Volume 13 Numbers 2/3 April/July 2004

Voluntary social disclosures by large UK companies

Stephen Brammer and Stephen Pavelin*

Introduction

An extensive conceptual literature that examines the motives for, and consequences of, firms making voluntary disclosures, emphasises the significance of legal, competitive, strategic, and financial factors (Grossman 1981, Milgrom 1981, Verrecchia 1983, Trueman 1997, Hughes & Sankar 1997, Evans & Sridhar 2002), and distinguishes between various types of voluntary disclosure, according to both their subject (e.g. earnings and/or sales forecasts, corporate governance and changes in senior management, and social and environmental policies or performance) and the media through which such disclosures are made (e.g. Lang & Lundholm 1993, 2000, Skinner 1994, Soffer *et al*. 2000, Baginski *et al*. 2002, Cullen & Christopher 2002, Miller 2002, Cormier & Magnan 2003, Hutton *et al*. 2003, Sinclair-Desgagné & Gozlan 2003).

The increased interest in corporate social responsibility (CSR) among consumers, investors, employees, creditors, legislators, and regulators has coincided with the growing incidence and sophistication of corporate social reporting (Gray *et al*. 1995, Deegan *et al*. 2000). The majority of large businesses volunteer information concerning the impact of their activities on society and the manner in which these impacts are managed within the firm (Gray *et al*. 1995, 2001, Hackston & Milne 1996, Deegan & Gordon 1996). In response, a number of empirical studies analyse the pattern of voluntary social disclosure, many of which examine either the incidence or content of corporate annual reports and/or separate social, environmental, and employee health and safety reports (e.g. Guthrie & Parker 1989, Gray *et al*. 1995, Robertson & Nicholson 1996, Hackston & Milne 1996, Patten 2002a).

Gray *et al*. (1995) provide a comprehensive review of the literature on firms' social and environmental disclosures and classify existing theoretical contributions into three groups: those focusing on decision-usefulness explanations; those drawing on economic theory; and those based on socio-political theories. These share common ground in that they all suggest that social disclosures are a significant strategic tool in the management of relationships between the company and stakeholder groups. According to the decision-usefulness approach, corporate disclosures are attempts to remove informational asymmetries between the firm and external agents, primarily agents in the investment community. Empirical work that subscribes to this view most commonly attempts to evaluate the impact disclosures have on stock prices (e.g. Shane & Spicer 1983), but with broadly inconclusive results. Economic approaches propose that social disclosures are pre-emptive steps to mitigate adverse regulatory or legislative pressures in the future. Managers are motivated to make disclosures of this kind because the failure to do so may reduce their discretion over future investment opportunities (Watts & Zimmermann 1978, Shane & Spicer 1983). The socio-political approaches are those 'set within a framework of assumptions about 'political economy'' (Gray *et al*. 1995: 52).

*Respectively, Lecturer, School of Management, University of Bath; and Lecturer, Department of Economics, University of Reading Business School.

Encompassing stakeholder theory, this approach interprets social disclosure as a tool for influencing the perceptions and actions of social and political stakeholders.

An empirical literature documents the variation across firms in social disclosure activities. It is shown to vary across companies, countries, industries, and time (e.g. Patten 1991, Gray *et al.* 1995, 2001, Hackston & Milne 1996). Furthermore, there is some evidence that patterns in social disclosure are systematically related to firm and industry characteristics (e.g. Belkaoui & Karpik 1989, Hackston & Milne 1996, Patten 2002a, 2002b, Cormier & Magnan 2003). Existing evidence regarding the incidence of voluntary social disclosures suffers from a number of well-known limitations (Ullmann 1985, Patten 2002a) that contribute to the inconclusiveness of existing findings (Ullmann 1985, Gray *et al.* 2001). For example, the samples analysed in earlier studies have tended to be small, and to be restricted in diversity in both the size of the companies and their industrial composition. Specifically, empirical work has typically focused upon only the very largest companies (e.g. Guthrie & Parker 1989, Gray *et al.* 1995, 2001, Clarke & Gibson-Sweet 1999), or only those industries identified as particularly environmentally sensitive (e.g. Ingram & Frazier 1980, Freedman & Jaggi 1988). In spite of the recognition that firms use multiple media in providing information concerning their social impacts to stakeholders, much of the existing literature has focused exclusively on disclosures made in corporate annual reports (Zeghal and Ahmed 1990). In consequence, few studies have investigated the propensity for firms to make multiple social disclosures, potentially through a variety of different media.

This paper examines patterns in the voluntary social disclosures made by a sample of large UK companies. Before moving on, we would like to draw attention to some notable aspects of our analysis. First, we describe each firm's behaviour regarding a *set* of voluntary disclosure opportunities. Numerous studies have dealt with a sample of firms' decisions to participate in a single disclosure, for example, adoption of an environmental standard, production of an annual report (e.g. Gray *et al.* 1995, Clarke & Gibson-Sweet 1999, Khanna & Damon 1999). In contrast, our methodology permits us to inspect a firm's overall social disclosure strategy across a number of opportunities. Second, in contrast to much of the literature on social disclosure, we focus upon social disclosure made through a variety of media. We analyse firm disclosures made not only through corporate annual reports, but also those associated with participation in social responsiveness surveys. We do so because the latter represents a distinctive form of disclosure, as the firm does not retain the editorial control it enjoys when producing its own publications. Indeed, since several forms of corporate disclosure under consideration are subject to independent validation, disclosure exerts a considerable administrative burden upon the firm.[1] Third, we marry data on participation in voluntary social disclosure with data on firm size, media visibility, nature of activities, and external measures of firm social performance. This permits the identification of systematic differences in firm attributes between disclosers and non-disclosers.

The paper is structured as follows. The next section discusses the motivations for voluntary social disclosure from the perspective of stakeholder theory. Following that, in a section, we introduce the methodology including the sample, data sources and variable definitions. Description differences in the attributes of disclosers and non-disclosers ensues in a section and the section subsequent to this analyses the variability of disclosure across industries. The penultimate section discusses the tendency for firms to engage in multiple disclosures. A final section concludes.

Motivations for social disclosure

Voluntary social disclosure reduces the informational asymmetries between the firm and external stakeholders, primarily those in the investment community, regarding corporate policies and performance. Recent history highlights some notable instances where social irresponsibility has had a detrimental effect on the financial health of the firm in question. Given the possibility of hidden corporate attributes, investors may prefer not to invest in companies that fail to volunteer information concerning their social performance. The point is that, in the absence of disclosure, 'investors will assume the worst and . . . bid down its stock price' (Cormier & Magnan 2003: 47). In that sense, voluntary disclosures may be viewed as attempts to reduce the information risks faced by potential and actual investors.

However, not all firms choose to make social disclosures, and those that do, adopt disclosure policies of varying breadth.[2] This is because disclosure is costly. It can impose the costs of measuring and verifying social impacts, as well as the administrative burden of collating and publishing such information (Verrecchia 1983, Li *et al.* 1997, Cormier & Magnan 1999). Therefore, one would expect the extent of disclosure activity to be determined by the relative costs and benefits of disclosing such information (Li *et al.* 1997, Cormier & Magnan 1999, 2003). The existing literature demonstrates that these costs and benefits vary with pressure from external agents such as legislators, regulators, community and environmental lobby groups, consumers and socially responsible investors (Roberts 1992, Li *et al.* 1997, Sinclair-Desgagné & Gozlan 2003, Willis 2003), the firm's vulnerability to those pressures as captured by its size and media visibility (Roberts 1992, Patten 2002b, Cormier & Magnan 2003), its environmental performance (Ullmann 1985, Patten 2002), its ownership and governance structures (Roberts 1992, Cullen & Christopher 2002, Cormier & Magnan 2003), and resource availability (Roberts 1992, Cormier & Magnan 2003).

Social and political approaches such as legitimacy theory and stakeholder theory have become the dominant conceptual approaches within the social disclosure literature (Gray *et al.* 1995, Deegan *et al.* 2000). Within the stakeholder view, implicit contracts exist between society and corporations such that society's willingness to sanction the economic activities of businesses is contingent upon their operation 'within the bounds and norms of society' (Brown & Deegan 1998: 22). Social disclosure provides a means by which corporations can 'demonstrate that [their] actions are legitimate and that [they have] behaved as good corporate citizens' (Hooghiemstra 2000: 56).

Hence, stakeholder theory views social disclosure as a response to significant pressures from a firm's external environment. Apart from the investment community, such pressures may arise from pressure groups (Tilt 1994) or the general public (Neu *et al.* 1998), and may be specific to those industries where particular issues arise (Patten 1992). For example, an extensive literature argues that industries have inherently different environmental impacts (e.g. Halme & Huse 1996). Industries with a high environmental impact are characterised by their association with highly visible environmental issues (Bowen 2000) such as global warming and the risk of oil spills. The activities of firms in these industries are subject to intense scrutiny from environmental stakeholders. Earlier empirical work has identified a number of sectors as having high environmental impacts, e.g. the metals, resources, paper and pulp, power generation, water, and chemicals sectors (Morris 1997, Sharma 1997, Hoffman 1999, Sharma *et al.* 1999, Bowen 2000, Clemens 2001). In contrast, other industries, particularly newer manufacturing industries and the service sector, have significantly lower environmental impacts and are associated with fewer highly visible environmental issues.

The tobacco and alcoholic drinks industries are associated with highly visible social issues. They are thought to produce large social externalities (e.g. crime and health) and are subject to strong regulatory regimes (competition, safety and taxation). Similarly, the defence and pharmaceutical industries are subject to considerable pressure from ethical pressure groups. In the case of pharmaceutical companies, this reflects concern over pricing and distribution policies in advanced and developing countries[3] and ethical concerns over experimental techniques (e.g. animal rights issues).

Aside from a firm's association with a particular industrial activity, it is expected that the willingness to make social disclosures would be influenced by that firm's record of social performance. If, as some earlier studies suggest, voluntary social disclosure is contingent upon a firm's social performance, this implies a willingness 'to report "good news" but [reluctance] to report "bad news",' and characterises disclosure as, 'to a large extent self-laudatory' (Hooghiemstra 2000: 57). However, the evidence concerning such a relationship is very mixed (Ullmann 1985). From a stakeholder perspective, one would expect a positive association between social performance and social disclosure. After all, it is only those firms that have fulfilled their implicit contract with society that are in a position to demonstrate that fact through disclosure.

Organisational size and visibility are commonly proposed as firm-level drivers of voluntary disclosure (Hackston & Milne 1996, Cormier & Magnan 2003). Indeed, several studies provide evidence of a positive relationship between firm size and disclosure activism (e.g. Cowen *et al.* 1987, Roberts 1992, Patten 2002a). Large firms tend to be more visible to relevant publics and so tend to be subject to greater political and regulatory pressure from external interests (Belkaoui & Karpik 1989, Brown & Deegan 1998). Furthermore, Cowen *et al.* (1987) argue that larger organisations are more likely to use formal channels of communication (such as disclosures in annual reports or other corporate documentation) in order to disseminate information concerning corporate activities.

However, organisational visibility is not solely determined by organisational size. Consistent with this, much of the recent disclosure literature emphasises the importance of media exposure (Brown & Deegan 1998, Patten 2002a) in determining the nature and context of the relationship between companies and their stakeholders (Brown & Deegan 1998, Adler & Milne 1997). Media coverage 'influences the preferences of the populace and helps set the public agenda' which, 'in turn generates constituency pressure' (Erfle & McMillan 1990: 123). This implies that greater media exposure tends to bring greater pressure from social and political stakeholders, and so, one would expect, makes more pressing the need to provide information regarding social responsiveness.

To summarise, the stakeholder perspective proposes that the motivation to make a voluntary social disclosure varies systematically across industries and firms. We would expect disclosure to be positively related to firm size, media exposure, and social performance, and to be more common in industries that suffer a perceived association with social issues and concerns.

Method

Our sample consists of 134 of the largest (by the value of total assets) 150 publicly listed UK companies[4] in 2001. This approach (i.e. sampling the largest companies) is adopted in much of the empirical literature on social disclosure (e.g. Guthrie & Parker 1989, Gray *et al.* 1995, Clarke & Gibson-Sweet 1999). Therefore, our sampling strategy promotes comparability between this and previous work. Firms that make voluntary disclosures tend to be large, and some of the motivations for engaging in disclosure may apply only to larger companies. For example, Adler & Milne (1997) find evidence of a size threshold effect in the relationship between firm exposure and social disclosure. Nevertheless, large firms still tend to exhibit sufficient diversity of practice to generate an ideal test bed for the study of the motivations for social disclosure (Gray *et al.* 1995).

Data on voluntary disclosures

We utilise data on the firms' participation, or otherwise, in five forms of voluntary social disclosure:

- Business in the Environment (BiE) Corporate Environmental Engagement Index 2002;
- Business in the Community (BitC) Corporate Responsibility Index 2002;
- Environmental disclosure in 2002 annual reports;
- Community/Social disclosure in 2002 annual reports;
- Employee/Health and Safety disclosure in 2002 annual reports.

BitC is a, 'unique movement in the UK of 700 member companies' whose 'purpose is to inspire, challenge, engage and support business in continually improving its impact on society' (BitC 2003: 1). Participation in the Corporate Responsibility Index requires that companies complete a survey detailing their management of, and performance in, various dimensions of social responsiveness (e.g. product safety, occupational health and safety, community investment, and environmental impact). Submissions must be signed-off at the board level, and a BitC inspectorate randomly tests their validity. The resulting publication reports the relative performance of each firm.

BiE is a 'business-led campaign for corporate environmental responsibility'. Their 'aim is to inspire companies towards improving the impact they have on the environment, while gaining competitive advantage through their approach to sustainable development' (BiE 2001: 3). The BiE employs the same methodology as the BitC when gathering and publishing information.

For each firm, its pattern of environmental, community/social and employee/health and safety disclosures in annual reports was obtained from the Corporate Register database, a directory of published corporate environmental and social reports. Developed as an information tool for stakeholders in the field of environmental and social reporting, Corporate Register classifies the disclosures of UK plcs by analysing the content of annual reports (including any separate social, environmental and health and safety reports). They make qualitative judgements as to whether or not organisations have made disclosures on a given theme. In doing so, they exclude 'sales brochures, [reports that] have no reference year, no hard data and no statement of policy, [and] sections from annual reports [shorter than] six pages, regardless of whether the issuing company terms them a 'report' (CorporateRegister.com). This approach is somewhat similar to that typically adopted elsewhere in the literature, which focuses on the number of words or sentences in, or the proportion of, the annual report devoted to social information (e.g. Guthrie & Parker 1989, Hackston & Milne 1996). In addition, the definition embodies signals of the quality of disclosures such as the presence of quantified impacts and improvements and policies. Corporate Register also classifies disclosures, thus defined, according to their type.[5] For our sample firms, we extract from the database, whether, in 2002, the firm made any environmental disclosures, community/social disclosures, or employee/health and safety disclosures.[6]

These five forms of social disclosure were chosen for several reasons. First, they offer a mixture of the specific and the general. Some disclosures concern specific elements of social responsibility, such as environmental responsibility (the BiE survey and environmental annual reporting), community responsibility (community/social annual reporting), and employee responsibility (employee/health and safety annual reporting). Another is more general (the BitC survey). Note that all of these voluntary disclosure opportunities were available to our entire sample of firms. Secondly, the disclosures are made through a variety of media. The first two (as listed above) are made via responses to surveys; the latter three are the product of internal reporting systems. One difference between these two groups lies in the degree of administrative burden and editorial control. One would expect both to be greater for the latter group.

Data on other firm characteristics

A measure of each firm's size (the value of total assets), and principal activity (approximately equivalent to the three-digit NACE industry) were extracted from accounting data courtesy of *DataStream*. Our measure of media exposure is derived from the *Factiva* database, which provides searchable archives of news content from over 8000 global sources. We gathered data for each of the calendar years 1998–2002 inclusive, and used the natural logarithm of the average number of annual news hits as our measure of corporate visibility.

Finally, social performance data were obtained from the Ethical Investment Research Service (EIRIS). EIRIS survey firms, but they also undertake their own research. As a result, they are able to provide social performance scores for a firm irrespective of whether it participates in an EIRIS survey. They offer the largest and most complete multidimensional social performance coverage of UK firms, covering issues relating to employment, the environment, community, human rights, and supply chain management. Due to the limited availability of data regarding the last two of these, we will restrict our attention to the first three dimensions of social performance.

- Employment: health and safety; training and development; equal opportunities; employee relations; job creation; and job security. Each category graded[7] 1–3. Employment responsibility score out of 18 (Cronbach's α of 0.88).
- Environment: policies; systems; reporting; and performance. Each category graded 1–5. Environmental impact score out of 20 (Cronbach's α of 0.85).
- Community engagement score graded 1–4.

To arrive at a single aggregate measure (the Overall Social Responsibility score) we summed the three scores, having normalised each to a 1–4 grading. This generates an overall score out of 12, with a Cronbach's α of 0.92.

Firm characteristics and voluntary social disclosure

This section compares the characteristics of firms that make a range of social disclosures with those of firms that do not. Earlier, we identified several themes that have emerged from the existing literature. These include relationships between the propensity to make voluntary social disclosures and firm size, media exposure, and social performance. Table 1 provides means for these three firm characteristics while making a distinction between disclosers and non-disclosers for each of the five disclosure opportunities.

The findings indicate that, on average, disclosers are larger than non-disclosers. This difference is highly statistically significant for 3 of the 5 disclosure opportunities: the BiE Index of Environmental Engagement ($p = 0.000$), and the disclosure of environmental and social/community information in annual reports ($p = 0.000$ and 0.037, respectively). In addition, our findings indicate that the firms that disclose have higher levels of media exposure than those that do not. This difference is highly statistically significant (at the 5% level or better) for all 5 disclosures. Consistent with previous studies, these findings suggest that large and highly visible firms face greater external pressure, and may therefore make voluntary social disclosures to effectively manage their relationships with stakeholders.

Evidence from previous studies regarding the link between social performance and social disclosure is rather ambiguous (Ullmann 1985). However, for all five disclosure opportunities, we find disclosers have better social performance than do non-disclosers. Indeed, these differences are all statistically significant at the 5% level or better. Consistent with some earlier evidence, these findings suggest a tendency for voluntary disclosures to be used by firms to communicate their good social performance to relevant stakeholder constituencies.

Voluntary disclosure by industry

Table 2 presents the rates of disclosure among sample firms by industrial sector. These rates vary considerably across the five disclosure opportunities, from around 10% for annual report disclosures concerning employee health and safety to over 76% for the BiE index of environmental engagement. That disclosures relating to environmental impact are more numerous may reflect the relatively long-lived significance of such issues in the UK, and/or the comparative maturity of the BiE index itself.[8] Consistent with stakeholder theory and with earlier empirical evidence (e.g. Clarke & Gibson-Sweet 1999), the rate of participation in the different forms of voluntary disclosure varies significantly across industries. The cross-industry pattern of participation in the two environmentally focused disclosures (the BiE index of Environmental Engagement and environmental disclosure in annual reports) is very similar. In particular, the proportion of firms making such disclosures is highest among

Table 1: Average Characteristics of Disclosers and Non-disclosers by Type of Voluntary Social Disclosure

	BiE Index of Corporate Environmental Engagement		BitC Corporate Responsibility Index		Environmental disclosure in annual report		Community/Social disclosure in annual report		Employee/H&S disclosure in annual report	
	Disclosers	Non-disclosers	Disclosers	Non-disclosers	Disclosers	Non-disclosers	Disclosers	Non-disclosers	Disclosers	Non-disclosers
Total assets (£million)	33,089	3769	33,862	20,180	50,093	15,820	57,957	15,965	61,699	22,504
Average media hits 1998–2002	2111	615	2641	1055	2799	1309	2841	1,414	3,505	1,578
Charitable donations (£000)	4559	338	5141	2318	8514	1408	9846	1,536	6,385	3,281
Community engagement score	2.03	1.35	2.15	1.65	2.27	1.70	2.36	1.71	2.31	1.83
Environmental impact composite	7.23	2.71	7.40	5.20	8.68	5.09	8.70	5.37	8.69	5.92
Employee responsibility composite	8.25	4.58	8.63	6.41	8.68	6.84	9.21	6.81	9.38	7.19
Overall social responsibility composite	5.82	3.02	6.06	4.45	6.61	4.53	6.80	4.64	6.77	5.00

BiE Corporate Environmental Engagement Index 2002: 103 disclosers, 31 non-disclosers;
BitC Corporate Responsibility Index 2002: 60 disclosers, 74 non-disclosers;
Environmental disclosure in 2002 annual reports: 41 disclosers, 93 non-disclosers;
Community/Social disclosure in 2002 annual reports: 33 disclosers, 101 non-disclosers;
Employee/Health and Safety disclosure in 2002 annual reports: 13 disclosers, 121 non-disclosers.
BitC, Business in the Community; BiE, Business in the Environment; H&S, health and safety.

Table 2: A Sectoral Decomposition of Voluntary Social Disclosure

Industrial sector	No. of firms	Sample participation rates				
		BiE Index of Corporate Environmental Engagement (%)	BitC Corporate Responsibility Index (%)	Environmental disclosure in annual report (%)	Community/ Social disclosure in annual report (%)	Employee/ H&S disclosure in annual report (%)
Retail	10	80.0	70.0	10.0	10.0	10.0
Banking	9	100.0	44.4	55.6	55.6	11.1
Insurance	8	62.5	12.5	25.0	12.5	12.5
Other finance	7	42.9	0.0	14.3	14.3	0.0
Chemicals	9	77.8	44.4	44.4	22.2	11.1
Telecommunications	5	60.0	40.0	40.0	20.0	20.0
Resources	7	71.4	71.4	42.9	28.6	14.3
Media	12	83.3	66.7	8.3	8.3	0.0
IT	1	0.0	0.0	0.0	0.0	0.0
Transport	8	75.0	50.0	37.5	37.5	0.0
Construction	12	58.3	25.0	33.3	33.3	0.0
Utilities	9	88.9	44.4	66.7	44.4	11.1
Food, drink, tobacco	14	92.9	57.1	42.9	42.9	35.7
Other manufactring	16	93.8	56.3	18.8	12.5	6.3
Other services	7	57.1	14.3	0.0	0.0	0.0
All sectors	***134***	***76.9***	***44.8***	***30.6***	***24.6***	***9.7***

BitC, Business in the Community; BiE, Business in the Environment; H&S, health and safety.

environmentally sensitive sectors (such as manufacturing sectors, resources, utilities, and chemicals), and those sectors with a close relationship to consumers (such as banking, food/drink/tobacco, media, and retailing). The rate of disclosure was lowest in the IT, construction, telecommunications, other services, and non-banking financial sectors, perhaps reflecting the lower level of environmental impact and proximity to consumers among these firms.

In contrast, there is rather less similarity in the pattern of cross-industry variation for the two non-environmental forms of disclosure. Each disclosure is associated with a particular group of industries, few of which are also similarly associated with environmental disclosure. More specifically, while both employee/health and safety, and community/social reporting are relatively highly prevalent in the food, drink and tobacco, utilities, resources and banking sectors, these patterns diverge in other sectors. For example, of the two, only the former is particularly associated with the transport and construction sectors, and an above average incidence of only the latter is found in the telecommunications and insurance sectors.

Looking across the rows of Table 2 affords an insight into the extent to which the pattern of disclosure varies between sectors. This variability indicates the extent to which firms in a given sector tend to respond to particular issues, or adopt a blanket approach of disclosure (or non-disclosure). As one would expect from the discussion above, the rate of participation is consistently above average in some sectors, and below average in others. For example, the resources, utilities, and food, drink and tobacco sectors exhibit an above average rate of disclosure in at least four of the five opportunities. This suggests that, in those sectors, companies adopt a general strategy of disclosure. This perhaps reflects these firms' close proximity to social and environmental externalities and their associated threats to corporate reputations. In other industries, the rate of voluntary social disclosure is consistently low. For example, firms from the non-banking finance, IT and other services sectors exhibit below average rates of disclosure across the board. This could reflect an absence of significant social and environmental issues, and the accompanying lack of stakeholder pressure to maintain high levels of social performance.

Multiple participation in voluntary social disclosures

The analysis in the previous section suggests that firms in some industries appear to have generally higher propensities to make voluntary social disclosures than firms in other industries. In this section, we examine, in greater detail, whether these disclosure decisions appear to be interdependent. As a first step, Figure 1 describes the size distribution of the number of voluntary social disclosures made by sample firms. Figure 1 suggests that there is considerable diversity across firms in the pattern of voluntary disclosure. Specifically, 29 firms make no voluntary disclosures, nine firms make all five voluntary disclosures and the majority of firms fall somewhere in between.

Evidence of the within-firm interrelatedness of social disclosure decisions,[9] is provided by the Spearman's correlation coefficients for each disclosure, as reported in Table 3. In every case the coefficients are positive and highly statistically significant. This indicates a positive relationship between making one social disclosure and making others.

Firms may simply make multiple social disclosures because they face multiple salient issues

Figure 1: The Size Distribution of the Number of Voluntary Social Disclosures Made by Firms

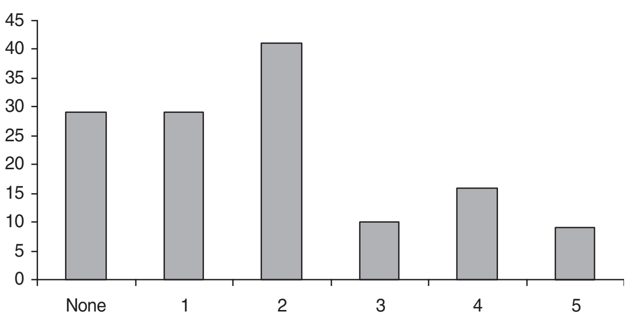

Table 3: Rates of Voluntary Disclosure and Spearman's Correlation Coefficients between the Different Types of Disclosure

	Sample participation rate (%)	(i)	(ii)	(iii)	(iv)
(i) BiE index of corporate environmental engagement	75	–			
(ii) BitC corporate responsibility index	45	0.494**	–		
(iii) Environmental disclosure in annual report	31	0.287**	0.249**	–	
(iv) Community/social disclosure in annual report	25	0.231**	0.217*	0.823**	–
(v) Employee/H&S disclosure in annual report	10	0.18*	0.313**	0.494**	0.398**

*$p < 0.05$.
**$p < 0.01$.

that require responses. However, this view seems to be at odds with our evidence; in particular, that firms in the retailing and banking sectors (where firms face few significant issues) and the mining, pharmaceutical and utilities sectors (where the CSR landscape is dominated by a particular concern) make multiple social disclosures seem difficult to reconcile with stakeholder theory.

However, there is some evidence that the tendency to make multiple disclosures is driven by firm size. We find that multiple disclosures are overwhelmingly associated with larger firms. The average value of total assets of the firms that make 0, 1, 2, 3, 4, and 5 disclosures are £3.9bn, £28.7 bn, £15.3 bn, £44.5 bn, £46.2 bn and £85.0 bn, respectively. Also, correlations between firm size and the number of disclosures yield highly statistically significant Pearson and Spearman's coefficients of 0.395 ($p = 0.000$) and 0.412 ($p = 0.000$), respectively. This suggests that the largest firms face a general, rather than specific, stakeholder pressure. Their size ensures that their operations are highly visible to regulators, pressure groups, and the media. It may be that coincident with this heightened visibility is a pressure to demonstrate responsible action that transcends any single, salient issue that most closely relates to their activities.

We submit two further factors that may contribute to the observed pattern of voluntary disclosure. Firstly, it may be the case that the costs of an active social disclosure strategy are largely fixed, rather than increasing, in the breadth of the programme. This is to say, once the infrastructure required to make one type of social disclosure is in place, it can be employed more widely at relatively little extra cost. Secondly, partial disclosure may be viewed cynically by stakeholders. To concentrate exclusively upon that aspect of social performance that most closely relates to the firm's activities would be to risk being viewed as self-interested, rather than socially minded. A commitment to issues that seemingly hold no influence over financial performance creates an impression of altruism that does much to establish the firm's social responsiveness. Thus somewhat perversely, a general policy of social performance and disclosure may augment a firm's strategic position because it appears not to.

Conclusion

This paper has examined the patterns in voluntary social disclosures made by a sample of large UK companies. The analysis has focused upon three key issues: interaction between a firm's disclosure decisions; links to the nature of a firm's activities; and links to the firm characteristics of size, media exposure, and social performance. Our findings indicate that there is a positive correlation between participation in one form of voluntary social disclosure and participation in others. We also find some evidence that a firm's disclosure strategy is influenced by the nature of a firm's activities, and that participation is positively related to a firm's size, media visibility, and social performance.

Our evidence concerning the link between participation in each individual disclosure and firm size is consistent with earlier evidence (e.g. Cowen *et al*. 1987, Arora & Cason 1996). However, our findings also suggest that larger firms are more likely to make multiple disclosures. The role of corporate visibility has been less commonly addressed. As larger firms tend to be more visible, our results provide a more complete picture of the mechanism by which firm size promotes participation than does much of the previous literature. Also, that more visible organisations are more likely to participate suggests that disclosure is employed as a means of managing external stakeholder perceptions. Our findings relating to the role of social performance differ from those most typically found (Ullmann 1985). While previous findings have been largely inconclusive, we observe a highly significant positive correlation between participation in voluntary disclosures and firm social performance.

It is important to acknowledge, though, that it is not possible to attribute causality without formal econometric modelling. Our analysis cannot isolate the effect of each individual factor while controlling for the effects of all other variables. Thus, a multivariate analysis, particularly one employing a longitudinal sample, may shed rather more light upon the motives for voluntary social disclosure.

Notes

1. Also, others have noted a 'lack of variability in the issues covered in corporate annual reports [that] suggests that perhaps too much research attention has been paid to this form of corporate communication' (Robertson & Nicholson 1996: 1104). Therefore, we focus upon alternative forms of voluntary disclosure in the hope of finding greater variation across firms.
2. Some companies make voluntary disclosures relating only to environmental impacts, or only to community projects, or only to health and safety policies, etc. Others have a broader disclosure policy and may cover all of these dimensions of corporate social responsibility.
3. Recent examples include concern over the pricing and distribution policies of AIDS-related drugs in South Africa and continuing concern over the marketing of prepared baby foods.
4. An inability to meet data requirements for some firms reduced the sample from 150 firms to 134.
5. We tested the reliability of the Corporate Register coding by recoding a small sample of the annual reports in question, and found the coding of Corporate Register to be wholly reliable.
6. Here then, we employ a frequency-based analysis, i.e. one that describes whether or not a disclosure is made. An alternative approach would be to employ content analysis, where it is the characteristics of disclosures (e.g. length in words, sentences or pages, or type of information given), rather than their presence, that are the focus of attention. It is worth noting that the finer detail captured in content analysis provides an improved basis for inferences regarding reporting intent.
7. Following the general approach used by Graves & Waddock (1994) for KLD data we translated EIRIS text grades into number grades. In each case, higher numbers indicate a higher degree of social responsiveness.
8. The 2002 index is the seventh annual index of environmental engagement. The index of corporate responsibility was first reported in 2002.
9. As each observation relates to a different firm, the Spearman's correlation coefficients describe, across the sample as a whole, any association between a firm's behaviour for one kind of disclosure and that for another.

References

Adler, R.W. and Milne, M.J. 1997. 'Media exposure, company size, industry, and social disclosure practice.' Paper presented at the Fifth Interdisciplinary Perspectives on Accounting Conference, Manchester.

Arora, S. and Cason, T.N. 1996. 'Why do firms volunteer to exceed environmental regulations Understanding participation in EPAs 33/50 program'. *Land Economics*, 72:4, 413–432.

Baginski, S.P., Hassell, J.M. and Kimbrough, M.D. 2002. 'The effect of legal environment on voluntary disclosure: evidence from management earnings forecasts issued in US and Canadian markets'. *Accounting Review*, 77:1, 25–50.

Belkaoui, A. and Karpik, P.G. 1989. 'Determinants of the corporate decision to disclose social information'. *Accounting, Auditing, and Accountability Journal*, 2:1, 36–51.

BiE. 2001. *Sustaining Competitiveness: Business in the Environment 6th Index of Corporate Environmental Engagement*. London: Business in the Community.

BitC. 2003. *Corporate Social Responsibility Index 2002*. London: Business in the Community.

Bowen, F.E. 2000. 'Environmental visibility: a trigger of green organisational responsiveness?' *Business Strategy and the Environment*, 9:2, 92–107.

Brown, N. and Deegan, C. 1998. 'The public disclosure of environmental performance information: a dual test of media agenda setting theory and legitimacy theory'. *Accounting and Business Research*, 29:1, 21–41.

Clarke, J. and Gibson-Sweet, M. 1999. 'The use of corporate social disclosures in the management of reputation and legitimacy: a cross sectoral analysis of UK Top 100 Companies'. *Business Ethics: A European Review*, 8:1, 5–14.

Clemens, B. 2001. 'Changing environmental strategies over time: an empirical study of the steel industry in the United States'. *Journal of Environmental Management*, 61, 1–11.

Cormier, D. and Magnan, M. 1999. 'Corporate environmental disclosure strategies: determinants, costs and benefits'. *Journal of Accounting, Auditing and Finance*, 14:4, 429–451.

Cormier, D. and Magnan, M. 2003. 'Environmental reporting management: a European perspective'. *Journal of Accounting and Public Policy*, 22:1, 43–62.

Cowen, S.S., Ferreri, L.B. and Parker, L.D. 1987. 'The impact of corporate characteristics on social responsibility disclosure: a typology and frequency-based analysis'. *Accounting, Organizations & Society*, 12:2, 111–122.

Cullen, L. and Christopher, T. 2002. 'Governance disclosures and firm characteristics of listed Australian mining companies'. *International Journal of Business Studies*, 10:1, 37–58.

Deegan, C. and Gordon, B. 1996. 'A study of the environmental disclosure practices of Australian corporations'. *Accounting and Business Research*, 26:3, 187–199.

Deegan, C. and Rankin, M. 1996. 'Do Australian companies report environmental news objectively? An analysis of environmental disclosures by firms prosecuted successfully by the Environmental Protection Authority'. *Accounting, Auditing, and Accountability Journal*, 9:2, 50–67.

Erfle, S. and McMillan, H. 1990. 'Media, political pressure and the firm: the case of petroleum pricing in the late 1970s'. *Quarterly Journal of Economics*, 105:1, 115–134.

Evans, J.H. III and Sridhar, S.S. 2002. 'Disclosure disciplining mechanisms: capital markets, product markets and shareholder litigation'. *Accounting Review*, 77:3, 595–626.

Freedman, M. and Jaggi, B. 1998. 'An analysis of the association between pollution disclosure and economic performance', *Accounting, Auditing and Accountability Journal*, 1:2, 43–58.

Graves, S.B. and Waddock, S.A. 1994. 'Institutional owners and social performance'. *Academy of Management Journal*, 37:4, 1034–1046.

Gray, R., Kouhy, R. and Lavers, S. 1995. 'Corporate social and environmental reporting: a review of the literature and a longitudinal study of UK disclosure'. *Accounting, Auditing, and Accountability Journal*, 8:2, 47–77.

Gray, R., Javad, M., Power, D.M. and Sinclair, C.D. 2001. 'Social and environmental disclosure and corporate characteristics: A research note and extension'. *Journal of Business Finance and Accounting*, 28:3, 327–356.

Grossman, S.J. 1981. 'The Informational role of warranties and private disclosure about product quality'. *Journal of Law and Economics*, 24:3, 461–483.

Guthrie, J. and Parker, L.D. 1989. 'Corporate social reporting: a rebuttal of legitimacy theory'. *Accounting and Business Research*, 19, 343–352.

Hackston, D. and Milne, M.J. 1996. 'Some determinants of social and environmental disclosures in New Zealand companies'. *Accounting, Auditing and Accountability Journal*, 9:1, 77–108.

Halme, M. and Huse, M. 1996. 'The influence of corporate governance, industry and country factors on environmental reporting.' Paper presented at Academy of Management Conference, August.

Hoffman, A.J. 1999. 'Institutional evolution and change: environmentalism and the US chemical industry'. *Academy of Management Journal*, 42:4, 351–371.

Hooghiemstra, R. 2000. 'Corporate communication and impression management: new perspectives why companies engage in corporate social reporting'. *Journal of Business Ethics*, 27:1/2, 55–68.

Hughes, P.J. and Sankar, M.R. 1997. 'The impact of litigation risk on discretionary disclosure.' Working paper, University of California, Los Angeles.

Hutton, A.P., Miller, G.S. and Skinner, D.J. 2003. 'The role of supplementary statements with management forecasts'. *Journal of Accounting Research*, 41:5, 867–890.

Ingram, R.W. and Frazier, K.B. 1980. 'Environmental performance and corporate disclosure', *Journal of Accounting Research*, 18:2, 614–622.

Khanna, M. and Damon, L.A. 1999. 'EPAs voluntary 33/50 Program: impact on toxic releases and economic performance of firms'. *Journal of Environmental Economics and Management*, 37:1, 1–25.

Lang, M. and Lundholm, R. 1993. 'Cross-sectional determinants of analyst ratings of corporate disclosures'. *Journal of Accounting Research*, 31:2, 246–271.

Lang, M. and Lundholm, R. 2000. 'Voluntary disclosure during equity offerings: reducing information asymmetry or hyping the stock?' *Contemporary Accounting Research*, 17:1, 623–662.

Li, Y., Richardson, G.D. and Thornton, D.B. 1997. 'Corporate disclosure of environmental liability information: theory and evidence'. *Contemporary Accounting Research*, 14:3, 435–474.

Milgrom, P.R. 1981. 'Good news and bad news: representation theorems and application'. *Bell Journal of Economics*, 12:2, 380–391.

Miller, G.S. 2002. 'Earnings performance and discretionary disclosure'. *Journal of Accounting Research*, 40:1, 173–204.

Morris, S. 1997. 'Environmental pollution and competitive advantage: an exploratory study of US industrial-goods manufacturers'. *Academy of Management Conference Proceedings*.

Neu, D., Warsame, H. and Pedwell, K. 1998. 'Managing public impressions: environmental disclosures in annual reports'. *Accounting, Organizations and Society*, 23:3, 265–282.

Patten, D.M. 1991. 'Exposure, legitimacy, and social disclosure'. *Journal of Accounting and Public Policy*, 10:4, 297–308.

Patten, D.M. 1992. 'Intra-industry environmental disclosures in response to the Alaskan oil spill: a note on legitimacy theory'. *Accounting, Organizations and Society*, 17:5, 471–475.

Patten, D.M. 2002a. 'The relation between environmental performance and environmental disclosure: a research note'. *Accounting, Organizations & Society*, 27:8, 763–764.

Patten, D.M. 2002b. 'Media exposure, public policy pressure, and environmental disclosure: an examination of the impact of tri data availability'. *Accounting Forum*, 26:2, 152–161.

Roberts, R. 1992. 'Determinants of corporate social responsibility disclosure: an application of stakeholder theory'. *Accounting, Organizations and Society*, 17:6, 595–612.

Robertson, D.C. and Nicholson, N. 1996. 'Expressions of corporate social responsibility in UK firms'. *Journal of Business Ethics*, 15:10, 1095–1106.

Sinclair-Desgagné, B. and Gozlan, E. 2003. 'A theory of environmental risk disclosure'. *Journal of Environmental Economics and Management*, 45:2, 377–393.

Sharma, S. 1997. 'A longitudinal analysis of environmental responsiveness strategies: antecedents and outcomes'. In Keys, J.B. and Dozier, L.N. (Eds.), *Best Paper Proceedings of the Academy of Management*. Boston, Academy of Management.

Sharma, S., Pablo, A. and Vredenburg, H. 1999. 'Corporate environmental responsiveness strategies: the importance of issue interpretation and organisational context'. *Journal of Applied Behavioral Science*, 25:1, 87–105.

Skinner, D.J. 1994. 'Why firms voluntarily disclose bad news'. *Journal of Accounting Research*, 32:1, 38–60.

Soffer, L.C., Thiagarajan, S.R. and Walther, B.R. 2000. 'Earnings preannouncement strategies'. *Review of Accounting Studies*, 5:1, 5–26.

Shane, P.B. and Spicer, B.H. 1983. 'Market response to environmental information produced outside the firm'. *Accounting Review*, 58:3, 521–538.

Tilt, C.A. 1994. 'The influence of external pressure groups on corporate social disclosure: some empirical evidence'. *Accounting, Auditing and Accountability Journal*, 7:4, 47–72.

Trueman, B. 1997. 'Managerial disclosures and shareholder litigation'. *Review of Accounting Studies*, 2:2, 181–199.

Ullmann, A.E. 1985. 'Data in search of a theory: a critical examination of the relationships among social performance, social disclosure and economic performance of US firms'. *Academy of Management Review*, 10:3, 540–557.

Verrecchia, R.E. 1983. 'Discretionary disclosure'. *Journal of Accounting and Economics*, 5:1, 179–194.

Watts, R. and Zimmermann, J.L. 1978. 'Towards a positive theory of the determination of accounting standards'. *Accounting Review*, 53:1, 112–134.

Willis, A. 2003. 'The role of the Global Reporting Initiative's Sustainability Reporting Guidelines in the social screening of investments'. *Journal of Business Ethics*, 43:3, 233–237.

Zeghal, D. and Ahmed, S.A. 1990. 'Comparison of Social responsibility information disclosure media used by Canadian firms', *Accounting, Auditing and Accountability Journal*, 3:1, pp. 53–58.