Civil liberties and social and environmental information transparency: a global investigation of financial institutions

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Abstract

Civil liberties enable the media, social movements, and other stakeholders to expect companies to be more transparent and forthcoming with relevant social and environmental information. Drawing on social movement theory in general, and the notion of civil liberty in particular, we analyse the availability of social and environmental information of 300 financial companies from 50 countries over a nine-year period, to investigate the influence of country-level civil liberties on the availability of social and environmental information.

We find that companies headquartered in countries with high levels of civil liberties make more social and environmental information publicly available than companies headquartered in countries with low levels of civil liberties. Furthermore, an improvement in civil liberties in countries with lower civil liberties has a bigger impact on changes in the availability of social and environmental information.

Our research is relevant for the ongoing concerns of social and environmental transparency initiatives by governments, NGOs, and civil rights organisations. Policy implications for countries with lower civil liberties (typical developing nations) are that if they wish to encourage more transparent corporate information, they need to strengthen their country-level civil liberties.

Keywords: Social movements; Civil liberties, Corporate Social and Environmental information disclosure; Transparency; Financial institutions.

1. Introduction

While there is a general presumption that broader stakeholder concerns over corporate transparency in relation to social and environmental responsibilities and corporate social and environmental disclosure practices are related, this has not been systematically investigated within the context of the financial sector. Stakeholder concerns over corporate transparency result in greater societal awareness and pressure on companies to demonstrate openness and disclose relevant information about their operations. In relation to corporate social and environmental issues, transparency includes making relevant and specific social and environmental information available through a range of reports, media and other channels.

Stakeholder concerns over social and environmental transparency within the financial sector are significant (BankTrack, 2016; De Felice, 2015; Missbach, 2007; Moody, 2015). Financial companies as socio-economic development partners of the government occupy a crucial position in any nation. This sector is very important, as demonstrated by governments financially supporting banks during the financial crisis. Furthermore, financial institutions, via their investment and lending activities, have an impact on the society within which they operate (Thompson & Cowton, 2004). Civil rights organisations have been campaigning for greater transparency from financial institutions providing financing for coal mining and greenhouse intensive projects (BankTrack, 2016; Gallop & Sikorova, 2015) as well as projects that endanger the livelihoods of people and communities (Moody, 2015) and projects that violate human rights (Brightwell, Frijns, & Missbach, 2017).

When examining the role of companies in relation to their social and environmental responsibility, it is important to consider not only the direct perpetrators of violations of social and environmental norms (such as those involved in the oil, gas and mining sector), but also those who encourage, facilitate and benefit from these kind of operations (Brightwell et al., 2017; Missbach, 2007). There is growing concern among broader groups of stakeholders

over financial institutions' socially irresponsible practices (BankTrack, 2016; Missbach, 2007). For example, Missbach (2007) argues that corporate actions that violate social and environmental rights could often not occur without the support of financial institutions in the form of finance. More specifically, without the finance and investment role of financial institutions, many human rights abuses would not happen (De Felice, 2015). Increased stakeholder and media scrutiny, evaluation and criticism are creating awareness, specifically about investment and financing decisions that breach sustainable ecological practices (Market Forces, 2013). As civil liberty movements create greater societal awareness about financial institutions' socially irresponsible behaviour (e.g., 'dodgy' deals - BankTrack, 2016),[1] this awareness becomes an important force that can challenge financial institutions' social and environmental transparency. While research investigating corporate social and environmental responsibility and associated disclosure practices within the financial services sector is growing (Branco & Rodrigues, 2008; Cornett, Erhemjamts, & Tehranian, 2016; Cowton & Thompson, 2000; Islam, Jain, & Thomson 2016; Macve & Chen, 2010; Thompson & Cowton, 2004; Uddin, Siddiqui, & Islam, 2018), there is a general lack of research examining whether broader stakeholder concerns and social movements influence corporate social and environmental transparency within the financial sector. Furthermore, most empirical research in accounting focussing on disclosure and transparency issues, excludes the financial sector.[2]

We argue that institutional, social and country-level factors play a role in influencing corporate social and environmental transparency as reflected by the public availability of

[1] Banks' 'dodgy' deals are highlighted by campaign groups such as BankTrack, which supports the campaign work of other civil liberty groups. Each dodgy deal highlighted includes information on specific financial sector companies' involvement in financing socially and environmental damaging projects or companies. In 2016 BankTrack highlighted fourteen new 'dodgy' deals, of which five were for new coal power plants, three for dam projects, three for new fossil fuel infrastructure, and the remaining three for a coal-focused utility, an international airport and a mining project (BankTrack, 2016, p. 5).

[2] In fact, almost all empirical research published in accounting journals ignore the financial sector as it is often regarded as too different from, for example, industrial companies to be included in the sample. We therefore know very little about the reporting and accountability implications of a very important industry.

relevant social and environmental information (Blanc, Islam, Patten, & Branco, 2017; Cannizzaro & Weiner, 2015; Cho, Laine, Roberts, & Rodrigue, 2015; Jha & Cox, 2015). We use the notion of civil liberty (Chong, 2014; Glasius & Kaldor, 2002; Kaldor, Anheier, & Glasius, 2003) derived from the sociology literature on social movement theory (e.g., Davis & Zald, 2005; De Bakker, Den Hond, King, & Weber, 2013; Soule, 2012; King & Soule 2007; Meyer & Minkoff, 2004; Tarrow, 1994; Zald & Berger, 1978; Davies, 1962; Tilly, 1978), to understand the influence of civil liberties on the willingness of financial companies to make corporate social and environmental information publicly available. Civil liberties enable the media, social movements, and other non-financial stakeholders to expect and challenge companies to be more transparent. We expect that the level of civil liberties in a country will influence the availability of corporate social and environmental information in that country. Our research is relevant for the ongoing concerns of social and environmental transparency initiatives by governments, NGOs, and civil rights organisations.

Using social movement theory in general, and the notion of civil liberty in particular, we examine the social and environmental information that is publicly available for 300 financial companies from 50 countries over a nine-year period (giving 1487 observations). We find that there is more extensive corporate social and environmental information available for financial companies from countries with higher levels of civil liberties. We contribute to the literature by applying the notion of civil liberty within social movement theory, to a new and unique setting, the influence of civil liberties on corporate transparency. Our findings reveal the important influence of civil liberties on corporate transparency through the public availability of more extensive corporate social and environmental information. This broadens our knowledge about what influences the availability of information, and disclosure decisions more specifically, through a range of media and channels. Our findings have policy

implications in that it shows countries that want to improve corporate social and environmental transparency that improving civil liberties could bring this about.

The paper unfolds as follows. The next section discusses transparency and its influence on the availability of information. This is followed by the theoretical framework and hypothesis development. Section four details the research methods and data collection, followed by section five with the results of the study. This is followed by our conclusions.

2. Transparency and corporations' willingness to disclose

Bushman, Piotroski, and Smith (2004, p. 207) define corporate transparency as 'the availability of firm-specific information to those outside publicly traded firms.' Transparency relates to financial and non-financial information, including social and environmental information. The willingness to be transparent therefore results in information being made publicly available through reporting in regular reports (for example CSR and sustainability reports) or using other mediums and channels. The KPMG surveys reveal increasing trends in corporate social and environmental disclosure and reporting (KPMG 2013, 2015, 2017). In addition to disclosure in corporate reports, there are other media and channels available for making corporate social and environmental information available, i.e., websites, news media, blogs, social media, etc. Our aim is to explore how civil liberties influence financial companies to make more extensive information publicly available, through disclosures, reports and any other available medium.[3] Since we consider a range of publicly available information, we need social and environmental information that has been collected across a wide range of information sources, then standardised, validated, and disseminated.

[3] The term financial company is much wider than just the banking industry. It includes commercial banks, investment banks, insurance companies and other financial institutions.

2.1 Transparency complications

Corporate social and environmental disclosures have often been criticized by broader stakeholder groups, including NGOs and civil society organisations, for focusing on general and vague disclosure items while neglecting specific disclosures on meaningful and challenging issues.

There are some debates on whether the disclosure of information by corporations can be regarded as transparency (Coslor, 2016; Roberts, 2009; Moneva, Archel, & Corea, 2006; Dando &Swift, 2003). Early normative work suggests that regulatory bodies should require expanded, or extensive, social and environmental disclosures by companies to promote corporate social and environmental transparency, in the same way as financial transparency is regulated (Williams, 1999). Critical research (see, for example, Roberts, 2009) highlights that while transparency relates to giving 'a full account of ourselves', a fully open and honest account of oneself is considered to be impossible. Coslor (2016) raises the difficulty of providing a nuanced contextualised understanding of transparency through corporate disclosures. Critical accounting research has also problematised the way corporations are dichotomising, silencing or omitting certain accounting and disclosures (Andrew & Cortese, 2011; Hussain, Liu, & Miller, 2020; Journeault, Levant, & Picard, 2020; Semeen & Islam, 2020). In the context of the general absence of social and environmental disclosure regulation (i.e., guidelines/requirements/standards - see footnote 15), and therefore of standardised (and comparable) reports and disclosures, social and environmental transparency is a complex concept and difficult to determine (i.e., Gold & Heikkurinen, 2018; Coslor, 2016; Roberts, 2009).

While disclosure (or making information available), particularly with regards to voluntary disclosures, can therefore be criticised as not giving a full account, it is an

important part of becoming transparent and has been used as such in quantitative accounting research to understand the motivation behind ongoing corporate transparency practices (e.g., Bushman et al., 2004; Han, Kang, & Yoo, 2012; Islam & Van Staden, 2018). Making information available signals a willingness towards being transparent, or an important step towards transparency. While we acknowledge prior critical research that highlighted the complexity of understanding and measurement of transparency, our approach in this paper is in line with the prior quantitative accounting research (see for example, Islam &Van Staden, 2018) that has focused on the public availability of information from multiple sources.

Historically, the unregulated nature of the disclosures allows companies to focus on general and unspecific disclosures (for example, aims and policies) and avoid giving specific information on challenging issues (for example, energy consumption, carbon emission, employee turnover). In response to stakeholder concerns, increasingly countries have started mandating environmental and sustainability disclosures (see for example, Ioannou & Serafeim, 2017; Tschopp & Hefner, 2015) though it remains questionable if this has made a difference to transparency. It has been found that even in a mandatory disclosure context, management still has discretion as to what information and what level of detail to make available (Islam & Van Staden, 2018; De Villiers & Van Staden, 2011). Users are therefore often disappointed in the range of issues covered, and why certain issues that appear relevant were not covered. We assess whether information is available on a broad range of relevant items that was determined independently of the company and its management.

2.2 Independent data sources and transparency

Independent bodies that collect, assess and interpret social and environmental information on companies contribute to improved transparency, by collecting data across a wide range of information sources and making information widely available in a standard format. For

example, Transparency International assessed and scored the level of anti-corruption transparency of 105 global companies (Kowalczyk-Hoyer, 2012) while the CIFAR (Centre for International Financial Analysis and Research) produces disclosure scores that have been used in the literature for company-level financial transparency (e.g., Han et al., 2012).[4]

Given the unregulated nature of social and environmental disclosures, we argue that transparency is improved by the disclosure, or making information available, about a wide range of relevant items, as determined by an independent data provider, rather than the disclosure of a narrow range of general and unspecific items of the company's (management) choice. This could be through social and environmental (or sustainability) reports, annual reports, and corporate websites, news items, and other public sources. Data intermediaries like Bloomberg consistently monitor a range of data sources over time, which would be very difficult to do for individual researchers.[5] Using an independent data source results in a consistent range of relevant disclosures across companies and across time. In this paper, we rely on corporate social and environmental disclosure scores independently assessed and documented by a third party, i.e., Bloomberg, based on the availability of information on a broad range of specific items related to corporate social and environmental responsibility in the finance industry. As discussed, this has two main benefits: 1) Bloomberg gathers information across a wide range of publicly available disclosures and media and has been consistently doing this for many years, and 2) information is standardised and assessed using a list of relevant information requirements as determined by Bloomberg (i.e., independent of the company management).

[4] CIFAR scores evaluate firm disclosure levels of 85 financial statement items, based on annual reports.
[5] Previous research published in the accounting literature, used disclosure content analysis approaches (see for example, Islam & Deegan, 2010) to document social and environmental disclosures from corporate annual reports and sustainability reports. Covering a range of data sources over time and for a big sample of companies would be almost impossible for individual researchers. Also, this would be impossible to do for website information that changes over time and therefore cannot be collected retrospectively.

3. The notion of civil liberty and corporate transparency: hypothesis development

The notion of civil liberty, a particular notion from social movement theory[6] (e.g., Chong, 2014; Davis & Zald, 2005; De Bakker et al., 2013; Meyer & Minkoff, 2004; Glasius & Kaldor, 2002; Kaldor et al., 2003; King & Soule 2007; Soule, 2012; Tarrow, 1994; Zald & Berger, 1978; Tilly,1978; Davies, 1962) suggests that people have rights, to freedom of thought, expression, and action, and the protection of these rights from interference or restriction by powerful actors, such as the government (Kaldor et al., 2003) or large (multi-national) corporations. Civil liberties are the hallmark of liberal, democratic 'free' societies. For example, countries with high levels of civil liberties, allow individuals to express their moral, political, and religious viewpoints, and voice their concerns, without restriction by any authority.[7]

In a country with high levels of civil liberties, many social actors, including individuals, NGOs, social movement organisations and trade union bodies, are all active and campaigning for civil rights (for example, in Scandinavian countries). Civil liberties are different across counties. The social movement organisations and NGOs operating in a country are an important factor for the level of development of civil liberties in that country. They have successfully campaigned for, and protected, civil liberties in much of the developed (western) world (Gray, Bebbington, & Collison, 2006; Soule, 2012). Social movement theory (Meyer & Minkoff, 2004; Tarrow, 1994; King & Soule, 2007), provides important insights into how social movement activities (such as protests and boycotts)

[6] Early sociology research shows that social movement theory originates from a central idea that social movement organisations, including NGOs and human rights organisations, develop into social movements from their collective and organised actions for the purpose of creating social change at local or national levels (Davies, 1962; Tilly, 1978).

[7] An example is the Bill of Rights in many countries which guarantees a variety of civil liberties, such as freedom of assembly, freedom of the press, freedom of religion and the freedom of speech.

function. Social movement organisations need a platform or opportunity to mobilise activist protests (Meyer & Minkoff, 2004).[8]

In a broader sense, awareness of civil rights (of which civil liberty is a key component) can be created by civil rights movement organisations and social movement organisations. Civil rights or social movement activities are "the quintessential example of public-spirited collective action in our time" (Chong, 2014, p. 1). An interesting trend is witnessed in the developed world where previously dispersed shareholders of large corporations are increasingly being replaced by "organised social movement fund trustees and advisors that share a common ideology" (Davis & Thompson, 1994, p. 141). Such phenomena gradually led to the development of corporate-focused social and civil movements in both the for-profit and not-for-profit sectors (Snow, 2004).

The accounting and sociology literature have highlighted the roles of different civil movement organisations and NGOs with regards to the accountability and transparency of corporations (see for example, Thomson, Dey, & Russell, 2015; Gray et al., 2006; Islam & Van Staden, 2018). In this regard, Gray et al. (2006) find that different civil movement organisations (including NGOs and social movement organisations) are *inter-alia* connected in seeking government and corporate accountability while Islam and Van Staden (2018) find that social movement organisations can influence global companies to be transparent in relation to a particular human rights issue.

It is, therefore, reasonable to argue that in countries with high levels of civil liberties, civil-rights activists' campaigns are more visible and effective (BankTrack, 2016; Brightwell et al., 2017; Moody, 2015). Furthermore, civil rights activists are recognised and can exert pressure and expedite change with regards to corporate transparency. This also applies to

[8] For example, Tarrow (1994) highlights dimensions of the political environment and opportunities that provide incentives for people to undertake collective actions and social movement activities.

financial companies' 'dodgy' deals or harmful projects impacting the environment and society. For example, when the Dakota Access Pipeline in the United States was underway with the help of loans amounting to US$2.5 billion provided by 17 banks, it attracted massive criticism from civil rights activists (i.e., BankTrack) for the violations of social and environmental rights (Brightwell et al., 2017, p. 4):[9]

> "The project has been widely described as breaching the human rights of Indigenous peoples….. As the final route of the pipeline was reportedly known as early as September 2014, the 17 banks financing the project should have known of the human rights risks associated with the project well before financial close. However, there is no evidence that these banks took action to require, encourage or support the client to prevent these risks, e.g., through requiring the pipeline to consider alternative routes. In BankTrack's view, these 17 banks are therefore contributing to the adverse human rights impacts caused by the pipeline project, by adding to conditions that make it possible for someone else (i.e., the pipeline project consortium) to cause harm."

De Bakker et al. (2013) state that "the relationships between social movements and civil society on the one hand, and the corporate world, on the other hand, are often shaped by conflict over the domination of economic, cultural and social life" (p. 573). Civil liberty movements in the developed world have focussed on the transparency of processes and activities undertaken by governments and large corporations, human rights records, social responsibility declarations and the assurance thereof (see also, Islam & Van Staden, 2018). While civil liberty organisations may commence with the goal of achieving transparency in government proceedings (Jenkins & Goetz, 1999), their actions against corporations (Campbell, 2007) are often motivated by a lack of transparency regarding corporate human rights records.

By keeping the notion of civil liberty in mind, we argue that in countries with lower civil liberties, civil rights may well be restricted by the government and other powerful actors, including corporations and local elites (for example, conflict countries in Africa). It is our contention that in these countries there will be less motivation for, and demands for,

[9] The Dakota Access Pipeline is a 1,172-mile oil pipeline connecting the Bakken and Three Forks production areas in North Dakota to a storage hub at Patoka, Illinois, USA. The pipeline is routed underneath the Missouri River, the primary drinking water source for the Standing Rock Sioux, meaning leaks or oil spills could contaminate this water source.

corporate transparency and resulting information disclosures. Furthermore, there is potentially more opportunity for civil liberties to change in countries with low levels of civil liberties compared to countries with high levels of civil liberties. Changes in civil liberties could therefore have a bigger influence on corporate transparency in countries with low levels of civil liberties.

We examine the influence of the components of country-level civil liberties as observed in the *Freedom in the World* measure (Kaldor et al., 2003; Freedom House, 2018), on corporate social and environmental disclosure practices:

- *Freedom of expression and belief* is one of the basic features of civil liberty movements and includes free media/press, freedom to practice faith and academic freedom (Freedom House, 2018). Freedom of expression depends on free flows of information (Voorhoof & Cannie, 2010) to be effective and is therefore important for the ability of broader stakeholder groups to voice their concerns (De Villiers & Marques, 2016; Blanc et al., 2017), and which could, in turn, influence corporate social information disclosure practices.
- *Associational and organisational rights* is perhaps the most significant component for successful social movements. Prior social movement literature emphasises the collective right to organise, frame or use particular movement tactics to influence institutional change, including transparency (Soule, 2009; Davis, Morrill, Rao, & Soule, 2008; Davies, 1962; Tilly,1978). Ioannou and Serafeim (2012) argue that the collective roles of stakeholders such as workers and their associations have an impact on corporate social responsibility.
- *Rule of law* via an independent judiciary, fair trials and equal treatment, not only protects civil liberties but also increases citizens' rights (Day, 1983). The courts (both federal and local) in a country play an important role to establish the rule of law (Saunders, 2013) and play a central role to nurture other forms of civil liberties. Castiglione, Infante, and Smirnova

(2015) argue that improvement in rule of law results in an increase in corporate environmental responsiveness.

- *Personal Autonomy and individual rights* include freedom of movement, freedom to enjoy property and inheritance, personal and social freedom in terms of marriage partner and family size, protection from domestic violence, equal opportunities, and freedom from economic exploitation (Freedom House, 2018). Personal autonomy and individual rights are important influences on organisational (environmental) sustainability (Pelletier, Baxter, & Huta, 2011). Although prior research did not discuss the influence of individual rights on corporate social and environmental practices, we argue this factor is relevant as this is related to the other components of civil liberties mentioned above (i.e., *associational rights* and *freedom of expression*).

The four components form the civil liberty milieu of a country. We argue that in countries with high levels of civil liberties, stakeholders can freely criticise and challenge corporations (both financial institutions and the corporations funded by these financial institutions) for violations of human and environmental rights and influence corporations to be socially and environmentally transparent through making more relevant information publicly available. Therefore, we propose the following hypothesis:

> *Higher levels of civil liberties will result in companies making higher levels of relevant information available on social and environmental issues.*

4. Research Methods

4.1 Data and variables

We collected data on all listed financial companies on the Bloomberg data service between 2010 and 2018, and then filtered out those observations with missing data. Companies must have environmental and social disclosure scores, as well as other control variables and the

country that they are headquartered in must have a civil liberty index available. Our primary sources of information are Bloomberg's Environmental and Social information database from where company-level environmental and social disclosure information was collected, and Thomson Reuters from where other company-level information was collected. The country-level civil liberty index was obtained from *Freedom House*. After omitting observations with missing data, we generate a sample of 1,487 observations representing 300 financial institutions from 50 countries for the period 2010 – 2018. Table 1 shows the sample distribution.[10]

[Insert Table 1 here]

4.2 Dependent variable –social and environmental information

We use Bloomberg's social (S) and environmental (E) scores, part of their ESG (Environmental, Social and Governance) score as our dependent variables, ENV and SOC, respectively. Since 2009, Bloomberg has compiled this data by evaluating companies on an annual basis, collecting publicly available environmental and social information, made available by companies through corporate social and environmental and sustainability reports, annual reports, websites, and other public sources (Huber & Comstock, 2017). Bloomberg makes this data relevant and transparent by collecting, verifying, standardising and sharing this data for more than 11,500 companies in 83 countries (Bloomberg, 2016).

To get a higher score from Bloomberg, companies need to disclose, or make available, information on more of the index items that Bloomberg evaluates, i.e., 116

[10] We compare the civil liberty measure (CLSCORE) of our sample with that the universe of financial companies that had environmental and social disclosure information available on Bloomberg using a *t*-test of means. We find that the mean of our civil liberty measure (48.40) is not significantly different from the mean of the civil liberty measure of all the financial companies with environmental and social disclosure information on Bloomberg (47.94) (Difference, 0.46; t-stat = 1.205; significance p = 0.228 – two tailed). Furthermore, the mean civil liberties for the universe of all finance companies over the period of our sample is 44.63, again not significantly different from the mean of our sample. We therefore conclude that there is no bias in our sample, despite it being restricted to companies with available information.

environmental themes and 45 social themes (we give examples of some of the index themes below). Eccles, Ioannou, and Serafeim (2014) indicate that the Bloomberg ESG score is a measure of how *complete the company's reporting is on a range of environmental and social, topics* based on a scale of 0% to 100% and suggest that this represents 'a higher level of transparency' (p. 2846) while Fatemi, Glaum, and Kaiser (2018) indicate that Bloomberg bases its disclosure scores *on the data points collected* and tailoring its reports to the industry. Tamimi & Sebastianelli (2017) indicate that the Bloomberg score is based on quantitative and qualitative measures, using publicly available data, annual and sustainability reports, direct communication, press releases, third-party research, and news items. Companies will therefore not get a higher score for disclosures/information on a narrow range of topics, rather Bloomberg is looking for specific information on the broad range of topics in their index, relevant to the industry which will increase the transparency about these topics.[11] This overcomes the issues of incomplete disclosures and greenwashing that the disclosure literature often raises, as companies cannot get a good score by focussing on general intentions and 'soft' disclosures.

The Bloomberg social and environmental index scores can range from 0.1 for companies with minimum information available, to 100 for companies with extensive information available. A higher (lower) social and environmental index score indicates that a company is leading (lagging) its peers in that specific year. The following are examples of major themes under the social and environmental categories included in the Bloomberg index:

- *Environmental category:* 116 themes including items on Energy/Water Consumption, Carbon Dioxide/Monoxide Emission, Energy Efficiency Policy, Waste Reduction Policy,

[11] In this regard, Tamimi and Sebastianelli (2017) indicate that more relevant information disclosed by the company across the index items, results in a higher disclosure score and that this metric measures the level of commitment to transparency.

Environmental Supply Chain Management, Emissions Reduction Initiatives, Environmental Quality Management Policy, Climate Change Policy, and so on.

- *Social category*: 45 themes including items on Employee Turnover, Percentage of Woman in Workforce/Management, Community Spending (donations), Social Supply Chain Management and Transparency, Corporate Social Responsibility (CSR) Training, Fair Remuneration Policy, Equal Opportunity Policy and Procedure, Business Ethics Policy, Anti-bribery/Corruption Policy, and so on.

While there is some debate in the literature on what the Bloomberg ESG score represents, we find enough evidence in the literature for arguing that the Bloomberg score is a disclosure, and more specifically, a transparency measure. For example, Eliwa, Aboud, and Saleh (2019, p. 3) indicate that Bloomberg focuses on a company's level of ESG disclosure - and that ESG disclosure is 'the channel through which [the company] announces [ESG-related] activities to its stakeholders'. McBrayer (2018) argues that Bloomberg data enables an examination of the quality of disclosures directly and over time while Fatemi et al. (2018) use Bloomberg's measure of ESG disclosure as a proxy for disclosure.[12] They indicate that 'Bloomberg assesses the extent of each firm's disclosure of its environmental, social, and governance (ESG) activities. Bloomberg's data points come from company filings, such as sustainability reports, annual reports, and corporate websites, and thus reflect the universe of information publicly available to investors' (Fatemi et al., 2018, p. 50). Likewise, Tamimi, and Sebastianelli (2017) explore the state of S&P 500 companies' transparency by analysing their Bloomberg ESG disclosure scores, while Baldini, Dal Maso, Liberatore, Mazzi, and Terzani (2018) rely on Bloomberg ESG scores as a proxy for a company's level of environmental and social disclosure. They indicate that 'a key advantage of using the

[12] According to McBrayer (2018), using measures of social and environmental disclosure quality developed by an independent data service for a large set of firms regardless of their preferences for inclusion, avoids the potential issues of inference using survey-based data.

Bloomberg ESG is that the score is tailored to different industry sectors; hence, a company is evaluated using data relevant to its industry' (Baldini et al., 2018, p. 84).[13]

Using an independent third party that combines various sources of information on social and environmental activities and performance is important to obtain a reliable disclosure measure for our analysis. The benefit of using Bloomberg is that it includes a range of sources and media over a long period of time, which would be difficult to collect by hand. It uses a comprehensive index and requires disclosure across these items to get a good score. It is collected, standardised, and validated by an independent party. It is consistently gathered and reported across companies and across time. This makes Bloomberg a good source to obtain data on the transparency of the information available for a large sample of observations (1,487) from different companies (300) and countries (50) over a long period (2010 – 2018).

4.3 Independent variable – civil liberty index

The civil liberty index was obtained from the *Freedom in the World* annual report prepared by Freedom House.[14] Founded in 1941, Freedom House is a US-based global NGO working as an independent watchdog organization dedicated to the expansion of freedom and democracy around the world. This organisation produces research reports and data on core thematic issues related to democracy, political rights and civil liberties around the world. Adopting guidelines from the UN General Assembly's Universal Declaration of Human Rights, *Freedom in the World* established a comprehensive methodology based on surveys across countries, to provide thorough annual reviews on the condition of civil liberties in

[13] Further research that has also used the Bloomberg data as a disclosure/transparency measure includes Bernardi and Stark (2018), Eccles, Serafeim, and Krzus (2011), Lai, Melloni, and Stacchezzini (2016), and Qiu, Shaukat, and Tharyan (2016). Furthermore, De Villiers and Marques (2016) found the Bloomberg ESG measure to be highly correlated with their social and environmental disclosure measure from the GRI, (GRI_Score) (p. 188).

[14] https://freedomhouse.org/

countries around the world. They have done this annually since 1973. There is a range of academic research that has used this index (see for example, Adam & Filippaios, 2007; BenYishay & Betancourt, 2010; Anwar & Coory, 2012; Carnegie & Samii, 2017) and find this to be a reliable measure of the civil liberties as observed in the underlying countries.

The civil liberty index considers four indicators: Freedom of Expression and Belief (4 items), Associational and Organizational Rights (3 items), Rule of Law (4 items), and Personal Autonomy and Individual Rights (4 items). The index is evaluated over the 15 items (as indicated) and each item is scored from 0 (lowest) to 4 (highest), i.e., a total potential score of 60. The civil liberty index (CLSCORE) provides a country-level perspective of civil liberties in each country and is based on the country where a financial institution is headquartered. In addition, the four components of the civil liberty index, Freedom of Expression and Belief (FEB), Associational and Organizational Rights (AOR), Rule of Law (ROL), and Personal Autonomy and Individual Rights (PAI), are also included in our analysis to explore how they influence the results.

4.4 Control variables

To control for other influences on the relationship between civil liberties and the availability of social and environmental information, we include control variables as motivated in the literature.

One of the corporate mechanisms put in place to provide credible information to stakeholder groups which could improve transparency, is the external assurance of this information. Social and environmental assurance provides both external stakeholders and management with increased confidence in the credibility of social and environmental information disclosed by companies (Islam et al., 2016). External assurance of a financial institution's social and environmental disclosure should enhance social and environmental

transparency as the assurance process could encourage companies to report on all relevant social and environmental aspects and increase their transparency in that way. We collect the data on whether the company has obtained external verification of its sustainability (social and environmental) disclosures from the Thompson Reuters database. The decision to obtain external assurance (DASSU) is measured by a dummy variable which is assigned 1 for observations with external assurance, and zero otherwise.

Companies' financial performance appears to influence their social and environmental disclosures (see for example, Cornett et al., 2016; Dhaliwal, Li, Tsang, & Yang, 2011; El Ghoul, Guedhami, Kwok, & Mishra, 2011). We use return on assets (ROA) as a financial performance measure. Similarly, it is conjectured that larger companies have more incentives for improved social and environmental disclosures (Cornett et al., 2016; Dhaliwal et al., 2011; Harjoto & Jo, 2015; Michelon, 2011). We use the natural logarithm of total assets (SIZE) as a size measure. Leverage (LEV), measured by total liabilities scaled by total equity, is introduced to control for the influence of financial leverage (El Ghoul et al., 2011; Jiraporn, Jiraporn, Boeprasert, & Chang, 2014). Enterprise value scaled by market capitalization (EV/MCAP) is used to control for growth opportunities. Enterprise value is the market value of total assets, excluding cash and investments, and reflects investors' opinion on the future earnings of the company. Share price movements reflect disclosed and non-disclosed information about the underlying company. Therefore, share return volatility (VOLAT), that is, the standard deviation of daily share returns in the corresponding calendar year, is introduced as a control for information not reflected by the financial ratios, including any potential misconduct in the social and environmental areas (Bushman & Williams, 2015; Harjoto & Jo, 2015).

We also control for the influence of corporate governance. Research has found that companies providing more corporate social responsibility information have better corporate

governance ratings (see for example, Chan, Watson, & Woodliff, 2014). We use two indicators, board independence (IND_DIR, the percentage of independent directors on the board) and board gender diversity (BG_DIV, the percentage of female directors on the board). Jizi, Salama, Dixon, and Stratling (2014) find that board independence is an important factor influencing corporate social responsibility disclosure in the banking sector while Liao, Luo, and Tang (2015) find that a board with more independent directors shows a higher tendency to be ecologically transparent. Board gender diversity also leads to better corporate social responsibility disclosures (see for example Cabeza-Garcia, Fernandez-Gago, & Nieto, 2018; Liao, et al., 2015).

Two country-level control variables are incorporated in the multivariate analysis. GDP per capita indicates the wealth level of a country. The influence of GDP per capita is underdetermined. On the one hand, economies with higher GDP per capita could suggest that these are wealthy developed countries with most likely high levels of civil liberties. Countries with high GDP per capita could also represent countries from emerging markets that have high GDP and a low population, and most likely lower levels of civil liberties. Ex-ante, it is therefore unclear what the effect of GDP per capita on corporate disclosures and transparency will be. We use the natural logarithm of GDP per capita (GDP) of the country where the financial institution is headquartered as a control variable.

Many countries have in recent years introduced mandatory social and environmental disclosure requirements. These are listing and/or other requirements to disclose environmental and social information, but in most countries, there are no guidelines/requirements/standards for what information should be disclosed, and in many cases the requirements differ by country.[15] Previous literature on social and environmental

[15] The mandatory requirements to report in most countries do not coincide with social and environmental reporting standards and the resulting reporting content is therefore still left at the discretion of management. At the time of writing, the GRI had the most comprehensive set of guidelines for social and environmental reporting (called standards by the GRI) and the IFRS Foundation Trustees issued a Consultation Paper on

disclosures has mainly focused on voluntary disclosures and it is therefore unclear how the requirement to report will influence the extensiveness of the information reported. Islam and Van Staden (2018) suggest that even if a disclosure is mandated by law, management still has discretion on how comprehensively it will be addressed. A mandatory requirement to report social and environmental information in a country could therefore lead to more companies reporting this information, but it is not clear if it will lead to more extensive information being reported. In order to control for the impact of mandatory requirements to report, we include a variable (MANDATORY) that takes the value of 1 if the underlying country has mandatory requirements for corporate social and environmental disclosure and 0 if not.[16]

We include a time-trend variable (TIME) to account for any time-specific evolution in SOC or ENV not attributed to the observed variables. The variable descriptions and sources are presented in Table 2.

[Insert Table 2 here]

4.5 Descriptive statistics

The descriptive statistics of the company and country level variables are shown in Table 3.

[Insert Table 3 here]

The mean (median) of the social disclosure score 45.28 (45.00), is higher than that of the environmental disclosure score, 34.81 (36.61), most likely because financial institutions, as part of the services sector, do not produce as much direct emissions as, for example, the mining and manufacturing sectors do, and the indirect influence of their financing decisions are often overlooked. Instead, financial institutions seem to be more concerned about their

Sustainability Reporting. At the moment, there are no generally accepted disclosure standards for social and environmental disclosures, and the responses to IFRS consultation document, which includes an open letter from prominent accounting journal editors in the CSR disclosure area, shows that this is a contentious issue.

[16] We collected this information from *https://www.carrotsandsticks.net/*. Notice that a country is regarded as having mandatory disclosure requirements, even if it only includes a requirement for limited ENV or SOC disclosures (for example, to disclose carbon emissions for carbon trading and emission reducing requirements).

social interactions and therefore are willing to elaborate on these interactions. The mean (median) civil liberty score is 48.40 (53), with a range of 32 – 59 and a standard deviation of 11.59. The mean civil liberty index score of the countries representing the companies is our sample is 81% (48.40/60). As discussed, this is made up of four components of which *Freedom of expression and belief* got the highest mean rating (85%), followed by *Associational and organisational rights* (84%), *Personal Autonomy and individual rights* (81%) and *Rule of law* (74%).[17] The civil liberty score is therefore more influenced by personal and associational freedoms (i.e., freedom of expression, associational rights, personal autonomy and individual rights) than rule of law, which refers to an independent judiciary, fair trials and equal treatment.

Among the control variables, 67% of companies had their social and environmental information assured (DASSU). ROA reports a mean of 1.62% and a standard deviation of 2.75%, which indicates divergence among the profitability of financial institutions from different countries. LEV shows a huge variety (with the bottom and top decile at 3.95 and 21.19, respectively) across the sample with a mean leverage at 12.71 times, which implies an equity-to-total-assets ratio of 7.87%. VOLAT has a mean (median) of 1.70% (1.56%), with a standard deviation of 0.71%. On average, 54.35% of board members across the sample are independent, while board gender diversity is only 18.36%. The mean of total assets is US$433 billion, with top and bottom decile at US$1,330 billion and US$14 billion (Panel B), respectively, suggesting the sample covers large and small financial institutions.

With regards to country-level control variables, 78%, of observations are from countries with some mandated social and environmental disclosure requirements. The mean

[17] This analysis takes into account differences in the measurement scale of the different components – Associational and organisational rights has a maximum score of 12 while the other three components have a maximum score of 16.

GDP per capita is US$30,300, with top and bottom decile at US$62,000 and US$17,000, respectively.

5. Empirical Analysis

5.1 Correlations

The correlations between the variables are presented in Table 4.

[Insert Table 4 here]

Civil liberty is significantly related to both social (SOC) and environmental disclosures (ENV) at the 1% level, which, at the bivariate level, supports our hypothesis. Furthermore, all four of the components of civil liberties (FEB, AOR, ROL, and PAI) are also significantly correlated to SOC and ENV by themselves at the 1% level. Assurance is significantly related to environmental and social disclosures. Size, leverage, enterprise value, and volatility exhibit significant positive correlation coefficients with ENV and SOC, while profitability is significantly negatively correlated. Independent directors are significant for ENV, but not for SOC, while diverse directors are significant for both. Mandatory requirements for disclosure and GDP are only significant for ENV. Since we observe multiple influences on environmental and social disclosures, using multivariate analysis is important to control for all these influences while observing the influence of our main variable of interest, civil liberties. In order to determine if multi-collinearity could be an issue in our analysis, we conducted variance inflated factors (VIF) analysis on all model specifications. The outcomes suggest that multicollinearity is not an issue in our analysis.

5.2 Mean comparisons

To understand our data better, we do comparisons between different disclosure groups and civil liberty groups in our sample. Panel A of Table 5 reports the results of an independent-

samples *t*-test of means, comparing companies with high and low (above and below the median) environmental and social disclosure scores. Companies with more extensive environmental and social information come from countries with significantly higher levels of civil liberties. These companies have their social and environmental disclosures assured. These companies are bigger, more leveraged, with higher growth opportunities, but lower profitability and higher share price volatility, compared to companies with less information available. Furthermore, they have a more diverse board and for environmental disclosures they have more independent directors on their board. Companies with more extensive environmental information are more likely headquartered in countries with higher GDP per capita, while this was not significant for social information. Interestingly, mandatory social and environmental disclosure requirements are only significant for environmental information and not for social information.

[Insert Table 5 here]

Panel B shows a comparison between companies from countries with high and low civil liberty scores for our disclosure variables. As expected, in high civil liberty countries, the social and environmental information available are significantly higher than in low civil liberty countries. In the next sections we further analyse these observations.

5.3 Multivariate analysis

We use random effects panel models (REM) for our main analysis. The dependent variables are SOC and ENV with civil liberties as the independent variable (X_{it}) for company-country *i* that is expected to affect SOC and ENV at time *t*. We also include a set of commonly used control variables (e.g., assurance, size and financial variables, corporate governance variables and county measures). A time-trend is included (in X_{it}) to account for any time-specific evolution in SOC or ENV not attributed to the observed variables. The REM with random

effects is preferred, as fixed effects (FEM) would difference out the time-invariant explanatory variables (i.e., assurance and mandatory).

To allow for potential correlation between the individual-specific effects and explanatory variables in the REM (which would result in the possibility of biased and inconsistent estimates if the assumption of orthogonality between individual effects and explanatory variables is incorrect), the Mundlak augmentation is used (Mundlak, 1978; Chamberlain, 1980). Thus, according to Baltagi (2003), inclusion of the Mundlak adjustments, as an explanatory variable of the means of the time-variant variables ($\overline{x}_i$) in the REM, allows for potential correlation between the individual-specific effects and explanatory variables and ensures that the estimates of the model are unbiased and consistent. Finally, the model is estimated with robust standard errors clustered by country. Stata 16.1 is used to conduct the econometric analysis of Equation 1:

$$Y_{it} = \alpha + \delta CLscore_{it} + \lambda \overline{x}_i + \beta' X_{it} + \varepsilon_{it} + u_i \quad (1)$$

Y is either ENV or SOC. In addition to the variables described above, μ_i represents the controls for individual heterogeneity (the random effects); ε_{it} usual unobserved zero-mean constant variance, uncorrelated, random disturbance (representing the net effect of all other unobserved factors that may influence the outcome); α and δ are coefficients and β a vector of coefficients to be estimated. Models are estimated with cluster-robust (on country) standard errors as default standard errors can greatly overstate estimator precision (White, 1984).

The REM models are based on quasi-differencing of all variables. Thus, significant coefficients on CLSCORE indicate that a change in CLSCORE is statistically associated with changes in ENV or SOC. Since the REM examines changes from multiple points in time (as well as the difference between units) and controls for unobserved heterogeneity (precluding omitted variable bias and avoiding the potential for causality being rejected due to spurious

correlations) significant coefficients can be assumed to support the hypothesis of causality from CLSCORE to ENV and SOC.

Our results are shown in Table 6, panels A and B. Our results show that civil liberty is highly significant for both environmental (ENV) and social (SOC) disclosures at the 1% and 5% levels respectively (Column 1 of Panel A and B). In line with our expectations, these results support our hypothesis that country-level civil liberties influence the levels of social and environmental information available for financial institutions based in the country, after controlling for other factors at both the company and country level known to influence the availability of information.

[Insert Table 6 here]

In terms of the control variables, the decision to assure (DASSU) shows highly significant and positive coefficients (at the 1% level) with both social and environmental disclosures. This shows that social and environmental assurance has a significant positive influence on the extensiveness of corporate social and environmental disclosures. The time trend variable (TIME) is also highly significant, showing that over time finance companies are making more social and environmental information available. This could be because of raised expectations from the company's stakeholders and from the societies that the company operates in, even though these may not be mandatory requirements (see, Cahan et al. (2016) for the concept of expected but not mandated CSR disclosures). ROA and SIZE have weak positive influences (at 10%) on social disclosures. Interestingly, having mandatory disclosure requirements do not influence the extensiveness of the disclosures. As discussed earlier, this could be because mandatory requirements introduce the requirement to disclose, but most often do not influence the level of disclosure which is still at managements' discretion. Our main results on the influence of civil liberties remain significant, despite the other influences on information disclosure that have been controlled for.

To explore the relationship between civil liberties and the availability of social and environmental information further, we analyse the components of civil liberty separately. In Table 6 columns 2 – 5 we report the results for each component of the civil liberty index, i.e., *Freedom of expression and belief* (FEB), *Associational and organisational rights* (AOR), *Rule of law* (ROL), and *Personal autonomy and individual rights* (PAI), separately against ENV (Panel A) and SOC (Panel B). For environmental information (ENV), three of the four components (AOR, ROL and PAI) report significantly positive coefficients at the 1% level and FEB at the 5% level of significance. For social information (SOC), AOR is significant at the 1% level while ROL and PAI are significant at the 5% level and FEB at the 10% level of significance.[18] Further tests have shown that there is no difference between the coefficient impacts of the four components on ENV and SOC, i.e., there is not a specific component that stands out as having a bigger (or the biggest) impact on making social and environmental information available (at the 95% confidence interval). The analysis of the four components making up the combined civil liberty score (CLSCORE) therefore support our theoretically informed expectations and our hypothesis that better civil liberties, which includes the four components of civil liberties individually and combined, will result in companies making more information available on social and environmental issues.

5.4 Additional analysis

We divide the sample into observations from countries with high civil liberty scores and countries with low civil liberty scores, using the sample mean as the cut-off. From Table 4 Panel B we see that SOC and ENV are significantly different across the high and low civil liberty groups. Since there are fewer observations in the low civil liberty group, we wanted to see if the results hold for the low civil liberty group. We find that our results (not

[18] The control variables show the same results as for the combined (CLSCORE) tests, as discussed earlier.

tabulated) hold for the low civil liberty group with the CLSCORE for both ENV (coefficient 0.463 at the 1% level) and SOC (coefficient 0.322 at the 1% level) being highly significant. Furthermore, we notice that the effect of civil liberty (as determined by the size of the coefficients) is higher for countries with low civil liberties compared to the full sample. An improvement (increase) in civil liberties in countries with lower civil liberties therefore has a bigger impact on changes in the ENV and SOC disclosure scores.[19]

We considered the influence of western countries to see if our results are dominated by western country observations.[20] We notice from a *t*-test of means (untabulated) the western countries have significantly higher mean ENV and SOC scores and also significantly higher civil liberty scores. When we run our main model on the non-western country sub-sample, we notice that the relationship between CLSCORE and both ENV and SOC remain highly significant for non-western countries (at the 1% level). This suggests that our results are not dominated by the western countries in our sample.

Furthermore, to omit the potential bias caused by countries with a small number of observations, countries with fewer than 20 observations are removed from the sample (i.e., countries from Israel to Morocco in Table 1). This reduces the sample size to 1,226 observations. Equation (1) is run on the reduced sample and the results (not tabulated) are similar to our main results. Furthermore, the main results still hold if we exclude observations from the United States, our results are therefore not driven by US companies.

Next, we consider the influence of assurance. Assurance of social and environmental information is a datapoint that Bloomberg consider in their disclosure analysis. It should be

[19] We have noted from our sample that the civil liberty index changes more in countries with low civil liberties and can therefore have a bigger influence on changes in ENV and SOC in these countries. Countries with high civil liberties will have less scope for change in the civil liberty index (and therefore changes in ENV and SOC).
[20] We defined western countries as countries with 1) Greek-Roman-Anglo-Saxon culture 2) mature democracy and 3) market-based capitalism. This includes Canada, the European member countries of the EU, the United Kingdom, the United States of America, Australia and New Zealand. We exclude eastern European countries (such as Hungary, Romania, Poland, etc.), and Japan, Korea, Singapore and South Africa.

noted that assurance (is it done and who is the assurance provider) makes up only two data points out of 116 of the ENV score, which suggests that it does not have a significant influence on the ENV score. Nevertheless, we ran our main analysis without the assurance (control) variable. Our results do not change significantly (CLSCORE for ENV 0.307*** and for SOC 0.235**). Assurance therefore does not have a significant influence on the relationship between civil liberties and the environmental and social disclosure scores.

We also consider the effect of the mandatory disclosure requirement further. In our main analysis, we control for the effect of the mandatory requirement by including this variable in our model and find that in all cases it is not statistically significant (indicating that the mandatory requirement does not influence our results). In addition, we do our analysis without the mandatory variable and find no significant differences in our results (CLSCORE for ENV 0.286*** and for SOC 0.214**). This is consistent with our finding that the mandatory variable (MANDATORY) is not significant when included in our main model. The mandatory requirements for the disclosure of social and environmental information in some countries therefore do not influence our results.

We do some tests for endogeneity. One issue to consider is the possibility that CLSCORE and either ENV and/or SOC are jointly determined, or that there is reverse causality (i.e., there is simultaneity), in which case CLSCORE is not, as required, exogenous but is endogenous. Endogeneity results in the potential for biased and inconsistent parameter estimates. It is therefore important to assess the possibility of endogeneity. Three approaches are taken. First, we perform the Durbin-Wu-Hausman (DWH) test for endogeneity (Davidson & MacKinnon, 1993; Wooldridge, 2010), which tests whether Instrumental Variable (IV) methods are required to estimate the equation instead of standard Ordinary Least Squared (OLS) models to obtain unbiased and consistent estimates. The test statistics for both ENV (p-value 0.169) and SOC (p-value 0.638) strongly indicate that the data cannot reject the use

of OLS-based estimation in preference to an IV method. Second, we informally examine the coefficient significance when running reverse equations (i.e., using CLSCORE as the dependent variable and ENV/SOC as the independent variables). The results unambiguously support the DWH test; the coefficient for ENV (with CLSCORE as the dependent variable) has a p-value of 0.379, and for SOC (with CLSCORE as the dependent variable) the p-value is 0.996. Finally, we make a comparison of the REM model coefficients for CLSCORE using a model with current CLSCORE, one with lagged CLSCORE and thirdly an IV REM. We find no statistical difference in the coefficients for CLSCORE in the three models. Taken together, the results of the three approaches strongly support the conclusion that endogeneity is not an issue for our findings.

Considering causality, it is clear from our regression analysis that the civil liberty score (CLSCORE), as the independent variable, influences both the environmental (ENV) and social (SOC) disclosure scores (i.e., statistically significant coefficients at better than the 0.1% level) and this supports our theoretically informed expectations and hypothesis. Moreover, there is no model-based evidence that either ENV or SOC influence CLSCORE. This is consistent with our hypothesis, a company's level of ENV and SOC react to the changes in CLSCORE, but changes in the CLSCORE are not reactions to changes in either ENV or SOC. Since the REM method we use examines changes from multiple points in time (as well as the difference between units) and controls for unobserved heterogeneity (precluding omitted variable bias and avoiding the potential for causality being rejected due to spurious correlation) significant coefficients can be assumed to support the hypothesis of causality from CLSCORE to ENV and SOC.

The results from the additional tests in this section support the validity and robustness of our main results.

6. Conclusions

We examined whether civil liberties have an impact on the availability of corporate social and environmental information by 300 financial institutions across the world over a nine-year period. We find that financial institutions headquartered in countries with high levels of civil liberties make more social and environmental information publicly available than financial institutions headquartered in countries with lower levels of civil liberties.

In countries with better civil liberties, more openness can be expected and this is likely to make corporations within the financial sector more inclined to be transparent about societal and environmental issues (Jha & Cox, 2015). Our findings are also consistent with prior research that looked at whether and how country-level factors such as press freedom or freedom of expression (De Villiers & Marques, 2016; Blanc et al., 2017) influence corporate social or environmental disclosure practices. Based on social movement theory (Soule, 2009; Davis et al., 2008) and more specifically the notion of civil liberty (Davis & Zald, 2005; De Bakker et al., 2013; Meyer & Minkoff, 2004; Glasius & Kaldor, 2002; Kaldor et al., 2003), we argue that as countries with high levels of civil liberties allow individuals to organise and maintain their social movement activities (such as protests, boycott) without restriction, financial institutions operating in those countries would disclose more extensive social and environmental information, and/or make this available through other means. Our findings support these arguments. Our findings therefore add to the extant accounting research on the influence of country-level factors on corporate social and environmental practices (for example, Ioannou & Serafeim, 2012; De Villiers & Marques, 2016; Pelletier, Baxter, & Huta, 2011; Blanc et al., 2017; Islam & Van Staden, 2018).

This is arguably the first study to explore the influence of a country-level social movement factor, i.e., civil liberty, on the corporate social and environmental disclosures of financial institutions. Our findings are an extension of prior research that considered

corporate disclosures as a response to a broader call for transparency in general. We have extended prior research which examined whether country-level social factors influence the social and environmental disclosure practices within the financial sector (e.g., Jha & Cox, 2015), the petroleum sector (Cannizzaro & Weiner, 2015), and other sectors in general (Blanc et al., 2017). We argue that these findings provide a significant and original contribution to the social and environmental transparency and disclosure literature. These findings confirm that civil liberties are key to financial institutions making social and environmental information publicly available in an effort to be more transparent. Since all organisations rely on finance, the finance sector, while understudied in this context, has important and broad cross-industry impacts.

Our findings have important implications: first, our findings suggest that in a society with high levels of civil liberties, corporations are under more scrutiny by external actors. Therefore, financial institutions operating in a society with higher levels of civil liberties, face higher demands for corporate social and environmental transparency and therefore make more social and environmental information available. Our results hold for countries with high levels of civil liberties and countries with low levels of civil liberties. Governments and civil liberty organisations should therefore always aim to improve the level of civil liberties in a country. Second, an improvement in civil liberties has a bigger impact on social and environmental transparency in countries with lower civil liberties than in countries with higher civil liberties. The policy implications for countries with lower civil liberties (typical developing nations) are that if they wish to improve corporate transparency, they need to strengthen their country-level civil liberties, including the four components of civil liberties discussed in this paper; freedom of expression, rights to organise, personal autonomy and rule of law (i.e., fair trials and equal treatment). Increasing literacy, human rights awareness, freedom of expression and a fair judiciary system would help to improve civil liberties and

strengthen civil society organisations' influences against socially irresponsible corporate activities. i.e., this allows social movements to become influential and to hold corporations socially accountable. Another important implication is that the external assurance of social and environmental information is an important influence on the disclosure of social and environmental information and should be encouraged at the company level and should be part of future social and environmental disclosure regulation.

We acknowledge that our conclusions are limited to the banking and finance industry. It is an industry often excluded from empirical studies in accounting. While we made strong arguments to motivate the importance of social and environmental transparency for this industry, the role of civil liberties on corporate social and environmental disclosures in other industries (such as the mineral or extractive industries) that are subject to different social and environmental crises, would be a fertile area for further research. Furthermore, the indirect impacts caused by using the products of financial institutions (for example, loans used to finance socially or environmentally destructive projects and insurance for these projects), could be on par or exceed the direct impacts of other industries, and determining and disclosing these impacts would be a worthwhile area for future research. While we explored the components of civil liberties, our findings on how this is operationalised are not conclusive. More research is therefore needed on how different components of civil liberties influence corporate transparency and disclosure practices.

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Tables

Table 1 Sample Distribution by Country

Country	Companies	Observations	Percentage (%)	Avg CLScore
United States	31	152	10.22	54.76
Japan	12	91	6.12	53.21
South Africa	13	84	5.65	47.37
Taiwan	14	76	5.11	52.95
China	25	75	5.04	14.55
United Kingdom	13	75	5.04	56.09
Canada	12	68	4.57	58.88
Australia	10	64	4.30	57.73
Italy	11	61	4.10	52.80
Spain	8	57	3.83	56.70
Brazil	9	56	3.77	47.39
Germany	7	54	3.63	56.56
Switzerland	11	46	3.09	57.00
France	8	43	2.89	55.81
Korea	9	38	2.56	50.00
Hongkong	7	37	2.49	48.43
Sweden	7	32	2.15	59.78
Turkey	7	28	1.88	28.68
Thailand	7	26	1.75	27.19
India	8	23	1.55	42.39
Malaysia	6	20	1.34	27.25
Netherlands	4	20	1.34	58.90
Israel	4	19	1.28	44.37
Poland	5	19	1.28	53.89
Colombia	3	18	1.21	34.17
Singapore	5	18	1.21	32.17
Mexico	3	17	1.14	36.94
Norway	2	17	1.14	60.00
Denmark	3	16	1.08	57.69
Indonesia	5	16	1.08	34.19
Russia	2	16	1.08	18.25
Philippines	3	14	0.94	36.57
Austria	3	11	0.74	57.82
Belgium	1	9	0.61	56.89
Portugal	1	9	0.61	58.00
Chile	2	8	0.54	57.00
Hungary	1	8	0.54	50.88
Greece	1	7	0.47	48.71
Jordan	1	7	0.47	24.57
Oman	1	6	0.40	17.17
Kuwait	2	5	0.34	23.40
UAE	3	5	0.34	13.00
Qatar	1	4	0.27	17.75
Egypt	1	3	0.20	17.67
Argentina	2	2	0.13	48.50
Finland	1	2	0.13	60.00
Saudi Arabia	2	2	0.13	7.00
Czech	1	1	0.07	56.00
Ireland	1	1	0.07	57.00
Morocco	1	1	0.07	26.00
Total	300	1,487	100	

Notes: Avg CLScore is the average Civil Liberty Score for each country over the period of observation (2010-2018), ranging from 7 to 60. In our tests we use the observed Civil Liberty Score of countries for each year.

Table 2 Variable descriptions and sources

Variables	Description	Source
Dependent variables		
ENV	Environmental information disclosure score	Bloomberg
SOC	Social information disclosure score	Bloomberg
Independent variables		
CLSCORE	Civil Liberty Index	Freedom House
Components of Civil Liberty Score		
FEB	Freedom of Expression and Belief	Freedom House
AOR	Associational and Organisational Rights	Freedom House
ROL	Rule of Law	Freedom House
PAI	Personal Autonomy and Individual Rights	Freedom House
Control variables - Company		
DASSU	Takes the value of 1 if the company obtains external social and environmental assurance, otherwise 0	Thomson Reuters
ROA	Defined as the ratio of net income over average total assets	Thomson Reuters
SIZE	Natural logarithm of total assets	Thomson Reuters
EV/MCAP	Enterprise value scaled by the market capitalization (i.e., market value of total assets, excluding cash and investments, scaled by market value of equity)	Thomson Reuters
LEV	Total liabilities scaled by total equity	Thomson Reuters
VOLAT	Standard deviation of daily share returns as of the corresponding financial year	Thomson Reuters
IND_DIR	Board independence, measured as the percentage of independent directors on the board	Thomson Reuters
BG_DIV	Board gender diversity, measured as the percentage of female directors on the board	Thomson Reuters
TIME	A linear time trend.	
Control variables - Country		
GDP	Natural Logarithm of GDP per Capita	World Bank
MANDATORY	Takes the value of 1 if the underlying country has any mandatory social and environmental reporting requirements, otherwise 0	Carrots and Sticks

Table 3 Descriptive Statistics

Panel A: Descriptive(s)						
Variable	N	Mean	Median	S.D.	P10	P90
ENV	1487	34.81	36.61	14.87	13.39	51.79
SOC	1487	45.28	45	14.71	26.67	63.33
CLSCORE	1487	48.40	53	11.59	32	59
FEB	1487	13.55	15	3.45	7	16
AOR	1487	10.07	11	2.86	4	12
ROL	1487	11.83	14	4.05	5	15
PAI	1487	12.96	14	2.87	9	15
DASSU	1487	0.67	0	0.47	0	1
ROA	1487	1.62	0.91	2.75	0.21	3.09
SIZE	1487	25.67	25.69	1.70	23.36	27.92
LEV	1487	12.71	11.54	9.09	3.95	21.19
EV/MCAP	1487	2.09	1.28	2.62	0.18	5.15
VOLAT	1487	1.70	1.56	0.71	0.97	2.60
IND_DIR	1487	54.35	53.85	26.39	19.05	91.67
BG_DIV	1487	18.36	18.18	12.81	0	35.71
GDP	1487	10.18	10.61	0.91	8.77	10.98
MANDATORY	1487	0.78	1	0.41	0	1
Panel B: Observed values						
SIZE (in billion US$)	1487	433	144	652	14	1,330
GDP per Capita (in thousand US$)	1487	30.3	23	18.3	17	62

Notes: For variable descriptions see Table 2. S.D. is the standard deviation. P10 is the 10^{th} percentile and P90 is the 90^{th} percentile. For SIZE and GDP per Capita the natural log is reported in Panel A and used in further statistical analysis. For SIZE and GDP per Capita the descriptive statistics based on observed data are reported in Panel B.

Table 4 Correlation Matrix

	ENV	SOC	CLSCORE	FEB	AOR	ROL	PAI	DASSU	ROA
ENV	-	**0.540***	**0.300***	**0.256***	**0.278***	**0.300***	**0.323***	**0.303***	**-0.321***
SOC	**0.557***	-	**0.140***	**0.101***	**0.290***	**0.086***	**0.114***	**0.323***	**-0.162***
CLSCORE	**0.407***	**0.193***	-	**0.852***	**0.808***	**0.899***	**0.952***	**0.085***	**-0.396***
FEB	**0.378***	**0.194***	**0.955***	-	**0.703***	**0.648***	**0.834***	0.028	**-0.222***
AOR	**0.382***	**0.256***	**0.952***	**0.930***	-	**0.675***	**0.708***	**0.161***	**-0.379***
ROL	**0.405***	**0.153***	**0.959***	**0.852***	**0.869***	-	**0.833***	**0.115***	**-0.431***
PAI	**0.386***	**0.148***	**0.957***	**0.879***	**0.857***	**0.927***	-	0.055	**-0.373***
DASSU	**0.306***	**0.358***	**0.160***	**0.136***	**0.201***	**0.158***	**0.117***	-	**-0.176***
ROA	**-0.254***	**-0.154***	**-0.098***	-0.051	**-0.115***	**-0.133***	**-0.067***	**-0.110***	-
SIZE	**0.328***	**0.126***	**0.092***	-0.017	0.057	**0.156***	**0.151***	**0.236***	**-0.561***
LEV	**0.119***	**0.204***	**0.237***	**0.154***	**0.250***	**0.268***	**0.233***	**0.073***	**-0.345***
EV/MCAP	**0.222***	**0.138***	**0.241***	**0.225***	**0.226***	**0.221***	**0.255***	**0.109***	**-0.165***
VOLAT	**0.073***	**0.116***	0.007	0.014	**0.070***	-0.033	-0.007	**0.098***	**-0.131***
IND_DIR	**0.147***	-0.045	**0.317***	**0.304***	**0.265***	**0.270***	**0.386***	-0.004	0.027
BG_DIV	**0.082***	**0.067***	**0.320***	**0.273***	**0.304***	**0.278***	**0.387***	0.011	-0.036
GDP	**0.315***	0.019	**0.649***	**0.490***	**0.483***	**0.757***	**0.720***	**0.072***	**-0.095***
MANDATORY	**0.069***	0.026	**0.304***	**0.250***	**0.342***	**0.291***	**0.288***	**0.163***	-0.066

Table 4 Correlation Matrix (continued)

	SIZE	LEV	EV/MCAP	VOLAT	IND_DIR	BG_DIV	GDP	MANDATORY
ENV	**0.345***	**0.180***	**0.285***	**0.117***	**0.169***	**0.108***	**0.234***	**0.102***
SOC	**0.126***	**0.217***	**0.160***	**0.162***	0.005	**0.107***	**-0.112***	-0.006
CLSCORE	**0.215***	**0.364***	**0.333***	**-0.082***	**0.359***	**0.472***	**0.702***	**0.396***
FEB	**0.082***	**0.205***	**0.332***	**-0.075***	**0.419***	**0.426***	**0.601***	**0.297***
AOR	**0.092***	**0.383***	**0.232***	0.051	**0.222***	**0.410***	**0.377***	**0.430***
ROL	**0.237***	**0.371***	**0.241***	-0.049	**0.222***	**0.330***	**0.682***	**0.346***
PAI	**0.226***	**0.305***	**0.352***	**-0.119***	**0.459***	**0.508***	**0.782***	**0.382***
DASSU	**0.239***	**0.166***	**0.121***	**0.144***	0.007	0.021	-0.001	**0.161***
ROA	**-0.581***	**-0.684***	**-0.266***	**-0.258***	-0.059	**-0.118***	**-0.299***	**-0.356***
SIZE	-	**0.604***	**0.201***	0.031	**0.110***	**0.129***	**0.278***	**0.292***
LEV	**0.421***	-	**0.243***	**0.104***	-0.016	**0.194***	**0.174***	**0.310***
EV/MCAP	**0.186***	**0.178***	-	**0.156***	**0.194***	**0.141***	**0.285***	0.060
VOLAT	**0.081***	**0.098***	**0.310***	-	**-0.288***	**-0.231***	**-0.200***	**-0.096***
IND_DIR	**0.110***	**-0.072***	**0.122***	**-0.160***	-	**0.391***	**0.478***	**0.364***
BG_DIV	**0.115***	**0.123***	0.024	**-0.144***	**0.342***	-	**0.398***	**0.268***
GDP	**0.275***	**0.211***	**0.188***	**-0.093***	**0.326***	**0.281***	-	**0.379***
MANDATORY	**0.213***	**0.206***	0.064	-0.052	**0.251***	**0.203***	**0.250***	-

Notes: The Pearson correlation is reported below the diagonal. Spearman's Rho is reported above the diagonal. For variable descriptions see Table 2. * indicates significance at the 1% significance level. VIF tests show that multi-collinearity is not an issue in our analysis.

Table 5 Comparison of means

Panel A: – High and low disclosure groups

	Environmental Disclosures (ENV)			Social Disclosures (SOC)		
	High Discl (n = 784) Mean	Low Discl (n = 703) Mean	Difference *t*-stat	High Discl (n = 711) Mean	Low Discl (n = 776) Mean	Difference *t*-stat
CLSCORE	52.471	43.858	**13.931***	50.959	46.053	**7.611***
DASSU	0.800	0.528	**11.636***	0.821	0.534	**12.390***
ROA	1.068	2.228	**-8.291***	1.180	2.017	**-5.919***
SIZE	26.219	25.064	**13.869***	25.854	25.507	**3.949***
LEV	13.472	11.855	**3.438***	14.682	10.899	**8.192***
EV/MCAP	2.551	1.567	**7.351***	2.431	1.769	**4.897***
VOLAT	1.747	1.648	**2.703***	1.775	1.631	**3.946***
IND_DIR	58.012	50.261	**5.715***	53.535	55.093	-1.137
BG_DIV	19.464	17.135	**3.512***	19.379	17.432	**2.935***
GDP	10.421	9.914	**11.130***	10.246	10.122	2.630
MANDATORY	0.807	0.748	**2.753***	0.779	0.780	-0.021

Panel B – High and Low Civil Liberty Score

	High CL (n =1008) Mean	Low CL (n = 479) Mean	Difference *t*-stat
ENV	38.18	27.72	**13.117***
SOC	46.14	43.47	**3.308***

Notes: Panel A: High Discl is the high disclosure group (above the median) and Low Discl the low disclosure group (below the median). Panel B: High civil liberty is above the mean and Low civil liberty below the mean.
* represents significance at the 1% significance level (two tailed).

Table 6 Panel Analysis of Civil liberties and Social and Environmental disclosures

Panel A: ENV	(1)	(2)	(3)	(4)	(5)
CLSCORE	**0.295*****				
FEB		**0.655****			
AOR			**1.041*****		
ROL				**0.965*****	
PAI					**1.382*****
DASSU	**2.800*****	**2.884*****	**2.834*****	**2.784*****	**2.843*****
ROA	0.006	0.006	0.005	0.021	0.001
SIZE	3.773	3.737	3.889	4.041*	3.639
LEV	-0.086	-0.082	-0.088	-0.097	-0.088
EV/MCAP	0.259	0.245	0.276	0.246	0.253
VOLAT	-0.198	-0.192	-0.230	-0.146	-0.214
IND_DIR	-0.031	-0.031	-0.032	-0.030	-0.030
BG_DIV	0.013	0.015	0.014	0.015	0.014
GDP	-2.533	-2.668	-2.552	-2.641	-2.769
MANDATORY	-2.441	-2.076	-2.781	-2.279	-2.048
TIME	**0.608*****	**0.591*****	**0.587*****	**0.612*****	**0.564*****
Constant	68.714***	73.444***	73.842***	58.196***	63.290***
Observations	1,487	1,487	1,487	1,487	1,487
Overall R^2	0.299	0.287	0.294	0.288	0.283

Panel B: SOC	(1)	(2)	(3)	(4)	(5)
CLSCORE	**0.218****				
FEB		**0.449***			
AOR			**0.901*****		
ROL				**0.749****	
PAI					**0.874****
DASSU	**3.770*****	**3.840*****	**3.780*****	**3.746*****	**3.833*****
ROA	**0.396***	**0.397***	**0.394***	**0.407****	**0.394***
SIZE	**4.771***	**4.763***	**4.838***	**4.970***	**4.722***
LEV	-0.016	-0.014	-0.017	-0.024	-0.019
EV/MCAP	0.280	0.269	0.298	0.271	0.273
VOLAT	0.012	0.018	-0.018	0.051	0.004
IND_DIR	-0.023	-0.023	-0.024	-0.023	-0.023
BG_DIV	0.066	0.068	0.066	0.067	0.067
GDP	-4.571	-4.697	-4.513	-4.633	-4.789
MANDATORY	-1.216	-0.922	-1.615	-1.119	-0.882
TIME	**0.514****	**0.497****	**0.506****	**0.519****	**0.474****
Constant	24.439	21.361	19.633	32.477	28.286
Observations	1,487	1,487	1,487	1,487	1,487
Overall R^2	0.170	0.165	0.182	0.160	0.160

Notes: Random Effects Model (REM) panel models, that include the Mundlak augmentation to allow for potential correlation between the individual-specific effects and the explanatory variables are used for Eq.1 on the full sample. Refer to Table 2 for variable definitions. Standard errors are robust and clustered at the country level. The overall R^2 is a weighted average of between and within components. Coefficients for the Mundlak means are excluded from the table for brevity. *, **, and *** denote significance at the 10%, 5%, and 1% levels (two tailed), respectively.