

The Effects of Bank Specific Characteristics and Corporate Governance Mechanisms on Disclosure: An Empirical Investigation in the Banking Sector of Ethiopia

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Abstract

The objective of the study was to investigate the effect of bank-specific and corporate governance mechanisms on the financial and social disclosure level of Ethiopian commercial banks. To address this objective, six years of secondary data were collected from seventeen commercial banks. Financial and social disclosure levels, measured using an unweighted disclosure index, were used as dependent variables, while bank-specific characteristics (such as profitability, age, size, leverage, and liquidity) and corporate governance mechanisms (such as board size, board diversity, board independence, audit committee size, and audit committee independence) were used as independent variables. Generalized Least Squares (GLS) estimation was used to examine the association between dependent and independent variables and to test the hypotheses. The results evidenced by GLS regression revealed that profitability, bank size, and board size have a significantly positive effect on financial disclosure. Conversely, leverage, liquidity, and audit committee independence significantly negatively affect financial disclosure. However, age, board diversity, and audit committee size have no significant effect on the financial disclosure level of Ethiopian commercial banks. Moreover, the results documented from FGLS estimation indicate that profitability has a positive significant effect on social disclosure, whereas liquidity

and board independence have a significantly negative effect on social disclosure. However, age, bank size, leverage, board size, board diversity, and audit committee independence do not significantly affect the social disclosure level of Ethiopian commercial banks.

Keywords: Financial Disclosure, Social Disclosure, Bank Characteristics, Corporate Governance Mechanisms

Introduction

Disclosure is the process through which an entity communicates with the outside world (Chandra, 1974). Disclosure refers to the publication of any information relating to a business enterprise, quantitative or otherwise, which facilitates the making of investment decisions (Choi, 1973). The American Accountings Association defines it as “the movement of information from private (i.e., inside information) to the public domain.” It emerges from this definition that disclosure means reporting quantitative and qualitative information of financial and non-financial nature regarding the reporting entity to outsiders for their decision-making (Gupta, 2010). Since non-financial information is now seen by stakeholders as being just as valuable as financial information, integrated reporting has grown significantly in popularity.

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Stakeholders now demand more thorough, transparent, and relevant information to assist in decision-making (Soral et al., 2023).

Disclosure can be defined as the communication of information by individuals within public firms to those outside. The primary objective of disclosure is “to communicate firm performance and governance to outside investors” (Healy & Palepu, 2001). This communication is not only called for by shareholders and investors to analyze the relevance of their investments but also by the other stakeholders, particularly for information about social and environmental policies. Kaur & Singh (2019) stated that corporate disclosure lessens the information asymmetry between investors and management, which enhances the quality of information.

The degree of a firm’s compliance with disclosure requirements is associated with several factors. The level of disclosure is an organizational response to macro, industry, and organizational-level factors (Albitar, 2015; Mukherjee et al., 2010; Soliman, 2013). Specific firm characteristics and fundamental attributes of the broader environment within which the firm operates to affect the corporate disclosure requirements (Ajibolade & Uwuigbe, 2013; Galani et al., 2011; Khlifi, 2020; Uyar et al., 2014). Corporate governance mechanisms within an organization have also a significant effect on corporate social disclosures (Almaqtari et al., 2021; Lee & Hu, 2021).

In Ethiopia, disclosure has become a top priority in the firm’s annual report after the proclamation 847/2014 was enacted to harmonize the accounting system of the country with International Accounting Standards. Despite the aforementioned empirical research evidence on factors affecting disclosure level, Mengesha (2016) stated that “future researches in Ethiopia would be highly appropriate if they are conducted on the issue of disclosures. Thus given the attention to the changing environment of disclosures in Ethiopia particularly in the banking sector, this research paper aims to investigate the effect of bank-specific characteristics and corporate governance mechanisms on the disclosure level of Ethiopian commercial Banks. Hence, in the following section, existing literature is reviewed related to each of the variables affecting disclosure, and the related hypotheses were developed.

Related Literature Review and Hypothesis Development

Bank Profitability and Disclosures

The compliance of a firm with disclosure requirements prescribed by specific accounting standards is influenced by the profitability of the firm (Inchausti, 1997; Owusu-Ansah, 1998; Palmer, 2008). Inchausti (1997) found a positive association between profitability and the level of accounting disclosure. Similarly, Owusu-Ansah (1998) observed a positive effect of profitability on mandatory disclosure which is consistent with signaling theory. Samaha et al. (2016) took profitability as a proxy for signaling theory and found a positive association with disclosure level. Studies by (Albitar, 2015; Bepari et al., 2014; Ferrer & Ferrer, 2011; Irawan et al., 2021; Mukherjee et al., 2010; Said et al., 2009; Soliman, 2013) also reported a significant association between disclosures and profitability. However, some empirical studies by (Al-Shammari et al., 2008; Juhmani, 2017) revealed that profitability is insignificantly related to disclosure. Lang and Lundholm (1993) suggested that the direction of the relationship between profitability and information disclosure is unclear. Nevertheless, it is more likely that the management of a profitable enterprise will disclose more information to the market to enhance the firm’s value. Based on the above literature the following hypothesis is proposed:

H1a: Bank profitability has a positive significant association with financial disclosure in the banking sector of Ethiopia.

H1b: Bank profitability has a positive significant association with social disclosure in the banking sector of Ethiopia.

Bank Age and Disclosures

In comparing older and younger firms, Glaum and Street (2003) argue that younger firms tend to concentrate on product and market development when establishing their businesses, rather than on accounting. Glaum and Street (2003) stated that younger firms’ accounting systems tend to be inadequate, resulting in lower-quality accounting and disclosures. Naser et al. (2006) investigated determinates

of corporate social disclosure in developing countries, specifically in the case of Qatar and they documented that significant positive association between firm age and corporate social disclosure. Al-Gamrh and Al-Dhamari (2016) also found that old firms disclose more corporate social information. Alnaas and Rashid (2019) argue that old firms are likely to have various users who require a high disclosure level which requires the firms to disclose more information with varieties. Hamid (2004) found that the age of a business appears to significantly influence the disclosure practices. In general, the findings regarding the relationship between firm age and the extent of corporate disclosure are positive and significant. Based on these discussions the following hypotheses are developed:

H2a: Bank Age has a significant association with financial disclosure in the banking sector of Ethiopia.

H2b: Bank Age has a significant association with social disclosure in the banking sector of Ethiopia.

Bank Size and Disclosures

Larger companies are often more visible and, therefore, may be more inclined to comply with corporate disclosure requirements (Al-Shammari et al., 2008). According to Cooke (1989), the size of a firm regardless of the way it is measured (e.g., total assets, sales turnover, number of shares) is a variable that explains substantially the quality of a firm's disclosures. Aljifri et al. (2014) investigate the association between firm characteristics and financial disclosure using the size of a firm with other variables and found a significant association with the level of disclosure. Kansal (2011) also explored the association between firm size and corporate social disclosure and found a positive and significant association. Studies by (Albitar, 2015; Ali Khan, 2015; Hamid, 2004; Manpreet & Mandeep, 2021) also documented a positive significant effect of firm size on corporate disclosure. Similarly in insurance sector, Kaur (2019) found a positive association between size and web disclosure. Thus based on the literature result the following hypotheses were developed:

H3a: Bank Size is a significant predictor of financial disclosure in the banking sector of Ethiopia.

H3b: Bank Size is a significant predictor of social disclosure in the banking sector of Ethiopia.

Bank Leverage and Disclosures

Companies with higher leverage can be expected to disclose more information to reduce agency costs, and to reassure debt holders that their interests are protected (Al-Shammari et al., 2008). Studies by (Al-Gamrh & Al-Dhamari, 2016; Mukherjee et al., 2010; Naser et al., 2006; Sutthachai & Cooke, 2009; Naser et al., 2006; Bova & Pereira, 2012; Al-Akra et al., 2010; Albitar, 2015) documented a positive significant association between leverage and corporate social disclosures. However, conflicting evidence exists regarding the association of leverage with disclosure. For instance, Hodgdon et al. (2009) found no association between leverage and firms' disclosure level. On the other hand (Al-Shammari et al., 2008; Nandi & Ghosh, 2013; Taylor Zarzeski, 1996) finds that lower debt ratios are associated with a higher level of annual-report disclosures. To clarify the conflicting result of the association between leverage and disclosures the following hypotheses are proposed:

H4a: Bank leverage ratio has a significant association with financial disclosure in the banking sector of Ethiopia.

H4b: Bank leverage ratio has a significant association with social disclosure in the banking sector of Ethiopia.

Bank Liquidity and Disclosures

To alleviate investors and lenders fears, reporting firms tend to provide more details in comprehensive annual reports about their ability to meet financial obligations as they fall due and about the fact that the firm is a going concern (Wallace & Naser, 1995). This is expected because of the idea that a highly liquid firm is most likely to provide greater information (Belkaoui & Kahl, 1978; Olusegun Wallace et al., 1994). However, other researchers also argue contrary that firms with a lower liquidity position will need to dispel the fears of investors and lenders, hence, they will disclose more information (Wallace & Naser, 1995). Empirical findings on how liquidity influences disclosure are mixed. Alfaraih (2009) and Albitar (2015) found a positive association between liquidity and disclosure, while (Alrawahi & Sarea, 2016; Nalukenge, 2020) found no significant association. To provide additional empirical evidence to the mixed results of previous research findings, the following hypotheses are proposed:

H5a: Bank liquidity ratio has a significant association with financial disclosure in the banking sector of Ethiopia.

H5b: Bank liquidity ratio has a significant association with social disclosure in the banking sector of Ethiopia.

Board Size and Disclosures

Prior studies have documented evidence of the impact of board size on the quality of financial disclosure. For example (Beasley, 1996; Dimitropoulos & Asteriou, 2010; Fama & Jensen, 1983; Farber, 2005) found that there is a relationship between board size and financial disclosure quality. Contradictory (Ahmed et al., 2006; Bradbury et al., 2006; Hermalin & Weisbach, 1998; Klein, 1998; Vafeas, 2000) reported that there is no association between board size and disclosure. Some researchers have been in favor of smaller boards (Marashdeh, 2014; Bathula, 2008; Yermack, 1996; Ozkan, 2007) they advocate that a smaller board is better in reaching a unified decision on essential issues. Several studies found positive associations between board size and corporate disclosure, such as (Albitar, 2015; Hassan & Marston, 2019; Nandi & Ghosh, 2013; Okougbo, 2011; Samaha et al., 2012). Thus to capitalize on the existing literature the researcher hypothesized as follows:

H6a: Board Size is significantly associated with financial disclosure in the banking sector of Ethiopia.

H6b: Board Size is significantly associated with social disclosure in the banking sector of Ethiopia.

Board Independence and Disclosures

Different studies reported that a higher proportion of board independence is found to be linked with greater statutory disclosures (Nelson et al., 2010; Mangena & Pike, 2005; Forker, 1992; Owusu-Ansah & Yeoh, 2005; Chen & Jaggi, 2000; Samaha et al., 2012; Juhmani, 2017). Further, Botti et al. (2014) indicate that a higher proportion of independent board members is associated positively with a low level of agency problems through providing greater voluntary disclosures. Mangena and Pike (2005) and Forker (1992) also indicated that independent directors would enhance the quality of firm disclosures. Several studies advocated that there is a positive relationship between board independence

and different aspects of financial (Ahmed et al., 2006; Bradbury et al., 2006; Carcello et al., 2006; Hermalin & Weisbach, 1998; Vafeas, 2000). Ajibolade and Uwuigbe (2013) revealed a significant positive relationship between the proportion of non-executive directors and corporate social disclosure. Therefore, based on the reviewed literature, the following hypotheses are formulated:

H7a: Board Independence is significantly associated with financial disclosure in the Banking sector in Ethiopia.

H7b: Board Independence is significantly associated with social disclosure in the Banking sector in Ethiopia.

Board Diversity and Disclosures

Maintaining a sufficient board size with relatively female members benefits the company concerning corporate financial reporting activities; because women are very excellent at monitoring than their male counterparts (Zango et al., 2015). Sheridan and Milgate (2005) argue that female directors contribute unrivaled knowledge, experience, and skills to their boards so they are more efficient than males in their activities. Most of the prior studies indicated a positive and significant relationship between corporate social disclosure and the number of women on the board (Harjoto et al., 2015; Ibrahim & Hanefah, 2016; Katmon & Farooque, 2017; Okougbo, 2011). However, Khan (2010) found an insignificant positive association between the existence of women on board and corporate social reporting. In addition, a study conducted by Kiliç et al. (2015) revealed a negative and statistically insignificant relationship. Therefore, based on the reviewed literature, the following hypotheses are formulated:

H8a: Board diversity is significantly associated with financial disclosure in the banking Sector of Ethiopia.

H8b: Board diversity is significantly associated with social disclosure in the banking Sector of Ethiopia.

Audit Committee Independence and Disclosures

The existence of an audit committee with a higher proportion of independent directors should reduce the

agency's cost and improve the internal control that will lead to greater quality of disclosures (Forker, 1992). According to Beasley et al., (2000), companies with financial reporting problems are less likely to have audit committees dominated by outside directors. Some studies (Akhtaruddin, 2009; Carcello et al., 2006; Forker, 1992; Karamanou & Vafeas, 2005; Said et al., 2009) argue that the proportion of independent members serving on the audit committee is positively linked with voluntary disclosure level. Further, Almaqtari et al. (2021), found that audit committee independence has a significant positive effect on the corporate financial disclosure index. Juhmani's (2017) results showed that board independence and audit committee independence are associated with financial disclosure. Whereas studies by (Akhtaruddin, 2009; Kabwe et al., 2021; Saxton et al., 2012) documented a significant negative effect of audit committee independence on corporate disclosure. Thus, to provide more empirical evidence on the conflict results of previous studies the following hypotheses regarding this variable are proposed as follows:

H9a: Audit committee independence is significantly associated with financial disclosure in the banking sector of Ethiopia.

H9b: Audit committee independence is significantly associated with social disclosure in the banking sector of Ethiopia.

Audit Committee Size and Disclosures

According to Forker (1992), the audit committee is an effective monitoring mechanism to enhance the quality of corporate disclosure and reduce agency costs. Furthermore, Ho and Shun Wong (2001) argue that the existence of an audit committee significantly influences the amount of corporate disclosure. Some studies indicate that a large audit committee is positively associated with corporate disclosure (Akhtaruddin, 2009; Albitar, 2015; Almaqtari et al., 2021; Barako et al., 2006; Li et al., 2012; Nandi & Ghosh, 2013). On the other hand, Abdullah et al. (2015) found that audit committee size is negatively related to disclosure. Other studies like (Juhmani, 2017; Mnif Sellami & Borgi Fendri, 2017; Mnif & Znazen, 2020) documented an insignificant association between audit committee size and disclosure level. Having the above discussions the following hypotheses are proposed:

H10a: Audit committee size is significantly associated with financial disclosure in the banking sector of Ethiopia.

H10b: Audit committee size is significantly associated with social disclosure in the banking sector of Ethiopia.

Data and Methodology

Having the nature of this study and the meaning of the three research approach this study employed a quantitative research approach. Since this research focused on quantitative data and all analysis were conducted based on statistical models the research approach used is quantitative. In this research, the purpose was to investigate the effect of bank-specific characteristics and corporate governance mechanisms on disclosures. Therefore, to achieve the research purpose, an explanatory research design was used. In this study, secondary data was used for the period of six years collected from seventeen commercial banks starting from the year 2016-17 to 2021-22. Data collection began in 2016-17 because of a radical change in the reporting and disclosure landscape in Ethiopia since the accounting and auditing board of Ethiopia declared IFRS as a mandatory adoption which quests much more disclosure requirements. The data was collected from the annual reports of commercial banks and National Bank of Ethiopia.

Model Specification

General Model

Originally the following model was adopted from (Almaqtari et al., 2020; Said et al., 2009) to examine the effect of bank-specific characteristics and governance mechanisms on financial and social disclosure.

$$FDI_{it} \text{ or } SDI_{it} = \beta_0 + \sum_{j,i=1}^n \beta_j BSV_{it} + \sum_{j,i=1}^n \beta_j CGV_{it} + \varepsilon_{it}$$

Where FDI_{it} and SDI_{it} represent the financial disclosure index and social disclosure index of firm i at time t respectively, BSV_{it} represents each bank-specific variable of firm i at time t , CGV_{it} represents each corporate governance variable of firm i at time t , and ε_{it} represents the error term, β_0 is the intercept and β_j is the parameters of each j^{th} bank-specific and corporate governance variables.

Variable Measurement and Specific Model

From the empirical literature variables are identified. However, in different contexts, same variable may

have different meaning. Therefore, it is important and recommended to provide contextual or operational meaning to the variables included in the study. This is provided here in the table below.

Variable Type	Variable Nname	Measurement
Dependent variable	Financial Disclosure (FDI)	Measured by unweighted disclosure index (DI) based on KPMG disclosure requirements.
	Social disclosure (SDI)	Measured by an unweighted disclosure index (DI) based on the six themes (community involvement and charity, human resources, business strategy, and market relations, client relations, products, and environmental concern).
Bank-specific characteristics (Independent)	Profitability (ROA)	Return on Asset- the ratio of net profit to the total asset (a proxy for profitability).
	Age (AGE)	Number of years since the establishment of the bank
	Size (LOGASS)	Natural logarithms of total assets of the bank.
	Leverage (LEVE)	The ratio of total liabilities to shareholders' equity.
	Liquidity (LIQ)	The ratio of current assets to current liabilities.
Corporate Governance Mechanisms (Independent)	Board Independence (BIND)	The number of Independent Non-Executive Directors divided by the total number of directors.
	Board size (BSIZE)	Number of Board Members.
	Board diversity (BDV)	The proportion of the number of Women on the board to total board members.
	Audit Committee Size (ACSIZE)	Total number of the members in Audit Committee.
	Audit committee Independence (ACIND)	The ratio of non-executive Audit Committee members to total No. of Audit Committee members.

Using the above variables operationally defined in this study the panel regression model is adopted which is an important model to capture unobservable individual heterogeneity of firms. If this individual heterogeneity is not controlled the estimation model may lead to biased results. Thus using panel regression is appropriate which controls both time and cross-section effects (Requejo, 2015; Wooldridge, 2003). In addition to controlling the individual difference effect panel regression allows to study of dynamic population at a time together and also it enables to eliminate bias of aggregation that arise in time series models (Requejo, 2015). According to Baltagi (2021), the latest econometric analysis of panel data stated

$$FDI_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 AGE_{it} + \beta_3 LOGASS_{it} + \beta_4 LEVE_{it} + \beta_5 LIQ_{it} + \beta_6 BSIZE_{it} + \beta_7 BIND_{it} + \beta_8 BDV_{it} + \beta_9 ACIND_{it} + \beta_{10} ACSIZE_{it} + \varepsilon_{it} \dots \dots \dots eq1$$

Where: FDI is the financial disclosure index, ROA represents the return on asset used as profitability proxy, LOGASS is the logarithm of the total asset used as a proxy for bank size, LEVE signifies the leverage ratio, LIQ denotes the liquidity ratio, BSIZE represents board size, BIND stands for board independence, BVD indicates

that using panel data analysis able to identify and measure effects that are simply not detectable in pure cross-section or pure time-series data. Moreover, panel data provide more informative data, greater variability, less collinearity among variables, more degrees of freedom, and increased efficiency.

Therefore, in this study, the following panel regression estimations were specified to examine the effect of bank-specific and corporate governance mechanisms on financial and social disclosure. In the first equation to estimate the effects of bank-specific and corporate governance mechanisms on financial disclosure.

board diversity, ACIND represents audit committee independence, and ACSIZE denotes audit committee size.

In the second equation, the aim is to estimate the effects of bank-specific and corporate governance mechanisms on social disclosure.

$$SDI_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 AGE_{it} + \beta_3 LOGASS_{it} + \beta_4 LEVE_{it} + \beta_5 LIQ_{it} + \beta_6 BSIZE_{it} + \beta_7 BIND_{it} + \beta_8 BDV_{it} + \beta_9 ACIND_{it} + \beta_{10} ACSIZE_{it} + \varepsilon_{it} \dots \dots eq2$$

Where: SDI represents the social disclosure index, ROA denotes the return on assets used as a proxy for profitability, LOGASS signifies the logarithm of total assets used as a proxy for bank size, LEVE represents the leverage ratio, LIQ stands for the liquidity ratio, BSIZE indicates board size, BIND represents board independence, BVD denotes board diversity, ACIND signifies audit committee independence, and ACSIZE stands for audit committee size.

Analysis and Discussions

Model Diagnostic Tests

So far panel regression model has several advantages discussed above it is paramount to ensure that the model proposed does not suffer from misspecification problems and it has to be done through appropriate diagnostic tests. Then it will be adequate for testing the hypothesis.

To select the appropriate panel regression model the Breusch and Pagan Lagrangian multiplier test for random effects has been done and the result shows pooled estimation is appropriate as the p-value of ($\text{chibar}^2(01) = 0.12$ Prob > $\text{chibar}^2 = 0.3645$) is greater than 5%. The most basic estimator of panel data sets is the pooled Ordinary Least Squares (OLS). In cases where there are no firm-specific and time-specific effects, ordinary least square is the most appropriate (Kyereboah-Coleman & Biekpe, 2006; Muthama Musau, 2015).

However, the pooled Ordinary Least Squares will be adequate for estimation only after testing for heteroskedasticity and autocorrelation, which are common in panel data (Wooldridge, 2003). So, to select the appropriate panel regression model selection diagnostic tests have to be done. In this regard to test heteroskedasticity Breusch-Pagan / Cook-Weisberg test has been used and the test result indicates that the data have a heterogeneity problem since the p-value of ($\text{chi}^2(1) = 23.88$ Prob > $\text{chi}^2 = 0.0000$) is less than 5% level of

significance. As well to test autocorrelation Wooldridge test was used and the test result indicates that the data set has an autocorrelation problem with the p-value of ($F(1,16) = 55.870$ Prob > $F = 0.000$) is less than 5% level of significance. Concerning the Multicollinearity test, Variance Inflation Factor (VIF) was conducted. The results showed no multicollinearity problem in the data, as the mean value of VIF is significantly less than 10, standing at 2.14.

Thus to overcome heteroskedasticity and autocorrelation problems the study used robust pooled OLS and Feasible Generalized Least Square (FGLS). According to Kyereboah-Coleman and Biekpe (2006) and Muthama Musau (2015) using robust regression of the pooled OLS can be a solution but using generalized least square (GLS) regression is deemed more appropriate to solve the problem of individual heterogeneity and serial autocorrelation. GLS is normally designed to produce an optimal unbiased estimator of β for the situation with heterogeneous variance (Muthama Musau, 2015).

Descriptive Analysis

Table 1 below presents the descriptive statistics included in the study. The mean financial and social disclosure level of Ethiopian commercial banks are 64% and 50.8%, respectively. During the study period, the average profitability of commercial banks in Ethiopia is 2.6% with an average age of 14 years. The table also illustrates 87% and 22% of the leverage and liquidity ratio for commercial banks in Ethiopia. During the periods included in the study, the average number of board members (board size) in Ethiopian commercial banks is 10, with an average board independence ratio of 95.6%. Additionally, the table displays the average number of female board members (board diversity), which is approximately two. The mean audit committee independence ratio is 2.9%. Finally, the table shows the average number of audit committee members (audit committee size), which is three.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI	102	.64	.143	.243	.822
SDI	102	.508	.079	.327	.727
ROA	102	2.619	.806	.326	4.817
AGE	102	14.382	9.234	5	51
LOGASS	102	4.403	.567	2.92	6.08
LEVE	102	87.169	3.845	77.813	95.226
LIQ	102	22.04	8.091	8.083	47.715
BSIZE	102	10.588	1.431	8	13
BIND	102	.956	.102	.083	1
BDV	102	1.814	1.533	0	7
ACIND	102	.029	.12	0	.571
ACSIZE	102	3.235294	.9967916	2	7

Source: Stata 15 output.

Regression Analysis

Using the above equations, the first estimation was conducted using the initial model to examine the effect of bank-specific characteristics and corporate governance mechanisms on financial disclosure. The empirical estimation result of the three comparable estimations models is presented below by referring the outputs from Table 2.

First, the estimation was conducted assuming pooled OLS, as suggested by Breusch and Pagan's Lagrangian multiplier. The result of the first estimation model shows that the profitability of banks is positively and significantly associated with financial disclosure level at a 10% significant level. Whereas the estimation was extended to robust OLS and feasible GLS to overcome heterogeneity and serial correlation problems the association between profitability and financial disclosure in Ethiopian commercial banks the level of significance improved to 5% significance level. *The estimation result is in support of H1a and the researcher failed to reject H1a.*

The result of this study are supported by the research results of (Ferrer & Ferrer, 2011; Muttakin & Khan, 2014; Nandi & Ghosh, 2013; Owusu-Ansah, 1998; Samaha & Khelif, 2016; Soliman, 2013), all of whom discovered a positive and significant relationship between profitability and corporate disclosure. Similarly, Albitar (2015) revealed a positive and significant relationship between profitability and voluntary disclosure using

univariate analysis which supports the result of this study. The result is also in line with signaling theory, which states that managers of profitable firms are more likely to disclose information to signal their ability to maximize shareholders' value. Other similar studies like Okougbo (2011) and Saxton et al. (2012) found a positive association between profitability and corporate disclosure but it is not statistically significant.

The other determinant variable included in the study to examine its effect on financial disclosure is the age of the bank. However, the results indicate that the age of the firm is not a significant predictor of financial disclosure in any of the three regression models used to estimate the effect of bank characteristics on financial disclosure. The result evidenced from the estimation is not supporting H2a and fails to accept H2a. This result is in line with the previous research results (Galani et al., 2011; Soliman, 2013; Uyar et al., 2014) who found an insignificant association between firm age and disclosure level. However, Albitar (2015), who discovered a positive and significant association between the age of banks and corporate disclosure.

Regarding the size of the bank, measured by the natural logarithm of total assets, the regression result indicate that size has a significant effect at a 10% level of significance using OLS estimation. However, when the estimation is advanced to feasible GLS to overcome issues of heterogeneity and autocorrelation, bank size becomes a significant explanatory variable at a 1% level of significance. The results obtained from both both OLS and FGLS supports H3a and fails to reject H3a. Similar

studies by (Albitar, 2015; Ali Khan, 2015; Aljifri et al., 2014; Cooke, 1992; Soliman, 2013) also found the same result who were documented a significant and positive association between firm size and financial disclosure level. This result is further supported by the argument given by Al-Shammari et al. (2008), who states that “larger companies are more visible and, therefore, may be more likely to comply with corporate disclosure requirements.”

The other bank-specific characteristics variable included in the estimation model to investigate its effect on financial disclosure is the leverage (gearing) ratio. As evident from the regression table, leverage is negatively associated with financial disclosure of banks. However, in the first two (OLS and robust OLS) its estimation coefficient is not statistically significant. Whereas, in the final estimation model (FGLS) leverage ratio significantly explained the financial disclosure level of Ethiopian commercial banks at a 5% level of significance. The regression result obtained from FGLS estimation supports H4a and does not reject H4a.

The result found in this study is supported by Taylor Zarzeski (1996), who found that lower debt ratios are associated with a higher level of annual-report disclosures. Zarzeski argues that this negative relationship exists because in many countries (e.g., Germany and Switzerland) where bank financing is the primary source of capital and firm disclosures are more private than public, the situation may work in Ethiopia; since Ethiopia has no capital market till 2023 and the main source of finance in the country is bank financing. Similarly, the result of this study confirms the result of the studies by (Al-shammari et al., 2008; Ali, 2017; Juhmani, 2017; Nalukenge, 2020; Nandi & Ghosh, 2013; Okougbo, 2011; Raffournier & Raffournier, 2006; Samaha et al., 2016) who were found a significant negative association between leverage and financial disclosure level. Nalukenge (2020) suggested that the reason for this negative association of leverage with the disclosure of financial information may be explained by the fact that low leverage firms may comply with disclosure requirements to satisfy the needs of lenders and other financial information users.

Regarding liquidity, it has a significant negative effect on the financial disclosure level at a 5% significance level using the robust OLS regression model and at a 1% significance level in both at OLS and FGLS estimation

models. The estimation result supports H5a and does not reject H5a. This result is similar to the previous research findings such as (Al-Akra et al., 2010; Nalukenge, 2020; Samaha & Stapleton, 2009; Utomo & Aryani, 2017; Wallace & Naser, 1995), all of whom found a significant negative association between liquidity and financial disclosure level.

In their research, Samaha & Stapleton (2009) stated that companies with lower liquidity ratios are more likely to disclose additional information to minimize agency cost problems and to assure shareholders. Wallace and Naser (1995) also argued that firms with a lower liquidity position will need to dispel the fears of investors and lenders; hence, they will disclose more information.

Regarding corporate governance variables, including board size, board independence, board diversity, audit committee independence, and audit committee size are included in the regression model; among the governance variables board size has no significant effect on financial disclosure level using the first two estimation models (pooled OLS and Robust OLS) while using FGLS estimation model it has a positive significant effect on financial disclosure level at 10% significance level. The estimation result evidenced by FGLS supports H6a and fails to reject H6a at a 10% significance level. This finding is consistent with the previous studies' result like (Akhtaruddin, 2009; Juhmani, 2017; Kabwe et al., 2021; Laksmana, 2008; Marsidi et al., 2018; Mnif & Znazen, 2020; Nandi & Ghosh, 2013; Okougbo, 2011; Tawiah & Boolaky, 2019) who have documented a significant positive linkage between board size and financial disclosure level.

The other governance variable included in the regression model is board independence, which shows no significant effect on the financial disclosure level in any of the estimation models used. The regression result of the study does not support H7a and fails to accept H7a.

This result is consistent with (Kabwe et al., 2021; Marsidi et al., 2018), who documented that board independence does not influence IFRS disclosure compliance. According to Saxton et al. (2012), it may be because of that “outsider” status is not necessarily sufficient to achieve independence, and in some circumstances outsider-dominated boards are less effective. It can be argued that non-executive

directors are not independent due to the nature of their appointments and tenure especially in developing countries (Patelli & Prencipe, 2007). Additionally, non-executive directors may not discharge their duties effectively due to having limited time, lacking power and influence, limited access to inside information, as well as lacking independence (Annuar, 2012). Moreover, the appointment of non-executive directors in the developing country is highly affiliated by political capital and social capital instead of human capital. As (Hillman, 2005) stated that one of the mechanisms of creating linkage firms with the government is the appointment of ex-politicians to the board of directors of the firm.

Regarding board diversity, it has no significant effect on the financial disclosure of Ethiopian commercial banks using any of the estimation models. This result does not support H8a and fails to accept H8a. The findings regarding board diversity are similar to the previous research results by (Khan, 2010; Kiliç et al., 2015; Okougbo, 2011; and Uyar et al., 2014) who documented an insignificant association between board diversity and corporate disclosure level.

When we look at audit committee independence, it has no significant effect in the first two estimation models, whereas when it is regressed using the FGLS estimation model, audit committee independence has a negative significant effect on the financial disclosure level at a 5% significant level. The estimation result of FGLS supports H9a and fails to reject H9a. This result is similar to the findings of previous research by (Akhtaruddin, 2009; Kabwe et al., 2021; Saxton et al., 2012) who have documented a significant negative effect of audit committee independence on corporate disclosure, as the possible reason they explained that organizations have less discretion on audited financial statements which decreases incentives to disclose more. Furthermore (Carcello et al., 2002) argued that such a result may occur because of a gap between the mandate of the audit committee and their actual practices.

As the regression output indicates that audit committee size has no significant effect on the financial disclosure level in any of the estimation models. This finding does not support H10a and fails to accept H10a. This result aligns with previous empirical study findings such as (Juhmani, 2017; Mnif Sellami & Borgi Fendri, 2017; Mnif & Znazen, 2020) who documented an insignificant association between audit committee size and the financial disclosure level.

Table 2: Regression Output of Financial Disclosure Estimation

	(OLS)	(Robust OLS)	(FGLS)
VARIABLES	FDI	FDI	FDI
ROA	0.0442*	0.0442**	0.0401**
	(0.0521)	(0.0337)	(0.0330)
AGE	0.00147	0.00147	0.000514
	(0.569)	(0.560)	(0.848)
LOGASS	0.0824*	0.0824	0.150***
	(0.0733)	(0.126)	(0.00445)
LEVE	-0.00727	-0.00727	-0.0126**
	(0.259)	(0.293)	(0.0169)
LIQ	-0.00621***	-0.00621**	-0.00576***
	(0.00917)	(0.0205)	(0.00287)
BSIZE	0.00480	0.00480	0.0157*
	(0.665)	(0.644)	(0.0813)
BIND	-0.0778	-0.0778	-0.104
	(0.639)	(0.519)	(0.454)
BDV	0.0108	0.0108	0.00486
	(0.285)	(0.339)	(0.616)
ACIND	-0.233	-0.233	-0.231**
	(0.101)	(0.102)	(0.0207)
ACSIZE	-0.0331	-0.0331	-0.0301
	(0.455)	(0.441)	(0.412)
Constant	0.922	0.922	1.000**
	(0.125)	(0.117)	(0.0377)
Observations	102	102	102
R-squared	0.209	0.209	0.209
Number of b_id	17	17	17

pval in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Stata 15 output.

The second regression equation was formulated and used to examine the effects of bank-specific characteristics and corporate governance mechanisms on the social disclosure level of commercial banks in Ethiopia. The interpretation and discussion of the regression result are given based on the three estimation models from Table 3 is presented below.

As shown in Table 3 the bank-specific characteristics the table below shows that in the rousted OLS estimation only liquidity has a significant negative effect on financial disclosure at a 1% significant level. The other bank-specific characteristics, such as profitability, age, and

leverage, show insignificant positive associations with the social disclosure level. Additionally, the size of the bank has an insignificant negative effect on the social disclosure level. Regarding the corporate governance variables, board size, board independence, and audit committee independence have negative associations with social disclosure level. Whereas board diversity and audit committee size have a positive linkage with social disclosure level. Regarding their level of significance none of the corporate governance variables have a significant effect on social disclosure level using the OLS regression model.

When the estimation model is FGLS out of five bank-specific variables two variables (profitability and liquidity) significantly influence social disclosure level. Profitability shows a positive significant linkage with social disclosure level at a 10% level of significance; which supports H1b and fail to reject H1b at a 10% level of significance. The result evidenced by FGLS is similar to the findings of the previous research results by (Eng & Mak, 2003; Haniffa & Cooke, 2002; Soliman, 2013), whose results revealed that profitability has a significant positive association with corporate disclosure level. This finding is also supported by the arguments of signaling theory that states companies with good outcomes are disclosed more to signal their good news, as a result, profitable firms involve in different social activities thus disclose more information regarding their social initiatives.

The FGLS regression output indicates that bank age has an insignificant negative association with social disclosure. The result does not support H2b, which means fails to accept H2b. The result is similar to the output of previous studies (Michelon & Parbonetti, 2012; Nandi & Ghosh, 2013; Soliman, 2013), which documented an insignificant negative association between age and social disclosure level, whereas Zaid et al. (2019) found a significant negative association. The other bank-specific characteristics is the size of the bank which has an insignificant negative association with social disclosure level using the OLS estimator, while it shows an insignificant positive association FGLS estimation model. Both the estimations output does not support H3b. This result is supported by the results of (Muttakin & Khan, 2014), who found a positive association between size and social disclosure. In their discussion, they argued that when the size of the firm is larger their involvement in the social affairs of the community could increase.

Moreover, leverage exhibits a negative association with social disclosure but statistically, it is insignificant and does not support H4b, which means fail to accept H4b. The results documented from FGLS is consistent with the findings of previous empirical studies by (Muttakin & Khan, 2014; Nandi & Ghosh, 2013), who found negative association between leverage and social disclosure level. In this regard, Muttakin and Khan (2014) argued that companies with high leverage may have closer relationships with their creditors and utilize other means to disclose social responsibility information.

The liquidity ratio exhibits a statistically significant negative nexus with social disclosure level at a 1% significance level. This result is evidenced by both OLS and FGLS estimation, which supports H5b. The result is supported by the previous empirical results of (Kabwe et al., 2021; Khan, 2010) who revealed that liquidity has a significant negative association with social disclosure level.

Regarding corporate governance variables, only board independence shows a significant negative effect on the social disclosure level at a 5% significance level. This result is evidenced by the FGLS estimation and supported by the previous empirical findings by (Akhtaruddin, 2009; Albitar, 2015; Majeed et al., 2015; Saxton et al., 2012; Tran et al., 2020), who documented a significant negative association between board independence and disclosure level. In their discussion they argued that outside directors are more independent and become effective in monitoring which may lead internal managers less incentivize to disclose more information.

Board size and audit committee independence shows a negative association with social disclosure level. Similar studies by (Ali Khan, 2015; Laksmi & Kamila, 2018; Nandi & Ghosh, 2013) also demonstrated board size has an insignificant association with social disclosure. However, the association between audit committee size is changed into negative as the estimation result of FGLS is compared with OLS but the level of significance is not changed which is still insignificant. The results evidenced by OLS and FGLS regarding audit committee independence are supported by (Saxton et al., 2012), who found a negative linkage between audit committee independence and social disclosure. Based on the estimation result of corporate governance mechanisms only H7b is supported, whereas H6b, H8b, H9b, and H10b does not supported.

Table 3: Regression Output of Social Disclosure Estimation

	(OLS)	(Robust OLS)	(GLS)
VARIABLES	SDI	SDI	SDI
ROA	0.00731	0.00731	0.0124*
	(0.558)	(0.609)	(0.0785)
AGE	0.00109	0.00109	-0.00231
	(0.446)	(0.513)	(0.259)
LOGASS	-0.0384	-0.0384	0.0564
	(0.131)	(0.159)	(0.153)
LEVE	0.000255	0.000255	-0.00167
	(0.943)	(0.941)	(0.504)
LIQ	-0.00479***	-0.00479***	-0.00343***
	(0.000363)	(0.000148)	(0.000125)
BSIZE	-0.00719	-0.00719	-0.00279
	(0.243)	(0.167)	(0.458)
BIND	-0.0585	-0.0585	-0.0588**
	(0.525)	(0.246)	(0.0108)
BDV	0.00821	0.00821	0.00584
	(0.145)	(0.104)	(0.258)
ACIND	-0.00509	-0.00509	-0.0665
	(0.948)	(0.921)	(0.198)
ACSIZE	0.00798	0.00798	-0.0221
	(0.745)	(0.706)	(0.162)
Constant	0.843**	0.843***	0.550***
	(0.0123)	(0.00473)	(0.00246)
Observations	102	102	102
R-squared	0.205	0.205	0.205
Number of b_id	17	17	17

pval in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Stata 15 output.

Conclusion and Suggestion

This study was conducted to investigate the effect of bank-specific characteristics and corporate governance mechanisms on the disclosure level of Ethiopian commercial Banks. The research utilize this study six years secondary data was used from seventeen banks starting from 2017 to 2022. The data was fully collected from the annual reports of banks and the national bank of Ethiopia. Disclosure served as the dependent variable from two perspectives as financial disclosure and social disclosure. Bank-specific characteristics

(such as profitability, age, size, leverage, and liquidity) and corporate governance mechanisms (such as board size, board independence, board diversity, and audit committee size and audit committee independence) are used as explanatory variables. To investigate the effect of explanatory variables on dependent variables pooled GLS estimation was used.

From the FGLS estimation results, it is observed that profitability, bank size, and board size are positively and significantly linked with financial disclosure. Profitability is significant at a 5% significance level. Whereas bank size and board size are significant at 1% and 10% levels of significant respectively. On the other side leverage, liquidity, and audit committee independence have significant negative effects on financial disclosure at 5%, 1%, and 5% respectively. Whereas age, board diversity, and audit committee size have no significant effect on the financial disclosure level of Ethiopian commercial banks.

The regression result documented from FGLS estimation indicates that profitability, liquidity, and board independence have significant effect on social disclosure. The result reveals that profitability has a significant effect at a 10% significant level. Whereas liquidity and board independence have a significant negative effect at 1% and 5% respectively. However, age, bank size, leverage, board size, board diversity, and audit committee independence does not have a significant effect on the social disclosure level of Ethiopian commercial banks.

The limitation of this study is that it concentrates only on one industry which is in the banking sector. Future researchers are recommended to undertake the similar research across industries to compare the result and to find a variety of evidence across different industries. Further, it is commendable to future researchers to include some cultural factors (organizational and country level) that can affect disclosure level.

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