

Soft Law Regulation and Labour Rights Reporting: a Deficit in Moral Legitimacy?

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Abstract

This paper compares and contrasts British and German transnational corporations' (TNCs) reporting on the labour rights of workers in their global value chains (GVCs) for the years 2012 and 2018, using the Global Reporting Initiative (GRI) guidelines – an initiative that comes under the category of soft law regulation. Between these dates, regulatory changes took place in Britain and in the EU which had relevance to the reporting of labour rights issues more generally. Simultaneously the GRI reporting guidelines shifted to more flexible requirements in the transition from G3.1 to G4. This paper examines the consequences of these changes and finds that, in combination, these changes did not lead TNCs to improving the labour rights reporting. The paper suggests that even though reporting to international guidelines tends to be context-based, there was some convergence in this broadly negative outcome. This all suggests that there

was an element of regulatory capture in the shifts to softer regulatory regimes. Conceptually, this points to a reduction in substantive disclosures and leads to a deficit in moral legitimacy and its displacement by more pragmatic legitimacy.

Keywords: British TNCs, German TNCs, Labour rights reporting, Moral Legitimacy, Pragmatic Legitimacy, Regulatory Capture.

1. Introduction

This paper examines the changes in the way British and German transnational companies (TNCs) reported on labour rights in their global value chains (GVCs). It compares changes at two points in time, 2012 and 2018. The two years represent the before-and-after of two contrasting regulatory events in the two national contexts. One set of events relate to the introduction of enhanced statutory regulation for reporting on labour rights in Britain and in the European Union (EU). The other event relates to a change to the international reporting guidelines of the most widely used voluntary reporting mechanism on corporate social responsibility (CSR) which incorporates a significant 'labour' element.

In examining the effect of these changes, this paper considers the impact on substantive reporting and the overall move to attain moral legitimacy. The paper is motivated by the debates over the feasibility of achieving harmonization by moving to a single set of globally accepted non-financial reporting standards given that previous changes to reporting regulations and standards have not led to notable improvement in reporting (Doni, et al., 2020) regardless on national context (Islam & Van Staden, 2022; Mahadeo et al., 2011; Soobaroyen & Ntim, 2013; Soobaroyen et al., 2022; Yang et al., 2021). This paper contributes to these debates and to the body of literature on the generally poor quality of voluntary reporting before and after the introduction of the 2014/95 European Union Directive on Non-Financial Reporting (the EU Directive NFRD) and the Modern Slavery Act 2015 (MSA), affecting large British and German TNCs (Christ et al., 2019; LeBaron & Ruhmkorf, 2017; Mai et al., 2022) reporting to the GRI standards, regarded as the *de facto* global standards for sustainable reporting (KPMG, 2022). In doing this, we make three contributions to existing debate. First, we contribute to the debate on whether 'lighter touch' regulation leads to a greater uptake from companies, as favoured by its neo-liberal proponents, or whether it leads instead, to companies under-reporting while over-claiming the veracity of substantive information provided. Second, we address the question of whether soft approaches taken by international reporting guidelines/standards, such as the GRI, can serve their intended purpose if they are not aligned with national hard law supported by a functioning legal mechanism. Finally, we consider that the 'regulatory capture', under a deregulatory agenda, may systematically undermine reporting processes that are supposed to be for the benefit of workers, a concern that has been voiced more broadly for how sustainability is being hijacked by a narrow band of stakeholders (Adam & Cho, 2020).

National context, recognised in the varieties of capitalism (VoC), makes a difference to the treatment of workforce (Amable, 2003; Hall & Soskice, 2001). In this paper, we select Britain and Germany, recognised as being the exemplars of the most contrasting VoC national business systems, Liberal Market Economies (LME) and Co-ordinated Market Economies (CME). In the LME, business activities are co-ordinated mainly through financial markets with limited government intervention (Hall & Soskice, 2001). The one-tier corporate governance of British companies is designed to serve the best interest of owners (investors) with minimal regulatory pressures to engage with internal stakeholders such as trade union representation (Muller-

Camen et al., 2011). By contrast, in Germany's CME employee voice is recognised (in larger companies) via collective bargaining, codetermination and works councils (Hiss, 2009). Here, a two-tier corporate governance is designed to ensure consultation between management, trade unions and works councils in decision making (Boselie et al., 2003). While the differences in these two VoC national systems mean it could be reasonably expected that German companies would always take labour-related issues more seriously than British companies, this has not always been proven to be the case when considering reporting by TNCs in general (Ehnert et al., 2015) and when considering reporting on labour related issues beyond the internal workforce (Parsa et al., 2018).

The years 2012 and 2018 are chosen in this study for two overlapping reasons. The first reason is that they mark a 'before-and-after' for (1) the introduction of the EU Directive and (2) for the introduction of the MSA in Britain and the EU Directive affecting Germany. The EU Directive requires all EU headquartered companies to report to internationally recognised reporting guidelines, such as the Global Reporting Initiative (GRI). Both of these regulatory changes might be expected, *ceteris paribus*, to have enhanced labour rights reporting by TNCs. The second reason relates to the significant change in the reporting requirements that were set out under the GRI G4 guidelines in 2013. This change was made with the claim that it eases reporting through a simplification of the rules, but had its critics, as we will now explore.

Founded in 1997, the GRI is governed by a two-tier structure with an elected supervisory board that oversees a management board, where TNCs, NGOs and other stakeholder organisations are represented. The reporting guidelines were developed and agreed over time on six main categories, each broken down into further performance indicators. From 2011, the reporting guidelines had reached its third generation, G3.1, which constituted the high watermark in terms of the number of indicators companies were required to report on to be considered as reporting 'material' information. From this point, debates emerged within the GRI that reporting requirements were too onerous for the users and the reporting guidelines could be simplified so that companies could report 'what matters' to their stakeholders and reduce the amount of unnecessary information (GRI, 2015). This led to a shift in the reporting requirements under the fourth generation of reporting guidelines, G4. Under the G4, the 'materiality' requirements shifted by allowing companies the flexibility to report on at least one labour rights indicator (as opposed to 6 indicators under the G3.1). This enhanced flexibility allowed companies the option to move away from reporting on those indicators that had required them to provide detailed information on their procedures. It is worth noting that the GRI has a reciprocal legitimacy relationship with its subscribing TNCs and, for all its worthy intentions (Safari & Areeb, 2020), is an organisation that faces its own legitimacy issues (Etzion & Ferraro, 2010). Upholding labour rights along GVCs requires companies to have procedures in place, which can be challenging due to the broad and complex nature of GVCs (Antonini et al., 2020; Gold & Heikkurinen, 2018).

At the same time as these developments in the GRI reporting guidelines, there were changes to statutory regulations relevant to labour rights in the EU and also, separately, in Britain. In

Britain, the MSA was introduced requiring all large companies (a turnover of £36m or more) to publish an 'Annual Slavery and Human Trafficking Statement' to demonstrate the steps they have taken to identify, prevent and remedy slavery and human trafficking in any parts of their operations. While the MSA encourages companies to get to know their supply chains first and then report on the improvements they made to their procedures on yearly basis, critics have pointed out that the MSA offers too many options and with no liabilities, it has resulted in poor quality of reporting (LeBaron & Ruhmkorf, 2017; Mai et al., 2022). By contrast, since 2015, German companies had to comply with the EU Directive that requires some degree of social reporting in all member states. In addition, the 'National Action Plan' (NAP), introduced in 2016, commits to the UN Guiding Principles on Business and Human Rights 2011 (*The Federal Foreign Office*, 2017). German companies are expected to *voluntarily* adopt human rights due diligence in their operations and report on them (Kamminga, 2015). Like in Britain, they are expected to make reporting on labour rights outside the boundaries of their organisations. Overall, the changes in the regulatory environments of both countries favour a flexible approach (as opposed to a mandatory approach) to labour rights reporting.

Thus, in both countries there has been a reliance on 'soft' law¹ approaches that strongly encourage voluntary reporting of labour rights (Guzman & Mayer, 2010). How these soft approaches impact reporting is important conceptually as reporting has the potential to change companies' managerial strategies, their information systems, and ultimately their management philosophy and practices (Buhr et al., 2014). Having the right procedures in place (e.g., monitoring and screening of suppliers) is essential for meaningful reporting. Countries in which TNCs source their suppliers are often characterised by weak and ineffective legal frameworks, endemic corruption and ongoing labour rights violations (O'Brian & Dhanarajan, 2016). While this can be mitigated by the actions of localised civil society organisations mobilised via NGOs or Global Union Federations, such arrangements may not be formally recognised by the state (Siddiqui et al., 2020).

The next section will present the theoretical framing with a focus on pragmatic versus moral legitimacy, followed by Section 3, where discussions of our chosen methods including sample selection, data collection and our research approach are presented. In section 4, the findings are presented, with each sub-section providing evidence for research questions 1 and 2, respectively. The findings are discussed in Section 5. The paper is concluded in Section 6.

2. Conceptual framework: pragmatic vs moral legitimacy in labour rights reporting

In this paper, we refer to the contrasting notions of pragmatic and moral legitimacy (Suchman, 1995). Legitimacy, more generally, lies in companies' public communications with their stakeholders as part of the process of securing acceptance with them (i.e., legitimation). Corporate communication is pivotal to the way companies gain and/or maintain their legitimacy

¹ 'Soft' laws denote agreements, principles and declarations that are not binding (Abbott & Snidal, 2000). GRI reporting guidelines/standards are regarded as soft law.

by demonstrating that they have the same norms and values as those of wider society (Dowling & Pfeffer, 1975). As part of this legitimation, companies can take either a *substantive* or a *symbolic* management approach (Ashforth & Gibbs, 1990) when seeking to secure either *pragmatic* or *moral* legitimacy (Soobaroyen & Ntim, 2013).

The way legitimacy is secured depends on ethical judgements. For pragmatic legitimacy, the definition of ethics is narrowed down to appeal primarily to the *self-interest* of those whom they consider as their immediate audiences and then align their policies to the values expected by those targeted audiences (Suchman, 1995). It is a cost-benefit evaluation. In securing pragmatic legitimacy, companies gauge their targeted audiences' interests before deciding on the information they communicate (Mahadeo et al., 2011) to *influence* them. Moral legitimacy, on the other hand, is granted when audiences perceive organisations' activities to concur with the wider social norms and values and consider TNCs as doing "the right thing" (Suchman, 1995, p.574). Audiences' perceptions are guided by their *socially constructed* norms and value systems (*ibid*, 1995) and is dependent on their *national context* (Islam et al. 2022; Mahadeo et al., 2011; Soobaroyen & Ntim, 2013; Soobaroyen et al., 2022; Yang et al., 2021). The pursuit of moral legitimacy can lead organisations to adopt *socially* accepted techniques and procedures (such as reporting to GRI guidelines) and attain *procedural* legitimacy. For procedural legitimacy, the outcome does not need to be clear but instead, having "sound practices" in place are viewed as an indication that, at least, the company is "acting in good faith" to achieve its goals (Suchman, 1995, pp.589-90). Alternatively, moral legitimacy can be granted where organisations exhibit certain structural characteristics, for example in the case of having worker representation on the second-tier board of German companies. Referring to this as *structural* legitimacy, Suchman (1995, p.581) points out that as "organizational structures largely consist of stably replicated procedures", it is possible that procedural and structural legitimacy can be granted simultaneously.

In securing legitimacy, companies can take a *substantive* approach by making "material changes" to their organisational structures and processes to meet the performance expectations of those societal actors they depend on for critical resources (Ashforth & Gibbs, 1990, p.178). By contrast, companies that adopt merely a *symbolic* approach are likely to make significant change to their structures and processes. This can be due to the sheer number of the relationships such companies have and the multiple causalities, ambiguities and disagreements that are involved in their relationships. Thus, such companies are compelled to perform "impression management" rather than making substantial changes (Ashforth & Gibbs, 1990). Arguably, companies can secure the necessary legitimacy by taking either a *symbolic* approach (to achieve pragmatic legitimacy) or a substantive approach (that underpins moral legitimacy) (Hrasky, 2012) or a combination of both (Soobaroyen & Ntim, 2013). Once companies are granted moral legitimacy, their exposure to scrutiny can gradually ease off (Perera et al., 2019), leading them to report less sensitive information that may reflect poorly on them and threaten their legitimacy (De Villiers & Van Staden, 2006). In such cases, companies are most likely to interpret the 'right thing to do' (moral legitimacy) as avoiding to report controversial issues (De Villiers & Van Staden, 2006) and, therefore, either report as little as possible to avoid risk and drawing unwanted attention that

can ultimately undermine their legitimacy (Stubbs et al., 2013) or generate false narratives that symbolise transparency to avoid potential blames but more importantly to favourably influence audiences (Gold & Heikkurinen, 2018). Upon the introduction of mandatory requirements or unexpected crisis, companies can respond substantively by providing comprehensive information on their procedures to demonstrate their concurrence with social norms and values. Over time, as social norms and values change gradually, companies can resort to a more symbolic approach and report to influence their audiences (pragmatic legitimacy), making them mistakenly believe that corporate operations are socially acceptable (Soobaroyen & Ntim, 2013; Soobaroyen et al., 2022). Alternatively, mandatory requirements can have long lasting impact when, for example, procedural changes promote substantive disclosures that continue to remain over the years and constrain symbolic disclosures (Sorour et al., 2021; Yang et al., 2021).

To avoid legitimacy deficits, TNCs need to respond to legitimacy drifts that can happen when there are (1) disruption in perceptions of whether an organisation meets the standards it has accepted (broken promises), (2) changes in the standards for granting legitimacy to an organisation (shift in standards or norms) and (3) changes in an organisation's relevant public (targeted audience shift) (Stephen, 2018, p.101). For our chosen TNCs, the change in reporting regulatory requirements (the second scenario) and, to a limited extent, the rising awareness of transnational audiences (third scenario) can be relevant. The voluntary nature of reporting to GRI means that despite GRI's initial intention to enhance reliability and balanced reporting (Hahn & Lulfs, 2014), companies have the flexibility to choose disclosures in response to what is expected of them primarily by audiences in their national business environments (i.e., the second scenario) and, possibly and to a limited extent, internationally (i.e., the third scenario)². According to Stephen (2018), companies can respond to shifting norms (i.e., second scenario) either substantively by, for example, making 'operational adaptations' to secure moral legitimacy or ceremonially (symbolically) by, for example, 'decoupling' which allows them "to seek the legitimacy from adaptation to normative criteria while failing to meet them in practice" (p.105). If an organisation fails to adapt to a changing normative environment, a deficit in moral legitimacy may happen (Stephen, 2018; Islam et al, 2021) when audiences perceive the organisation to have broken accepted rules (for immoral reasons) and this can threaten moral legitimacy (Yankelovich, 1974). To avoid this, companies could fill this deficit with pragmatic legitimacy by taking symbolic approaches that appeal to the self-interest of their immediate audiences. In reality, companies often take a combination of substantive and symbolic approaches to reporting to help secure moral and pragmatic legitimacy (Soobaroyen & Ntim, 2013). We argue that national business environments, including their regulatory environments,

² While globalisation and its neo-liberal forces promote investors' interests (Sikka & Stittle, 2019) and TNCs promote private governance mechanisms (in parallel with neo-liberalism) (Bartley, 2018), social governance mechanisms (such as independent national/international NGOs) are best placed to help uphold labour rights along GVCs (Parsa et al., 2018). Given GVCs' exposure to different national and political contexts (Pasquali et al., 2021), social governance mechanisms need to interact with and secure the support of national governments (Mayer et al., 2017). In reality, however, such supports are weak to non-existent (Siddiqui et al., 2020), making international audiences that could monitor and protect labour rights weak.

shape the perception of national audiences³ which ultimately influence the way companies approach labour rights reporting.

In 2012, with no statutory regulatory requirements for reporting on labour standards existing in either Britain or Germany, only voluntary regulations were available and the GRI G3.1 was by far the most widely used and influential of these (Parsa et al. 2019). While the GRI required TNCs to report detailed information (on six core indicators to meet the GRI materiality requirements), British and German TNCs adjust their reporting to serve their different audiences (i.e., investors and workforce, respectively). In Britain, the Anglo-Saxon corporate governance structures and indeed their broader business and regulatory environment, prioritises investors' interests (Cooper & Owen, 2007; Sikka & Stittle, 2019). At the same time, investors can regard detailed labour rights reporting as a potential source of reputational risk that could threaten corporate legitimacy and company value. As a response, TNCs may be tempted to report less extensively and rather symbolically even when requirements are mandatory (Birkey et al. 2018). In order to placate such investor disquiet, British TNCs, operating in a more deregulated environment (Muller-Camen et al., 2011), are likely to respond more symbolically than their German counterparts by disclosing information which is declarative, general, incomplete and with little content (pragmatic legitimacy) and lacking in quantitative information necessary for a substantive response (Soobaroyen & Ntim, 2013, p.100). By contrast, German TNCs operate in a more regulated business environment that recognises employee voice. However, while the internal workforce falls under the direct control of TNCs, the workforce along GVCs do not and the reporting of labour rights for these workers are often entangled with more complexity, such as multi-tiers of suppliers (Hartmann & Moeller, 2014), hidden (social) risks (Antonini et al., 2020) and human rights due diligence measures (Ford & Nolan, 2020). This could result in German TNCs not reporting all the substantive information they need to secure moral legitimacy. Nonetheless, the formal representation of employees in governance structures may help German TNCs to secure some degree of (structural) legitimacy which, by definition, is granted when an organisation is perceived to have structures that enable it to act "on collectively valued purposes in a proper and adequate manner" (Suchman, 1995, p.581). Therefore, legitimacy is granted "because some aspects of the organisational structure reflect intrinsic features that are worthy of support" (Sorour et al. 2021, p.1059). This form of moral legitimacy is embedded in Germany's social value system (i.e., post-war co-determination legislation, Hiss, 2009).

The 2013 transition (G3.1 to G4) relaxed materiality requirements, allowing TNCs to report on only one indicator. Reporting to GRI G4, was further endorsed by the introduction of the EU directive NFRD in 2014, according to which EU companies were required to report to international guidelines such as the GRI. In combination, these changes give German companies the option of avoiding the reporting of sensitive information that might damage their legitimacy

³ Despite the rising international awareness of labour rights issues within GVCs, the prevalence globalisation and its neo-liberal forces (Sikka & Stittle, 2019) has meant that to this day there has been no international governance mechanism that would exert pressures on companies to report details (Parsa & Werner, 2023). Hence, national audiences are likely to remain as the key audiences.

(De Villiers & van Staden, 2006). Alternatively, German TNCs could maintain some of their procedures under G3.1 (irrespective of G4's relaxation of its materiality requirements) had they made "material changes" to their organisational structures and processes when reporting to G3.1 (Ashforth & Gibbs, 1990). In 2015, the introduction of MSA required British TNCs to report mainly general information with no mandate to report on key issues related to GVCs (LeBaron & Ruhmkorf, 2017). The MSA can be regarded as the only source of legitimacy drift (change of norms/standards) for the British TNCs. While MSA has raised the overall awareness, some argue that, in practice, it has only resulted in symbolic disclosures on key areas such as due diligence, risk assessment and training (Mai et al., 2022). While the GRI's softening of materiality requirements would be expected to further relax British TNCs' reporting, we expect that this would be countered by the overall impact of MSA in raising British audiences' (mainly investors') awareness. In view of the above, we pose the first research (RQ1):

RQ1, How did the labour rights reporting to GRI's requirements differ between British and German TNCs after the introduction of EU Directive NFRD and the Modern Slavery Act 2015?

Regulations such as the MSA have the potential to create a context within which companies' decoupling can appear as ceremonial/symbolic disclosures and hence, rendering some form of immunity to regulatory pressures (Islam & van Staden, 2022; Mai et al. 2022). This argument also applies to the GRI whereby TNCs can project 'ceremonial conformity' (Ashforth & Gibbs, 1990) to global standards, rendering some form of immunity to the pressures from within their business environments. Decoupling enables "organizations to seek the legitimacy from adaptation to normative criteria while failing to meet them in practice" (Stephen, 2018: p.105). Reporting to the GRI grants TNCs an extra platform (via the index table) to respond to reporting requirements by 'exaggerating' their (substantive) disclosures. At the same time, the transition to G4 was, in effect, a move (away from labour rights as emphasised under G3.1) in favour of financial capital and more in line with neoliberal philosophy where the emphasis of neo-liberalism on low cost of production (with limited involvement from trade unions) and free trade (with minimum government regulations) could have had adverse impact on non-financial capital along GVCs (Free & Hecimovic, 2021; Sikka & Stittle, 2019). In view of these debates, we pose the second research question:

RQ2, How differently to each other did British and German TNCs under/over-claim their reporting to the GRI's requirements after the introduction of EU Directive NFRD and the Modern Slavery Act 2015?

3. Methods: *Sample selection and data collection*

We focused on two reporting years 2012 and 2018, the period during which the GRI relaxed its materiality requirements (in 2013), followed by the introduction of EU Directive NFRD (in 2014) and the MSA (in 2015). We targeted British and German TNCs listed among the 250 largest

companies on the Forbes 2000 in 2013⁴. Of these, our final sample included only those companies that chose to report to the GRI guidelines both in 2012 and in 2018 and included a GRI index table as part of their reporting. Of the 95 British and 50 German companies reporting for the year 2012, 41 British and 35 German companies met our sampling requirements. Of those still reporting in 2018, the total dropped to 25 and 32⁵, respectively. Some companies provided stand-alone reports, some included their sustainability information in the financial reports (integrated reports), others reported on their web-pages and some British companies referred to information on their Modern Slavery Statements.

For data analysis, we used an interpretative approach to content analysis “to capture meaning” and “gain greater understanding of what is communicated and how” (Beck et al., 2010: 208). This allowed us to interpret the meaning of our collected data in their broader business environments of the two countries at specific points in time (Blumberg et al., 2008). Following previous literature (Ehnert et al., 2016; Parsa et al., 2018), we developed our coding scheme using the six core human rights indicators as outlined under the GRI G3.1 and included their sub-categories for each of the six indicators (see Table 1). In order to be able to compare the information reported in 2012 and 2018, we examined the details for sub-categories of the six human rights indicators (categories) before and after the GRI transition and found no changes to them. As for the GRI index table, the transition meant that while companies were still required to indicate the location of information for each indicator by providing either a reference page to their CSR report or a link for online access, they were no longer required to declare their reporting *status* in the GRI index tables⁶. This change was as a result of the more relaxed approach to reporting material information that was adopted under the G4. To be considered as reporting material information, the G3.1 required companies to report on the six ‘core’ human rights indicators (Table 1). However, this changed under the G4 and companies were required to report ‘in accordance’ with *either* the ‘core’ option or the ‘comprehensive’ option. Under the *core* option, companies had to report on *at least one* indicator for each identified material aspect and under the *comprehensive* option, they had to report on *all* indicators related to each material aspect (i.e., all the human rights indicators) (GRI, 2015). The relaxation of materiality requirement meant that if a TNC declares human rights aspect as material, all they needed to do was to choose the ‘core’ option and report only on *one* indicator.

Our choice of the six core indicators (under the G3.1 in 2012) as the basis for our coding scheme allowed us to examine changes in reporting from 2012 to 2018. Four researchers were involved in deciding and finalising the coding scheme. This led to developing a check list that

⁴ The largest global public limited companies (<https://www.forbes.com/sites/andreamurphy/2016/05/25/how-we-crunch-the-numbers/#b7bf3d87467b>).

⁵ By the year 2018, 16 British and 3 German TNCs abandoned reporting to GRI. 3 British and 3 German TNCs switched to GRI standards. There was only one minor revision to one of the Human Rights indicators in the transition from GRI G4 to GRI Standards. This change did not affect our data collection.

⁶ Under the GRI G3.1, companies were required to use their GRI index table to indicate if they had reported on all sub-categories (i.e., full disclosure) or on some of them (i.e., partial disclosures) or they had no disclosure (Parsa et al., 2018).

included two sub-categories for each of the six core indicators (see Table 1). We considered the two sub-categories as substantive information as they represent either quantitative information (Soobaroyen & Ntim, 2013) or information on measures or actions that companies had undertaken. For the latter, information on internal corporate initiatives, involvement in external initiatives, or assisting others in taking actions can be considered as substantive information (Mai et al., 2022), for which TNCs had to have procedures in place before they could provide such information (i.e., to seek procedural legitimacy). For each indicators the GRI provided an *Indicator Protocol Set* sheet in which details of information provisions were provided as guidance.

Data collection was conducted in two stages; the first stage focused on gathering data (from CSR reports and websites) to help answer the first research question and the second stage involved the putting together of the data to answer the second research question. For the first stage, we assigned a score of 1 if a company had disclosed information on a sub-category and 0 for non-disclosure. Two researchers took part at beginning of this stage to ensure consistency of data collection and reliability of the final data. They conducted a pilot data collection on 20% of companies randomly selected from the sample for each year. As a result, minor discrepancies came to attention. Each discrepancy was looked into and discussed before the two researchers reached an agreement on how to score. The rest of the data collection was completed by one researcher with the agreement that in the case of uncertain observations, the two researchers should get together and decide on scoring.

For the second stage, we focused on how companies had exaggerated on each indicator by comparing the actual disclosure against the claimed disclosure (i.e., the reporting status) as shown on GRI index table. As there was a change in the declaration of reporting *status* from 2012 to 2018, we measured the level of companies' exaggeration in 2012 under the following categories: (a) company declares 'full disclosure' but our examination revealed either partial or no disclosure, or (b) company declares 'partial disclosure' but had reported no information. We treated both these scenarios as over-claiming and coded as "1". We coded as "0" where a company did not over-claim. For 2018, we measured *exaggeration* as being where a company had claimed disclosure in their GRI index table but had not reported the information either in their reports or on their webpages. Coding rules remained the same. So, for example, TNCs that we identify as having over-claimed disclosure, were those that had made symbolic approaches to reporting by disclosing: "normative statements, aspirational targets and recognition received without specific actions attached" (Mai et al., 2022, p.11) rather than providing substantive information (as per two sub-categories for each indicator). It was a common observation for over-claiming companies to refer to the same (symbolic) information for a number of indicators. Examples of symbolic information are provided in the next section.

The resulting dataset was analysed to compare the British and German TNCs' labour rights reporting for 2012 and 2018 using Wilcoxon test and with each other for each year using Mann-Whitney U test.

4. Findings

In this section, we first look into how labour rights reporting differed between British and German TNCs on each indicator (RQ1) in section 4.1. In the same section, after we discuss each indicator, we present examples of symbolic statements that were provided by those companies that exaggerated their reporting. The details of how differently British and German TNCs responded to the requirements by exaggerating on each indicator (RQ2) are presented and discussed in section 4.2.

4.1. Changes in labour rights reporting

We examine the actual information that British and German TNCs reported on each indicator for 2012 and 2018. The results are shown in Table 1.

Table 1 About Here

Under the ‘Investment and procurement practices’ indicator, companies are required to report the total number of significant investment agreements that include human rights clauses or have undergone human rights screening. This was the least frequently reported indicator by British and German TNCs in both years (20% and 19% in 2012; 12% and 6% in 2018). The low reporting of this indicator is despite the GRI’s emphasis on integrating labour rights criteria as part of *a strategy* and economic decision-making to reduce the risks of investment (GRI, 2011). Instead, the move to an even lower level of reporting suggests that such measures to uphold labour rights were not taken up by TNCs. British and German TNCs were hesitant to report on their significant agreements or contracts that had human rights clauses or those that had undergone human rights screening. While more or less the same number of British TNCs reported (i.e., statistically significant declines for only two indicators at 24% each, column a), there was a significant decline of German TNCs (column b). A common finding, here, was that statements lacked substance. Here are two examples:

[We] to integrate human rights into existing processes, Where potential security and human rights impacts are identified through project screening, projects are required to develop and implement mitigation measures in line with the BP’s Voluntary Principles on Security and Human Rights Implementation Guideline. (BP, GRI Reporting Table, 2017, p.22)

We support social inclusion through our diversity and well-being programs, and by supporting groups, such as women in management and people with disabilities. We ... apply core human rights principles based on the United Nations Universal Declaration of Human Rights throughout our worldwide organization. (Allianz Sustainability Report 2018, p.20)

The second least frequently reported indicator is ‘suppliers screened for human rights’. This indicator aims to reflect efforts made by companies to potentially prevent/mitigate significant negative human rights impacts at the initial stages of drawing up contracts or other agreements and intends to highlight selected suppliers subjected to the organisation’s human rights due

diligence processes (GRI, 2013). We found that more German TNCs (63%) reported than British (44%) in 2012. By 2018, however, there were sharp falls in reporting companies (20% British; 16% German). A closer examination of the two sub-categories (Notes to Table 1) show that in 2012 more companies reported on contracts that included criteria on labour rights issues (GRI, 2013). By 2018, there were considerably fewer reporting companies (i.e., 12% and 6%). At the same time, the second sub-category that relates to the 'actions' that companies took as a result of human rights screening was poorly reported by both groups in both years. In effect, the second sub-category requires companies to reach agreements with their suppliers and have procedures that would enable them to identify violations of a range of labour rights issues. By 2018, softer regulatory approaches meant that statistically significant percentage of companies abandoned reporting (24% and 47%), possibly because they either did not have systems and procedures in place or did not wish to report sensitive and controversial information. Here are two examples of providing symbolic information:

Some parts of our supply chain may pose a higher risk of labour rights ... We take a risk-based approach to monitoring our contractors and suppliers by considering: countries ... [and] activities ... Using this approach, we prioritized 17 businesses for modern slavery risk reviews. We then mapped our supply chain in these cases to identify high-risk contractors. (BP, 2018)

All new suppliers automatically signed up to the Code of Conduct for Suppliers. (Linde, *Corporate Responsibility Report*, 2017, p.41)

In general, German TNCs reported significantly more for all indicators in 2012 and by 2018, a significant number of them abandoned reporting to five indicators. The highest declines were for, respectively, 'incidents of discrimination' and 'suppliers screened for human rights'. Reporting on 'incidents of discrimination' reflect how successful companies' procedures have been in identifying incidents of discrimination throughout their GVCs. Discrimination can take place on the grounds of ethnicity, gender, sexual orientation, religious beliefs, political opinions and can vary depending on national contexts. Once such incidents are identified, companies are required to take anti-discrimination actions under international conventions (the ILO Conventions No.100; No.111)⁷. On these, in 2012, German TNCs reported more than their British counterparts; by 2018, they both reported at similarly low levels. By 2018, a significant number of TNCs had abandoned reporting altogether (declines of 24% and 50% for British and German TNCs, respectively), leading to a levelling down of reporting. A close examination of the two sub-categories shows that TNCs tended to provide generic statements on their actions rather than on the actual number of incidents of discrimination they identified. One company stated: "It is not possible to give a precise figure ... it is estimated that the total number of discrimination reports ... is in the single digits." (Commerz Bank, 2016; p.34). Confidentiality was another reason:

The BMW Group is not currently involved in any court or arbitration proceedings ... Further information on cases of discrimination is subject to internal confidentiality regulations. (*BMW Sustainability Value Report*, 2017, p.204)

⁷ The Equal Remuneration Convention, 1951, No.100; The Discrimination Convention, 1958, No.111.

The three remaining indicators, 'risk to freedom of association', 'risk of child labour' and 'risk of forced/compulsory labour', had the highest number of TNCs reporting to in 2018. While German TNCs significantly reduced their reporting from 2012 to 2018 (31% for each indicator), British TNCs' reporting remained more stable between the two years. This meant that German TNCs reported significantly more than British TNCs in 2012 (29%, 28% & 25%, respectively). By contrast, by 2018, the significant declines by German TNCs' reporting brought them down to similar numbers as those of British TNCs. Of the two sub-categories for the three indicators ('total number of incidents' and 'actions taken'), companies were keener to report on the general actions and measures that they took than providing specific statistics and data.

For 'risk to freedom of association', companies are required to identify those operations and suppliers in which trade union activities may be in danger of being violated (GRI, 2013). Freedom of association has been long recognised as a fundamental human right by the Universal Declaration of Human Rights and the ILO Conventions (No.87; No.98). There were no changes to British TNCs reporting (40% in 2012 and 2018). By contrast, a significant 31% of German TNCs abandoned reporting by 2018. Once again, companies were hesitant to include specific statistics or refer to specific cases of violations or identify high-risk cases in certain geographical locations. In general, companies expressed their symbolic reassurances often by referring to their in-house standards (or codes of conduct) to influence their audiences' judgements:

No operation is considered at risk ... The number of high-risk suppliers is not disclosed, but the risk is managed ... (Anglo-American, 2017, p.83)

The Henkel Social Standards guarantee the right to exercise freedom of association and collective bargaining. (Henkel Sustainability Report 2018, Annex17)

Of the six indicators, 'risk of child labour' and 'risk of forced/compulsory labour' are the most widely known and established categories through ILO conventions (ILO Conventions, No.29; No.138; No.105; No.182) and are now further bolstered by their direct link to the issue of 'modern slavery'.

The child labour and forced labour categories had the largest number of reporting TNCs, with German TNCs reporting more than British TNCs in both years. Similar to the two previously discussed indicators, the move to GRI G4 suggests that considerably fewer German TNCs reported on both indicators, bringing their numbers down to, more or less, the same as those of British TNCs in 2018. The two sub-categories for each indicator revealed similar patterns as for 'risk to freedom of association'. Both German and British TNCs symbolically declared their support to prevent child labour and forced/compulsory labour but with a much smaller number of them providing statistics on cases identified as high-risk:

We've a long-standing policy that we don't use or accept forced, bonded or involuntary prison labour or child labour. (BT External Reporting 2018 Indices, 2018: p.12)

... we have assessed the risk of modern slavery amongst our direct workforce ... guidance and support [are provided] to our operating companies to help them comply ... (WPP Sustainability Report, 2017; p.52)

For these two indicators, TNCs are expected to report on the number of high-risk cases they identified and are required to state the supplier or geographical areas within which such operations/suppliers are located (GRI, 2013). For British TNCs, similar reporting outlines are included under the reporting options of the MSA. These provisions are intended to enhance transparency along GVCs and raise awareness on problematic industries or areas. In practice, TNCs presented generic statements with limited substantive information:

For our major projects we conduct screening that covers labour rights and workforce welfare. [We] focus our efforts on preventing forced/compulsory labour in higher risk locations. ... we identify regions where the risk of forced/compulsory labour may be higher, and provide guidance to our regional businesses. ... supply chains are managed locally and such indicators are not aggregated for group-wide reporting. (BP GRI Reporting Table, 2017; pp.26-27)

In sum, TNCs responded to the shifting norms (softer reporting guidelines) by abandoning reporting. Some issues fared better than others. Notably, a long tradition of international support and agreements on labour issues raises awareness on some issues (freedom of association, child labour and forced/compulsory labour). This is likely to have raised stakeholders' awareness on how they assess TNCs' reports. At the same time, TNCs' reported more substantive information on these aspects even after a softer approach was adopted. By contrast, for the first two indicators that are neither debated nor supported by international conventions, companies reported considerably less in 2012 and the softer approach led to many more TNCs abandoning reporting in 2018.

4.2 Exaggeration: Over-claiming of disclosures

Many TNCs did not provide detailed information on many labour rights categories, yet claimed disclosures in their GRI index tables. Often, what was being claimed as disclosure to specific metrics, was merely generic statements (examples presented earlier) that symbolically aimed to provide reassurance with limited or no specific actions attached (i.e., limited or no substance). In this section, we take a closer look into how British and German TNCs compared in their over-claiming in each of the two years. Table 2 presents a summary of exaggerations.

Table 2 About Here

The highest degree of exaggeration was for 'investment and procurement practices'. This indicator is of particular relevance to those companies that operate in high-risk regions and are expected to have embedded screening of labour rights criteria in their business operations (GRI, 2011). We found that while there was a significant decline in German TNCs' exaggerations (from 75% to 47%), slightly more British TNCs exaggerated (32% to 44%), potentially due to the MSA's

encouragement to tackle violations of labour rights by taking initial steps to ‘get to know’ their supply chains. However, with no mandate, British TNCs’ increased exaggeration indicates that GRI index tables were, in reality, desirable platforms that enabled them to further reiterate their symbolic responses to influence their audiences and secure pragmatic legitimacy where they lacked substantive information and fell short of securing procedural legitimacy.

Interestingly, while not statistically significant, there were observable rises in TNCs’ exaggerations (12% for both TNCs) on the second indicator, ‘suppliers screened for human rights’. While fewer British and German TNCs reported on this indicator (20% and 16%, Table 1), this indicator had the highest exaggerations (60% and 59%) in 2018. The sub-categories of this indicator outline the need for companies to embed screening as part of their risk management strategies (due diligence) and show, for example, how frequently companies assess particular risks (GRI 2011; 2013). So, companies should illustrate how they embed labour-related human rights criteria into their contracts with suppliers and their procedures to screen and monitor suppliers for any risks to violations of human rights. These can be highly complex and controversial as TNCs are expected to describe challenging details (GRI, 2013). Similarly, the MSA recommend companies report on their initiatives (due diligence, codes of conduct, etc) and cover a range of aspects to ensure that they deter slavery and human trafficking in their GVCs (LeBaron & Ruhmkorf, 2017). A close examination of the GRI G4 and MSA reveals that they make similar emphasis on the screening of suppliers, exposing British and German TNCs to similar norms and values. This is an important indicator for the legitimacy of TNCs as any cases of labour rights violations is regarded as a risk that can ultimately damage corporate reputation. For the two earlier examples (shown in section 4.1), the two TNCs provided symbolic information by either covering aspects of their risk-based approach (BP, 2018) or referring to their code of conduct (Linde, 2017). While their statements lacked substantive information, companies further embellished their symbolic statements by exaggerating and over-claiming disclosures.

For ‘incidents of discrimination’, companies are required to report on issues that could prove to be very challenging for companies across their GVCs. While both groups of TNCs lowered their reporting (24% and 28%) in 2018, German TNCs’ exaggerations remained unchanged (at 47%) and not significantly different to that of British TNCs, which increased (from 24% to 40%).

Of the remaining three indicators, we observe that by 2018, German TNCs’ exaggerations declined significantly by 25% for both ‘risk to freedom of association’ and ‘risk to child labour’, bringing their numbers down and close to those of British TNCs that had minor increases of 4% for the same two indicators. Another decline by German TNCs was for the ‘risk of forced/compulsory labour’ (from 63% to 47%), equal but opposite to their British counterparts (from 32% to 48%). While German TNCs had notable declines, British TNCs raised their exaggerations only slightly (4%, 4% and 16% for each indicator, respectively).

Overall, the most noticeable observation is that in 2012, German TNCs exaggerated significantly more than British TNCs (on five indicators) and by 2018, their exaggerations declined

(for four indicators, three of which were significant). British TNCs, on the other hand, had small to moderate (but not significant) rises in their exaggerations for all indicators from 2012 to 2018. While British TNCs responded to the softer reporting guidelines by reporting less on 5 indicators, they exaggerated more, bringing their reporting in line with their German counterparts on most of the indicators.

5. Discussion

Focusing on 2012 and 2018, the period during which the Modern Slavery Act and the EU Directive was introduced, we aimed to examine how labour rights reporting differed between British and German TNCs before and after GRI softened its reporting requirements (RQ1) and how differently they responded to deficits in moral legitimacy before and after changes to GRI reporting requirements (RQ2).

In regards to the first question (RQ1), while the GRI intended to enhance reliability and balanced reporting, we find that the voluntary reporting by TNCs continues to be presented in an positive and upbeat tone (Hahn & Lulf, 2014) using a combination of substantive and symbolic information, influenced by the institutional make-up of their audiences that is shaped by the broader regulatory environments in their national contexts (Islam et al., 2022; Mahadeo et al., 2011; Soobaroyen & Ntim, 2013; Soobaroyen et al., 2022; Yang et al., 2021). We found significant differences in British and German TNCs' responses to the changing norms of labour rights reporting that were at play in 2012. British TNCs reported significantly less. At that time, with no statutory requirements related to labour rights reporting in either country, the only notable difference was through their respective national business systems (Amable, 2003). In Germany, TNCs more detailed (substantive) reporting to G3.1 could have been in response to the formal presence of works councils in corporate governance structures, imposing expectations (or even demanding) detailed information before granting moral legitimacy (Mahadeo et al., 2011). This is in contrast to British TNCs whose main audiences (investors) are concerned with labour rights only to the extent that they may incur costs resulting from reputational damage, where breaches are discovered. Hence, British TNCs reported more symbolically to assure their conformity with the existing reporting norms to secure influence legitimacy. Without much demand for information on their procedures, the level of substantive information that could encourage transparency remained low (Soobaroyen et al., 2021).

By 2018, British and German TNCs' strategic approaches came close to convergence in response to changing reporting norms. This suggests a strategy to avoid legitimacy drifts (Stephen, 2018). While the GRI transition shifted the norms away from detailed reporting, the regulatory changes in Britain and Germany could have compensated. In reality they did not. Under the EU Directive, German TNCs were required to report to internationally accepted reporting guidelines/standards such as the GRI even though doubts were later cast over the GRI's success in fulfilling its promise of 'materiality' (Machado et al., 2021). Contrary to expectations, the hard law approach did not lead to an increased uptake of detailed GRI reporting. Rather, it

led to a significant number of German TNCs abandoning substantive reporting on all indicators. It is noteworthy that moral legitimacy is not centred on particular audiences but rather on a “managerial” judgment that the organisation and its activities (including labour rights reporting) should promote the welfare of broader society (Mahadeo et al., 2011, p.161). In other words, managers of TNCs rely on prominent reference points such as the GRI *before* forming judgements on what can be considered as *socially* accepted procedures. This is in order for their organisations to influence perceptions and secure *pragmatic legitimacy*, whilst trying to emphasise general procedures and thereby imply *moral legitimacy* (Suchman, 1995). This could indicate the pivotal role that guidelines/standards can play in shifting TNCs’ endeavours either in favour of, or away from, upholding labour rights. More specifically, the incentives to report more substantively in 2012 was due to higher expectations and scrutiny imposed on German TNCs due to the presence of wider institutional audiences than in Britain (e.g., work councils in their governance structures) making comprehensive reporting as the socially accepted norm. After the GRI transition, this incentive to pay detailed attention to reporting dissipated and, subsequently, lowered the levels of disclosure. By contrast, while British TNCs also relaxed their substantive reporting for four indicators, significantly so for two indicators, it was a less dramatic a change, possibly influenced by the parallel introduction of the MSA. However, while the MSA is hard law that could have helped raising awareness of labour rights issues among audiences (investors), it grants TNCs the discretion not to present substantive reports on controversial aspects, such as ‘suppliers screened for human rights’ and ‘incidents of discrimination’ (GRI, 2013). In the absence of any mandates, British TNCs abandoned substantive reporting on both indicators to avoid any adverse impact on their reputation by 2018. In other words, the introduction of an ineffective MSA (LeBaron & Ruhmkorf, 2017) coupled with the GRI transition that promoted a more symbolic approach to reporting (Mai et al., 2022) that would favourably influence audiences’ perceptions and judgements of TNCs before granting them pragmatic legitimacy. This is in sharp contrast with substantive and negative disclosures that could be reported over time when there is a stronger mandate to reporting (Yang et al., 2021).

By 2018, the convergence of reporting between British and German TNCs shows that the ineffectiveness of hard laws within each national business environment meant that companies were not under much pressure to report in detail and this effectively left them to report to more relaxed requirements under the G4 and seek pragmatic legitimacy by moving away from reporting closely to the requirements (i.e., sub-categories) as outlined for each indicator and instead rely on more generic (symbolic) information (Hrasky, 2012).

Apart from hard laws in national contexts, we found that the existence of international conventions compelled more TNCs to report on some indicators (substantive information). Particularly noticeable were the indicators for ‘forced/compulsory labour’, ‘child labour’, ‘freedom of association’ and ‘incidents of discrimination’. The category of ‘forced/compulsory labour’ had the highest number of directly related ILO Conventions, followed by ‘child labour’,

‘freedom of association’ and ‘incidents of discrimination’⁸. All the international efforts and conventions (ILOs’ and UN’s) helped raise international awareness of audiences on issues reflected by these indicators. In response, more TNCs took a substantive approach to manage these expectations and reported GRI indicators (to secure a greater degree of moral legitimacy). By contrast, the least reported indicators, ‘investment and procurement practices’ and ‘suppliers screened for human rights’, have not been subject to any international conventions. Given the complexities of issues related to GVCs (Gold & Heikkurinen, 2018) and in the absence of any internationally accepted agreements, audiences have limited awareness and, therefore expectations, of the courses of action that TNCs should take. Hence, TNCs tend to avoid (substantive) reporting on those indicators that could cover controversial aspects that could be reputationally costly to them. Instead, they communicate more generic, declarative and favourable statements that symbolically reassure their audiences. In such circumstances, of those relatively small number of companies that were reporting on these two indicators in 2012, the softer regulatory approach under G4 led to significant declines in the number of reporting companies by 2018. While our findings resonate with Gold & Heikkurinen’s concerns that it is unwise to expect that calls for corporate transparency will increase the notion of responsible business along supply chains, we further argue that presence of international conventions have the potential to mark notable differences in raising international audiences’ awareness of labour rights issues along GVCs.

As for the second research question (RQ2), we found that in the absence of any audit to assess whether or not companies had reported to the GRI sub-categories (i.e., substantively), both groups of TNCs symbolically (over-)claimed disclosures in the GRI index tables and instead, reported symbolic disclosures to secure pragmatic legitimacy for any potential deficit in moral legitimacy. In line with their actual reporting (RQ1), the level of these exaggerations changed with the shifting of norms (after the transition) and varied for British and German TNCs, and this seemed to have neutralised the potential impact of the national-level regulatory changes (MSA and the EU Directive) in each country. In 2012, contrary to our earlier expectations, German TNCs exaggerated significantly more than their British counterparts. This could be explained by the GRI G3.1’s materiality requirements that set the reporting norm at a high level and under which, German TNCs were expected to report on all six core indicators, leading many to over-claim their reporting for the substantive information that they did not report but were expected to by their main audiences (e.g., the work councils) with strong presence in their governance structures. By contrast, British TNCs, whose main audiences (investors) opted to manage (reputational) risks, showed limited details of their procedures as they were not so much pressure to present substantive information. Hence, British TNCs over-claimed significantly less. By 2018, the changes in the regulatory environments of both countries meant that TNCs had to re-adjust their reporting as well as their claims to reporting (via index tables) to respond to any legitimacy drifts so that any deficit in moral legitimacy could be filled (Stephen, 2018). In Germany, the EU

⁸ Over decades, there have been many international efforts, such as UN and ILO Conventions, for the elimination of child labour (Cunningham & Viazzo, 1996), forced labour (Ollus, 2015) and freedom of association (Caraway, 2006).

Directive reinforced the need to report to the G4 with its much lower expected bar for materiality. This led German TNCs to significantly abandon their exaggerations in favour of just disclosing less information. In Britain, on the other hand, the introduction of the MSA resulted in audiences' (investors') overall awareness but not so much in their interest in details as reflected in (predominantly symbolic) disclosures (LeBaron & Ruhmkorf, 2017; Mia et al., 2022) and most possibly as investors view labour rights issues from a risk management perspective. As a result, British TNCs were not under pressure to report on details and instead provided mainly symbolic information (Mai et al., 2022). While there were notable (and two significant) declines in the actual number of companies that reported to the six indicators, there were small to notable (but not significant) rises in exaggerations on all the six indicators. British TNC's primary audiences (investors) lacked interest in details. This is visible in the declining number of British TNCs reporting on the first three indicators and the increased number of TNCs exaggerating on the same three indicators (taking a symbolic approach) suggesting that as long as the reports provide overall assurances about labour rights (Birkey et al., 2018) and have filled any deficit in moral legitimacy by over-claiming (i.e., reporting symbolic information), primary investor audiences will be happy and TNCs can secure pragmatic legitimacy (Soobaroyen & Ntim, 2013).

6. Conclusion

Focusing on 2012 and 2018, we found that the softer regulatory approach adopted under GRI G4 had an adverse impact on labour rights reporting with the national regulatory environments making a notable difference in how TNCs adjusted their reporting. For the British TNCs, while the Modern Slavery Act (2015) raised the overall awareness of labour rights, it led more to symbolic approaches to reporting without making much difference to substantive disclosures (Mai et al., 2022). Similarly, we found that, under the G4's softer requirements, British TNCs dropped their reporting on indicators (i.e., substantive disclosures) and responded to the rising awareness of their investors on labour issues and assured them by exaggerating (via GRI's index tables) and referring to symbolic information. In Britain's liberal market economy, where investors are the main audience, symbolic assurance is the key for securing legitimacy as investors do not favour detailed information on labour rights and often associate them with risk (Birkey et al., 2018) and, similarly, companies tend to avoid attracting unwanted attention and unnecessary risk (Stubbs et al., 2013). For the German TNCs, on other hand, the EU Directive's endorsement of the G4 led to significant drops in both reporting and exaggerations on different indicators, leading to a convergence in reporting and exaggerations with British TNCs. It would therefore be reasonable to expect the replication of our finding for TNCs from similar settings.

We conclude that while international standards such as the GRI provide soft yet comprehensive approaches to reporting, the way TNCs report to them depend on their home countries' regulatory business environments, in particular the comprehensiveness of their hard laws, their traction among GVCs' host nations governments (Antonini et al., 2020) and generally their short-term tendencies of public governance mechanisms (as political parties in power change). That said, the more influential factor in changing reporting was the softer materiality

requirements under the G4. This suggests that of all the public engagement and procedural requirements in establishing hard laws such as the MSA, lobbying behind the scenes on the re-writing of a private governance mechanism shows where real power lies. While private governance mechanisms define target audiences (Suchman, 1995), organisations such as the GRI are at least partly captured by certain constituent elements (TNCs themselves) and may need greater interaction and engagement with public and social governance mechanisms to help companies respond to labour issues within GVCs (Bair, 2017; Parsa & Werner, 2023). We found that international conventions that are devised through inter-governmental agreements and/or by international organisations (e.g., the UN, the ILO) can improve disclosures as they raise the awareness of audiences internationally and can be central to interactions among the three governance mechanisms (Schrage & Gilbert, 2021).

Our paper makes three contributions. First, we contribute to the growing body of literature on mandatory reporting requirements by supporting the view that such regulations or laws do not necessarily result in a better improved reporting (Doni et al., 2020). Scholarly studies need to move away from broader disclosure studies (Mion & Aducci, 2019) and conduct closer examination of reports to highlight those aspects that are key to serving the interests of a particular stakeholder group, such as labour. Softer reporting requirements may not only lead to fewer companies reporting substantively, but in the presence of (ineffective) national hard law, they may also lead more companies to exaggerate to make up for their deficit in moral legitimacy. The adverse influence of softer regulation is evident when exaggeration levels go up even further on some of the most complex and sensitive aspects of labour rights that are multi-faceted (Gold, & Heikkurinen 2018). Softer regulation creates a larger regulatory space that allows concealment of the most complex, challenging and, at times, sensitive aspects of labour rights along GVCs.

A second contribution is that reporting to international guidelines such as the GRI is 'context-based'. We argue that when companies report to voluntary (or soft) guidelines, they adjust their reporting to the specific interests of those stakeholders (audiences) who have been prioritised within their national jurisdiction. In each context, audiences' awareness and expectations tend to be very much influenced by local regulations and how they are prioritised. For example, if there are no liabilities to hold companies to account for violations of labour rights, labour interests are unlikely to be prioritised formally and are most likely to be viewed from the perspective of the most powerful stakeholder groups such as investors. Given that companies are most likely to apply a cost-benefit analysis, they tend to concentrate on those aspects that are beneficial to them and avoid those that may raise controversy and hence will be costly. This leads to our third contribution. Contrary to the GRI's claim that more flexible materiality is intended to allow companies to report on 'what matters' to their stakeholders, companies adjust their reporting to focus on those aspects that matter to them and their most important audiences (i.e., investors). This leads to 'regulatory capture' where engagement with various stakeholders (e.g., trade unions, suppliers and social organisations) are not emphasised and are effectively ignored. The latter point is echoed by the concerns raised over the substance of companies' engagement with workforce or how regulatory settings tend to prioritise the voices of the most

powerful stakeholders such as the business community over civil society groups (Islam & Van Staden, 2022) and the broader debates on how sustainability reporting agenda need to focus on the interest of all stakeholder groups (Adams & Cho, 2020).

Our findings have a number of policy implications. First, since labour rights reporting is context-based, legal liability should be introduced for violations. In Britain, while the MSA has enhanced awareness, it is more akin to soft law (LeBaron & Ruhmkorf, 2017). Despite efforts to amend the MSA, not only no improvement has been made to date but many labour-related issues have been downgraded as migrations. By contrast, Germany has already decided on legal liability and enacted the German Supply Chain Due Diligence Act (SCDDA) (will come into force in 2023). Accordingly, large German companies are required to take a substantive approach to uphold labour rights. Unlike the MSA, however, compliance with the SCDDA will be monitored by a government agency and non-compliance could result in litigation and fines (BMAS, 2021).

Our second recommendation is based on persisting evidence of low reporting and high exaggerations on 'suppliers screened for human rights'. Given that this indicator requires companies to actively engage with different stakeholders, poor quality of reporting highlights the need for concerted efforts between national governments, civil society organisations, companies and international organisations. In Britain, suggestions have been made to improve labour rights via bringing together the three main enforcement bodies into a single mechanism to utilise and harness various resources (Metcalf, 2019). At the time of writing this paper, not only has the British Government yet to bring forward their post-Brexit Employment Bill that would be the likely vehicle to introduce this, there is also uncertainty and confusion around legislation to repeal "EU retained law" including its associated labour protections. Hence, there is a need for more international coordination, such as what exists in International Framework Agreements (Josserand & Kaine, 2016) and the Accord on Fire and Building Safety served (Anner, 2020), to address labour rights related-issues in different countries (Egels-Zanden, 2009).

Our paper has a number of limitations that can be addressed by future studies. While this paper has focused on an Anglo-German comparison, there are limitations both to the VoC theoretical framing and also to its scope. Future research can focus on TNCs from a wider range of contrasting national contexts to examine how other regulatory environments influence TNCs' (substantive/symbolic) approach to labour rights disclosures when reporting to GRI standards. In particular attention can be paid to reporting on due diligence processes and engagement with social governance mechanisms (e.g., national/international NGOs, international coalitions and agreements on labour rights related issues). Another avenue for future research relates to how labour rights reporting is impacted in Germany after legal liability coming into force in 2023. Large German companies will be required to continuously document and report (SCDDA, section 10) on their: preventative measures (SCDDA, section 6), remedial actions (section 7) and complaints procedures (section 8). The SCDDA will be concurrent with the coming to force of the new Corporate Sustainability Reporting Directive (CSRD) (NFRD's replacement), under which, large EU companies will be mandated to report sustainability information to the new European Sustainability

Reporting Standards (ESRS) from 2024. By 2029, the mandate will be extended to large non-EU companies including British companies. Future research needs to focus on examining how British companies with main subsidiaries in the EU will comply with the mandatory reporting requirements. Under the ESRS, labour rights reporting will focus on companies' own workforce (ESRS, S1) as well as those in their GVCs (ESRS S2). The information categories covered under ESRS are aligned closely with those of the GRI standards. However, how the ESRS will evolve over the coming years and if they will surpass the GRI standards in raising the agenda for labour rights reporting will need to be the focus of future research.

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