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A STUDY OF DETERMINANTS OF SOCIAL DISCLOSURE LEVEL IN UK BANKS

It is well known that some companies believe that, besides their economic role in producing goods and/or services to fulfil consumers' needs, they should also have a social role in the society as argued by Hackston and Milne (1996). However, the reasons for that belief might differ from one company to another. Some companies might voluntarily get involved in conducting social activities and disclose information about these activities in their annual reports to gain good reputation in the society as argued by Alnajjar (2000). Earlier studies mention some reasons for this as: the motivation to compete, the need to legitimise their behaviour in society and to fulfil the requirements of the law {see for instance Al-Khater and Naser (2003); Nafez and Naser (1999) and Teoh and Thong (1984)}.

Table 1

**Review of the studies that investigated the level of social disclosure
and its categories in the annual reports of the companies**

| Author and year | Study period | Country | Social disclosure categories used | Measure of social disclosure level | No of banks in the study sample | The resulting ranking of the categories in descending order |
|-----------------------|--------------|------------------------|---|------------------------------------|---------------------------------|---|
| Ernst & Ernst 1978 | 1977 | US | - Environment - Energy - Fair business practice - Human resources - Community involvement - Product - Other | Average No. of pages | 50 | - Fair business practice - Community involvement and other - Human resources - Product - Energy - Environment |
| Andrew et al 1989 | 1983 | Malaysia and Singapore | - Human resources - Community involvement - Environment - Product | No. of pages | 7 | - Human resources - Products - Community involvement - Environment |
| Zeghal and Ahmed 1990 | 1981-82 | Canada | - Environment - Energy - Fair business practice - Human resources - Community involvement - Product - Other | No. of words | 6 | - Human resources - Product - Fair business practice - Community involvement - Other - Energy - Environment |
| Lynn 1992 | 1989 | Hong Kong | - Staff development - Community | No. of pages | 23 | - Staff development - Community relation - Staff development and |

| | | | | | | |
|-------------|-----------|--------------|--|--------------|---|---|
| | | | <ul style="list-style-type: none"> - Staff development and community relation - Environmental issues | | | <ul style="list-style-type: none"> - community relation - Environmental issues |
| Savage 1994 | 1992-1993 | South Africa | <ul style="list-style-type: none"> - Human resources - Community involvement - Environment | No. of pages | 8 | <ul style="list-style-type: none"> - Human resources - Community involvement - Environment |

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|----------------------------|---------------|------------|---|------------------------------------|---------------------------------|--|
| Tsang 1998 | 1986-1995 | Singapore | <ul style="list-style-type: none"> - Environmental - Human resources - Community involvement - Other | No. of sentences | 6 | In all years disclosure for human resources theme was number 1 and community involvement theme was number 2. For the period from 1986 to 1990: others theme was number 3 and environment theme was number 4. For the period from 1991 to 1995: environment theme was number 3 and others theme was number 4. |
| Nafez and Kamal 2000 | | Jordan | <ul style="list-style-type: none"> - Environment - Energy - Human resources - Product - Community involvement - Other | Average No. of pages | 17 | <ul style="list-style-type: none"> - Human resources and community involvement. - Product - Environment - Energy and other |
| Belal 2001 | 1997 | Bangladesh | <ul style="list-style-type: none"> - Employee - Ethical - Other | Average No. of lines | 1 | <ul style="list-style-type: none"> - Employee - Other - Ethical |
| Kuasirikun and Sherer 2004 | 1993 and 1999 | Thailand | <ul style="list-style-type: none"> - Employee - Environmental - Community involvement | Average No. of pages | 12 | For the two years: <ul style="list-style-type: none"> - Employee - Environmental - Community involvement |
| Hamid 2004 | 1999 | Malaysia | <ul style="list-style-type: none"> - Environment - Human resources - Community involvement - Product | No. of pages | 33 | <ul style="list-style-type: none"> - Product - Human resources - Community involvement - Environment |

Wang (1993/94, p.15) stated that “the regression method can be used to model any situation as long as there exists a strong causal relationship between the dependent and independent variables”. As discussed in II.1 and II.2, there are good

reasons for expecting a strong causal relationship between the dependent variable and the independent variables, and thus it is suitable to use regression technique for this study.

The regression model will be as follows:

$$SDI_{it} = \alpha_0 + \alpha_1 (BDEP_{it}) + \alpha_2 (ROE_{it}) + \alpha_3 (AGE_{it}) + \alpha_4 (LIST_{it}) + \alpha_5 (CRASS_t) + \alpha_6 (RISK_{it}) + \alpha_7 (IT_{it}) + u_{it}$$

where SDI_{it} is social disclosure level of bank i in year t , measured by the number of sentences;

$BDEP_{it}$ is the size bank i in year t , measured by the amount of the deposits;

ROE_{it} is the profitability of bank i in year t , measured by the return on its equity;

AGE_{it} is the age of bank i in year t , measured by the number of years for the bank since started in business until each year of the study period;

$LIST_{it}$ Listing status is measured by using a dummy variable equal to 1 if the firm is listed in London stock exchange and 0 if not in each year of the study period;

$CRASS_t$ is the degree of market concentration of the industry in year t , to represent the structure conduct disclosure hypothesis;

$RISK_{it}$ is the risk of bank i in year t , to represent credit risk hypothesis;

IT_{it} is a variable to reflect the level of investment in IT for bank i in year t .

u_{it} disturbance term.

The social disclosure level for the sample banks throughout the study period varies from 4 to 100 % of the maximum number of the sentences forming the social disclosure index and the mean for the social disclosure level is 30 %. The independent variables represented by bank size in terms of total deposits; return on equity; investment in information technology; the age of the bank, listing status; market structure measured by the 3 banks assets concentration ratio and bank specific risk measured by the loan to deposit ratio are vary as well and as stated by Naser and Al-Khatib (2000, p. 110.) "this gives more credibility to the results of the study".

Multicollinearity occurs when there is a high correlation between any two of the independent variables. There is many methods in the literature to detect multicollinearity and one of them is to see whether the simple negative or positive correlation coefficient between any two variables is say 0.99 or more as argued by El-Bannany (2002). If it is, we should suspect the existence of multicollinearity. The simple way to overcome multicollinearity problem is to delete one of the two highly correlated variables.

The highest correlation coefficient value is between IT_{it} and $BDEP_{it}$ and is less than 0,99 (it is 0,90), which means that we should not suspect the existence of the multicollinearity problem. In addition, Neter et al. (1985) stated, "the fact that some or all independent variables are correlated among themselves does not, in

general, inhibit our ability to obtain a good fit nor does it tend to affect inferences about mean responses or predictions of new observations, provided these inferences are made within the region of observations". Moreover, Neter et al. (1985) stated that "deleting some variables to reduce multicollinearity reduces the model's explanatory power and may lead to specification errors". So, caution is needed when dealing with the multicollinearity problem.

The regression model is significant and explains 48 % of the relationship between the social disclosure level and the independent variables and this indicates that the model is reasonably well specified and has explanatory power better than those reported in some other prior studies such as the study of Alnajjar (2000) in the USA which was 15 %.

The coefficients for bank size; return on equity; investment in information technology; market structure and risk are highly significant ($p < 0,05$). The sign on all variables but return on equity are in line with the hypothesized direction. On the contrary, the coefficients representing the age of the bank and listing status are not significant and even the sign of both variables do not comply with the expected direction.

The empirical evidence suggests that: market structure measured by banks assets concentration ratio is negatively related to social disclosure level. Investment in information technology measured by the value of hardware is negatively related to social disclosure level. Bank risk measured by the ratio of loans to deposits is positively related to the social disclosure level. Bank size measured by total bank deposit is positively related with the social disclosure level and supports the finding of most prior studies {see for instance, study of Hamid (2004) in Malaysia}. Bank profitability measured by return on equity is negatively related to the social disclosure level but supports the finding of some studies {see for instance, study of Alnajjar (2000) in the USA}. This might reflect to what extent the less profitable banks are trying to attract the attention of the society to a positive area rather than the profitability level hoping to improve their image in the market. There is no relationship between the age of the bank and the level of social disclosure.

The reason might be that older banks, which are already well known in the market, believe that there is no need to disclose more information to improve the public image in the market.

There is no relationship between the listing status and the level of social disclosure. The reason might be that if the debt is not the main source of fund for the listed companies in a certain country, we might expect a positive relationship between the disclosure level and the listing status and Vice versa as argued by Saudagaran (2000) and this might be the case for the UK compared with Malaysia.