Are Board Governance Characteristics associated with Ethical Corporate Social Responsibility Disclosures? The Case of the Mandatory Conflict Minerals Reporting Requirement

Jomo Sankara
Illinois State University

Deborah L. Lindberg
Illinois State University

John Nowland
Illinois State University

In accordance with the 2010 Dodd-Frank Act, many firms are required to report on their use of conflict minerals. We hypothesize (1) a positive association between board governance characteristics and timely compliance with the conflict minerals requirement and (2) that board governance characteristics are associated with the likelihood of meeting the minimum requirements of the conflict minerals amendment. We find results consistent with our hypotheses. This research adds to the literature on management reporting behavior and ethics, and extends Corporate Social Responsibility (CSR) research by providing evidence on the determinants of meeting a non-environmental mandatory CSR reporting requirement.

INTRODUCTION

Firms are required to adhere to legislation and meet mandatory filing requirements in a timely manner. However, prior research has found that many companies do not file mandatory reports (Peters & Romi, 2013). In this study, we consider the filing of conflict minerals (CM) disclosures. The conflict mineral disclosure (Form SD) was one of the first mandatory corporate social responsibility (CSR) reporting requirements in the United States. The main companies subject to the new reporting requirements are from the electronics and technology industry sectors. The aim of the legislation is to end the humanitarian crisis in the Democratic Republic of the Congo (DRC) and adjoining countries (hereinafter referred to as the "DRC Region"). Therefore, the new reporting requirement is essentially a human rights mandate and any noncompliance with the disclosure requirement may have ethical implications.

Although the Securities and Exchange Commission (SEC) predicted approximately 6,000 companies were likely to file conflict minerals disclosures (Securities and Exchange Commission [SEC], 2012), only 1,339 companies actually filed a Form SD for calendar year 2013 (CY2013). One of the reasons for the shortfall in filers was the low amount of small companies that filed. Prior research has found that although

56% of companies' subject to the Exchange Act can be defined as small, only 25% of Form SD filers were in fact small (Littenberg, Damania, & Matos, 2014). Several possible reasons are given for the shortage of small company filers, including deliberate noncompliance (Littenberg et al., 2014).

This study investigates reasons why companies (1) filed or did not file a conflict minerals disclosure in a timely manner, and (2) met or did not meet the legal disclosure requirements. Our research question is what factors are associated with the decision to file the mandatory CSR report in a timely manner and meet all the legal reporting requirements?

Companies have ethical responsibilities and filing CSR disclosures may be an ethical act as it increases transparency in financial reporting (Atkins, 2006). Prior research finds that companies' board of directors (BOD) are associated with CSR performance and corporate responses to ethical responsibilities (Chan, Watson, & Woodliff, 2014). In particular, board diversity has been found to be associated with greater ethical compliance (Isidro & Sobral, 2015).

Using a sample of CY2013 Form SD filers and CY2014 Form SD filers that did not file a CY2013 Form SD, we investigate the determinants of filing a Form SD by the initial reporting deadline (June 2, 2014). We hypothesize that board governance characteristics including diversity are positively associated with the likelihood of the firm filing their CY2013 Form SD by the reporting deadline. We also use a sample of firms included in the Amnesty International and Global Witness conflict minerals report to investigate the determinants of a firm meeting the minimum requirements of the conflict minerals disclosure requirements. We hypothesize that board governance characteristics are also positively associated with the likelihood of the firm meeting these minimum legal requirements.

The results of our analysis indicate that BOD governance characteristics are associated with the likelihood of firms filing their CY2013 Form SD in a timely manner, and the likelihood of firms meeting the conflict minerals minimum legal requirements. In particular, we find that gender and age diversity on the board, and the presence of a financial expert on the board, are positively associated with the likelihood of the firm filing their CY2013 Form SD in a timely manner. We also find that racial and age diversity, the presence of a financial expert on the board and more frequent board meetings are positively associated with the likelihood of the firm meeting the conflict minerals minimum legal requirements.

This study contributes to our understanding of the ethical behavior of firm management, and will therefore be of interest to practitioners, investors and other stakeholders. Further, this research also specifically contributes to the determinants of mandatory CSR disclosures literature, and will therefore be of particular interest to regulators. Our findings suggest that the composition of the BOD may be important to timely and transparent disclosures where CSR disclosures are mandatory, especially when the penalty for noncompliance is low.

In the next section, we provide a literature review of research relevant to our study. We then develop our hypotheses, discuss our sample and research design, provide our results, and conclude.

BACKGROUND

Mandatory Disclosures

According to accounting disclosure theory, firms disclose when the cost of disclosure is less than the benefits of disclosure (Peters & Romi, 2013). Peters and Romi (2013) argue that this phenomenon applies to mandatory as well as voluntary disclosure. Thus, although it may be assumed that companies file mandatory disclosures, prior research has found that is not necessarily the case (Schwartz & Soo, 1996; Alexander, Ettredge, Stone, & Sun, 2011; Ettredge, Johnstone, Stone, & Wang, 2011). In the case of mandatory disclosures, the cost of noncompliance may be low if the likelihood of detection of noncompliance and the potential penalty are low.

Under voluntary disclosure, CSR practices may be linked to the pursuit of managers' self-interest. However, managerial opportunism is less likely to be a major factor in the decision to submit mandatory disclosures as a result of the likely cost of these disclosures and the additional cost of releasing negative information (Peters & Romi, 2013). In fact, managerial opportunism is more likely to motivate noncompliance of mandatory disclosures, as minimizing costs is likely to maximize firm profits and the manager's welfare. As a result, management may have stronger incentives not to comply with mandatory disclosures than to submit these CSR reporting requirements.

Prior research finds that disclosure requirements may benefit stakeholders and shareholders by reducing information asymmetry (Weil, Fung, Graham, & Fagotto, 2006; Doshi, Dowell, & Toffel, 2013). However, prior research also finds mandatory disclosure requirements can be costly for firms. Specifically, disclosure requirements create agency costs, litigation risk and higher proprietary costs (Francis, Philbrick, & Schipper, 1994; Dye, 1986; Ellis, Fee, & Thomas, 2012; Berger & Hann, 2007). We address a new mandatory requirement, which requires disclosures about the use of conflict minerals.

Conflict Minerals

The conflict minerals reporting provision of the Dodd Frank Act (hereinafter also referred to as the "conflict minerals amendment", the "legislation", or "the new reporting requirement") is a human rights disclosure mandate which aims to end the humanitarian crisis in the DRC and surrounding countries. The conflict minerals covered under the Dodd-Frank Act are often referred to as "3TG" minerals – tin, tantalum, tungsten, and gold (Ayogu & Lewis, 2011). The conflict in the DRC has resulted in over 5 million deaths and other atrocities such as sexual violence (Government Accountability Office [GAO], 2013). Bafilemba and Lezhnev (2015) argue that armed groups in the DRC Region, associated with human rights abuses, use these conflict minerals to fund their operations. Consequently, the aim of the conflicts minerals provision is to discourage companies from trading in these minerals by requiring companies to file conflict minerals disclosures (Ayogu & Lewis, 2011; Lindberg & Razaki, 2012).

These conflict minerals are particularly necessary for the production of electronic devices and computers, such as cellphones, hard drives, and laptops. Companies subject to the provision (hereinafter referred to as "covered companies") are issuers subject to the Exchange Act that use conflict minerals "necessary to the functionality or production of a product manufactured (or contracted to be manufactured) by the company" (SEC, 2012). In accordance with the SEC rules, companies are required to determine if they are subject to the conflict minerals provision and determine whether their conflict minerals originated in the DRC region. If they are subject to the provision, companies must file an annual conflict minerals disclosure report on a Specialized Disclosure Report (Form SD) and submit a conflict minerals report (CMR) if the conflict minerals originated in (or may have originated in) the DRC Region (SEC, 2012). A CMR is not required if the conflict minerals came from recycled or scrap sources (SEC, 2012).

CSR, Corporate Governance and Ethics

Kim et al. (2012) argue that a firm's social implications include legal, ethical and discretionary responsibilities. Consequently, Mallin, Michelon, and Raggi (2013) show that international organizations (e.g., Organization for Economic Co-operation and Development [OECD], 2004; OECD, 2010) argue companies should incorporate CSR in their core decision-making processes to enhance long-term value. OECD Principles of Corporate Governance call on businesses to recognize and safeguard stakeholders' rights, including legitimate interests and information needs (Mallin et al., 2013). Furthermore, the second pillar of the United Nations Guiding Principles on Business and Human rights (Guiding Principles) stipulates that companies have a responsibility to respect (human) rights. Accounting has a role in this second pillar by ensuring the reporting on appropriate qualitative and quantitative indicators (McPhail & Ferguson, 2016).

Further, Adams and Zutshi (2004) argue that the focus on CSR is driven by moral responsibility and business interests. Specifically, companies have a broad moral responsibility to their environment, workforce and local communities (Chan et al., 2014). Atkins (2006) equates social responsibility to transparency in financial reporting. Thus, companies may have an ethical responsibility to comply with CSR and human rights mandates by filing CSR disclosures in a timely manner and ensuring the disclosure meets the legal minimum requirement.

Kolk and Pinkse (2010, p.17) argue that "companies need to be both profitable and ethical, and the dimensions to be covered for a 'license to operate' have broadened," which suggests CSR disclosures should be included in corporate responsibilities. Money and Schepers (2007) argue that the corporate accounting scandals and recent stock market collapses were the impetus for greater focus on corporate CSR and ethical responsibility, and better CSR and ethical responsibility can be delivered via better corporate governance (Chan et al., 2014). Similarly, Mallin et al. (2013) argue that as a result of the global financial crisis, the board of directors have a responsibility to provide informed strategic direction and greater oversight. Consequently, De Villiers, Naiker, and van Staden (2011) find an association between the BOD's monitoring role and greater environmental performance. They also find a positive association between the BOD's advising (or resource provision) role and environmental performance, consistent with their hypotheses.

HYPOTHESES DEVELOPMENT

There appears to be few economic benefits to filing the conflict minerals disclosures on time or meeting all the legal reporting requirements. Sankara, Lindberg, and Razaki (2015) find that most Form SD filers had made little progress in meeting the new reporting requirement and that firms subject to the conflict minerals provision mainly had bad news to report. Furthermore, implementing the new reporting requirement is likely to be costly and the cost of noncompliance appears to be low because the SEC allows firms to decide if they are subject to the new reporting requirement. However, we argue that a firm required to file this mandatory human rights disclosure (the Form SD) and that acts in an ethical manner would file the Form SD in a timely manner and meet all the disclosure requirements. This filing would increase transparency and allow stakeholders to evaluate the firm's ethical behaviors (Atkins, 2006; Kim, Park, & Wier, 2012).

Prior research has found that corporate governance attributes can impact the CSR and ethical behavior of a firm (De Villiers et al., 2011; Mallin et al., 2013; Chan et al., 2014). Thus, the BOD has a vital role in ensuring the company performs its ethical responsibilities. According to De Villiers et al. (2011), the board of directors, through both its monitoring and advising roles, is expected to impact the firm's decisions regarding corporate social responsibility. For example, we expect BODs with more independent members, BODs that contain a financial expert and BODs that meet more regularly to be more active monitors and advisors of management, and therefore be more involved in the firm's corporate social responsibility and disclosure practices. Thus, we expect boards of directors with stronger governance practices to be more likely to meet their disclosure obligations.

H1a: Board governance characteristics are positively associated with the likelihood of the firm filing their CY2013 Form SD on or before June 2, 2014.

H1b: Board governance characteristics are positively associated with the likelihood of the firm meeting the minimum disclosure requirements of the conflict minerals amendment.

In addition, since the company's board of directors consists of many individuals, prior research finds that the firm's ethical behavior can be impacted by the diversity on the BOD. For example, Isidro and Sobral (2015) find that women on the BOD are positively associated with ethical and social compliance, as well as financial performance. Prior research also finds racially diverse boards have better reputations and boards with greater age diversity may achieve their goals due to a diversity of outlook (Miller & Triana, 2009; Siciliano, 1996). Furthermore, Harjoto, Laksmana, and Lee (2015) find that greater board diversity is associated with improved CSR performance. Thus, we hypothesize that more diverse boards, in terms of gender, age and race, are more likely to meet their disclosure obligations.

H2a: Board diversity is positively associated with the likelihood of the firm filing their CY2013 Form SD on or before June 2, 2014.

H2b: Board diversity is positively associated with the likelihood of the firm meeting the minimum disclosure requirements of the conflict minerals amendment.

SAMPLE

We report the sample selection process in Table 1 and variable definitions in Table 2. For the probability of filing on time model, we obtain a list all firms that filed a calendar year 2013 Form SD disclosure in 2014 from the Edgar database on the U. S. Securities and Exchange Commission's (SEC's) website. There were 1,137 firms that filed a CY2013 Form SD in 2014. We add 63 firms that filed a CY2014 Form SD in 2015, but did not file a CY2013 Form SD. We add financial data from the Compustat database. We eliminate 127 observations without a company identifier in Compustat, and 248 observations with missing financial data in Compustat. We use ISS directors' data (formerly MSI, IRRC and Risk Metrics) for our corporate governance data. We lose 378 firms when we match to corporate governance variables. This process results in 447 firms for our first regression model, consisting of 440 timely filers and 7 non-filers.

For the probability of meeting the minimum requirements of the CM amendment model, we obtain a list of all the firms included in the Amnesty International and Global Witness conflict minerals report. We lose two observations without a company identifier in Compustat, and two observations with missing financial data in Compustat. When merging ISS directors' data with the Amnesty International and Global Witness sample, we lose 51 firms due to the lack of corporate governance variables. This process results in 45 firms in our second regression model, consisting of 13 firms, which met the minimum requirements of the conflict minerals amendment and 32 firms, which did not.

TABLE 1
SAMPLE SELECTION

	On time filing sample	Meet min. legal requirements sample
	No. Obs	No. Obs
Firms that filed Calendar Year (CY) 2013 Form SD in 2014	1,137	
Firms that filed CY 214 Form SD but not a CY2013 Form SD	63	
Firms included in Amnesty international and Global Witness report		100
Less:		
Missing company identifier in Compustat	-127	-2
Missing financial data	-248	-2
Total observations used in earnings management regression analysis	825	96
Less: Firms not included in ISS database	-378	-51
Total observations used in regression analyses with corporate governance variables	447	45

TABLE 2
VARIABLE DEFINITIONS

Variable	Definition
File	Indicator variable taking the value of 1 if the firm filed CY2013 Form SD on or before June 2, 2014, and 0 otherwise
Meet	Indicator variable taking the value of 1 if the firm met the minimum requirement of the conflict minerals amendment, and 0 otherwise
Bsize	Number of directors listed as being on the board of directors from June 2013 to May 2014
Mtgs	Number board meetings from June 2013 to May 2014
Independent	The percentage of independent directors on the BOD from June 2013 to May 2014
FinExpert	The percentage of financial experts on the BOD from June 2013 to May 2014
Female	Indicator variable taking the value of 1 if a female is a member of the BOD
Race	The percentage of non-Caucasian directors on the BOD from June 2013 to May 2014
Age	The standard deviation of the age of the directors on the BOD from June 2013 to May 2014
Duality	Indicator variable taking the value of 1 if the CEO is also the chairman of the firm
Size	Natural log of year-end total assets
LowROA	Indicator variable taking the value of 1 if ROA is between 0 percent and 3 percent
Big4	Indicator variable taking the value of 1 if firm's auditor is a Big 4 auditor

RESEARCH METHODOLOGY

In this section, we present our research design to test our hypotheses. First, we define the dependent variables. Then, we develop empirical models to test our hypotheses.

Dependent Variables

Our first dependent variable, File, captures whether a firm filed a CY2013 Form SD on or before the Form SD reporting deadline (June 2, 2014), or whether the firm did not file a timely CY2013 Form SD. Firms that did not file a timely CY2013 Form SD are referred to as non-filers in this study. Non-filers either filed their CY2013 Form SD late (after June 2, 2014) or did not file a CY2013 Form SD at all (but did file a CY2014 Form SD). Thus, these firms were required to file a CY2013 Form SD but did not do so in a timely manner. File is an indicator variable taking the value 1 if the company filed their CY2013 Form SD report in a timely manner and 0 otherwise.

Our second dependent variable, Meet, captures whether a firm met the minimum conflict minerals legal requirement for their CY2013 Form SD disclosure or whether they did not. Amnesty International and Global Witness (2015) selected one hundred firms that filed a timely CY2013 Conflict Minerals Report (by the June 2, 2014 deadline). The largest firms by market capitalization in the ten most relevant industry sectors were included in the report (Amnesty International and Global Witness, 2015). An additional 50 firms, of various sizes and from various industry sectors, were randomly selected. The human rights organizations mainly analyzed how well each company complied with the conflict minerals legal disclosure requirements. According to the report, 79 percent of company reports analyzed did not meet the minimum requirements of the Dodd-Frank Act and associated guidelines. Meet is an indicator variable taking the value 1 if the selected company met the minimum disclosure requirements of the conflict minerals amendment, and 0 otherwise.

Empirical Models

To investigate whether firms behave in a transparent and ethical manner, we investigate the relationship between a firm's board composition and their filing behavior. Specifically, we examine whether firms that file the mandatory Form SD disclosure by the June 2, 2014 filing deadline (hereafter referred to as filers) have stronger board governance and greater board diversity than non-filers. We use an indicator variable (File) to identify firms that filed their CY2013 Form SD on or before June 2, 2014.

We use five proxies for general board governance attributes to test H1a, that board governance characteristics are positively associated with the likelihood of the firm filing their Form SD by the reporting deadline. The first variable is board size (Bsize). Bsize is the number of directors on the company's board of directors from June 2013 to May 2014. The number of board members increases the resources of the board and therefore enhances its monitoring and advising roles (De Villiers et al., 2011; Mallin et al., 2013). As a result, we expect a company with more board members to be more likely to file a timely Form SD and predict a positive association between Bsize and File.

The second board governance variable we test is the number of meetings (Mtgs). We sum the number of board meetings held by the company from June 2013 to May 2014. More meetings enable the directors to provide more monitoring of and advice to the company's management, which should result in a greater likelihood of filing the mandatory CSR requirement in a timely manner. Therefore, we predict a positive association between Mtgs and File.

We also expect financial experts (FinExpert) to enhance the monitoring and advising roles of the board of directors and impact the likelihood of filing the Form SD. FinExpert is a continuous variable representing the percentage of financial experts on the BOD from June 2013 to May 2014. Financial experts provide expert resources and advise the company's management, which should increase the likelihood of a timely filing. In addition, financial experts should bring increased knowledge and awareness of the new reporting requirement and its applicability to the company. Therefore, we predict a positive association between FinExpert and File.

Independent directors (Independent) provide an external perspective to the company's management and are associated with increased monitoring (De Villiers et al., 2011; Mallin et al., 2013). Thus, we expect greater monitoring to be associated with a greater likelihood of filing a timely Form SD, as the company is encouraged to comply with its reporting requirements. Therefore, we predict a positive association between Independent and File.

In addition, the separation of the Chairman and CEO roles enhances the monitoring ability of firm (De Villiers et al., 2011). We use the variable Duality to identify firms in which the CEO is also the company's Chairman. Thus, Duality represents a lower level of monitoring, which is likely to lead to a lower probability of filing a Form SD in CY2013, or filing the report on time.

We use three proxies for board diversity to test H2a, that board diversity is positively associated with the likelihood of the firm filing their Form SD by the reporting deadline. Our first proxy for diversity is the presence of a female on the BOD (Female). Since prior research has found women are positively associated with ethical compliance (Isidro & Sobral, 2015), we predict a positive association between Female and File.

Our second explanatory variable and proxy for board diversity is the percentage of non-Caucasian directors on the BOD (Race). Brown (2002) argues that an attribute of effective boards is prioritizing good relationships with major constituencies, which is a political requirement and suggests greater levels of transparency. Consequently, the researcher found that boards with more racial diversity were more politically oriented. To the extent that stakeholders may demand ethical behavior by adhering to the conflict minerals requirement, and racially diverse boards prioritize maintaining good relations with these stakeholders, racially diverse boards may exhibit behavior that is more ethical. Miller and Triana (2009) also find that boards with greater racial diversity are associated with better firm reputation. Reputation requires a social comparison of firms (Deephouse & Carter, 2005; Miller & Triana, 2009), which suggests that firms with more racially diverse boards may be more socially responsible and therefore likely to implement CSR mandates in a timely and appropriate manner. Therefore, we predict a positive association between Race and File

Our final explanatory variable is the standard deviation of the directors' ages (Age). Siciliano (1996) finds that age diversity is partially correlated with the achievement of a key organization goal (the level of donations) in her study of YMCA organizations, which she argues may be due to a diversity of outlook. In this case, prior research has found that younger generations are more interested in working for a company that cares about how it impacts society than other generations (Meister, 2010). The 2006 Cone study on the millennial generation finds that 69% millennials will not work for a firm that is not socially responsible and 79% of millennials want to work for a company that cares about contributing to society (Cone, 2008). Furthermore, millennials are prepared to reward (punish) a company based on commitment (lack of commitment) to social causes (Cone, 2008). Thus, younger directors may be more sympathetic to human rights causes than older directors.

In addition, prior research finds that board experience is associated with better monitoring and advice that is more useful to top manager (Kroll, Walters, & Wright, 2008). We posit this greater level of monitoring and useful advice may enable timely and successful implementation of key corporate initiatives and SEC mandates. Thus, we argue that the combination of younger and experienced directors may enable ethical human rights mandates to be executed in a timely manner. Consistent with H2a, we therefore predict a positive association between Age and File.

In our model, we also control for Size, low ROA and Big 4 auditors. We use the natural log of total assets as our proxy for firm size (Size). We expect larger companies to be more likely to file a timely Form SD as a result of the political cost of not filing. Consequently, we predict a positive association between File and Size. We define any company with an ROA of less than 3 percent as a low ROA firm (LowROA). Three percent is the median ROA of the non-filers. Given the predicted high cost of implementing the new conflict minerals reporting requirement, we expect companies with a low ROA to be more likely to try to defer the expenditure by either filing late of not filing at all for CY2013. Therefore, we predict a negative association between LowROA and File. Finally, firms with Big4 auditors (Big4) are likely to receive better external monitoring and external advice about the need for the new reporting requirement. As a result, we predict a positive association between the probability of filing the CY2103 Form SD in a timely manner and Big4.

Our Logit model to test the likelihood of a company filing their CY2013 Form SD by the reporting deadline (hereinafter also referred to the File model) is as follows (firm and year subscripts are omitted here and elsewhere for brevity):

$$\begin{aligned}\text{Prob (File = 1)} = \text{F} (&\beta_0 + \beta_1 \text{ BSIZE} + \beta_2 \text{ MTGS} + \beta_3 \text{ FINEXPERT} + \\ &\beta_4 \text{ INDEPENDENT} + \beta_5 \text{ DUALITY} + \beta_6 \text{ FEMALE} + \beta_7 \text{ RACE} + \\ &\beta_8 \text{ AGE} + \beta_9 \text{ SIZE} + \beta_{10} \text{ LOWROA} + \beta_{11} \text{ BIG4} + \kappa) \qquad (1)\end{aligned}$$

We also investigate the relationship between a firm's board governance characteristics including diversity and the firm's conflict minerals disclosure quality. Specifically, we examine whether firms that met the minimum requirements of the conflict minerals amendment have superior board governance characteristics including greater board diversity than those that did not. We use an indicator variable (Meet) to identify firms that met the minimum requirements of the conflict minerals amendment. In this model, we use the same five proxies used in the File model for general board governance attributes to test H1b and the same three proxies used in the File model for board diversity to test H2b.

As the number of board members increases the resources of the board, we expect a company with more board members to be more likely to meet the minimum disclosure requirements and we therefore predict a positive association between Bsize and Meet. Similarly, more board meetings should increase the likelihood of meeting the minimum requirements of the conflict minerals amendment. Thus, consistent with the File model, we predict a positive association between Mtgs and Meet. Financial experts provide expert resources and advice to the company's management, which should increase the likelihood of meeting the minimum requirements of the conflict minerals amendment. In addition, financial experts may be more cognizant of the minimum requirements than other directors. Therefore, we predict a positive association between FinExpert and Meet. We expect greater monitoring to be associated with a greater likelihood of meeting the minimum disclosure requirements, as the company is encouraged to comply with its reporting requirements. Therefore, we predict a positive association between Independent and Meet and a negative association between Duality and Meet.

We expect that board diversity is positively associated with the likelihood of meeting the minimum requirement of the conflict minerals amendment. If women directors act in a more ethical manner than men do, they will encourage the firm to meet the minimum legal requirements for all human rights mandates. Therefore, we predict a positive association between Female and Meet. Similarly, we expect racially diverse boards to encourage the company to meet the minimum legal requirements for this human rights mandate if they are more politically oriented and responsive to stakeholders, resulting in a positive association between Race and Meet. We also predict that greater diversity in the age of directors is associated with more ethical board practices, resulting in a positive association between Age and Meet.

Consistent with the previous model, we control for Size, low ROA and Big 4 auditors. We predict a positive association between Meet and Size, a negative association between LowROA and Meet, and a positive association between Meet and Big4.

Our Logit model to test the likelihood of a company meeting the minimum requirements of the conflict minerals amendment using board governance characteristics variables as explanatory variables is as follows:

$$\begin{aligned} \text{Prob (Meet = 1)} = \text{F} (&\beta_0 + \beta_1 \text{ BSIZE} + \beta_2 \text{ MTGS} + \beta_3 \text{ FINEXPERT} + \\ &\beta_4 \text{ INDEPENDENT} + \beta_5 \text{ DUALITY} + \beta_6 \text{ FEMALE} + \beta_7 \text{ RACE} + \\ &\beta_8 \text{ AGE} + \beta_9 \text{ SIZE} + \beta_{10} \text{ LOWROA} + \beta_{11} \text{ BIG4} + \kappa) \end{aligned} \quad (2)$$

RESULTS

Descriptive Statistics

The descriptive statistics for the variables included in our empirical models are reported in Table 3. Panel A compares the descriptive statistics between on time Form SD filers and Form SD non-filers at the Form SD filing deadline (June 2, 2014). Form SD filers are bigger, have bigger boards and more women on the BOD than non-filers.

TABLE 3
DESCRIPTIVE STATISTICS
PANEL A: ON TIME CY 2013 FORM SD FILERS COMPARED TO NON-FILERS

Variable	No.	Mean On Time Filer	Mean Non-Filers	Scatterwaite Diff		Median On Time	Median Non-Filers	Lower Quartile	Upper Quartile
Bsize	447	9.38	7.29	2.10	**	9.00	7.00	8.00	11.00
Mtgs	447	5.35	5.29	0.06		5.00	5.00	4.00	6.00
FinExpert	447	0.246	0.223	0.024		0.222	0.200	0.125	0.333
Independent	447	0.812	0.806	0.006		0.833	0.857	0.750	0.889
Duality	447	0.47	0.43	0.04		0.00	0.00	0.00	1.00
Female	447	0.79	0.14	0.65	***	1.00	0.00	1.00	1.00
Race	447	0.10	0.10	(0.00)		0.09	0.00	0.00	0.14
Age	447	7.03	5.65	1.38		6.35	4.77	4.71	8.32
Size	447	8.07	6.51	1.56	**	8.00	5.78	6.76	9.12
LowROA	447	0.09	0.29	(0.20)		0.00	0.00	0.00	0.00
Big4	447	0.04	0.14	(0.10)		0.00	0.00	0.00	0.00

Panel B compares the descriptive statistics between firms that met the minimum legal requirement in their conflict minerals disclosures and firms that did not. Firms that met the minimum legal requirement are similar on most dimensions, but have boards significantly more diverse in terms of age than firms that did not meet the minimum legal conflict minerals requirement.

TABLE 3 - DESCRIPTIVE STATISTICS
PANEL B: FIRMS THAT MEET VERSUS DO NOT MEET MINIMUM CONFLICT MINERALS LEGAL REQUIREMENTS

Variable	No.	Mean Meet	Mean No Meet		Median Meet	Median No Meet	Lower Quartile	Upper Quartile
Bsize	45	9.54	10.59		9.00	11.00	9.00	12.00
Mtgs	45	6.38	5.13		5.00	5.00	4.00	6.00
FinExpert	45	0.203	0.201		0.167	0.148	0.100	0.294
Independent	45	0.787	0.834		0.778	0.875	0.750	0.900
Duality	45	0.46	0.56		0.00	1.00	0.00	1.00
Female	45	0.77	0.88		1.00	1.00	1.00	1.00
Race	45	0.13	0.09		0.14	0.10	0.00	0.18
Age	45	9.30	6.25	**	9.27	5.72	4.89	9.04
Size	45	9.60	9.60		9.98	10.16	8.04	11.43
LowROA	45	0.15	0.13		0.00	0.00	0.00	0.00
Big4	45	0.08	0.09		0.00	0.00	0.00	0.00

Correlations

Pearson and Spearman correlation coefficients among the dependent and independent variables are reported in Table 4, Panels A and B. Table 4, Panel A shows the correlation matrix for the on time filers' model. Bsize, and Size are positively correlated with File indicating larger firms are more likely to file. However, LowROA is negatively correlated with File suggesting firms with lower ROA are less likely to file on time. Female is positively correlated with File, providing univariate support for H2a. Large firms are highly correlated with our proxies for women and board size.

TABLE 4: PANEL A – CONFLICT MINERALS RETURNS CORRELATION MATRIX (CALENDAR YEAR 2013 FORM SD ON TIME FILERS COMPARED TO NON-FILERS) PEARSON/ SPEARMAN CORRELATION COEFFICIENTS, N=447

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. File	1.000	0.121	0.003	0.022	0.007	0.009	0.190	-0.002	0.053	0.120	-0.079	-0.060
		0.010	0.947	0.646	0.891	0.845	<.0001	0.968	0.266	0.011	0.094	0.207
2. Bsize	0.116	1.000	-0.075	-0.161	0.251	0.095	0.444	0.114	-0.101	0.665	-0.050	0.010
	0.015		0.115	0.001	<.0001	0.045	<.0001	0.016	0.033	<.0001	0.289	0.830
3. Mtgs	0.023	-0.132	1.000	-0.004	-0.079	0.031	-0.152	0.099	0.099	-0.106	-0.108	-0.013
	0.624	0.005		0.929	0.095	0.517	0.001	0.037	0.036	0.025	0.023	0.786
4. Fin-Expert	0.021	-0.156	0.017	1.000	0.087	0.013	-0.020	0.007	-0.093	-0.056	-0.094	-0.014
	0.657	0.001	0.716		0.065	0.780	0.678	0.876	0.050	0.238	0.046	0.771
5. Inde-pendent	0.014	0.354	-0.133	0.075	1.000	0.107	0.280	0.087	-0.360	0.247	0.009	0.041
	0.765	<.0001	0.005	0.115		0.023	<.0001	0.066	<.0001	<.0001	0.845	0.393
6. Duality	0.009	0.093	0.018	0.021	0.176	1.000	0.086	0.137	-0.050	0.183	-0.007	-0.007
	0.845	0.050	0.703	0.651	0.000		0.070	0.004	0.289	0.000	0.880	0.889
7. Female	0.190	0.475	-0.140	-0.009	0.304	0.086	1.000	0.029	-0.097	0.423	-0.109	-0.038
	<.0001	<.0001	0.003	0.843	<.0001	0.070		0.543	0.040	<.0001	0.021	0.419
8. Race	0.062	0.203	0.082	-0.014	0.203	0.118	0.097	1.000	-0.091	0.223	0.014	0.067
	0.194	<.0001	0.084	0.771	<.0001	0.012	0.040		0.055	<.0001	0.764	0.156
9. Age	0.063	-0.081	0.154	-0.080	-0.348	-0.037	-0.068	-0.099	1.000	-0.157	-0.022	-0.009
	0.183	0.087	0.001	0.091	<.0001	0.433	0.151	0.037		0.001	0.636	0.841
10. Size	0.126	0.679	-0.133	-0.051	0.329	0.179	0.445	0.288	-0.136	1.000	-0.036	-0.011
	0.008	<.0001	0.005	0.281	<.0001	0.000	<.0001	<.0001	0.004		0.443	0.822
11. LowROA	-0.079	-0.058	-0.108	-0.102	-0.002	-0.007	-0.109	-0.029	-0.055	-0.041	1.000	0.037
	0.094	0.217	0.023	0.032	0.964	0.880	0.021	0.534	0.247	0.390		0.430
12. Big4	-0.060	0.016	-0.003	-0.023	0.017	-0.007	-0.038	0.090	0.003	-0.003	0.037	1.000
	0.207	0.742	0.958	0.633	0.714	0.889	0.419	0.058	0.957	0.948	0.430	

Table 4, Panel B shows the correlation matrix for the minimum legal requirement model. The standard deviation of directors' ages is positively correlated with Meet, providing univariate support for H2b. Female and Bsize are again highly correlated with each other and with our proxy for size.

TABLE 4: PANEL B: CONFLICT MINERALS RETURNS CORRELATION MATRIX (AMNESTY INTERNATIONAL AND GLOBAL WITNESS REPORT OF ADEQUATE AND INADEQUATE DISCLOSURE)
PEARSON/ SPEARMAN CORRELATION COEFFICIENTS, N= 45

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Meet	1.000	-0.205	0.209	0.010	-0.223	-0.092	-0.132	0.183	0.424	0.000	0.038	-0.027
		0.177	0.169	0.947	0.141	0.549	0.386	0.229	0.004	0.998	0.802	0.861
2. Bsize	-0.236	1.000	-0.116	0.142	0.129	0.287	0.500	0.171	-0.265	0.725	-0.161	-0.005
	0.118		0.448	0.352	0.400	0.056	0.001	0.262	0.079	<.0001	0.292	0.973
3. Mtgs	0.221	-0.127	1.000	0.073	0.105	0.086	-0.080	0.081	0.182	-0.034	-0.285	-0.056
	0.144	0.405		0.633	0.492	0.576	0.601	0.596	0.231	0.827	0.058	0.716
4. Fin Expert	0.057	0.032	0.047	1.000	0.313	-0.092	0.231	0.060	-0.240	0.227	-0.141	-0.113
	0.711	0.832	0.759		0.036	0.550	0.128	0.696	0.112	0.134	0.355	0.459
5. Inde-pendent	-0.253	0.250	0.088	0.276	1.000	0.535	0.137	0.420	-0.519	0.087	0.059	0.180
	0.093	0.097	0.565	0.066		0.000	0.368	0.004	0.000	0.568	0.698	0.237
6. Duality	-0.092	0.289	0.131	-0.067	0.536	1.000	0.336	0.191	-0.171	0.219	0.236	0.136
	0.549	0.054	0.390	0.662	0.000		0.024	0.208	0.260	0.149	0.119	0.374
7. Female	-0.132	0.477	-0.128	0.151	0.189	0.336	1.000	0.104	-0.258	0.550	-0.012	-0.081
	0.386	0.001	0.403	0.321	0.213	0.024		0.498	0.087	<.0001	0.938	0.595
8. Race	0.160	0.155	0.132	-0.070	0.463	0.164	0.072	1.000	-0.185	0.388	-0.284	0.226
	0.294	0.309	0.386	0.649	0.001	0.281	0.637		0.223	0.008	0.059	0.136
9. Age	0.400	-0.237	0.209	-0.173	-0.550	-0.213	-0.189	-0.251	1.000	-0.182	-0.028	-0.055
	0.007	0.117	0.168	0.256	<.0001	0.161	0.214	0.097		0.232	0.856	0.718
10. Size	0.019	0.673	-0.076	0.132	0.183	0.202	0.510	0.394	-0.210	1.000	-0.229	-0.082
	0.902	<.0001	0.620	0.386	0.229	0.183	0.000	0.007	0.166		0.131	0.592
11. LowROA	0.038	-0.262	-0.282	-0.071	0.025	0.236	-0.012	-0.287	-0.015	-0.211	1.000	-0.123
	0.802	0.082	0.060	0.645	0.869	0.119	0.938	0.056	0.922	0.163		0.423
12. Big4	-0.027	-0.009	0.037	-0.111	0.175	0.136	-0.081	0.267	-0.030	-0.138	-0.123	1.000
	0.861	0.953	0.810	0.466	0.251	0.374	0.595	0.077	0.845	0.365	0.423	

Regression Results

We estimate equation (1) to investigate the relationship between board governance characteristics and the likelihood of filing on time in Table 5. The adjusted R^2 for the model is 4.61% and the percentage concordant is 88.7%. Therefore, the model is reasonably specified. With respect to general board governance characteristics, we find that FinExpert is positively associated with File, indicating that financial experts on the board increase the likelihood of fulfilling the filing requirement in a timely manner. The other proxies for general board governance characteristics are insignificant.

With respect to board diversity, Female is significantly positively associated with File. The positive sign indicates that women on the board increase the likelihood of filing the CY2013 Form SD on time. Furthermore, the standard deviation of the directors' age is also positively and significantly associated with File. These results suggest board diversity increases the likelihood of the company acting in an ethical manner and filing the human rights conflict minerals disclosure on time.

TABLE 5
PROBABILTY OF BEING AN ON TIME FILER

Prob(File) = $\alpha + \beta_1$Bsize $+ \beta_2$Mtgs $+ \beta_3$FinExpert $+ \beta_4$Independent $+ \beta_5$Duality $+ \beta_6$Female $+ \beta_7$Race $+ \beta_8$Age $+ \beta_9$Size $+ \beta_{10}$LowROA $+ \beta_{11}$Big4$+ \varepsilon t$

Variable	Pred	Coef. est.	Pr>|t|
Bsize	**H1a** +	0.418	0.1422
Mtgs	**H1a** +	0.057	0.3607
Independent	**H1a** +	-3.142	0.2570
FinExpert	**H1a** +	4.304	0.0990
Duality	**H1a** -	-0.623	0.2468
Female	**H2a** +	2.421	0.0209
Race	**H2a** +	1.385	0.3288
Age	**H2a** +	0.213	0.0670
Size	+	0.332	0.4748
LowROA	-	-0.907	0.3627
Big4	+	-1.053	0.4691
CONSTANT		-2.371	0.6307
Percent Concordant			88.70
No. observations			447
Adjusted R^2			4.61%

See Table 2 for variable definitions

We next estimate equation (2) to investigate the relationship between board governance characteristics including diversity and the likelihood of meeting the minimum legal conflict minerals reporting requirements in Table 6. The adjusted R^2 for the model is 34.64% and the percentage concordant is 87%, indicating the model is reasonably specified. For general board governance characteristics, Mtgs and FinExpert are both positively associated with Meet, indicating financial experts and more board meetings increase the likelihood of meeting the conflict minerals minimum legal requirements, consistent with H1b. However, Independent is negatively associated with Meet, contrary to expectations. This suggests that outside directors may not see the importance of meeting the conflict minerals legal reporting requirements, and do not see this human rights mandate as a monitoring issue.

For board diversity, Race is significantly positively associated with Meet. This relationship indicates that racial diversity on the board increase the likelihood of meeting the minimum conflict minerals legal requirements. Furthermore, the standard deviation of directors' age is also positively and significantly associated with Meet, also consistent with H2b. These results provide further evidence that board diversity increases the likelihood of the company acting in an ethical manner and meeting the minimum requirement of the conflict minerals legislation.

TABLE 6
PROBABILITY OF MINIMUM REQUIREMENT BEING MET

$$\text{Prob(Meet)} = \alpha + \beta 1\text{Bsize} + \beta 2\text{Mtgs} + \beta 3\text{FinExpert} + \beta 4\text{Independent} + \beta 5\text{Duality} + \beta 6\text{Female} + \beta 7\text{Race} + \beta 8\text{Age} + \beta 9\text{Size} + \beta 10\text{LowROA} + \beta 11\text{Big4} + \varepsilon t$$

Variable	Pred	Coef. est.	Pr > |t|
Bsize	**H1b** +	-0.274	0.1686
Mtgs	**H1b** +	0.285	0.0726
Independent	**H1b** +	-14.916	0.0611
FinExpert	**H1b** +	7.033	0.0998
Duality	**H1b** -	0.431	0.3778
Female	**H2b** +	-0.476	0.3814
Race	**H2b** +	14.817	0.0162
Age	**H2b** +	0.240	0.0930
Size	+	0.194	0.5906
LowROA	-	2.553	0.1211
Big4	+	0.710	0.6639
CONSTANT		5.420	0.5090
Percent Concordant			87.00
No. observations			45
Adjusted R^2			34.64%

See Table 2 for variable definitions

CONCLUSION

The conflict minerals reporting requirement is one of the first non-environmental CSR mandatory reporting requirements in the United States. Prior research finds that not all companies covered by the new legislation filed a timely CY2013 Form SD report or met the minimum conflict minerals legal requirements (Sankara et al., 2015; Amnesty International and Global Witness, 2015).

We investigate BOD factors associated with the decision to file the mandatory CSR report in a timely manner and meet the minimum legal reporting requirements. Filing this mandatory human rights mandate in a timely and appropriate manner increases transparency and may thus be an ethical act (Atkins, 2006; Kim et al., 2012). We argue that companies have ethical responsibilities and board of director governance characteristics, including diversity, can enhance ethical compliance. As a result, we hypothesize that board governance characteristics are positively associated with (1) the likelihood of the firm filing their CY2013 Form SD by the reporting deadline and (2) the likelihood of the firm meeting the minimum requirements of the conflict minerals amendment.

The results of our analysis indicate that board of director governance characteristics, including diversity, are associated with the likelihood of firms filing their CY2013 Form SD in a timely manner, and the likelihood of firms meeting the conflict minerals minimum legal requirements. In particular, we find that gender, racial and age diversity on the board are positively related to the filing and/or disclosure outcomes. From the perspective of general board governance attributes, the presence of a financial expert on the board is the most significant factor associated with timely filing and meeting the conflict minerals minimum requirements.

Environmental reporting has become increasingly important to ethical reporting, management accounting and corporate management. This study contributes to our understanding of CSR reporting, ethical behavior, and corporate governance in a mandatory CSR disclosures environment. Therefore, this study contributes to both the ethics and mandatory disclosure literatures. Consequently, this study will be of interest to regulators as well as investors, other stakeholders and the academic community.

REFERENCES

Adams, C. & Zutshi, A. (2004). Corporate social responsibility: Why business should act responsibly and be accountable. *Australian Accounting Review*, 14, (3), 31–39.

Alexander, R., Ettredge, M., Stone, M. & Sun, L. (2011). Are mandatory disclosure decisions made strategically? The case of SAB 74 estimates preceding adoption of FIN 48. *Research in Accounting Regulation,* 23, (2), 160 – 166.

Amnesty International and Global Witness. (2015). *Digging for transparency: How US companies are only scratching the surface of conflict minerals reporting*. London.

Atkins, B. (2006). Is corporate social responsibility responsible? Forbes.com (November 28).

Ayogu, M., & Lewis, Z. (2011). Conflict Minerals: An Assessment of the Dodd-Frank Act. *The Brookings Institute*. Retreived from http://www.brookings.edu/research/opinions/ 2011/10/03-conflict-minerals-ayogu.

Bafilemba, F. & S. Lezhnev. (2015). Congo's Conflict Gold Rush: Bringing Gold into the Legal Trade in the Democratic Republic of the Congo. Retreived from http://www.enoughproject.org/reports/congo's-conflict-gold-rush.

Berger, P. G., & Hann, R. N. (2007). Segment profitability and the proprietary and agency costs of disclosure. *The Accounting Review*, 82, (4), 869-906.

Brown, W. A. (2002). Racial diversity and performance of nonprofit boards of directors. *Journal of Applied Management and Entrepreneurship* 7 (4): 43-57.

Chan, M.C., Watson, J. & Woodliff, D. (2014). Corporate governance quality and CSR disclosures. *Journal of Business Ethics*, 125, (1), 59-73.

Cone. (2008). The 2006 cone millennial cause study Retrieved from http://www.solsustainability.org/documents/toolkit/2006coremillenialcausestudy.pdfOpenURL Illinois State University

De Villiers, C., Naiker, V. & van Staden, C.J. (2011). The effect of board characteristics on firm environmental performance. *Journal of Management*, p.0149206311411506.

Deephouse, D. L. & Carter, S. M. (2005). An examination of differences between organizational legitimacy and organizational reputation. *Journal of Management Studies*, 42, (2), 329–60.

Doshi, A. R., Dowell, G. W. & Toffel, M. W. (2013). How firms respond to mandatory information disclosure. *Strategic Management Journal*, 34, (10), 1209-1231.

Dye, R. A. (1986). Proprietary and nonproprietary disclosures. *Journal of Business*, 331-366.

Ellis, J. A., Fee, C. E. & Thomas, S. E. (2012). Proprietary costs and the disclosure of information about customers. *Journal of Accounting Research*, 50, (3), 685-727.

Ettredge, M., Johnstone, K., Stone, M. & Wang, Q. (2011). The effects of firm size, corporate governance quality, and bad news on disclosure compliance. *Review of Accounting Studies* 16, (4), 866-889.

Francis, J., Philbrick, D. & Schipper, K. (1994). Shareholder litigation and corporate disclosures. *Journal of accounting research*, 137-164.

Government Accountability Office (GAO). (2013). SEC Conflict Minerals Rule: Information on Responsible Sourcing and Companies Affected. Retreived from http://www.gao.gov/assets/660/655972.pdf.

Harjoto, M., Laksmana, I. & Lee, R. (2015). Board diversity and corporate social responsibility. *Journal of Business Ethics*, 132, (4), 641-660.

Isidro, H. & Sobral, M. (2015). The effects of women on corporate boards on firm value, financial performance, and ethical and social compliance. *Journal of Business Ethics*, 132, (1), 1-19.

Kim, Y., Park, M.S. & Wier, B. (2012). Is earnings quality associated with corporate social responsibility? *The Accounting Review*, 87, (3), 761-796.
Kolk, A., & Pinkse, J. (2010). The integration of corporate governance in corporate social responsibility disclosures. *Corporate Social Responsibility and Environmental Management*, 17, (1), 15–26.
Kroll, M., Walters, B.A. & Wright, P. (2008). Board vigilance, director experience, and corporate outcomes. *Strategic Management Journal*, 29, (4), 363-382.
Lindberg, D. & Razaki, K. (2012). Conflict Minerals Disclosures: A Mandate of the Dodd-Frank Act. *Journal of Business and Accounting*, 5, (1), 15-24.
Littenberg, M.R., Damania, F.F. & Matos, A. (2014). Conflict Minerals Reporting: A Review of Calendar Year 2013 Filings and Recommendations for Calendar Year 2014 Compliance. Retreived from http://www.srz.com/Conflict_Minerals_Reporting_A_Review_of_Calendar_Year_2013_Filings_and_Recommendations_for_Calendar_Year_2014_Compliance/.
Mallin, C., Michelon, G. & Raggi, D. (2013). Monitoring intensity and stakeholders' orientation: How does governance affect social and environmental disclosure? *Journal of Business Ethics*, 114, (1), 29-43.
McPhail, K. & Ferguson, J. (2016). The past, the present and the future of accounting for human rights. *Accounting, Auditing & Accountability Journal*, 29, (4), 526 – 541.
Miller, T. & del Carmen Triana, M. (2009). Demographic diversity in the boardroom: Mediators of the board diversity–firm performance relationship. *Journal of Management studies*, 46, (5), 755-786.
Money, K. & Schepers, H. (2007). Are CSR and corporate governance converging? A view from boardroom directors and company secretaries in FTSE100 companies in the UK. *Journal of General Management*, 33, (2), 1–11.
Organization for Economic Co-operation and Development. (2004). OECD principles of corporate governance. Retreived from www.oecd.org.
Organization for Economic Co-operation and Development. (2010). Corporate Responsibility: Reinforcing a Unique Instrument - 2010 Annual Report on the OECD Guidelines for Multinational Enterprises. Retreived from www.oecd.org.
Peters, G.F. & Romi, A.M. (2013). Discretionary compliance with mandatory environmental disclosures: Evidence from SEC filings. *Journal of Accounting and Public Policy*, 32, (4), 213-236.
Sankara, J., Lindberg, D.L. & Razaki, K.A. (2015). Conflict Minerals Disclosures: Reporting Requirements and Implications for Auditing. *Current Issues in Auditing*, 10, (1), A1-A23.
Schwartz, K. B. & Soo, B. S. (1996). Evidence of regulatory noncompliance with SEC disclosure rules on auditor changes. *The Accounting Review* 71, (4), 555-572.
Securities and Exchange Commission. (2012). Conflict Minerals. Retreived from http://www.sec.gov/rules/final/2012/34-67716.htm.
Siciliano, Julie I. (1996). "The relationship of board member diversity to organizational performance." *Journal of Business Ethics,* 15.12, 1313-1320.
Weil, D., Fung, A., Graham, M. & Fagotto, E. (2006). The effectiveness of regulatory disclosure policies. *Journal of Policy Analysis and Management*, 25, (1), 155-181.