all reasonable measures taken to remove or reduce risks to the health, safety and welfare of our personnel.*
- *ActivEX will foster a health and safety conscious culture at all workplaces.*
- *ActivEX will seek to achieve an injury free work environment for our personnel.”*
(Activex Ltd, 2014d)

Further, Activex employees were co-opted into the culture of the policy with the requirement that *“All personnel understand and accept individual duty of care to ourselves and to each other.”* (Activex Ltd, 2014d)

Some Chinese targets reduced the number of sentences relating to the promotion of health and safety. For example, Gindablie Metals omitted information regarding Senior First Aid Training and Occupational Health and Safety training for Supervisors and Managers that had appeared in their annual report prior to acquisition. Mount Gibson Iron devoted 15 sentences to this area in its annual report prior to acquisition, but reduced this to 10 after acquisition, omitting detailed discussion of its emergency response provisions. It is worth noting, however, that while the increase in this type of disclosure was lower after Chinese acquisition

than domestic acquisition, strong sentiments were nonetheless expressed by Chinese targets both before and after acquisition such as *“Our safety culture aligns with our core values to achieve a safe workplace for our staff and contractors”* (Fortescue Minerals Ltd, 2010 p.12), and *“Safety management is a critical element of everything Mount Gibson’s employees and contractors undertake. The health and safety of our employees is a core value of Mount Gibson”* (Mount Gibson Iron Ltd, 2008 p.16; 2010 p.12).

While the promotion of employee health and safety was given some importance by management after Chinese acquisition, management placed a larger emphasis on mere compliance with occupational health and safety regulation (an increase of 700%) and substantially reduced their statistical data (a decrease of 47%). This minimises the effectiveness of the use of health and safety information to convey an interest in the needs of their audience, and thus reduces influence legitimacy. It can be seen that domestic targets were more likely to rely on influence legitimacy than Chinese targets.

5.2.3 Dispositional legitimacy

An entity demonstrates dispositional legitimacy through convincing stakeholders of an embedded trustworthiness and good character, sharing the values of its stakeholders. Suchman (1995) observes that an apparent affiliation with the values of its targeted audience is likely to reduce the adverse effects of any delegitimising events.

This type of general alignment with economic stakeholders’ values is most evident in the disclosures made after domestic acquisition. Many statements were made that related to a broad responsibility to stakeholders after domestic acquisition, and all of those statements were positive in nature (an increase of 144%). There was an observed reduction in these types of general statements after Chinese acquisition (a decrease of 14%).

Activex made disclosures in their annual reports both prior to and after domestic acquisition relating to an alignment with the values of their stakeholders:

“The Company acknowledges that the community expects businesses to be aware of their wider social obligations and to promote practices to maintain confidence in the Company’s integrity... Directors are required to adhere to industry standards in conduct and dealings and promote a culture of honesty, fairness and ethical behaviour into its internal compliance policy and procedures as well as dealing with stakeholders.” (Activex Ltd, 2013 p.46; 2014a p.15)

The company goes further in its Community Engagement Policy which was posted for the first time on its website post-acquisition, in stating “*ActivEX recognizes the need for communities to receive fair and equitable treatment, and opportunities from ActivEX’ activities*” (Activex Ltd, 2014b).

Similarly, Bass Metals stated in its post-acquisition annual report,

“The board has adopted a Code of Conduct which requires Directors, management and employees to deal with the Company’s customers, suppliers, competitors and each other with honesty, fairness and integrity and to observe the rule and spirit of the legal and regulatory environment in which the Company operates ... The Company acknowledges its responsibility to shareholders, the community, and the individual.” (Bass Metals Ltd, 2009 p.19)

Many Chinese targets reduced disclosure in this area after acquisition. The reduction was mainly in positive and negative comments, with an increase in neutral comments. This indicates less reliance on dispositional legitimacy to garner support from stakeholders than those companies acquired domestically. For example, prior to acquisition, the Energy Metals annual report stated:

“The Board is responsible for setting the tone of legal, ethical and moral conduct to ensure that the Company is considered reputable by the industry and other outside entities. This involves considering the impact of the Company’s decisions on the industry, colleagues and the general community.” (Energy Metals Ltd, 2009 p.27)

There was no evidence of a similar statement being made in the annual report after acquisition.

Similarly, the following statement appeared in Gindalbie Metals’ annual report before acquisition, but not after:

“Throughout the year Gindalbie has strived to foster a lasting and tangible relationship with the local communities and stakeholder groups, and is aware that in addition to regulatory operating approvals, the Company also requires community acceptance to operate, and that acceptance has to be earned.” (Gindalbie Metals Ltd, 2007 p.18)

Mount Gibson Iron omitted the following statements from its annual report after acquisition:

“At Mount Gibson, commitment to the principles and practices of good corporate and environmental citizenship goes well beyond the requirements of relevant authorities.” (Mount Gibson Iron, 2008 p.1); and

“Mount Gibson has continued to successfully engage with local communities on all levels, from direct local contributions to increasing cultural awareness, meeting our indigenous employment targets and ensuring our mutual obligations within the communities in which the company operates.” (Mount Gibson Iron, 2008 p.5)

It is those companies that were acquired domestically, rather than by Chinese investors, that displayed a pragmatic legitimacy motivation in SER, targeting disclosures towards the self-interest of stakeholders. They more directly referred to monetary and quantitative exchanges between themselves and aboriginal communities and displayed a greater interest in the broad health and safety needs of employees. They also more frequently claimed a close alignment with the values of various stakeholders, proclaiming dispositional attributes such as honesty, integrity and fairness, and a concern with the welfare of customers, suppliers and communities. Chinese targets, on the other hand tended to downplay this aspect of legitimacy, favouring disclosures that indicated a desire to promote the welfare of society at large, that is, moral legitimacy.

5.3 Moral legitimacy

As has been seen, pragmatic legitimacy may be “purchased” by rewarding specific stakeholders. Moral legitimacy, on the other hand is aligned with societal norms and values, and would be diminished by offering rewards (Suchman, 1995 p.585). In terms of SER, moral legitimacy may be evident in statements that communicate a pro-social narrative (Mahadeo et al., 2011) and do not seek to reward stakeholders in exchange for their resources. As illustrated in figure 3.1, moral legitimacy may be evaluated in terms of desirable consequences of episodic events (consequential legitimacy) or ongoing procedures (procedural legitimacy) or in terms of an inherently morally acceptable organisational structure (structural legitimacy).

5.3.1 Consequential legitimacy

Consequential legitimacy is based on the premise that organisations are judged by what they accomplish in terms of social welfare (Suchman, 1995). Suchman (1995) states that such communication may be effective in creating legitimacy even if the claims are ambiguous or lacking quantitative support, as the social consequences are inherently difficult to measure. SER relating to protection of the environment and support of the community can result in consequential legitimacy (Mahadeo et al., 2011).

The communication of a commitment to the environment above and beyond legal requirements could be regarded as a demonstration of alignment with society's values and norms. Environmental disclosures increased markedly by 208% in total following Chinese acquisition compared to an increase of 27% after domestic acquisition (see Table 4.1). As shown in Table 4.5, and highlighted in chapter 4, the increased disclosure by Chinese targets was predominantly declarative and quantitative, with a decrease in monetary information. Prior literature finds that symbolic SER declarations are often made by management to enhance or maintain legitimacy with specific audiences (Mahadeo et al., 2011; Neu et al., 1998). The disclosures are often broad and symbolic as the use of specific information may constitute a threat to legitimacy (Mahadeo et al., 2011). The use of good news by Chinese targets to divert attention away from negative information indicates a further attempt to minimise those threats.

The most prolific environmental disclosure by Chinese targets was pollution control in operations with a growth rate of 1,178% compared to a decline of 50% in similar statements by domestic targets. Domestic targets instead chose to emphasise mere compliance with environmental regulation with an increase of 45% compared to a decline of 23% in similar statements after Chinese acquisition.

Most disclosures regarding pollution control were made by three Chinese targets: Centrex Metals, Fortescue Minerals and Grange Resources. Centrex chose to report positive and neutral statements which were largely declarative and covered issues such as the installation of dust monitoring stations and the construction of a new shipping port which would reduce the carbon footprint of transportation. The company assured stakeholders of its commitment to environmental management by stating,

“Centrex will have an environmental management plan with contingencies for dealing with any pollution and responsibilities to report our activities to the environmental regulators” (Centrex Metals Ltd, 2011c).

Negative statements about pollution control in operations were made by Fortescue and Grange. Statements by Fortescue related to increased greenhouse gas emission, dust incidents and chemical or hydrocarbon spills. Most of this negative news was immediately followed by positive statements. For example, in describing dust as the most frequently reported incident, it attributes the dust to sources other than its own operations. The majority of chemical and hydrocarbon spills were said to be minor and the description of accidental major spills was followed by an outline of the remediation strategy undertaken to remove the

affected soil (Fortescue Minerals Ltd, 2010). Positive statements outweighed the negative, such as:

“Fortescue is undertaking an aggressive strategic review and improvement plan to ensure that suitable environmental management systems are in place to maintain compliance with the environmental regulatory obligations and commitments.”
(Fortescue Minerals Ltd, 2010 p.32)

An attempt was thus made to minimise the effect of the negative statements by explaining and excusing poor environmental performance and diverting attention with positive statements.

Some environmental statements made by Grange Resources may not be perceived to be negative from the company’s point of view, but have been counted as such in this study according to the decision rules for social disclosures developed by Hackston and Milne (1996) as they are likely to be seen as bad news by affected stakeholders (see Appendix C). Several references are made to the protection of the company under Tasmanian legislation as follows: *“The Group has been relieved of any environmental obligation in relation to contamination, pollutants or pollution caused by operations prior to the date of the Goldamere Agreement (December 1996)”* (Grange Resources Ltd, 2009 p.38). It is probable that this type of statement is not seen by the company to undermine any legitimisation strategy.

As shown in Table 4.2, there were also substantial increases after Chinese acquisition compared to domestic acquisition in areas such as prevention or repair of damage to the environment resulting from operations (an increase of 233%), waste disposal (an increase of 175%), description of current and planned developments on environmentally protected or sensitive areas (an increase of 540%), and conservation of flora and fauna (an increase of 252%).

Most of those increases represented good news, with the exception of Centrex metals in describing its impact on environmentally sensitive areas. Centrex explained the effects of the planned construction of a shipping port on soil erosion, surface water and certain species of plant life. This was immediately followed by positive information regarding plans to overcome these issues. While there was an increase of 15 negative sentences in this area, it was accompanied by an increase of 40 positive sentences. All disclosures by other companies regarding impact on sensitive areas were positive, as were the disclosures relating to other areas on environmental management.

There was a slight increase in quantitative information in these declarations, but they were predominantly solely declarative and so broad as to be considered symbolic, as can be seen in the following statements:

“Our aim is to achieve a high standard of care for the natural environment in all of the activities in which we are engaged, from exploration through mining, processing, marketing and exporting of our products.” (Anchor Resources Ltd, 2012c)

“The Group is aware of its responsibility to impact as little as possible on the environment, and where there is any disturbance, to rehabilitate sites.” (Centrex Metals Ltd, 2011a p.43)

“We will progressively rehabilitate our land and will look for opportunities to enhance biodiversity.” (Fortescue Minerals Ltd, 2010 p.14)

“We have continued to initiate and support research programs relevant to our operations which are providing for a greater understanding of the environment in which we operate with further consequential improvement in our environmental management strategies for development of our projects and better defined rehabilitation performance outcomes for our exploration activities.” (Gindalbie Metals Ltd, 2009 p.12)

“The Company is working closely with the Water Corporation to finalise a suitable supply contract for the off-take of the waste water.” (Grange Resources Ltd, 2009 p.22)

“The rare and endangered Night Parrot was seen near Cloudbreak in 2005. Fortescue has been sponsoring regular surveys to identify and better understand this species; but to date, there have been no further sightings.” (Fortescue Minerals Ltd, 2009)

“We have continued to collect ecological and biological information with the specific intent of enhancing our project development and management strategies and contributing to an increase in biodiversity knowledge in the Mid West banded iron formation region.” (Gindalbie Metals Ltd, 2009 p.12)

Disclosures by domestic targets regarding these environmental themes were expressed in similar positive language and lack of detail, however, the sentence volume increased at a lower rate for prevention or repair of damage to the environment and conservation of flora and fauna, there were no disclosures for waste disposal, and there was a decrease in the description of current and planned developments on environmentally protected or sensitive areas. Overall, domestic targets appeared to place less emphasis on those environmental disclosures that could enhance consequential legitimacy.

Disclosures regarding community project participation increased by 40% after Chinese acquisition, but stayed at zero after domestic acquisition. Broad alliance with communities is evident in the following disclosures:

“Fortescue’s Port Hedland Operations leadership team ensures that Fortescue is represented at major community events and celebrations. This is our way of showing our support to the communities in which we live and operate.” (Fortescue Minerals Ltd, 2010 p.14)

“To contribute to community sustainability and capacity building, Gindalbie has commenced the development of a structured community investment program in consultation with the community. During the last 12 months we have increasingly engaged the community with support, participation and project promotions in a number of local events such as local agricultural shows and expos, Mingenew Turf Club Races, Red Hill Concert, Geraldton Industry Health Day and local sporting teams support.” (Gindalbie Metals Ltd, 2009 p.13)

“The company continues to support the local community in the vicinity of its Talling Peak operation, by annual contributions to the Mullewa Community Trust – a fund established by Mount Gibson in conjunction with Mullewa Shire Council for the public benefit of the Shire’s citizens.” (Mount Gibson Iron Ltd, 2009 p.13)

Similarly, Chinese targets demonstrated an increase of 108% in disclosures relating to support of the development of local industries and community programmes, compared to 0% increase in domestic acquisitions. Some examples of these disclosures are:

“As a whole it is considered this multi-user Project offers significant opportunity to contribute to not only mineral and agricultural development, but the short and long term social and economic sustainability of the region and State through direct and indirect business, infrastructure, employment and contractor opportunities.” (Centrex Metals Ltd, 2012)

“Fortescue is committed to supporting the Pilbara region today, tomorrow and in the long term. We also aim to share our success and to have a positive impact on the socio-economic development in regional Western Australia. We believe this can be achieved through employment, purchasing materials and services locally where possible and paying rates, taxes and royalties. We also believe that our support of the local economy will lead to increased flow on spending on infrastructure and services.” (Fortescue Minerals Ltd, 2010 p.13)

“As part of its wider ranging community initiatives Mount Gibson is committed to supporting local businesses where possible. During the year, the company made significant contributions to the Derby community – the mainland town closest to Koolan Island.” (Mount Gibson Iron Ltd, 2009 p.14)

As discussed earlier, disclosures made by Chinese targets in relation to supporting indigenous communities are made in such a way as to imply a moral and ethical motivation, rather than explicitly focusing on the pragmatic exchange of resources. An emphasis was often placed on respecting aboriginal cultures, traditions and customs (Cape Alumina Ltd, 2012; Fortescue Minerals Ltd, 2010; Gindalbie Metals Ltd, 2007; Mount Gibson Iron Ltd, 2009).

Chinese targets can thus be seen to be pursuing consequential legitimacy by demonstrating that environmental protection and support of social activities are part of their outputs, and their operations are not purely motivated by economic performance (Mahadeo et al., 2011). The majority of SER disclosures were positive and declarative, with an increase in quantitative measurement and detail in community projects (for example, the number and type of projects) and involvement with indigenous communities (in terms of training and recruitment). Environmental disclosures were generally broad and symbolic and attempts were made to de-emphasise or distract their audience from negative environmental performance. This is consistent with previous findings that SER may be used as a strategy to convincingly portray a firm's activities as aligned with societal concerns (Mahadeo et al., 2011).

5.3.2 Procedural legitimacy

According to Suchman, firms can also create moral legitimacy by adopting socially accepted procedures and practices to demonstrate that they are making a “*good faith effort to achieve valued, albeit invisible, ends*” (Suchman, 1995, p. 580). The reporting of sound, socially acceptable practices that have become entrenched in the organisation can therefore garner legitimacy even where the outcomes cannot be measured. Both Chinese and domestic targets increased their reporting about the establishment of formal environmental and social policies. Chinese targets emphasised mechanisms put in place to liaise with local communities and stakeholders on a regular basis, as well as implementing and reporting on employment diversity policies. Domestic targets emphasised the establishment of policies and departments to manage environmental and health and safety issues.

Chinese targets increased disclosure regarding liaison policies by 238%. This increase was in positive and neutral statements and they were solely declarative as may be expected in this theme. As discussed in Chapter 4, two of these companies, Anchor Resources and Focus Minerals, started reporting on community liaison for the first time after acquisition, providing a broad commitment to consulting with the “*wider community*” (Anchor Resources Ltd,

2012b) and “*shareholders and stakeholders*” (Focus Minerals Ltd, 2014 p.8). Centrex Metals significantly increased its disclosure in this area on its corporate website, reporting extensively on public information sessions, including a detailed document transcribing the community’s questions and company’s responses during a public meeting regarding planned projects. Centrex encouraged feedback in a variety of ways, including Information Days, personal meetings and direct contact with the company (Centrex Metals Ltd, 2011a, 2011b, 2011c, 2011d, 2012). Fortescue Metals described its liaison procedure:

“Fortescue’s Community team is based in Port Hedland’s South Hedland Shopping Centre. The team works collaboratively with local government, government agencies and the community to implement our Community Development Plans. The community team travels throughout the Pilbara on a regular basis talking with the communities and agencies in these areas to address any concerns that may arise.” (Fortescue Minerals Ltd, 2010 p.14)

Gindalbie Metals seemed to articulate the motivation of most Chinese targets, stating that “*Managing stakeholder interactions during development is critical because it is stakeholder opinion, as well as technical merit, that determines the project’s social licence to operate*” (Gindalbie Metals Ltd, 2009 p.13).

There was a substantial increase in disclosure by Chinese targets regarding diversity policies with seven out of the ten companies expressing a commitment to improving the recruitment, employment and advancement of indigenous people and women. As observed in Chapter 4, four of those companies reported a diversity policy for the first time after acquisition. This could be seen as an attempt to create procedural legitimacy by adopting socially acceptable processes.

Three Chinese targets (Gindalbie Metals, Fortescue Metals and Mount Gibson Iron) increased disclosure about conducting formal indigenous training programs in conjunction with education providers. A similar high level of formality is expressed by Cape Alumina (named Metro Mining at the time of acquisition) in its description of policies for addressing gender pay disparities for key management personnel and executive Directors. They also displayed a Table outlining “*the diversity objectives established by the Board, the steps taken during the year to achieve these objectives and the outcomes*” (Cape Alumina Ltd, 2012 p.49). Other Chinese targets report similar statistics relating to indigenous and female representation in the workforce, highlighting a commitment to continual improvement in the process, for example,

Mount Gibson Iron stated, *“The Co-Existence Committee are now working towards 20% Aboriginal employment by the end of the fourth year.”* (Mount Gibson Iron Ltd, 2009 p.13)

While domestic targets had a larger increase in disclosure relating to health and safety policies than Chinese targets, the wording was very broad (apart from Activex which developed a policy on its website for the first time after acquisition). Some examples of broad statements follow:

“Anchor will ... Provide written procedures and instruction to ensure safe systems of work.” (Anchor Resources Ltd, 2012d)

“Haoma will ... extract minerals in the most efficient way with a strong commitment to health, safety and the environment.” (Haoma Mining NL, 2011 p.1)

Archer listed occupational health and safety as one of many delegations to senior executives:

“These relate to expenditure approvals, day-to-day decision-making, routine ASX disclosures, review of potential projects, OH&S, staffing, promotion of the Company and Board reporting.” (Archer Exploration Limited, 2011 p.22)

Chinese targets, however, emphasised the strength of the systems put in place:

“During the year we commenced the development of a new health and safety program for the business. This work encompassed a review of our current health and safety systems and the drafting of new streamlined and tailored health and safety standards. This will encompass a dedicated contractor management system. Over the next year we plan to focus on the implementation of this system across our operations.” (Fortescue Minerals Ltd, 2010 p.12)

“Grange takes an active role in safety and has developed a generic induction and site specific induction programme covering all safety facets and our Major Hazard Standards which is accessible to employees, contractors and other mining and industrial organisations. The IMS is being developed to a three year Strategic Business Plan using a continuous improvement, loss control model based on the “Plan-Do-Check-Act” ideology accepted in international standards.” (Grange Resources Ltd, 2009 p.14)

“Mount Gibson continued to offer the services of a Health and Wellness Consultant at Talling Peak, providing individualised exercise programs and health checks as well as weekly group fitness and gym circuit classes. In addition, flu vaccinations and skin cancer screening programs were conducted, while regular first aid training continued. Various site-specific training packages were developed and implemented during the year, covering confined space, safe work at heights, risk assessment, job safety analysis and Take 5 - which is a personalised hazard identification and risk assessment tool. Incident Management training was undertaken on-site for managers and supervisors,

while regular training was conducted for the Emergency Response Team.” (Mount Gibson Iron Ltd, 2009 p.12)

Chinese targets have placed greater emphasis on formal processes and procedures after acquisition than domestic targets, particularly regarding liaison with communities and improving employment diversity. While domestic targets emphasised processes in relation to health and safety in terms of sentence volume, the Chinese targets disclose greater detail regarding the strength of their health and safety systems. Chinese targets appeared to rely more heavily on procedural legitimacy strategies to demonstrate a concerted effort to achieve socially acceptable ends.

5.3.3 Structural legitimacy

The third type of moral legitimacy described by Suchman (1995) is structural legitimacy. A company may be seen to be worthy of support simply because its structural characteristics are morally favoured, for example schools and hospitals. In the case of mining companies, morality cannot be inferred from general organisational features. In fact, an audience is likely to assume anti-social behaviour of a company simply because it is a mining company. The mining industry is historically held responsible for extensive environmental and social damage and is seen to show little regard for the needs of stakeholders (Jenkins & Yakovleva, 2006). Therefore, in order to gain structural legitimacy, a mining company may disclose an explicit association with socially positive organisations or activities (Mahadeo et al., 2011). Chinese targets reported involvement with emotive activities such as education, health and culture in an apparent attempt to align themselves with institutions “*within a morally favoured taxonomic category*” (Suchman 1995, p.581).

The following statements from various Chinese targets describe alignment with schools, hospitals and research institutions:

“Centrex has already made some contributions to local schools and the hospital. We look forward to providing ongoing support and collaboration with the local community.” (Centrex Metals Ltd, 2011c)

“Following extended negotiations between Mount Gibson, the hospital’s administration and the Health Department of Western Australia, agreement was reached for the hospital to provide industrial laundry services for Koolan’s operations on a commercial basis. This has seen an additional four jobs created as the laundry now cleans an additional two tonnes of linen each week.” (Mount Gibson Iron Ltd, 2009 p.15)

“During the past 12 months we have continued to progress research with local research institutions into taxonomic investigation of local flora and floristic communities, and have seen the results of that research documented and published.” (Gindalbie Metals Ltd, 2009 p.12)

“Currently, 484 Darwinia masonii plants and 904 Lepidosperma gibsonii are growing safely and are available for further propagation. PhD and honours students from the University of Western Australia have commenced or completed academic studies into the two rare species, including ecology and restoration, water use efficiency, and survival, growth and health on a range of restoration treatments.” (Mount Gibson Iron Ltd, 2009 p.11)

MZI Resources, a domestic target only mentioned planned involvement in the establishment of a government run training facility for local indigenous communities in its annual report prior to acquisition. This was not mentioned in the post-acquisition annual report. There were no other disclosures from domestic targets regarding alignment with socially acceptable institutions, indicating that they were not seeking structural legitimacy.

5.4 Summary

Suchman (1995) recognises that pragmatic and moral legitimacy co-exist in practice. Accordingly SER exhibited characteristics of both types of legitimization strategies after domestic and Chinese acquisition. However, this study has found that domestic targets attempted to gain or improve legitimacy through appealing to audience self-interest (pragmatic legitimacy) while Chinese targets attempted to do this through demonstrating an alignment with society's values (moral legitimacy). Suchman states *“as one moves from pragmatic to moral...legitimacy becomes more elusive to obtain and more difficult to manipulate, but it also becomes more subtle, more profound, and more self-sustaining, once established”* (Suchman, 1975, p.585). SER gives Chinese targets the opportunity to portray themselves as moral and ethical, and if stated broadly enough, may achieve social acceptance even in the absence of tangible outcomes.

6. CONCLUSION

6.1 Observed differences in SER

This study utilised content analysis of annual reports and corporate websites to examine the volume and nature of SER by Australian mining companies before and after acquisition for both Chinese and domestic targets. The political, social and environmental sensitivity surrounding Chinese acquisition of Australian resources as observed through negative media reports and the Chinese experience of delays and perceived discrimination in the FIRB approval process, coupled with the troubled reputation of the mining industry, has provided a rich setting in which to observe legitimisation strategies.

The first research question required an examination of SER changes by Australian mining companies after Chinese FDI. The findings clearly show an increase in the volume of disclosure for environmental management, health and safety, employment diversity and community involvement. Statements made by Chinese targets were generally made to exhibit congruence with social values and norms and a desire to promote social welfare.

The second research question involved the comparison of SER provided by Chinese and domestic targets. Substantial differences were observed in the volume and nature of disclosure made by the two groups. The domestic targets showed smaller increases, and in some cases decreases in disclosure across three of the four SER themes but they showed a larger increase in statements relating to employee health and safety. The areas given most attention by domestic targets represented direct appeals to the interests of key resource providers, for example employees. The main difference in the nature of the disclosures was whether they were aimed at society at large (moral legitimacy) as demonstrated by Chinese targets, or at the self-interest of critical stakeholders (pragmatic legitimacy), as shown by domestic targets.

6.2 Reasons for differences in SER

The notion of a legitimacy gap is a useful starting point for considering differences in the type of disclosure employed by the two groups. Legitimation strategies are generally intended to minimise any actual or perceived disparity between the value systems of society and the organisation (Clarkson et al., 2011). The different strategies employed may be explained with reference to the nature of the threats to legitimacy and whether the firm is aiming to maintain or repair legitimacy.

6.2.1 The nature of legitimacy threats

This study has highlighted legitimization practices that represent a response to immediate threats to legitimacy. These threats, however, appear to be different for Chinese and domestic targets, necessitating different responses. The attempts by Chinese targets to demonstrate an alignment with societal values could be seen as a response to the political and social sensitivity associated with Chinese acquisition of Australian resources. The threat to the survival of these companies comes from the negative perceptions of society as a whole, and therefore disclosures need to be perceived as pro-social.

The disclosures of companies acquired domestically, on the other hand, may have a greater need for strengthening relationships with key stakeholders. The main goal of disclosure in this case is to avoid the withdrawal of critical resources and thus SER may be used to ‘purchase’ legitimacy (Suchman, 1995). The smaller size of domestic targets compared to Chinese targets diminishes the power held over stakeholders such as suppliers and employees, and increases the risk of failure if their support is withdrawn. This necessitates maintenance of goodwill through appealing to the self-interest of those parties.

6.2.2 Maintaining versus repairing legitimacy

An organisation’s choice of legitimization strategy is expected to differ depending on whether it is attempting to gain, maintain or repair legitimacy (O’Donovan, 2002; Suchman, 1995). The preference for a pragmatic or moral approach in SER could be explained by these different motivations for disclosure.

Domestic targets may best be viewed as maintaining legitimacy in that the acquisition by Australian firms poses very little threat to the positive perceptions of stakeholders. Suchman identifies two main strategies for maintaining legitimacy: “*perceiving future changes and protecting past accomplishments*” (1995 p. 594). Firstly, the perception of future changes requires recognising the reactions of stakeholders and anticipating possible problems that may arise. For firms such as domestic targets which have a demonstrated pragmatic focus, a common strategy for managers to gain an insight into an audience’s beliefs is to co-opt them into decision-making. This was evident in the disclosures of domestic targets in their emphasis on employee involvement in health and safety policies and processes.

The second strategy, protecting accomplishments, may be achieved through “*converting legitimacy from episodic to continual forms*” (Suchman 1995, p.595). Exchange legitimacy is described by Suchman as episodic, while influence and disposition legitimacy are

described as continual. A stronger reliance on continual forms of pragmatic legitimacy was demonstrated by domestic targets in this study. Table 4.1 shows an increase of only 25% in statements relating to exchanges with indigenous communities (episodic), compared to a 200% increase in statements relating to health and safety and a 114% increase in statements relating to a general responsibility to certain stakeholders (continual forms of legitimacy). The strategies used by domestic targets are therefore illustrative of an attempt to maintain, rather than repair legitimacy.

The politically and socially sensitive nature of Chinese FDI could be viewed as a situation requiring a strategy to repair legitimacy that has been damaged in the course of acquisition. A common tactic to repair legitimacy is to exhibit conformity with society's values (Suchman, 1995; O'Donovan, 2002). This was clearly exhibited in the attempts of Chinese targets to demonstrate a heightened allegiance with the values and norms of society. There were however some examples of attempts to reduce the legitimacy gap by changing societal values regarding Chinese acquisition as follows:

“In stark contrast, 2014 will be remembered as the year Focus transformed itself into a disciplined, efficient, and sustainability minded company. By combining (sic) these traits with the best of Australian and Chinese know-how, your company is exceptionally well placed to capitalise on the opportunities lying on the highly prospective tenement package compiled over many years.”(Focus Minerals Ltd, 2014 p.4)

“The development of Karara is in my view a textbook example of how Chinese investment can help maximise the value of Australia's resources and, in this instance, help to generate a new value-added commodity product for Western Australia. While debate will continue on the issues surrounding Chinese investment in Australian resource companies, I believe this is an outstanding example of how enormous value can be created as long as the relationship is established on sound foundations, the ground rules are clear and the parties have a shared vision.”(Gindalbie Metals Ltd, 2009 p.2)

Chinese acquisition is thus portrayed as a positive event in response to negative societal attitudes. Suchman refers to this as “*manipulating environments*”, a strategy in which the company attempts to “*actively promulgate new explanations of social reality*” (1995, p. 591). When conveyed as a new basis for moral legitimacy, as in this example, it is most effective

when accompanied by technical success (Suchman, 1995). The two quotes above link the positive claims about Chinese acquisition with favourable company performance.

The strategy is also referred to by O'Donovan (2002) in terms of changing societal values. His interviews with six senior managers indicated that they would attempt this strategy when the legitimacy threat is substantial enough to warrant more than just a "*window dressing*" approach of "*merely highlighting the past social and environmental achievements of the corporation*" (O'Donovan, 2002, p.359). In the case of Chinese acquisitions, the issue is seen by Focus Minerals and Gindalbie to be "substantial enough" for this strategy. This supports the notion that SER is significantly influenced by legitimisation concerns.

6.3 Challenges and limitations

The effective comparison of pre- and post-acquisition SER required a size-matched sample of Chinese and domestic targets. While every attempt was made to achieve a matched sample as outlined in Chapter 3, a methodological challenge arose in that the companies subject to domestic acquisitions were of a smaller size in terms of the book value of assets prior to acquisition, and were also subject to smaller percentage investments by the acquirers. Prior literature has found that size is likely to affect the volume of SER due to greater social and political scrutiny (Mahadeo et al., 2011; Pellegrino & Lodhia, 2012), and thus the findings may be affected by this dissimilarity. The Chinese targets are assumed to have a greater level of political and social sensitivity in any case, and so the conclusions of this study are supported, whether the scrutiny is solely due to the foreignness of the acquirer, or due to the size of the target in conjunction with the foreignness of the acquirer. Political and social scrutiny (regardless of the cause) has caused the Chinese targets to focus on strategies that improve their moral legitimacy. The domestic targets are subject to less scrutiny and this study has found that their SER focuses on pragmatic concerns. The difference between the two datasets may have been more pronounced due to the added factor of size, but it is my contention that the difference (albeit smaller) is likely to have been observed if the size-matching was even. That is, a similar observation of the nature of legitimising strategies is likely to have been the same.

In terms of the research method, content analysis enables coding of both latent and manifest meanings of communications (Cho & Eun-Hee, 2014) as described in section 3.3. This study considered the manifest or surface meaning of the content during the coding process and only

considered the latent or underlying meanings after the coding stage. The full potential of the content analysis process was unexplored during the coding phase.

From a theoretical perspective, this study has focused on legitimacy and stakeholder theory. It is recognised that there are various other social theories that have explanatory power (O'Donovan, 2002) and much value may be gained by considering a multi-disciplinary approach (Lodhia & Hess, 2014).

6.4 Contribution

A clear link has been demonstrated between SER and legitimacy threats in a unique setting. This study has found that while legitimacy theory is considered by some researchers to be inadequate as an interpretive theoretical framework, it continues to provide useful insights into the motivations for SER. It is enhanced through the concurrent use of stakeholder theory, and aids in the explanation of differences between the disclosure of companies facing varying types and levels of threats. This thesis has made an important theoretical contribution in highlighting the difference between pragmatic and moral legitimization strategies and suggesting motivations for the emphasis of one over the other.

The literature is very sparse concerning the effect of Chinese acquisition on Australian enterprises. This study makes a clear contribution to knowledge in this area and may provide a starting point for further observation of changes in culture, performance and disclosure following this significant ownership change.

The findings address the concerns of Australian society, government and policy-makers. Declarative statements by Chinese targets regarding pro-social activities were accompanied by an increase in quantitative (although not monetary) data, indicating that at least some of the claims reflect actual performance. Suchman suggests that moral legitimacy strategies tend to become more self-sustaining than pragmatic strategies, even if the initial changes are superficial “*as cognitive dissonance and self-selection gradually produce a new generation of organizational members who adhere to the announced goals, rather than to the hidden agenda*” (Suchman, 1995, p.588). The study has thus answered the question of whether the cultural and political background of the acquirer has an observable impact on corporate social responsibility in line with societal and government expectations. The fact that the Chinese targets outperformed domestic targets in this respect could provide guidance to stakeholders and foreign investment policy makers.

Stark differences have been discovered in the voluntary social and environmental disclosure of Australian mining companies after Chinese acquisition compared to domestic acquisition. Interpretation through the lens of Suchman's model of legitimacy (1995) provides a unique and important contribution to theory and literature. The findings have clear implications for societal attitudes and foreign investment policy; potentially reducing the current restrictiveness of access, and making Australia a more attractive location for investment.

APPENDICES

Appendix A

Thematic categories derived from Hackston and Milne (1996) and Azapagic (2004)

Environmental indicators

General cross-industry SER indicators identified by Hackston and Milne (1996)	Related SER indicators specific to the mining and minerals industry identified by Azapagic (2004)	Thematic categories included in this study
<i>Environmental management</i>		
<ul style="list-style-type: none"> • pollution control in the conduct of the business operations; capital, operating and research and development expenditures for pollution abatement. 	Greenhouse gas emissions sequestered by planting trees; Measures put into place to control liquid effluents; Description of disposal methods of solid waste; Summary of environmental voluntary activities.	Pollution control in the conduct of the business operations; capital, operating and research and development expenditures for pollution abatement.
<ul style="list-style-type: none"> • statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations. 	Measurements of air emissions, liquid effluents and solid waste.	Statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations.
<ul style="list-style-type: none"> • statements indicating that pollution from operations has been or will be reduced. 	--	Statements indicating that pollution from operations has been or will be reduced.
<ul style="list-style-type: none"> • prevention or repair of damage to the environment resulting from processing of natural resources, e.g. land reclamation or reforestation. 	Total land area covered by ancient or rain forest that was cleared for extraction activities; Description of developments on environmentally protected or sensitive areas; Rehabilitation activities: <ul style="list-style-type: none"> • Number of sites officially designated for biological, recreational or other interest as a result of rehabilitation; • Number of trees planted after extraction activities; • Summary of the policy for closure and rehabilitation. 	Prevention or repair of damage to the environment resulting from operations.
<ul style="list-style-type: none"> • conservation of natural resources, e.g. recycling glass, metals, oil, water and paper. 	Water recycled and re-used.	Conservation of natural resources, e.g. recycling glass, metals, oil, water and paper.

• using recycled materials.	Recycled or re-used packaging.	N/A for metals and minerals.
• efficiently using materials resources in the manufacturing process.	Amounts of primary resource that needs to be extracted to obtain mineral products.	Efficiently using materials resources in the manufacturing process.
	Identifying total waste extracted.	Waste disposal.
• supporting anti-litter campaigns.	--	N/A
• receiving an award relating to the company's environmental programmes or policies.	Number of awards for rehabilitation and a summary, if applicable.	Receiving an award relating to the company's environmental programmes or policies.
• preventing waste.	Summary of energy policy.	Preventing waste.
--	Nuisance to neighbouring communities relating to noise, road, dirt and dust, visual impact and other nuisance.	Nuisance to neighbouring communities.
--	Environmental performance and quality of suppliers and contractors.	Environmental performance and quality of suppliers and contractors.
	Life cycle environmental impacts of products, including product toxicity.	N/A
• undertaking environmental impact studies to monitor the company's impact on the environment.	Description of current and planned developments on environmentally protected or sensitive areas.	Description of current and planned developments on environmentally protected or sensitive areas.
• wildlife conservation.	Summary of biodiversity policies. <ul style="list-style-type: none"> • Description of impacts in terrestrial, freshwater and marine environments; • Description of the activities for habitat protection or rehabilitation. 	Conservation of flora and fauna.
• protection of the environment, e.g. pest control.	--	N/A
		Establishing an environmental management department/ committee/ policy

Social indicators

General cross-industry SER indicators identified by Hackston and Milne (1996)	Related SER indicators specific to the mining and minerals industry identified by Azapagic (2004)	Thematic categories included in this study
<i>Employee health and safety</i>		
• reducing or eliminating pollutants, irritants, or hazards in the work environment.	--	Reducing or eliminating pollutants, irritants, or hazards in the work environment.
• promoting employee safety and physical or mental health.	Hours of training regarding health and safety	Promoting employee safety and physical or mental health.
• disclosing accident statistics.	Number of fatalities; Lost-time accidents Absence hours on health and safety grounds Number of compensated occupational diseases	Disclosing accident, fatality and occupational disease statistics.
• complying with health and safety standards and regulations.	--	Complying with health and safety standards and regulations.
• receiving a safety award.	--	Receiving a safety award.
• establishing a safety department/committee/policy.	Summary of the policy on HIV/AIDS (in countries with high incidence)	Establishing a safety department/committee/policy.
• conducting research to improve work safety.	--	Conducting research to improve work safety.
<i>Employee Diversity</i>		
• recruiting or employing racial minorities and/or women.	--	Recruiting or employing racial minorities (e.g. indigenous people) and/or women.
• disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels.	Percentage of women/ ethnic minorities employed relative to the total number of employees; Percentage of women/ ethnic minorities in senior executive and senior and middle management ranks.	Disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels.
• establishing goals for minority representation in the workforce.	--	Establishing goals for minority representation in the workforce.

• programme for the advancement of minorities in the workplace.	Summary of the equal opportunity policy	Programme for the advancement of minorities in the workplace.
• employment of other special interest groups, e.g. the handicapped, ex-convicts or former drug addicts;	--	Employment of other special interest groups, e.g. the handicapped, ex-convicts or former drug addicts.
• disclosures about internal advancement statistics.	--	Disclosures about internal advancement statistics.
<i>Community involvement</i>		
• donations of cash, products or employee services to support established community activities, events, organizations, education and the arts.	--	Donations of cash, products or employee services to support established community activities, events, organizations, education and the arts.
• summer or part-time employment of students.	--	N/A
• sponsoring public health projects.	--	Sponsoring public health projects.
• aiding medical research.	--	Aiding medical research.
• sponsoring educational conferences, seminars or art exhibits.	--	Sponsoring educational conferences, seminars or art exhibits.
• funding scholarship programmes or activities.	--	Funding scholarship programmes or activities.
• other special community related activities, e.g. opening the company's facilities to the public.	--	Other special community related activities, e.g. opening the company's facilities to the public.
• supporting national pride/government sponsored campaigns.	--	Supporting national pride/government sponsored campaigns.
• supporting the development of local industries or community programmes and activities.	--	Supporting the development of local industries or community programmes and activities.

<ul style="list-style-type: none"> • corporate objectives/policies: general disclosure of corporate objectives/policies relating to the social responsibility of the company to the various segments of society. 	<p>Summary of the policy for liaison with local communities.</p> <p>Summary of the policy on stakeholder involvement, including the mechanisms by which stakeholders can participate in decision-making on the issues that concern them.</p>	<p>Summary of the policies for liaison with local communities and stakeholder involvement, including the mechanisms by which stakeholders can participate in decision-making on the issues that concern them.</p>
--	Health and safety complaints from local communities.	Health and safety complaints from local communities.
--	Resettlement of communities due to proposed developments.	Resettlement of communities due to proposed developments.
--	<p>Level of outsourcing relative to providing jobs for local communities:</p> <ul style="list-style-type: none"> • Percentage of sites without outsourced operations; • Percentage of employees sourced from local communities relative to the number of employees. 	Providing jobs for local communities.
--	Community project participation.	Community project participation.
--	Awards received for social and ethical behaviour in relation to local communities.	Awards received for social and ethical behaviour in relation to local communities.
--	Summary of the policy for protection of land rights and for land compensation.	Summary of the policy for protection of land rights and for land compensation (for non-indigenous land-owners).
--	Summary of a Community Sustainable Development Plan to manage impacts on communities in areas affected by its activities during the mine operation and post-closure.	Managing impacts on communities in areas affected by its activities during the mine operation and post-closure.
--	<p>Indigenous rights:</p> <ul style="list-style-type: none"> • Number of quarries/mines on sites sacred for indigenous people; • Summary of the policy to address the needs and particularly the land rights of indigenous people. 	Addressing indigenous rights.

<ul style="list-style-type: none"> • disclosing/reporting to groups in society other than shareholders and employees, e.g. consumers; any other information that relates to the social responsibility of the company. 	--	Disclosing/reporting to groups in society other than shareholders and employees, e.g. consumers; any other information that relates to the social responsibility of the company.
		General statements encompassing environmental, health and safety and community responsibility.

Appendix B. Coding for declarative, monetary, and quantitative classification of disclosures

- (a) Solely declarative: a statement by the company on its role or commitment to a SER theme with no monetary or quantitative information (i.e. no evidence of the scale of its actions).
Note: no such example identified in the annual reports.
- (b) Declarative and monetary: a statement by the company supported by monetary information on how, where and/to whom the money was given.
- (c) Declarative and quantitative: a statement by the company on its role or commitment to society with some information on the scale of its activities (e.g. number of organisations supported, no. of beneficiaries, no. of ethics training, number of environmental projects) but no information on the financial scale of the contribution.
- (d) Declarative, quantitative and monetary: a statement by the company which combines (a)–(c).
- (e) Solely quantitative: a statement by the company with factual-only quantitative SER information (e.g. the company has helped 3 schools) with no further background statement or financial information.
- (f) Solely monetary: a statement by the company with factual-only SER information (the company has donated \$X or has made charitable donations of \$X) with no further information.

(Mahadeo et al, 2011 p.174)

Appendix C: Decision rules for social disclosures

- Discussion of directors' activities is not to be included as a discussion on employees.
- All sponsorship activity is to be included no matter how much it is advertising.
- All disclosures must be specifically stated, they cannot be implied.
- Good/neutral/bad classifications to be determined from perspective of the stakeholder group involved.
- If any sentence has more than one possible classification, the sentence should be classified as to the activity most emphasized in the sentence.
- Tables (monetary and non-monetary) which provide information which is on the checklist should be interpreted as one line equals one sentence and classified accordingly.
- Any disclosure which is repeated shall be recorded as a corporate social disclosure sentence each time it is discussed.

(Hackston and Milne, 1996 p.108)

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